ARCH CAPITAL GROUP LTD.
Form DEF 14A
March 26, 2015

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under §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)
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ý No fee required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Arch Capital Group Ltd.
Waterloo House, Ground Floor
100 Pitts Bay Road
Pembroke HM 08
P.O. Box HM 339
Hamilton HM BX, Bermuda

Tel: 441-278-9250
Fax: 441-278-9255

March 26, 2015

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 7, 2015, at 8:45 a.m. (local time), at the company's offices located at Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda.

The enclosed proxy statement provides you with detailed information regarding the business to be considered at the meeting.

We are pleased to take advantage of the Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the internet. On or about March 27, 2015, we expect to mail a Notice of Internet Availability of Proxy Materials to our shareholders of record and beneficial owners as of March 16, 2015. This Notice will contain instructions on how to access our proxy statement and 2014 Annual Report to Shareholders and how to vote on the internet.

The Notice of Internet Availability of Proxy Materials will contain instructions to allow you to request copies of the proxy materials to be sent to you by mail. The proxy materials sent to you will include a proxy card that will provide you with instructions to cast your vote on the internet, a telephone number you may call to cast your vote, or you may complete, sign and return the proxy card by mail.

Your vote is very important. Whether or not you plan to attend the meeting, we urge you to submit your proxy over the internet or by toll-free telephone number, as described in the accompanying materials and the Notice of Internet Availability of Proxy Materials. As an alternative, if you received a paper copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided.

Sincerely,

Constantine Iordanou
Chairman of the Board, President and
Chief Executive Officer

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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. (the "Company") will be held on May 7, 2015, at 8:45 a.m. (local time), at the Company's offices located at Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda, for the following purposes:

- PROPOSAL 1: To elect three Class II Directors to serve for a term of three years or until their respective successors are elected and qualified.
- PROPOSAL 2: To elect certain individuals as Designated Company Directors of certain of our non-U.S. subsidiaries, as required by our bye-laws.
- PROPOSAL 3: To approve our 2015 Long Term Incentive and Share Award Plan.
- PROPOSAL 4: To appoint PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015.
- PROPOSAL 5: Advisory vote to approve named executive officer compensation.
- PROPOSAL 6: To conduct other business if properly raised.

Only shareholders of record as of the close of business on March 16, 2015 may vote at the meeting.

Our audited financial statements for the year ended December 31, 2014, as approved by our Board of Directors, will be presented at this annual general meeting.

Your vote is very important. Whether or not you plan to attend the annual general meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. For specific instructions on how to submit your proxy, please refer to the instructions on the Notice of Internet Availability of Proxy Materials you received in the mail, the section entitled "The Annual General Meeting" of this proxy statement or, if you requested to receive printed proxy materials, your enclosed proxy card.

This proxy statement and accompanying form of proxy are dated March 26, 2015 and, together with our 2014 Annual Report to Shareholders, are first being made available to shareholders on or about March 27, 2015.

Dawna Ferguson
Secretary

Hamilton, Bermuda
March 26, 2015

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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.

Internet Availability of Proxy Materials

Important Notice Regarding the Availability of Proxy Materials for the Annual General Meeting of Shareholders to be held on May 7, 2015: this proxy statement and 2014 Annual Report to Shareholders are available at: www.proxyvote.com.

We are furnishing proxy materials to our shareholders primarily via the internet. On or about March 27, 2015, we expect to mail to our shareholders a Notice of Internet Availability containing instructions on how to access our proxy materials, including our proxy statement and 2014 Annual Report to Shareholders. The Notice of Internet Availability also will instruct you on how to access and submit your proxy through the internet or by telephone.

Internet distribution of our proxy materials is intended to expedite receipt by shareholders, reduce the cost of the annual meeting, and conserve natural resources. However, if you would like to receive printed proxy materials, please follow the instructions on the Notice of Internet Availability.

Time and Place

The annual general meeting of Arch Capital Group Ltd. (“ACGL,” “we,” or the “Company”) will be held at 8:45 a.m. (local time) on May 7, 2015 at the Company's offices located at Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda.

Record Date; Voting at the Annual General Meeting

Our Board of Directors has fixed the close of business on March 16, 2015 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 125,160,181 common shares outstanding and entitled to vote, subject to the limitations in our bye-laws described below. At that date, there were an estimated 1,047 holders of record and approximately 24,200 beneficial holders of the common 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 proxy submitted by mail, telephone or internet, on each proposal put forth at the annual general meeting. Only holders of the Company’s common shares may vote at the annual general meeting. The Company’s outstanding preferred shares have no voting rights (except in very limited circumstances which do not currently apply).

Limitation on Voting Under Our Bye-Laws

Under our bye-laws, if the votes conferred by shares of 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, subject to certain exceptions, 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. 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 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 of Directors 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 are U.S. persons unless we receive assurances satisfactory to us that they are not U.S. persons.

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Quorum; Votes Required for Approval

The presence of two or more persons representing, in person or by proxy, including proxies properly submitted by mail, telephone or internet, 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, and Proposal 5 is advisory and does not have a required vote.

An automated system administered by our distribution and tabulation agent will tabulate votes cast by proxy at the annual general meeting, and our inspector 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. Abstentions will be considered in determining the number of votes necessary for Proposals 2, 3 and 4.

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 and 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 follow the instructions on the Notice of Internet Availability to access and submit your proxy through the internet or by telephone or, if you received printed proxy materials, complete, sign, date and return the enclosed proxy card. All shares represented at the annual general meeting by proxies, including proxies properly submitted by mail, telephone or internet, 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 in accordance with the recommendation of the Board of Directors with respect to 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, including proxies properly submitted by mail, telephone or internet; 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., Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda, facsimile: (441) 278-9255, Attention: Secretary.

Solicitation of Proxies

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 $10,000 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. Please contact MacKenzie Partners at 800-322-2885 with any questions you may have regarding our proposals.

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Other Matters

Our audited financial statements for the year ended December 31, 2014, as approved by our Board of Directors, will be presented at this annual general meeting.

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 in accordance with the recommendation of our Board of Directors or otherwise in their judgment.

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 Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda (telephone number: (441) 278-9250).

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PROPOSAL 1—ELECTION OF DIRECTORS

The Board of Directors of ACGL is comprised of twelve 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 Eric W. Doppstadt, Constantine Iordanou, and John M. Pasquesi to serve as Class II 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 of Directors. Mr. James J. Meenaghan, who currently serves as a Class II Director, will not stand for re-election following the completion of his current term.

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
Eric W. Doppstadt	55	Class II Director of ACGL
Constantine Iordanou	65	Chairman of the Board, President and Chief Executive Officer of ACGL and Class II Director of ACGL
John M. Pasquesi	55	Class II Director of ACGL

Eric W. Doppstadt has been a director of the Company since November 2010. Mr. Doppstadt serves as Vice President and Chief Investment Officer of the Ford Foundation. Mr. Doppstadt has been with the Ford Foundation for over 20 years, most recently as director of private equity investments for the foundation's endowment. He joined the Ford Foundation in 1989 as resident counsel, later assuming senior positions managing the Ford's alternative investment portfolio. He has also served on the investment advisory boards of numerous private equity and venture capital funds. Mr. Doppstadt holds the Chartered Financial Analyst designation from the CFA Institute. He holds an A.B. from The University of Chicago and a J.D. from New York University School of Law. Mr. Doppstadt's qualifications for service on our Board include his extensive investment experience and investment management skills.

Constantine Iordanou has been Chairman of the Board of ACGL since November 6, 2009 and President and Chief Executive Officer of ACGL since August 2003. He has been 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. Since 2001, Mr. Iordanou has served as a director of Verisk Analytics, Inc. (formerly known as ISO Inc.). He holds an aerospace engineering degree from New York University. Mr. Iordanou's qualifications for service on our Board include his extensive leadership, executive management and operating experience in the insurance industry, his in-depth knowledge of our operations and service on boards of directors of other companies.

John M. Pasquesi has been 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 he founded in January 2001. He holds an A.B. from Dartmouth College and an M.B.A. from Stanford Graduate School of Business. Mr. Pasquesi's qualifications for service on our Board include his investment skills, extensive experience in evaluating and overseeing companies in a wide range of industries, including the insurance industry, and service on boards of directors of other companies.

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Required Vote

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

Recommendation of the Board of Directors

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

Continuing Directors and Senior Management

The following individuals are our continuing directors:

Name	Age	Position	Term Expires*
John L. Bunce, Jr.	56	Class III Director of ACGL	2016
Kewsong Lee	49	Class I Director of ACGL	2017
Yiorgos Lillikas	54	Class III Director of ACGL	2016
Deanna M. Mulligan	51	Class III Director of ACGL	2016
Louis J. Paglia	57	Class I Director of ACGL	2017
Brian S. Posner	53	Class I Director of ACGL	2017
Eugene S. Sunshine	65	Class III Director of ACGL	2016
John D. Vollaro	70	Class I Director of ACGL and Senior Advisor	2017

* Indicates expiration of term as a director of ACGL

John L. Bunce, Jr. has served as a director of ACGL since November 2001. Mr. Bunce is a Managing Director and founder of Greyhawk Capital Management, LLC and a Senior Advisor to Hellman & Friedman LLC. He joined Hellman & Friedman in 1988 and previously served as a Managing Director of the firm. Before joining Hellman & Friedman, 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 has served as a director of Duhamel Falcon Cable Mexico, Eller Media Company, Falcon Cable TV, National Radio Partners, VoiceStream Wireless Corporation, Western Wireless Corporation, National Information Consortium, Inc. and Young & Rubicam, Inc. Mr. Bunce also was an advisor to American Capital Corporation and Post Oak Bank. He holds an A.B. from Stanford University and an M.B.A. from Harvard Business School. Mr. Bunce’s qualifications for service on our Board include his corporate finance background, investment skills, extensive experience in evaluating and overseeing companies in a wide range of industries and service on boards of directors of other companies.

Kewsong Lee has served as a director of ACGL since November 2001 and has been Lead Director since November 6, 2009. Mr. Lee joined The Carlyle Group as Managing Director and Deputy Chief Investment Officer for Corporate Private Equity in December 2013. From January 1997 through November 2013, Mr. Lee served as a Member and Managing Director of Warburg Pincus LLC ("Warburg Pincus") and a Partner of Warburg Pincus & Co. since January 1997. He had been employed at Warburg Pincus since 1992. Prior to joining Warburg Pincus, Mr. Lee was a consultant at McKinsey & Company, Inc. from 1990 to 1992. He formerly served as a director of Knoll, Inc., TransDigm Group Inc., MBIA Inc., Neiman Marcus Group, Inc., ARAMARK Corporation and several privately held companies. He holds an A.B. from Harvard College and an M.B.A. from Harvard Business School. Mr. Lee also serves on the board of directors of Lincoln Center Theatre and is a trustee of Choate Rosemary Hall. Mr. Lee’s qualifications for service on our Board include his investment skills, extensive experience in evaluating and overseeing companies in a wide range of industries, including the insurance industry, and service on boards of directors of other companies.

Yiorgos Lillikas has been a director of the Company since November 2010. Mr. Lillikas is the Chief Executive Officer of BlueTree Consultants, a corporate consulting firm he founded in 2008. From 2006 to 2007, Mr. Lillikas served as the Minister of Foreign Affairs of the Republic of Cyprus (E.U.). From 2003 to 2006, he was the Minister of Commerce, Industry and Tourism of the Republic of Cyprus. From 1996 through 2003, Mr. Lillikas served as a member of the House

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of Representatives of the Republic of Cyprus and a member of the Parliamentary Committees for Economic and Budget, Commerce, Foreign and European Affairs and Environment. In 2000 he was elected Vice President of the Committee of Political Affairs of the Parliamentary Assembly of the OSCE. He was founder and Chief Executive Officer of Marketway, a strategic, advertising and public relations firm. Prior thereto, he served the Republic of Cyprus in various roles, including special advisor to the president. He holds a diploma in political sciences from the Institute of Political Sciences in the University of Lyon II, a D.E.A. (a diploma of doctorate cycle) in political sciences from the Institute of Political Science in Grenoble. Mr. Lillikas' qualifications for service on our Board include his extensive experience in the fields of international and European affairs.

Deanna M. Mulligan has been a director of the Company since May 2013. Ms. Mulligan has been the President and Chief Executive Officer of The Guardian Life Insurance Company of America ("Guardian") since July 2011. She was President and Chief Operating Officer of Guardian from November 2010 to July 2011, and Executive Vice President, Individual Life and Disability Insurance of Guardian from July 2008 to November 2010. Prior to joining Guardian in July 2008, Ms. Mulligan owned and operated a consulting firm, advising insurance companies on strategic and operational issues. Ms. Mulligan's career has extended over more than 28 years including senior executive roles at New York Life, AXA Financial and McKinsey & Company, at which she was a Principal in the firm's New York office. Ms. Mulligan is a member of the board of directors of The Guardian Life Insurance Company of America, the American Council of Life Insurers, the Committee Encouraging Corporate Philanthropy, RS Investment Management Co. LLC, and the Partnership for New York City, and is a member of the President's Advisory Council on Financial Capability for Young Americans. She was awarded a B.S. in Business Administration from the University of Nebraska and an M.B.A. from the Stanford Graduate School of Business. Ms. Mulligan's qualifications for service on our Board include her extensive executive management and operating experience in financial services organizations and broad investment skills.

Louis J. Paglia has been a Director since July 2014. Mr. Paglia founded Customer Choice LLC in April 2010, a data analytics company serving the electric utility industry. He previously served as Executive Vice President of UIL Holdings Corporation, an electric utility, contracting and energy infrastructure company. Mr. Paglia also served as UIL Holdings' Chief Financial Officer and as President of its investment subsidiaries. Prior to joining UIL Holdings, Mr. Paglia was Executive Vice President and Chief Financial Officer of eCredit.com, a credit evaluation software company. Prior to that, Mr. Paglia served as the Chief Financial Officer for TIG Holdings Inc., a property and casualty insurance and reinsurance holding company, and Emisphere Technologies, Inc. He is currently a member of the boards of directors of NorthStar Realty Finance Corp. and NorthStar Asset Management Group Inc. Mr. Paglia's qualifications for service on our Board include his strong financial background and extensive executive management and operating experience in financial services companies.

Brian S. Posner has been a director of the Company since November 2010. Mr. Posner has been a private investor since March 2008 and is the President of Point Rider Group LLC, a consulting and advisory services firm within the financial services industry. From 2005 to March 2008, Mr. Posner served as the Chief Executive Officer and Co-Chief Investment Officer of ClearBridge Advisors, LLC, an asset management company and a wholly owned subsidiary of Legg Mason. Prior to that, Mr. Posner co-founded Hygrove Partners LLC, a private investment fund, in 2000 and served as the Managing Member for five years. He served as a portfolio manager and an analyst at Fidelity Investments from 1987 to 1996 and, from 1997 to 1999, at Warburg Pincus Asset Management/Credit Suisse Asset Management where he also served as co-chief investment officer and director of research. Mr. Posner currently serves on the boards of directors of Biogen Idec Inc., BG Medicine Inc. and The Mutual Fund Store, and he is a trustee of the AQR funds. He holds a B.A. from Northwestern University and an M.B.A. from the University of Chicago Booth School of Business. Mr. Posner's qualifications for service on our Board include his strong financial background, investment skills and extensive experience as a leading institutional investment manager and advisor.

Eugene S. Sunshine has been a Director since July 2014. Mr. Sunshine retired at the end of August 2014 as the Senior Vice President for Business and Finance at Northwestern University, the university's chief financial and administrative officer. Before joining Northwestern in 1997, he was Senior Vice President for Administration at The John Hopkins University. Prior to Johns Hopkins, Mr. Sunshine held positions as New York State Deputy Commissioner for Tax

Policy and New York State Treasurer as well as Director of Energy Conservation for the New York State Energy Office. He currently is a member of the boards of directors of Chicago Board Options Exchange and PlattForm Advertising. Mr. Sunshine is a former member of the boards of Bloomberg L.P. and National Mentors Holdings. Mr. Sunshine's qualifications for service on our Board include his strong financial background and extensive executive management and operating experience.

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John D. Vollaro has been a Senior Advisor of ACGL since April 2009 and has served as a director of ACGL since November 2009. He was Executive Vice President and Chief Financial Officer of ACGL from January 2002 to March 2009 and Treasurer of ACGL from May 2002 to March 2009. 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. Mr. Vollaro's qualifications for service on our Board include his financial background, extensive executive management and operating experience in the insurance industry and his in-depth knowledge of our operations.
The following individuals are members of senior management, including our executive officers, who do not serve as directors of ACGL:

Name	Age	Position
Mark D. Lyons	58	Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer of ACGL
Marc Grandisson	47	Chairman and Chief Executive Officer of Arch Worldwide Reinsurance and Mortgage Groups
David H. McElroy	56	Chairman and Chief Executive Officer of Arch Worldwide Insurance Group
W. Preston Hutchings	58	President of Arch Investment Management Ltd. and Senior Vice President and Chief Investment Officer of ACGL
John P. Mentz	48	President of Arch Insurance Group Inc.
Michael R. Murphy	61	Chief Underwriting Officer of Arch Worldwide Insurance Group and Vice Chairman of Arch Insurance Group (U.S.)
Timothy J. Olson	57	Chairman and Chief Executive Officer of Arch Reinsurance Company
Nicolas Papadopoulo	52	Chief Executive Officer of Arch Reinsurance Group
Louis T. Petrillo	49	President and General Counsel of Arch Capital Services Inc.
Maamoun Rajeh	44	Chairman and Chief Executive Officer of Arch Reinsurance Ltd.
Andrew T. Rippert	54	Chief Executive Officer of Global Mortgage Group of ACGL

Mark D. Lyons has served as Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer of ACGL since September 2012, and he also serves as a member of the Company's Executive Strategy Committee. Prior to that, he served as Chairman and Chief Executive Officer of Arch Worldwide Insurance Group, an executive position of ACGL, and Chairman and Chief Executive Officer of Arch Insurance Group Inc. ("Arch Insurance Group") since July 2008. Prior thereto, he served as President and Chief Operating Officer of Arch Insurance Group from June 2006. Prior to June 2006, he served as Executive Vice President of group operations and Chief Actuary of Arch Insurance Group from August 2003. 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, he was a Vice President and actuary at Berkshire Hathaway Insurance Group. Mr. Lyons holds a B.S. in Mathematics from Elizabethtown College. He is also an associate of the Casualty Actuarial Society and a member of the American Academy of Actuaries. Mr. Lyons is a trustee of Elizabethtown College and on the Board of Visitors for the Wake Forest University School of Business.

Marc Grandisson has served as Chairman and Chief Executive Officer of Arch Worldwide Reinsurance Group, an executive position of ACGL, since November 2005 and Chairman and Chief Executive Officer of Arch Worldwide Reinsurance and Mortgage Groups since February 2014. Mr. Grandisson also serves as a member of the Company's

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Executive Strategy Committee. Prior to November 2005, he served as President and Chief Executive Officer of Arch Reinsurance Ltd. ("Arch Re (Bermuda)") from February 2005. He served as President and Chief Operating Officer of Arch Re (Bermuda) from April 2004 to February 2005 and as Senior Vice President, Chief Underwriting Officer and Chief Actuary of Arch Re (Bermuda) from 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 Towers Watson. Mr. Grandisson holds an M.B.A. from The Wharton School of the University of Pennsylvania. He is also a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

David H. McElroy has served as Chairman and Chief Executive Officer of Arch Worldwide Insurance Group, an executive position of ACGL, since September 2012, and Chairman and Chief Executive Officer of Arch Insurance Group since July 2012. He also serves as a member of the Company's Executive Strategy Committee. He joined Arch Insurance Group in 2009 as the President of the Financial and Professional Liability Group, which is comprised of the executive assurance, professional liability, surety and healthcare lines. Prior to joining Arch Insurance Group, Mr. McElroy was a Senior Vice President at The Hartford Financial Services Corporation. He joined Hartford in 2000 from the acquisition of the directors and officers and errors and omissions business of Reliance National. He started his career at Chubb. Mr. McElroy is a graduate of Temple University with a B.A. in business administration.

W. Preston Hutchings has served as President of Arch Investment Management Ltd. ("Arch Investment") since April 2006 and Senior Vice President and Chief Investment Officer of ACGL since July 2005. Prior to joining ACGL, Mr. Hutchings was at RenaissanceRe Holdings Ltd. from 1998 to 2005, serving as Senior Vice President and Chief Investment Officer. Previously, he was Senior Vice President and Chief Investment Officer of Mid Ocean Reinsurance Company Ltd. from January 1995 until its acquisition by XL Group plc in 1998. Mr. Hutchings began his career as a fixed income trader at J.P. Morgan & Co., working for the firm in New York, London and Tokyo. He graduated in 1978 with a B.A. from Hamilton College and received in 1981 an M.A. in Jurisprudence from Oxford University, where he studied as a Rhodes Scholar.

John P. Mentz has served as President of Arch Insurance Group since December of 2014. Mr. Mentz joined Arch Insurance Group in 2002 as Executive Vice President Construction and subsequently assumed responsibilities for the large account Casualty and Lender Product business segments. From 2000 to 2002, he held senior underwriting positions at Zurich North America. From 1990 to 2000, Mr. Mentz held several senior management positions at The St. Paul Companies. Prior to that time, he was employed as an actuarial assistant at Chartwell Re Corporation. Mr. Mentz has a B.S. in Mathematics from the University of Minnesota. He is also a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

Michael R. Murphy has served as Chief Underwriting Officer of Arch Worldwide Insurance Group, an executive position of ACGL since September 2012, and he also serves as a member of the Company's Executive Strategy Committee. He also serves as Vice Chairman of Arch Insurance Group. Mr. Murphy joined Arch Insurance Group in 2002 as an Executive Vice President, serving in that position until 2008 when he was promoted to Senior Executive Vice President. In 2009, he became the President of the Property & Casualty segment, and he served as President of Arch Insurance Group through from 2012 to December 2014. From 1994 to 2002, he held several senior underwriting positions at Zurich Specialties, a division of Zurich Financial Services. Prior to entering the insurance industry, he was a lawyer in private practice. Mr. Murphy has a B.A. from Colorado College, a J.D. from The University of Colorado and an M.M. from the Kellogg Graduate School of Management of Northwestern University.

Timothy J. Olson currently serves as Chairman and Chief Executive Officer of Arch Reinsurance Company ("Arch Re U.S."). He was President and Chief Operating Officer of Arch Re U.S. from March 2009 until October 2009 when he became President and Chief Executive Officer. Mr. Olson was appointed Chairman of the Board of Arch Re U.S. in 2013. From April 2004 to February 2009, he was Executive Vice President and Chief Underwriting Officer of Arch Re U.S., and prior thereto he was Managing Director-Treaty Casualty from November 2001 to April 2004. Prior to joining Arch Re U.S., Mr. Olson held various executive level positions at St. Paul Re, including EVP-International, from 1998. From September 1986 until April 1998, he was an EVP at F&G Re. He was a member of the Board of Directors of Ashley Palmer, a Lloyd's Managing Agency, from 1996-1998. Mr. Olson holds a B.A. from Gustavus Adolphus College, and he is a Chartered Property Casualty Underwriter.

Nicolas Papadopoulo has served as the Chief Executive Officer of Arch Reinsurance Group, an executive position of ACGL, since July 2014. He also serves as a member of the Company's Executive Strategy Committee. Prior to July 2014,

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he served as President and Chief Executive Officer of Arch Re (Bermuda) since November 2005. Prior to November 2005, he served as Chief Underwriting Officer of Arch Re (Bermuda) from October 2004. He joined Arch Re (Bermuda) in December 2001 as a Senior Property Underwriter. Prior to that time, he held various positions at Sorema N.A. Reinsurance Group, a U.S. subsidiary of Groupama from 1990, including Executive Vice President and Chief Underwriting Officer since 1997. Prior to 1990, Mr. Papadopoulo was an insurance examiner with the Ministry of Finance, Insurance Department, in France. Mr. Papadopoulo graduated from École Polytechnique in France and École Nationale de la Statistique et de l'Administration Economique in France with a masters degree in statistics. He is also a member of the International Actuarial Association and a Fellow at the French Actuarial Society.

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. from Tufts University and a law degree from Columbia University.

Maamoun Rajeh has served as the Chairman and Chief Executive Officer of Arch Re (Bermuda) since the summer of 2014. He previously served as the President and Chief Executive Officer of Arch Reinsurance Europe Underwriting Limited ("Arch Re Europe") since July 2012. Prior to that, he was the Chief Underwriting Officer of Arch Re (Bermuda) from November 2005. He joined Arch Re (Bermuda) in 2001 as an underwriter. From 1999 to 2001, Mr. Rajeh served as Assistant Vice President at HartRe, a subsidiary of The Hartford Financial Services Group, Inc. Mr. Rajeh also served in several business analysis positions at the United States Fidelity and Guarantee Company between 1992 and 1996 and as an underwriter at F&G Re from 1996 to 1999. He has a B.S. from The Wharton School of Business of the University of Pennsylvania, and he is a Chartered Property Casualty Underwriter.

Andrew T. Rippert has served as Chief Executive Officer, Global Mortgage Group at ACGL since January 2014. Prior to that, he served as President and Chief Executive Officer of Arch Mortgage Insurance from December 2011 to March 2014. Prior to December 2011, he served as senior executive of mortgage insurance at Arch Re (Bermuda). He joined Arch Insurance Company (Europe) Limited ("Arch Insurance Europe") in September 2010 as a senior vice president. Prior to that time, he worked as a consultant to mortgage insurers and mortgage backed security investors. From 2001 through 2006, he held various positions at Radian Guaranty Inc., a subsidiary of Radian Group Inc. including senior vice president and managing director of the international mortgage insurance group. He has also worked in reinsurance as an actuary and underwriter. Mr. Rippert graduated from Drexel University with a B.S. in physics and mathematics and has an M.B.A. from The Wharton School of the University of Pennsylvania. Mr. Rippert is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Board of Directors

Leadership Structure

The Board currently combines the role of chairman of the board and chief executive officer, together with an independent lead director to strengthen our corporate governance structure. We believe that the combined role of chairman and chief executive officer promotes unified leadership and direction for the Company, which provides a single, clear focus for management to execute the Company's strategy and business plan. This structure also fosters clear accountability and effective decision making. We believe that the combined role of chairman and chief executive officer, together with an independent Board, including an independent lead director, provides an appropriate balance between strategy development and independent oversight of management.

Several factors ensure that we have a strong and independent Board. As indicated below, all directors, with the exception of Messrs. Iordanou and Vollaro, are independent as defined under the applicable listing standards of The NASDAQ Stock Market LLC ("NASDAQ"), and the audit, compensation and nominating committees of our Board are composed entirely of independent directors. The Company's independent directors bring experience, oversight and expertise from many industries, including the insurance industry. In addition to feedback provided during the course of Board meetings, the independent directors regularly meet in executive session without management present. The Board also has regular access to our management team.

The lead director coordinates the activities of the other non-management/independent directors, and performs such other duties and responsibilities as the Board may determine. The lead director presides at all meetings of the Board at which the chairman of the board is not present, including executive sessions of the non-management/independent directors, and has the authority to call meetings of the non-management/independent directors. The lead director also serves as principal liaison between the chairman of the board and the non-management/independent directors and works with the chairman of the board to develop an appropriate schedule of Board meetings and to establish the agendas for Board meetings. In addition, the lead director advises the chairman of the board as to the quality, quantity and timeliness of the flow of information from the Company's management that is necessary for the independent directors to effectively and responsibly perform their duties. The lead director is also available, when appropriate, for consultation and direct communication with major shareholders.

Board Independence and Composition

The Board of Directors is required to determine which directors satisfy the criteria for independence under the rules of NASDAQ. 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 $120,000 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 consists of twelve directors, including ten non-employee directors. Our Board of Directors has concluded that the following ten non-employee directors are independent in accordance with the director independence standards set forth in Rule 5600 of the rules of NASDAQ: John L. Bunce, Jr., Eric W. Doppstadt, Kewsong Lee, Yiorgos Lillikas, James J. Meenaghan, Deanna M. Mulligan, Louis J. Paglia, John M. Pasquesi, Brian S. Posner and Eugene S. Sunshine. In making these independence determinations, the Board reviewed the relationships with the directors set forth under the captions "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions," including ordinary course transactions not meeting the disclosure threshold with insurers, reinsurers and producers in which a director or a fund affiliated with any of our directors maintained at least a 10% ownership interest.

Role in Risk Oversight

Our Board, as a whole and also at the committee level, has an active role in overseeing management of the Company's risks. The Board regularly reviews information regarding the Company's business and operations, including with respect to underwriting, investments, capital management, liquidity, financial reporting and compliance, as well as the risks associated with these activities. Committees of the Board help oversee the business and operations of the Company. The underwriting oversight committee oversees risks relating to our underwriting activities, including with respect to accumulations and aggregations of exposures in our insurance and reinsurance businesses. The members of the underwriting oversight committee regularly participate in the underwriting review meetings held in our insurance and reinsurance operations. The audit committee oversees management of financial reporting and compliance risks. The compensation committee is responsible for overseeing the management of risks relating to the Company's compensation plans and arrangements, retention of personnel and succession planning. The finance and investment committee oversees risks relating to our investment and capital management activities. The nominating committee oversees risks associated with the composition of the Board of Directors. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks. Please refer to "Committees of the Board of Directors."

Code of Business Conduct, Committee Charters and Corporate Governance Guidelines

We have adopted a Code of Business Conduct, which describes our ethical principles, and charters of responsibilities for our standing Board committees, including underwriting oversight, audit, compensation, executive, finance and investment and nominating committees. We have also adopted Corporate Governance Guidelines that cover issues such as executive sessions of the Board of Directors, director qualification and independence requirements, director responsibilities, access to management, evaluation and communications with the Board in order to help maintain effective corporate governance at the Company. The full text of our Code of Business Conduct, each committee charter and our Corporate Governance Guidelines is available on the Company's website located at www.archcapgroup.com. None of the material on our website is incorporated herein by reference.

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Meetings
The Board of Directors held four meetings during 2014. Each director attended 75% or more of all meetings of the Board of Directors and any committees on which the director served during fiscal year 2014. Directors are encouraged, but not required, to attend our annual general meetings of shareholders. All of our then current directors attended the 2014 annual general meeting.

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 of Directors or any of the directors, c/o Secretary, Arch Capital Group Ltd., Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda. All shareholder communications will be compiled by the Secretary for review by the Board of Directors.

Committees of the Board of Directors

Underwriting Oversight Committee
The underwriting oversight committee of the Board of Directors assists the Board of Directors by reviewing the underwriting activities of our insurance and reinsurance subsidiaries. The underwriting oversight committee currently consists of John D. Vollaro (chairman), Yiorgos Lillikas, Louis J. Paglia, John M. Pasquesi and Brian S. Posner. The underwriting oversight committee held four meetings in 2014.

Audit Committee
The audit committee assists the Board of Directors in monitoring (1) the integrity of our financial statements, (2) the qualifications and independence of the independent registered public accounting firm, (3) the performance of our internal audit function and independent registered public accounting firm and (4) the compliance by the Company with legal and regulatory requirements. The audit committee currently consists of Brian S. Posner (chairman), Yiorgos Lillikas, Louis J. Paglia and Eugene S. Sunshine. All of such audit committee members are considered independent under the listing standards of NASDAQ 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. Posner qualifies as an "audit committee financial expert" under the rules of the Securities and Exchange Commission ("SEC"). The audit committee held five meetings during 2014.

Compensation Committee
The compensation committee of the Board of Directors approves the compensation of our senior executives and has overall responsibility for approving, evaluating and making recommendations to the Board of Directors regarding our officer compensation plans, policies and programs. The compensation committee currently consists of John L. Bunce, Jr. (chairman), Kewsong Lee, Deanna M. Mulligan and Eugene S. Sunshine. All of such compensation committee members are considered independent under the listing standards of NASDAQ 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 of Directors serves as an executive officer. The compensation committee held four meetings during 2014.

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 Kewsong Lee (chairman), John L. Bunce, Jr., Constantine Iordanou and John M. Pasquesi. The executive committee held two meetings during 2014.

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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 recommends to the Board of Directors 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), John L. Bunce, Jr., Eric W. Doppstadt, Constantine Iordanou, Kewsong Lee, Deanna M. Mulligan, Brian S. Posner and John D. Vollaro. The finance and investment committee held four meetings during 2014.

Nominating Committee

The nominating committee of the Board of Directors is responsible for identifying individuals qualified to become directors and recommending to the Board of Directors the director nominees for consideration at each annual meeting of shareholders. The nominating committee currently consists of Kewsong Lee (chairman), Eric W. Doppstadt, Deanna M. Mulligan and John M. Pasquesi. All of such nominating committee members are considered independent under the listing standards of NASDAQ governing the qualifications of the members of nominating committees. The nominating committee held three meetings during 2014.

When the Board of Directors 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, as well as knowledge of the business environments in the jurisdictions in which we currently operate or intend to operate in the future. The Company endeavors to maintain a Board of Directors representing a diverse spectrum of expertise, background, perspective, race, gender and experience.

A shareholder who wishes to recommend a director candidate for consideration by the nominating committee should send such recommendation in writing to the Secretary, Arch Capital Group Ltd., Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda and should comply with the advance notice requirements set forth in our bye-laws, as described under the caption "Shareholder Proposals for the 2016 Annual General Meeting." As described below in more detail, 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 of Directors.

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.

Compensation Committee Interlocks and Insider Participation

The compensation committee currently consists of John L. Bunce, Jr. (chairman), Kewsong Lee, Deanna M. Mulligan and Eugene S. Sunshine. None of the members of the committee are or have been officers or employees of the Company.

From time to time, in the ordinary course of our business, we may enter into transactions, including insurance and reinsurance transactions and brokerage or other arrangements for the production of business, with entities in which companies or funds affiliated with directors of ACGL may have an ownership or other interest.

As part of its investment philosophy, the Company invests a portion of its investment portfolio in alternative investment funds. As of December 31, 2014, the Company had aggregate commitments of $395.9 million to funds managed by The Carlyle Group ("Carlyle"). Of such amount, $260.2 million was unfunded as of December 31, 2014. The Company may make additional commitments to funds managed by Carlyle from time to time. During 2014, the Company made aggregate capital contributions to funds managed by Carlyle of $63.5 million, and received aggregate cash distributions from funds managed by Carlyle of $45.8 million, of which $34.4 million represents a return of capital. Kewsong Lee, a director of ACGL, is a Managing Director and Deputy Chief Investment Officer for

Corporate Private Equity at Carlyle.

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In the ordinary course of its investment activities, The Guardian Life Insurance Company of America ("Guardian") invests funds in equity and debt securities of many companies, and from time to time may own equity and/or debt securities of the Company. In connection with the Company’s senior note offering in December 2013, Guardian purchased $30 million of the Company’s 5.144% senior notes due in 2043. Deanna M. Mulligan, a director of the Company, is President and Chief Executive Officer of Guardian.

Certain of our directors and executive officers acquired shares of Watford Holdings Ltd. ("Watford") at the time of its launch in March 2014 at the same price per share paid by other investors. We have an approximately 11% equity interest in Watford and the right to designate two members of Watford’s five member board of directors. We consolidate Watford’s financial results under applicable accounting principles. See "-Ownership of Watford Holdings Ltd. Shares" in this Proxy Statement and notes 4 "Variable Interest Entity and Noncontrolling Interests" and 5 "Segment Information" accompanying our consolidated financial statements included in our 2014 Annual Report for more information about Watford.

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 qualifications and independence of the independent registered public accounting firm, (3) the performance of our internal audit function and independent registered public accounting firm and (4) the compliance by the Company with legal and regulatory requirements.

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"). The financial statements are the responsibility of the Company's management. The Company's independent public registered accounting firm is responsible for expressing an opinion on these financial statements based on their audit. 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 Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Annual Report"), management's annual assessment of the effectiveness of ACGL's internal control over financial reporting and PricewaterhouseCoopers LLP's opinion on the effectiveness of internal control over financial reporting, with management of ACGL and PricewaterhouseCoopers LLP, independent registered public accounting firm for ACGL.

The audit committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board regarding communications with the audit committee. The audit committee has also received the written disclosures and the letter from PricewaterhouseCoopers LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with PricewaterhouseCoopers LLP their independence.

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 its subsidiaries for the year ended December 31, 2014 in our 2014 Annual Report.

AUDIT COMMITTEE
James J. Meenaghan (chairman)
Yiorgos Lillikas
Louis J. Paglia
Brian S. Posner[1]
Eugene S. Sunshine

(1) Mr. Posner succeeded Mr. Meenaghan as chairman of the Audit Committee, effective February 27, 2015.

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Compensation Discussion and Analysis

Introduction

In this section, we discuss the principal aspects of our compensation program as it pertains to Constantine Iordanou, Chairman of the Board, President and Chief Executive Officer of ACGL; Mark D. Lyons, Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer of ACGL; and our three other most highly-compensated executive officers in 2014, Marc Grandisson, Chairman and Chief Executive Officer of Arch Worldwide Reinsurance and Mortgage Groups, David H. McElroy, Chairman and Chief Executive Officer of Arch Worldwide Insurance Group and Arch Insurance Group, and W. Preston Hutchings, President of Arch Investment and Senior Vice President and Chief Investment Officer of ACGL. We refer to these individuals throughout this section as the "named executive officers." Our discussion focuses on our compensation and practices relating to 2014.

The compensation committee of our Board of Directors (which we refer to as the "Committee" in this section) is responsible for determining and approving the individual elements of total compensation paid to the chief executive officer and our other executive officers and establishing overall compensation policies for our employees. The Committee also oversees the administration of executive compensation plans and certain employee benefits. Our Board of Directors appoints each member of the Committee and has determined that each is an independent director under the applicable standards of NASDAQ.

Executive Summary

We seek to attract and retain quality executives who will contribute to our long-term success and help us to manage all phases of the underwriting cycle. We seek to provide a compensation program that is driven by our overall financial performance and the increase in shareholder value. The principal features of our compensation programs and policies are summarized below. Please refer to the balance of this discussion for additional details.

- Key Principles. The main principles of our strategy include the following: (1) compensation decisions are driven by performance, (2) increased compensation is earned through an employee's increased contribution and (3) a majority of total compensation should consist of variable, performance-based compensation.
- Emphasis on Performance-Based Incentives. Our compensation program includes both fixed and variable compensation, with an emphasis on long-term compensation that is tied to Company performance. Although we do not apply rigid apportionment goals in our compensation decisions, our philosophy is that variable pay, in the form of annual cash incentive bonuses and share-based awards, should constitute the majority of total direct compensation.
- Pay-Mix. Consistent with our philosophy of emphasizing variable, performance-based compensation, the base salaries for 2015 for all named executive officers of the Company were not increased from 2014 levels, except that the salary of Mr. Grandisson was increased in 2014 to reflect his additional responsibilities related to the oversight of the Company's reinsurance and mortgage groups. Compensation for all named executive officers of the Company was weighted significantly towards performance-based compensation in the form of a cash incentive bonus payment and share-based awards. Specifically, in 2014, for our named executive officers we allocated compensation as follows: (1) base salaries ranging from approximately 10% to 27% of total compensation and (2) variable, performance-based compensation, in the form of annual cash incentive bonuses and long-term incentive share-based awards, ranging from approximately 73% to 90% of total compensation, as described below.

In addition, our chief executive officer elected to receive 50% of his cash bonus for 2014 in the form of share-settled stock appreciation rights ("SARs"), with an exercise price equal to the closing stock price on the grant date. Share price appreciation over an extended period of time will be required in order for Mr. Iordanou to realize any compensation benefit from this significant component of his 2014 compensation.

- Share-Based Awards. A substantial component of variable compensation is granted in the form of annual multi-year vesting share-based awards, which make stock price appreciation over an extended period of time fundamental in realizing a compensation benefit. By emphasizing long-term performance through using long-term incentives, we align our executives' interests with our shareholders' interests and create a strong retention tool. The Company provides awards in the form of restricted share/unit grants and SARs and stock options. Our share-based awards

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typically provide for vesting over three years, and our proposed 2015 Long Term Incentive and Share Award Plan generally requires, at minimum, one year vesting, exercisability and distribution provisions for share-based awards granted under it. Subject to exceptions for death, disability and change in control, our 2015 Long Term Incentive and Share Award Plan prohibits the exercise of discretion to accelerate vesting of awards. Our plans do not permit liberal share recycling, granting of SARs or stock options at an exercise price below the fair market value on the grant date, do not allow for repricing or reducing the exercise price of a stock option or SAR, and also do not permit repurchases of out-of-the-money stock options. We set the exercise price of stock options and SARs at the closing share price on the date of grant.

- Key Metrics and Other Performance Measures. Specific factors affecting compensation decisions include two key financial metrics, growth in book value per share, which creates long-term shareholder value, and operating return on average common equity ("operating ROE"), which drives book value growth and is a key indicator of the efficient use of capital. We also take into account after-tax operating income, combined ratio, investment performance and net income return on average common equity ("net income ROE"), which reflects the impact of the Company's investment philosophy of maximizing total returns in our portfolio. The Committee also considers the achievement of strategic objectives and support of our values by promoting a culture of integrity through compliance with law and our ethics policies. In determining the performance-based compensation of our chief executive officer and other named executive officers, the Committee reviews the estimated bonus pool determined under a quantitative, formula-based measure (referred to as the "Formula Approach") included in our Incentive Compensation Plan. These calculations are based on ROE targets for the current and prior underwriting years. The Committee also measures Company performance based on an analysis of our financial performance on an absolute basis and as compared to that of Selected Competitors (as defined below) reviewed annually by the Committee. In determining the amount and mix of compensation elements, the Committee employs its business judgment in administering the Company's compensation programs and in the evaluation process, which the Committee believes enables us to respond more flexibly to changes in the business environment as well as the Company's operations.

Please refer to "2014 Highlights" below.

- Risk Management. We believe our approach to evaluation of performance and the design of our compensation programs assists in mitigating excessive risk-taking that could harm our Company. We emphasize variable compensation that is tied to Company performance. Furthermore, and as discussed above, the Formula Approach included in our Incentive Compensation Plan, which is applied to employees in our insurance, reinsurance and mortgage insurance and reinsurance groups and is reviewed in connection with compensation decisions relating to our named executive officers, is based on underwriting performance during a given underwriting year. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the participants over a 10-year development period. Since much of our business requires multiple years to determine whether we have been successful in our assessment of risk, we have structured our plan in this manner so that incentive payments are made to employees as actual results become known.
- Double Trigger Change-in-Control Arrangements. In the event of a change in control, the employment agreements with our named executive officers require an involuntary or constructive termination of the executive's employment in order for severance payments to be made. Similarly, the current annual award agreements for the named executive officers provide that unvested shares and unvested options/SARs do not vest immediately upon a change in control. Rather, in the event that the employee's employment is terminated by the Company other than for cause or by the employee for good reason within two years following the consummation of a change in control ("double trigger"), unvested shares and unvested options/SARs would immediately vest, and the options/SARs would have a remaining term of 90 days from termination. These provisions are consistent with our objective of providing employees with a level of financial protection upon loss of employment.
- No Excise Tax Gross-Ups. We do not provide excise tax gross-ups to any of our executives.
- Complementary Governance Policies and Practices. The Company's compensation philosophy and related governance features are complemented by several specific elements that are designed to align our compensation with long-term shareholder interests, which are outlined below and described in more detail in this proxy statement.

- Clawback Policy. The Company maintains a clawback policy covering all executive officers, including the chief executive officer, which provides for affected incentive-based compensation to be recouped by the Company in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws.

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- Share Ownership Guidelines for Executives and Directors. In an effort to further align the interests of the senior management team and the directors with the interests of shareholders, the Company has share ownership guidelines that require our senior executives and the directors to maintain designated levels of ownership of the common shares of ACGL. These guidelines require common share ownership levels as follows: (1) chief executive officer of ACGL—six times base salary; (2) named executive officers and other executives who file reports under Section 16 of the Exchange Act and certain other members of senior management designated from time to time—four times base salary; and (3) other designated members of senior operating management—three times base salary. Individuals subject to these guidelines have five years to meet the applicable minimum requirement.
- Share Holding Requirements for Executives and Directors. In 2015, the Company adopted a policy requiring each of our senior executives and directors retain an amount equal to 50% of the net profit shares received from Company equity awards until he or she has attained the applicable share ownership level. Net profit shares are the shares remaining after payment of the exercise price of an option and taxes owed on exercise of options or SARs, vesting of restricted stock, or vesting and payout under restricted stock units and performance shares. This policy was adopted in an effort to ensure our executives and directors meet and maintain their share ownership guidelines.
- No Hedging Permitted. Under the insider trading policy included in our Code of Business Conduct, our named executive officers, other members of senior management and our directors are not permitted to engage in hedging activities with respect to the Company's securities.
- Code of Business Conduct, Committee Charters and Corporate Governance Guidelines. We have adopted a Code of Business Conduct, which describes our ethical principles, and charters of responsibilities for all of our standing Board committees. We have also adopted Corporate Governance Guidelines that cover issues such as executive sessions of our Board of Directors, director qualification and independence requirements, director responsibilities, access to management, evaluation and communications with the Board in order to help maintain effective corporate governance at the Company.
- Executive Sessions. The Committee meets in executive sessions (without management present) as necessary, particularly when administering any aspect of the compensation program for the chairman and chief executive officer of ACGL. Compensation matters in respect of the chairman and chief executive officer of ACGL, the chief financial officer of ACGL and the general counsel of Arch Capital Services Inc. are subject to ratification by our Board of Directors.

2014 Highlights

During 2014, the Company performed well in a difficult environment. Specifically,

- Financial Results.
- Gross premiums written increased 13.4% from 2013.
- Net premiums written increased 7.9% from 2013.
- Underwriting income increased 5.0% from 2013.
- After-tax operating income available to Arch common shareholders increased 4.3% from 2013 on a per share basis.
- Net income available to Arch common shareholders increased 18.7% from 2013 on a per share basis.
- Our GAAP combined ratio, a measure of underwriting performance, was 86.8% in 2014 and 85.9% in 2013. A lower ratio indicates higher underwriting margins. The combined ratio consisted of a loss ratio of 53.0% in 2014 and 53.4% in 2013 and an underwriting expense ratio of 33.8% in 2014 and 32.5% in 2013. The increase in the expense ratio was due mainly to shifts in business mix, including costs associated with building our mortgage insurance business, which we believe will be an important business for us in the future.

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- On the investment side, the Company’s portfolio generated $284.3 million of net investment income in 2014, up 7.1% from 2013 on a per-share basis. Total return was 3.21% in 2014, compared with 1.28% in 2013.

- Key Metrics. In evaluating the performance of the Company in connection with our performance-based compensation programs, we focus primarily on two main benchmarks: growth of book value per share, which creates long-term shareholder value; and operating ROE, which drives book value growth and is a key indicator of the efficient use of capital.

Book value per share was $45.58 at December 31, 2014, an increase of 14.5% from 2013, the Company’s sixth consecutive annual increase. Book value per share has grown at a compound annual rate of 16.0% over the past decade. The Company ranked third in growth in book value per share in 2014 among our Selected Competitors, and was first over the past five years.

Operating ROE was 11.1%, down slightly from 2013 primarily due to growth in our capital base, and has averaged 14.6% per year over the past decade. Operating ROE measures the Company’s performance after excluding non-operating items such as investment gains and losses and foreign exchange gains and losses. The Committee also considers a similar metric, net income ROE, which includes these items. Net income ROE increased to 14.6% in 2014 from 13.5% in 2013, and has averaged 16.1% over the past decade. Net income ROE reflects the impact of the Company’s investment philosophy of maximizing total returns in our portfolio. The Company ranked seventh and fifth, respectively, in operating ROE and net income ROE, among our Selected Competitors in 2014.

- Common Stock Performance. As of December 31, 2014, the closing price for our common shares was $59.10. Although the price for our common shares was down 1% in 2014, the performance has been strong over the longer term. For example, our common share price appreciated by 35.6% in 2013 and by 19.9% on a compound annualized basis over the past five years. For the five-year period, our total stock return, which assumes reinvestment of dividends, was second among our Selected Competitors. During that period, the total stock return for the S&P 500 Composite Stock Index ("S&P 500 Index") and the S&P 500 Property & Casualty Insurance Index was 15.5% and 15.9%, respectively. Please refer to the performance graph in Item 5 of our 2014 Annual Report for the comparison of cumulative total shareholder return of our common shares for each of the last five years through December 31, 2014 to the cumulative total return, assuming reinvestment of dividends, of (1) the S&P 500 Index and (2) the S&P 500 Property & Casualty Insurance Index. In addition, at December 31, 2014 and 2013, our common share price represented an approximately 130% and 150% premium to our book value per share (“Share Price Multiple”). For the property and casualty industry, price to book value is viewed as an important indicator of company performance by analysts and the investment community. At December 31, 2014, our Share Price Multiple was first among our Selected Competitors.

- Strategic Initiatives. The Company made significant investments to diversify our business in 2014 that are expected to benefit our shareholders in the future.

The Company entered the primary United States mortgage insurance market in January 2014 when we acquired the mortgage insurance operations of CMG Mortgage Insurance Company and the assets of PMI Mortgage Insurance Co. in the United States and combined these operations with the Company's existing global mortgage insurance and reinsurance platform. Our U.S. mortgage operations had $204.8 million of net premiums written in 2014, and by December 31, 2014, the Company had enrolled 19 of the top 25 mortgage lenders in the U.S. as customers and had reviewed and approved 481 master policy applications from banks. In addition, the Company recently activated Arch Mortgage Guaranty Company to insure mortgages that originators intend to retain in their portfolios or include in private securitizations.

The Company also launched Watford Re, an innovative, multi-line Bermuda company, in March 2014 with $1.13 billion of capital. Watford Re is an independent company in which the Company owns an approximately 11% equity interest and for which it serves as underwriting manager. Watford Re also got off to a strong start, writing $288.6 million of gross premiums in its first year. Watford allows the Company to leverage its underwriting skills, receive fee income and serve customers with a broader range of insurance products.

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Compensation Objectives and Philosophy

The objectives of our executive compensation program are to:

- attract and retain quality executives who will contribute to our long-term success and, thereby, increase shareholder value;
- enhance the individual executive's short and long-term performance;
- align the interests of the executive with those of our shareholders; and
- improve overall Company performance and support the ACGL culture of teamwork, underwriting discipline and commitment to the highest ethical standards.

ACGL seeks to provide a compensation program that is driven by our overall financial performance, the increase in shareholder value, the success of the operating unit or function directly affected by the executive's performance and the individual performance of the executive. The main principles of this strategy include the following: (1) compensation decisions are driven by performance, (2) increased compensation is earned through an employee's increased contribution and (3) a majority of total compensation should consist of variable, performance-based compensation.

We believe that the Company's compensation program provides a competitive mix of pay elements that align executive incentives with shareholder value. Our executive compensation program includes both fixed and variable compensation, with an emphasis on long-term compensation that is tied to Company performance. Although we do not apply rigid apportionment goals in our compensation decisions, our philosophy is that variable pay, in the form of annual cash incentive bonuses and share-based awards, should constitute the majority of total direct compensation. A substantial component of variable compensation is granted in the form of share-based awards, which make stock price appreciation fundamental in realizing a compensation benefit. By emphasizing long-term performance through using long-term incentives, we align our executives' interests with our shareholders' interests and create a strong retention tool.

We rely on the Committee's judgment in making compensation decisions for the named executive officers after reviewing the overall performance of our Company and evaluating an executive's performance during the year against established objectives, leadership qualities, scope of responsibilities and current compensation. Specific factors affecting compensation decisions include key financial metrics, such as growth in book value per share, operating ROE, after-tax operating income, combined ratio, investment performance and net income ROE, as well as achieving strategic objectives and supporting our values by promoting a culture of integrity through compliance with law and our ethics policies. We generally do not adhere to rigid formulas in determining the amount and mix of compensation elements. We employ flexibility in our compensation programs and in the evaluation process, which we believe helps to position us to respond to changes in the business environment.

Elements of Compensation Program

The four primary components of our executive compensation program are (1) base salary, (2) annual cash incentive bonuses, (3) long-term incentive share-based awards and (4) benefits.

Base Salary. Base salaries are designed to provide competitive levels of compensation to executives based upon their experience, duties and scope of responsibility. We pay base salaries because they provide a basic level of compensation and are necessary to recruit and retain executives. The Committee has the ability, subject to the terms of any employment agreement, to use base salary adjustments to reflect an individual's performance or changed responsibilities.

Base salary levels are also important because we generally tie the target amount of incentive compensation to an executive's base salary. For example, annual target bonus opportunities are denominated as a percentage of the executive's base salary. In addition, as discussed above, the Committee emphasizes a mix of compensation weighted towards variable, performance-based compensation. At lower executive levels, base salaries represent a larger proportion of total compensation than at senior executive levels.

Annual Cash Incentive Bonuses. We use annual cash incentive bonuses as a short-term incentive to drive achievement of our annual performance goals. Specifically, annual cash incentive bonuses are designed to: (1) promote the achievement of financial goals, (2) support our strategic objectives and (3) reward achievement of specific performance objectives.

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Annual bonus awards are designed to provide competitive levels of compensation to executives based upon their experience, duties and scope of responsibilities. The size of an executive's bonus award is influenced by these factors, corporate performance, individual performance and market practice. As an employee's responsibilities increase, the portion of his or her bonus that is dependent on corporate performance increases.

We initially denominate a target annual cash incentive bonus opportunity as a percentage of an executive's base salary. For each employee, his or her target is an approximation of the bonus payment that may be paid if performance goals and other expectations are attained by both the employee and the Company as a whole. For each of the named executive officers, the target annual bonus opportunity is 100% of such executive's respective base salary.

Our annual bonus awards are paid under our Incentive Compensation Plan. The plan combines two sets of performance measures: (1) a qualitative judgment about progress and performance each year (referred to as the "Target Bonus Approach") and (2) a quantitative, formula-based measure (referred to as the "Formula Approach").

The Target Bonus Approach is applied to all the named executive officers, as well as to our investment management team, substantially all of the employees of Arch Capital Services Inc. and other designated officers of the group.

Under the Target Bonus Approach, the executive's bonus is determined by the Committee taking into account overall Company performance, department or function performance, individual performance and other measures deemed applicable by the Committee. The Committee measures Company performance based on an analysis of our financial performance on an absolute basis and as compared to that of Selected Competitors (as defined below) reviewed annually by the Committee. The financial metrics evaluated by the Committee in measuring Company performance include growth in book value per share, operating ROE, after-tax operating income, combined ratio, investment performance and net income ROE. Approved annual bonus awards are paid in cash in an amount reviewed and approved by the Committee and ordinarily paid in a single installment in the first quarter following the completion of a given year.

The Formula Approach is applied to executives included in our insurance and reinsurance groups and is reviewed in connection with compensation decisions relating to our named executive officers. Under the Formula Approach, a bonus pool is established for each of our insurance segment and our reinsurance segment based on underwriting performance during a given underwriting year. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the participants over a 10-year development period. Since much of our business requires multiple years to determine whether we have been successful in our assessment of risk, we have structured our plan in this manner so that incentive payments are made to employees over a period of years as actual results become known, which we believe effectively aligns pay with performance.

Please refer to "2014 Compensation Decisions."

Long-Term Incentive Share-Based Awards. We emphasize long-term variable compensation at the senior executive levels because of our desire to reward effective long-term management decision making and provide the named executive officers with a future interest in the Company. Long-term incentives, which comprise a significant portion of executive compensation, are designed to focus attention on long-range objectives and future returns to shareholders, and are delivered to the named executive officers and other employees through share-based awards under our long-term incentive plans. Our long-term incentive share award plans provide for the grant to eligible employees of a wide range of share-based awards.

The Company provides grants in the form of restricted common share/unit awards, SARs and stock options. SARs represent a right to be paid, upon exercise, an amount measured by the difference between the fair market value per share on the exercise date and the exercise price of the SAR (the "spread"), multiplied by the number of shares with respect to which the SAR is exercised, with the resultant amount paid in shares valued on the exercise date. The value of SARs to employees should be equivalent to that of options. In addition, the Company's outstanding stock option agreements allow for net exercise to the extent permitted or otherwise advisable under applicable legal and accounting principles.

As indicated above, the Company's mix of share-based awards includes restricted shares and units, which are a more predictable and flexible equity incentive than option and SAR awards. As a result, restricted shares and units are generally more meaningful to employees and, therefore, could provide a more significant incentive to remain with the Company during the vesting period.

Our share-based compensation is designed to align the interests of executives and shareholders by providing value to the executive as the share price increases. Due to the variability of the share price, the value of stock options, SARs and restricted share/unit awards is dependent upon our overall results and how we are perceived by our shareholders and the marketplace. Based on the foregoing, the Company believes that share-based awards encourage executives and other

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employees to focus on behaviors and initiatives that should lead to an increase in the price of our common shares, which benefits all ACGL shareholders.

Share-based compensation grant levels and awards are reviewed and determined by the Committee periodically. Grants of share-based compensation are determined on the basis of a number of factors, including: (1) corporate performance on an absolute basis and relative to Selected Competitors (as defined below) and individual performance, (2) the executives' contribution to the Company's success and (3) competitive total compensation and long-term incentive grant levels as determined in the market.

Share-based awards granted to employees vest over a prescribed period, motivating executives to remain with us and sustain high corporate performance in order to increase the value of such awards. The annual grants of share-based awards outlined in the "Grants of Plan-Based Awards" table that were made in May 2014 will vest ratably over a three-year period. The Company believes that these annual grants are consistent with the Company's objectives to retain management and to align further the interests of management and the Company's shareholders. Options and SARs awarded to employees are granted with an exercise price equal to the closing price of the shares on the date of grant and, subject to earlier termination under certain circumstances as set forth in the award agreements, will expire 10 years from the grant date.

Please refer to "2014 Compensation Decisions."

The current annual award agreements for the named executive officers provide that, in the event that the employee's employment is terminated by the Company other than for cause or by the employee for good reason within two years following a change in control, unvested shares and unvested options/SARs would immediately vest, and the options/SARs would have a remaining term of 90 days from termination. Unlike single trigger provisions that provide for vesting immediately upon a change in control, the agreements require a double trigger, i.e., the consummation of a change in control followed by an involuntary loss of employment or termination following an involuntary change in responsibilities within two years thereafter. This is consistent with the purpose of the provision, which is to provide employees with a level of financial protection upon loss of employment following a change in control.

In addition, commencing with grants on and after September 2004, our annual share-based award agreements provide that, if an employee's employment terminates (other than for cause) after retirement age, unvested shares and unvested options would continue to vest pursuant to the normal vesting schedule so long as the employee does not engage in a competitive activity following retirement. However, the award agreements also provide that, if a retired employee does engage in a competitive activity, any unvested awards would be forfeited and the holder would have a reduced period in which to exercise vested options. These provisions provide additional alignment with shareholders for long-term decision making by executives nearing retirement and are designed to help provide our retired employees with financial security so long as the Company's interests are protected.

Please refer to the description of our award agreements included below under the caption "Share-Based Award Agreements."

Benefits. ACGL seeks to provide benefit plans, such as medical coverage and life and disability insurance, consistent with applicable market conditions. Our health and welfare plans help ensure that the Company has a productive and focused workforce through reliable and competitive healthcare and other benefits. Defined contribution retirement plans are provided for all employees according to local market conditions. Retirement plans help employees save and prepare for retirement. The named executive officers are eligible for the benefit plans provided to all other employees. The Company generally credits only actual service with the Company towards benefits under the Company's benefit plans. The Company does not maintain any defined benefit retirement or pension plans.

During 2014, certain members of senior management, including Mr. McElroy, participated in the Company's non-qualified defined contribution retirement plan, which provides additional retirement savings opportunities that cannot be achieved with tax-qualified plans due to limits on annual compensation. Participants in the non-qualified plan do not receive preferential earnings on their investments. Account balances are paid in cash following termination of employment in accordance with the terms of the plan. The principal benefit to the participating executives is that U.S. taxes are deferred until distribution of the funds. As described below under "—Tax Considerations—Sections 409A and 457A," commencing with the 2009 year, this benefit is no longer available to certain employees, including Messrs. Iordanou, Lyons and Grandisson, due to changes in the governing law. In lieu of pension and matching contributions previously provided to these former participants through the non-qualified plan, we provide comparable benefits to these employees in the form of current cash payments subject to tax.

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The Company maintains a broad-based employee share purchase plan. The purpose of this plan is to provide employees with an opportunity to purchase common shares of ACGL through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company. The Company also provides a broad-based matching gift program pursuant to which the Company matches eligible contributions by employees to qualified charitable organizations. During 2014, the Company made an aggregate of approximately $270,280 in matching contributions on behalf of the named executive officers.

In addition, the Company provides our named executive officers with perquisites and other benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain key employees. In developing our guidelines for the administration of these various benefits, the Company reviews the job requirements of various positions and the anticipated business use of such benefits, as well as available market data. Similar benefits are generally provided by insurers and reinsurers for similarly situated employees and we believe these benefits are necessary for recruitment and retention purposes. These benefits primarily relate to those executives who work and reside in Bermuda and are typical of such benefits provided to expatriates located in Bermuda. Examples of these benefits include housing allowances, club memberships, the cost of tax preparation services and home leave for executives and family for those executives working outside their home country. In addition, certain tax regulations often subject our executives to taxation on the receipt of certain of these benefits. In certain of these situations, particularly in the case of those executives receiving expatriate benefits while working outside their home country, we provide an additional payment to the executive to reimburse the executive for approximate amounts of additional tax liability the executive will need to pay as a result of receiving such benefits.

Relationship Between Compensation Policies and Risk Management

We believe our approach to evaluation of performance and the design of our compensation programs assists in mitigating excessive risk-taking that could harm our Company. We emphasize long-term compensation that is tied to Company performance. Furthermore, the Formula Approach included in our Incentive Compensation Plan, which is applied to employees in our insurance and reinsurance groups, is based on underwriting performance during a given underwriting year. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the participants over a 10-year development period. Since much of our business requires multiple years to determine whether we have been successful in our assessment of risk, we have structured our plan in this manner so that incentive payments are made to employees as actual results become known, which effectively aligns pay with performance. In addition, a substantial component of variable compensation is granted in the form of multi-year vesting share-based awards, which make stock price appreciation over an extended period of time fundamental in realizing a compensation benefit.

The Company's compensation philosophy and related governance features are also complemented by several specific elements that are designed to align our compensation with long-term shareholder interests. These elements include a clawback policy covering all executive officers, including the chief executive officer, which provides for affected incentive-based compensation to be recouped by the Company in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws. In an effort to further align the interests of the senior management team and the directors with the interests of shareholders, the Company has share ownership guidelines and share holding requirements that together require our senior executives and the directors to maintain designated levels of ownership of the common shares of ACGL. In addition, under the insider trading policy included in our Code of Business Conduct, our named executive officers, other members of senior management and our directors are not permitted to engage in hedging activities with respect to the Company's securities.

Employment Agreements

The Company has entered into employment agreements with its chief executive officer and each of its other named executive officers. The employment agreements with our named executive officers require an involuntary or constructive termination of the executive's employment ("double trigger") in order for severance payments to be made. The terms of the employment agreements, including the severance benefit provisions, were structured to attract and retain persons believed to be key to our success, as well as to be competitive with compensation practices for executives in similar positions at companies of similar size and complexity. Please refer to "Employment Arrangements" below for a description of our employment agreements with Messrs. Iordanou, Lyons, Grandisson, McElroy and Hutchings.

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Clawback Policy

The Company has a clawback policy covering all executive officers, including the chief executive officer. This policy provides that, in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Committee will review all incentive-based compensation that was paid to current or former executive officers during the three-year period preceding the required restatement. If any such incentive-based compensation would have been lower as a result of the restated financial results, the Committee will require the reimbursement of the incremental portion of the incentive-based compensation in excess of the compensation that would have been paid based on the restated financial results (to the extent permitted by applicable law). This policy will be interpreted in accordance with the applicable rules of NASDAQ (or other securities exchange on which our common shares are listed from time to time).

Matters Relating to Share Ownership and Share-Based Compensation

Share Ownership Guidelines. In an effort to further align the interests of the senior management team with the interests of shareholders, the Company has share ownership guidelines that require these executives to maintain designated levels of ownership of the common shares of ACGL. Specifically, these guidelines require common share ownership levels as follows: (1) chief executive officer of ACGL—six times base salary; (2) named executive officers and other executives who file reports under Section 16 of the Exchange Act and certain other members of senior management designated from time to time—four times base salary; and (3) other designated members of senior operating management—three times base salary. Each executive has five years to comply with the guidelines, and stock options, SARs and unvested restricted shares/units do not count toward the requirement.

Share Holding Requirements for Executives. In 2015, the Company adopted a policy requiring each of our senior executives retain an amount equal to 50% of the net profit shares received from Company equity awards until he or she meets their target ownership levels. Net profit shares are the shares remaining after payment of the exercise price of an option and taxes owed on exercise of options or SARs, vesting of restricted stock, or vesting and payout under restricted stock units and performance shares. See also "Director Compensation" for a description of share retention guidelines that require our non-employee directors to maintain designated levels of ownership of common shares of ACGL.

No Hedging Permitted. Under the insider trading policy included in our Code of Business Conduct, our named executive officers, other members of senior management and our directors are not permitted to engage in hedging activities with respect to the Company's securities. Specifically, these insiders may not engage in short sales, purchases on margin or buying or selling put options or call options with respect to our securities.

Options and SARs. Our plans do not permit granting of stock options or SARs at an exercise price below the closing price on the grant date and also do not allow for repricing or reducing the exercise price of a stock option or SAR. We also do not allow out-of-the-money options or SARs to be exchanged for cash or other property. We set the exercise price of stock options and SARs at the closing share price on the date of grant.

Certain Procedures Regarding Share-Based Compensation. The Committee approves all grants of share-based compensation to the named executive officers and other executives who file Section 16 reports with the SEC, and these awards also are generally approved by the full Board of Directors. The Committee approves annual share-based awards to other employees or, alternatively, may approve the size of the pool of such annual share-based awards to be granted to other employees, but may delegate to the chief executive officer and other members of senior management the authority to make and approve specific awards to other employees. In addition, the Committee has delegated to the chief executive officer or, in his absence, the chief financial officer, the authority to make and approve specific share-based awards to non-executives, principally new hires, who are not subject to Section 16 of the Exchange Act. The Committee reviews any grants made under this delegation on a regular basis.

Our practice is to make annual grants of share-based compensation on the dates of regularly scheduled meetings of the full Board of Directors. Our process for establishing the grant date well in advance provides assurance that grant timing is not being manipulated for employee gain. It is our current intention to consider the determinations for annual grants on the date of the May meeting of our Board of Directors. Under our current practice, we have chosen the May meeting of our Board of Directors because we believe that more complete information will be publicly available at that time regarding the financial performance of our Selected Competitors (as defined below) and the related share-based awards granted by these companies for performance during the prior year, which will provide the Committee and the Board of Directors with additional useful data before making final determinations on share-based compensation. Generally, awards are granted to

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the named executive officers as part of the annual process, which encompassed 603 Company employees worldwide for awards granted in 2014 for 2013 performance. We may grant a small percentage of awards at other times throughout the year on the date of regularly scheduled meetings of the Committee or the full Board of Directors in connection with hiring or the promotion of an executive or special retention circumstances. In addition, pursuant to the delegation of authority by the Committee, the chief executive officer or, in his absence, the chief financial officer, may approve at other times grants of share-based awards to non-executive officers. In the case of a new hire, the awards have grant dates corresponding to the date the employment commences for the new hire.

Tax Considerations

No Excise Tax Gross-Ups. In 2014, the Company entered into an amended and restated employment agreement with Mr. Iordanou, under which Mr. Iordanou agreed to eliminate the excise tax gross-up provision in the agreement. Accordingly, the Company does not provide excise tax gross-up payments to any of its executives. See also "Employment Arrangements—Constantine Iordanou" for a description of Mr. Iordanou's employment agreement.

Section 162(m). Section 162(m) of the Code generally limits the deductible amount of annual compensation paid to the chief executive officer and three other most highly compensated executive officers (other than the chief financial officer) to no more than $1,000,000 each. Since ACGL will not generally be subject to United States income tax, the limitation on deductibility will not directly apply to it. However, the limitation would apply to a United States subsidiary of ACGL if it employs the chief executive officer or one of the three other most highly compensated executive officers (other than the chief financial officer). Qualified performance-based compensation will be excluded from the $1,000,000 limitation on deductibility. Our policy is to qualify, to the extent consistent with our compensation goals and programs, our executive officers' compensation for deductibility under applicable tax laws. Consistent with this policy, our Incentive Compensation Plan includes a provision pursuant to which payments under the plan may be deferred if it is necessary in order to avoid nondeductibility of the payments under Section 162(m) of the Code. However, the Committee believes that its primary responsibility is to provide a compensation program that will attract, retain and reward the executive talent necessary to our success. Consequently, the Committee recognizes that the loss of a tax deduction could be necessary in some circumstances due to the restrictions of Section 162(m). The Committee will review tax consequences as well as other relevant considerations in connection with compensation decisions.

Sections 409A and 457A. Section 409A of the Code, which governs deferred compensation arrangements, generally provides that distributions of deferred compensation to our senior officers as a consequence of termination of employment may not be made sooner than six months after termination. Section 409A also made changes to a number of other areas, including the timing of elections and distributions with respect to deferred compensation. In late 2008, the Emergency Economic Stabilization Act added Section 457A of the Code. While Section 409A provides certain rules that must be complied with if deferred compensation arrangements are utilized, Section 457A generally prohibits U.S. taxpayers from deferring U.S. income tax on compensation attributable to services performed after December 31, 2008 for certain employers, including Bermuda-based employers such as ACGL and Arch Re (Bermuda). As a result, for periods on or after January 1, 2009, certain employees of ACGL and Arch Re (Bermuda), including Messrs. Iordanou, Lyons and Grandisson, are no longer permitted to participate in the non-qualified defined contribution retirement plan. As required by Section 457A, the non-qualified plan provides that compensation that has been previously deferred by these employees will be distributed on or before December 31, 2017, with the exception of Mr. Lyons. In lieu of pension and matching contributions previously provided to these former participants through the non-qualified plan, we provide comparable benefits to these participants in the form of current cash payments subject to taxation. In addition, in light of Section 457A, and in an effort to maintain comparable benefits for all employees, the Company has provided certain of its Bermuda-based employees who are U.S. taxpayers with the opportunity to receive a portion of their annual incentive bonus in the form of SARs or restricted shares. There is no matching or additional Company contributions associated with this election and, as a result, the Company will not incur any additional expense by providing this benefit.

Committee Review

The Committee reviews the performance of, and approves the compensation paid to, the chief executive officer and the other named executive officers. The chief executive officer assists in the reviews of the named executive officers other than himself through making recommendations on goals and objectives, evaluating performance and making recommendations regarding compensation. With this input from the chief executive officer with respect to the other named executive officers, the Committee uses its judgment in determining compensation for these officers.

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The Committee meets in executive sessions (without management present) as necessary, particularly when administering any aspect of the compensation program for the chairman and chief executive officer of ACGL. Compensation matters in respect of the chairman and chief executive officer of ACGL, the chief financial officer of ACGL and the general counsel of Arch Capital Services Inc. are subject to ratification by the Board of Directors.

In determining the amount of named executive officer compensation each year, the Committee reviews overall corporate performance, the performance of the business unit or function that the executive leads and an assessment of each executive's performance. In connection with establishing levels of base salary, annual incentives, long-term incentives and benefits, the Committee reviews annual reports on Form 10-K, proxy statements and other publicly available information for a representative sample of publicly-traded insurers and reinsurers which we believe compete directly with us for executive talent (the "Selected Competitors"). Many of these Selected Competitors are of generally similar size and have generally similar numbers of employees, product offerings and geographic scope.

For 2014, the Selected Competitors are: ACE Limited, AXIS Capital Holdings Limited, Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., PartnerRe Ltd., Platinum Underwriters Holdings, Ltd., RenaissanceRe Holdings Ltd., Validus Holdings Ltd., W.R. Berkley Corporation and XL Group plc.

2014 Compensation Decisions

Consistent with our philosophy of emphasizing variable, performance-based compensation, the base salaries for 2015 for our named executive officers of the Company were not increased from 2014 levels, except that the salary of Mr. Grandisson was increased during 2014 to reflect his additional responsibilities related to the oversight of the Company's reinsurance and mortgage groups.

The specific annual bonus and long term incentive compensation decisions made for each named executive officer for 2014 reflect the performance of the Company against key financial and operational measures as well as the achievement of strategic objectives. The Company performed well in 2014 in a challenging market environment of declining reinsurance pricing and continued low interest rates.

During 2014, the Committee determined that the Company continued to demonstrate underwriting discipline by writing less reinsurance as pricing weakened while writing more insurance as pricing and returns in many insurance lines remained favorable. In addition, the Company successfully launched two initiatives—its newly-formed United States mortgage insurance and reinsurance business, and Watford Re, an independent company in which the Company owns an approximately 11% equity interest and for which it serves as underwriting manager. These initiatives afford new opportunities to deploy capital effectively and the Committee believes they are important investments in the Company’s future. Our performance measures discussed below exclude the results of Watford Re, which are included in our consolidated financial statements. Please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2014 Annual Report for a more detailed analysis of our financial and operational performance during 2014. Key metrics and other financial performance measures that the Committee considered in evaluating the Company's performance are highlighted in the below table:

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Amounts in millions, except percentages and per share amounts. All per share amounts are on a diluted basis.

	2014	2013	Change
Book value per common share at year-end	$45.58	$39.82	14.5 %
After-tax operating income*	$617.3	$595.7	3.6 %
Per share	$4.58	$4.39	4.3 %
Operating ROE	11.1 %	11.7 %	
Net income available to common shareholders	$812.4	$687.8	18.1 %
Per share	$6.02	$5.07	18.7 %
Net income ROE	14.6 %	13.5 %	
Combined ratio	86.8 %	85.9 %	
Gross premiums written	$4,760.4	$4,196.6	13.4 %
Net premiums written	$3,617.5	$3,351.4	7.9 %
Net investment income	$284.3	$267.2	6.4 %
Per share	$2.11	$1.97	7.1 %
Weighted average common shares and common share equivalents outstanding	134.9	135.8	(0.6)%

*After-tax operating income available to Arch common shareholders, a non-GAAP financial measure, is defined as net income available to Arch common shareholders, excluding net realized gains or losses, net impairment losses included in earnings, equity in net income or loss of investment funds accounted for using the equity method and net foreign exchange gains or losses, net of income taxes. The reconciliation of such measure to net income available to Arch common shareholders (the most directly comparable GAAP financial measure) is included in our 2014 Annual Report.

In evaluating the performance of the Company in connection with our performance-based compensation programs, we focused primarily on two main benchmarks: growth of book value per share, which creates long-term shareholder value; and operating ROE, which drives book value growth and is a key indicator of the efficient use of capital. We believe that the Company performed well against both benchmarks in 2014.

Book value per share advanced 14.5% in 2014, the sixth consecutive annual increase. Book value per share has now grown at a compound annual rate of 16.0% over the past decade. Measured against its Selected Competitors, the Company ranked third in growth in book value per share in 2014, and was first in book value growth per share over the past five years. Operating ROE was 11.1% in 2014, down from 11.7% in 2013 primarily due to growth in our capital base, and has averaged 14.6% per year over the decade. Operating ROE measures the Company’s performance after excluding non-operating items such as investment gains and losses and foreign exchange gains and losses. The Company also considers net income ROE, which includes these items. Net income ROE increased to 14.6% in 2014 from 13.5% in 2013 and has averaged 16.1% over the past decade. Net income ROE reflects the impact of our investment philosophy of maximizing total returns in our portfolio. The Company believes net income ROE provides a meaningful measure of financial performance over time as fluctuations are smoothed out.

In considering the compensation of our named executive officers, the Committee also considered the efforts of our named executive officers in accomplishing two significant strategic objectives in 2014. The Company entered the primary U.S. mortgage insurance market in January 2014 when it acquired the mortgage insurance operations of CMG Mortgage Insurance Company ("CMG") and assets of PMI Mortgage Insurance Co. in the United States and combined these operations with the Company’s existing global mortgage insurance and reinsurance platform. The mortgage cycle operates independently of the property casualty cycle, helping further diversify the Company’s business. Net premiums written were $204.8 million in 2014, meeting expectations, as the Company continues to build its presence in this market. CMG (renamed Arch Mortgage Insurance Company) is the leading provider of mortgage insurance products and services to credit unions in the United States. The Company has made progress in broadening its business to commercial banks and other mortgage originators. By December 31, 2014, the Company had enrolled 19 of the top 25 mortgage lenders in the U.S. as customers and had reviewed and approved 481 master policy applications from banks. In addition, the Company recently activated Arch Mortgage Guaranty Company to insure mortgages that originators intend to retain in their portfolios or include in private securitizations.

Watford Re is an innovative, multi-line Bermuda company launched in March 2014 with $1.13 billion of capital. Watford Re allows the Company to leverage its underwriting skills, receive fee income and serve customers with a broader

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range of reinsurance products. It carries an "A-" (Excellent) financial strength rating from A.M. Best Company. Watford Re got off to a strong start, writing $288.6 million of gross premiums in its first year.

In determining the performance-based compensation of our chief executive officer and other named executive officers, in addition to taking into account the performance of the Company described above, the Committee reviewed the estimated bonus pool determined under the Formula Approach included in our Incentive Compensation Plan. Under the Formula Approach, a bonus pool is established for each of our insurance segment and our reinsurance segment based on underwriting performance during a given underwriting year. These calculations are based on ROE targets for the current and prior underwriting years. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the participants over a 10-year development period. Since much of our business requires multiple years to determine whether we have been successful in our assessment of risk, we have structured our plan in this manner so that incentive payments are made to employees over a period of years as actual results become known, which we believe effectively aligns pay with performance.

With respect to the performance-based portion of Mr. Iordanou's compensation, in addition to its review of the calculations under the Formula Approach described above, the Committee also evaluated Mr. Iordanou's contributions toward creation and enhancement of shareholder value by considering the performance of the Company described above and a number of other factors, including the Company's financial results and strategic initiatives achieved under his leadership over the near and long-term, with a focus on long-term performance and creation of shareholder value. The Committee focused on the fact that the Company continues to maintain underwriting discipline throughout the market cycle and also reviewed the Company's pursuit of strategic initiatives under Mr. Iordanou, including the recent expansion of the Company’s existing mortgage insurance and reinsurance capabilities and the establishment of Watford Re. These initiatives, which further diversify the Company’s business, afford the Company new opportunities to deploy capital effectively and are important investments in the Company’s future. In determining the amount and mix of compensation elements, the Committee employs its business judgment in administering the Company's compensation programs and in the evaluation process, which the Committee believes enables the Company to adapt more quickly to changes in the business environment, take advantage of opportunities available in the marketplace and pursue strategic initiatives over the longer term. We believe our approach to evaluation of performance and the design of our compensation programs assists in mitigating excessive risk-taking that could harm our Company.

In light of the Committee’s assessment, and as a result of his performance, Mr. Iordanou received a bonus of $4,500,000 for 2014. The alignment of interests between the shareholders and Mr. Iordanou are further strengthened due to the fact that, as the Committee was aware, Mr. Iordanou had elected to receive 50% of his annual bonus in the form of at-the-money SARs instead of cash. Under an election program offered by the Company, Mr. Iordanou received 50% of his bonus in the form of SARs on terms provided under the election, namely, 149,556 fully vested SARs exercisable for a 10-year period. The per share exercise price is $59.16, which was the closing price on the date of grant, and the SAR was valued in the same manner as valued for financial reporting purposes. Share price appreciation over an extended period of time will be required in order for Mr. Iordanou to realize any compensation benefit from this significant component of his 2014 compensation.

In May 2014, for his performance in 2013, Mr. Iordanou also was granted long-term incentive awards in the form of 63,000 restricted common shares and 63,000 SARs with a per share exercise price of $57.27, each of which will vest in three equal annual installments commencing on the first anniversary of the grant date. These awards, which are reflected in the "Summary Compensation Table," were awarded based on an assessment of Mr. Iordanou’s performance during 2013. As noted above, the Committee expects to consider determinations for share-based compensation for 2014 performance at meetings scheduled to be held in May 2015.

In determining the performance-based compensation of our other named executive officers, the Committee evaluated overall performance of the Company and their contributions to that performance, as well as the performance of the business or function that each named executive officer leads. The Committee did not apply a formula or assign performance measures relative weights but made a subjective determination after considering these measures collectively.

With respect to Mr. Lyons, the Committee reviewed his key roles in financial reporting, enterprise risk management, regulatory matters and capital management. In addition, the Committee considered that the other aspects of the financial function for the Company, which involved, among other things, investor relations, capital management and ratings agency matters, performed well under Mr. Lyons' leadership.

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In determining the performance-based compensation of Messrs. Grandisson and McElroy, who oversee the Company's reinsurance and mortgage operations and insurance operations, respectively, the Committee reviewed the profitability of the reinsurance group and the insurance group, including their respective groups' effectiveness in managing the underwriting cycle. As part of that analysis, the Committee reviewed the estimated bonus pool determined under the Formula Approach for the 2014 and prior underwriting years, which is based on various ROE targets and will be recalculated annually over a 10-year development period as actual results emerge, which effectively aligns pay with performance. The Committee also reviewed Mr. Grandisson's and Mr. McElroy's oversight of key operational matters for their respective groups, including those relating to overall management, including expense management, risk management and infrastructure. In addition, the Committee considered the Company's pursuit of strategic initiatives under the leadership of Mr. Grandisson, including the expansion of the Company's mortgage capabilities in the United States and the launch of Watford Re, and Mr. McElroy, including the insurance group's continued focus on smaller corporate and institutional accounts and the acquisition of the alternative market business of SPARTA Insurance. These initiatives will provide us with opportunities to access new sources of business over the long term and further develop our existing businesses.

In determining the performance-based portion of Mr. Hutchings' compensation, the Committee reviewed the performance of the Company's internal and external investment portfolios and Mr. Hutchings' oversight with respect to increasing the Company's allocations to emerging market and global multi-asset funds and equity securities. In addition, the Committee reviewed a number of other factors, including Mr. Hutchings' role in increasing the staffing and expanding the capabilities of the Company's internal investment function.

In light of these assessments, the named executive officers received the following annual incentive cash bonuses for performance during 2014: Mr. Lyons-$1,200,000; Mr. Grandisson-$2,500,000; Mr. McElroy-$900,000; and Mr. Hutchings-$750,000. In addition, in May 2014, these named executive officers were granted the following long-term incentive share-based awards (with the same principal terms included in Mr. Iordanou’s May 2014 grants, as described above): Mr. Lyons-11,000 SARs and 11,000 restricted common shares; Mr. Grandisson-16,000 SARs and 16,000 restricted common shares; Mr. McElroy-10,000 SARs and 10,000 restricted common share units; and Mr. Hutchings-10,000 SARs and 10,000 restricted common shares. These share-based awards, which are reflected in the "Summary Compensation Table," were awarded following an assessment of the executives’ performance during 2013. As noted above, the Committee expects to consider determinations for share-based compensation for 2014 performance at meetings scheduled to be held in May 2015. In connection with Mr. Grandisson's additional responsibilities related to the oversight of the Company's reinsurance and mortgage groups, in November 2014, he was also granted 26,997 SARs and 26,997 restricted shares, each of which will vest in three equal installments and are reflected in the "Grants of Plan-Based Awards Table."

As indicated above, and consistent with the Committee’s general compensation philosophy for senior executives, compensation for the named executive officers was weighted significantly towards performance-based compensation in the form of a cash annual incentive bonus payment and share-based awards. Specifically, in 2014, for our named executive officers, we allocated compensation as follows: (1) base salaries ranging from approximately 10% to 27% of total compensation and (2) variable, performance-based compensation, in the form of annual cash incentive bonuses and long-term incentive share-based awards, ranging from approximately 73% to 90% of total compensation. For this purpose, the percentages are based on total compensation that includes the base salary and cash annual incentive bonus payments described above and the full grant date value of the share-based awards issued in 2014 as calculated in accordance with prescribed accounting rules.

Report of the Compensation Committee on the Compensation Discussion and Analysis

The Committee reviewed and discussed the "Compensation Discussion and Analysis" section included in this proxy statement with management. Based on such review and discussion, the Committee recommended to the Board of Directors that the "Compensation Discussion and Analysis" section be included in the 2014 Annual Report and this proxy statement for filing with the SEC.

COMPENSATION COMMITTEE
John L. Bunce, Jr. (chairman)
Kewsong Lee
Deanna M. Mulligan
Eugene S. Sunshine

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Summary Compensation Table

The following table provides information concerning the compensation for services in all capacities earned by the named executive officers for fiscal year 2014.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings ($)	All Other Compen-sation ($)	Total ($)
Constantine Iordanou	2014	1,000,000	4,500,000 (2)	3,608,010	959,427	—	—	971,570 (3)	11,039,007
Chairman of the Board, President and Chief Executive Officer of ACGL and Class II Director of ACGL	2013	1,000,000	4,500,000 (2)	3,796,883	947,327	—	—	905,956	11,150,166
	2012	1,000,000	3,750,000 (2)	3,896,580	1,001,698	—	—	769,805	10,418,083
Mark D. Lyons	2014	700,000	1,200,000 (2)	629,970	167,519	—	—	365,394 (5)	3,062,883
Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer of ACGL	2013	700,000	1,200,000	642,360	160,270	—	—	410,458	3,113,088
	2012	566,667 (4)	950,000	3,701,940	977,389	—	—	301,102	6,497,098
Marc Grandisson	2014	700,000 (6)	2,500,000	2,457,309	640,201	—	—	386,229 (7)	6,683,739
Chairman and Chief Executive Officer of Arch Worldwide Reinsurance and Mortgage Groups	2013	625,000	2,500,000	947,481	236,398	—	—	374,211	4,683,090
	2012	625,000	1,750,000	2,397,540	630,659	—	—	359,240	5,762,439
David H. McElroy	2014	600,000	900,000	572,700	152,290	—	—	250,092 (9)	2,475,082
Chairman and Chief Executive Officer of Arch Worldwide Insurance	2013	600,000	900,000	455,005	113,524	—	—	184,842	2,253,372
	2012	500,000 (8)	500,000	1,095,092	292,276	—	—	874,052	3,261,420

Group									
W. Preston Hutchings	2014	450,000	750,000	572,700	152,290	—	—	63,546	(10) 1,988,536
President of Arch	2013	450,000	750,000	671,641	167,575	—	—	63,886	2,103,102
Investment and Senior Vice President and Chief Investment Officer of ACGL	2012	450,000	900,000	1,334,809	350,003	—	—	62,321	3,097,133

(1) The amounts shown in these columns represent the aggregate grant date fair value of awards computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 Compensation—Stock Compensation, excluding the effect of forfeitures. We have computed the estimated grant date fair values of share-based compensation related to stock options using the Black-Scholes option valuation model having applied the assumptions set forth in the notes accompanying our financial statements. See note 20, "Share-Based Compensation," of the notes accompanying our consolidated financial statements included in our 2014 Annual Report. These grants were made in May of the year for which they are reported and were based on performance for the prior year, e.g., the 2014 awards were based on 2013 performance (other than grants made to Marc Grandisson in November 2014 in connection with the expansion of his responsibilities).

(2) Mr. Iordanou elected to receive 50%, 100% and 100%, respectively, of his approved cash bonuses for 2014, 2013 and 2012 in the form of SARs under elections provided by the Company for Bermuda-based employees. On February 27, 2015, February 28, 2014 and February 28, 2013, Mr. Iordanou was awarded 149,556 SARs, 302,555 SARs and 300,187 SARs, respectively, with a Black-Scholes value equal to $2.25 million, $4.5 million and $3.75 million, respectively, but each with an intrinsic value of zero on the grant date, respectively. In addition, Mr. Lyons elected to receive 40% of his 2013 cash bonus in the form of SARs on terms provided under the election, and on February 28, 2014, Mr. Lyons was awarded 32,272 SARs with a Black-Scholes value equal to $480,000, but with an intrinsic value of zero on the grant date. The SARs awarded to Messrs. Iordanou and Lyons are fully vested and will expire 10 years from the date of grant. The SARs granted on February 28, 2014 are included in the Grants of Plan-Based Awards table.

(3) The amount for Mr. Iordanou includes: (a) contributions to our defined contribution plans of $31,850 and payment of an amount equal to the pension and matching contributions set forth in the non-qualified deferred compensation plan of $107,300, which, due to applicable tax laws, was made outside the plan; (b) a housing allowance in Bermuda of $139,076; (c) incremental costs to the Company of $301,946 resulting from the use of Company-provided aircraft primarily for commuting to the Company's offices;

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(d) payment of Bermuda social insurance in the amount of $1,668; and (e) an aggregate of $299,634 for additional payments pursuant to his employment agreement intended to reimburse the executive for approximate amounts of additional tax liability arising from his working and residing in Bermuda. The tax reimbursement payments are subject to adjustment—up or down—based upon the executive's final tax return filed for the year (accordingly, such amount originally recorded for 2013 and 2012 has been adjusted). The calculation of the incremental cost for Company-provided aircraft use is based on the variable operating costs to the Company for each flight, including hourly charges, fuel variable charges and applicable international fees. In addition, the total amount also includes the following other benefits, none of which individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Iordanou: an automobile allowance, commercial jet commuting, tax preparation services, club dues, and life insurance premiums.

Many of the above listed benefits are provided to expatriates residing in Bermuda. For a description of these benefits and the Company's other employee benefits programs, please see "Compensation Discussion and Analysis—Elements of Compensation Program—Benefits."

(4) Effective September 1, 2012, Mr. Lyons was promoted to Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer of ACGL. The compensation information provided in the above table for 2012 represents the full year. Mr. Lyons' base salary was increased to $700,000 from $500,000 in connection with his promotion.

(5) The amount for Mr. Lyons includes: (a) $31,850 in contributions to our defined contribution plans and payment of an amount equal to the pension and matching contributions set forth in the non-qualified deferred compensation plan of $63,800, which, due to applicable tax laws, was made outside the plan; (b) a housing allowance in Bermuda of $59,864; (c) payment of Bermuda social insurance in the amount of $1,668; and (d) an aggregate of $174,374 for additional payments pursuant to his employment agreement intended to reimburse the executive for approximate amounts of additional tax liability arising from his working and residing in Bermuda. The tax reimbursement payments are subject to adjustment—up or down—based upon the executive's final tax return filed for the year (accordingly, such amount originally recorded for 2013 and 2012 has been adjusted). In addition, the total amount also includes the following other benefits, none of which individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Lyons: commercial jet and use of Company-provided aircraft for commuting to the Company's offices, tax preparation services, and life insurance premiums.

Many of the above listed benefits are provided to expatriates residing in Bermuda. For a description of these benefits and the Company's other employee benefits programs, please see "Compensation Discussion and Analysis—Elements of Compensation Program—Benefits."

(6) Effective July 1, 2014, Mr. Grandisson's base salary was increased to $775,000 from $625,000 to reflect his additional responsibilities related to the oversight of the Company's reinsurance and mortgage groups. The compensation information provided in the above table for 2014 represents the full year.

(7) The amount for Mr. Grandisson includes: (a) contributions to our defined contribution plans of $20,000 and payment of an amount equal to the pension and matching contributions set forth in the non-qualified deferred compensation plan of $63,800, which, due to applicable tax laws, was made outside the plan; (b) a housing allowance in Bermuda of $208,713; (c) fees for children's schooling of $58,885; and (d) payment of Bermuda social insurance in the amount of $1,668. In addition, the amount also includes the following other benefits, none of which individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Grandisson: an automobile allowance, tax preparation services, club dues and life insurance premiums.

Many of the above listed benefits are provided to expatriates residing in Bermuda. For a description of these benefits and the Company's other employee benefits programs, please see "Compensation Discussion and Analysis—Elements of Compensation Program—Benefits."

(8) Mr. McElroy was promoted to Chairman and Chief Executive Officer of Arch Worldwide Insurance Group on September 1, 2012. The compensation information provided in the above table for 2012 represents the full year. Mr. McElroy's base salary was increased to $600,000 from $450,000 in connection with his promotion.

(9)

The amount for Mr. McElroy includes: (a) $81,150 in contributions to our defined contribution plans; (b) a housing allowance of $47,344; and (c) $96,601 in additional payments to reimburse the individual for approximate amounts of additional tax liability for housing and commuting costs. In addition, the amount also includes the following other benefits, none of which individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. McElroy: commuting costs to the Company's offices and life insurance premiums.

For a description of the Company's employee benefits programs, please see "Compensation Discussion and Analysis—Elements of Compensation Program—Benefits."

(10) The amount for Mr. Hutchings includes: (a) contributions to our defined contribution plans of $20,000 and payment of an amount equal to the pension and matching contributions set forth in the non-qualified deferred compensation plan of $27,550, which payment was made outside the plan; and (b) payment of Bermuda social insurance in the amount of $1,668. In addition, the amount also includes the following other benefits, none of which individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for Mr. Hutchings: club dues and life insurance premiums. Mr. Hutchings' base salary is paid to him in Bermuda dollars, which are convertible to U.S. dollars at a rate of 1:1.

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For a description of the Company's employee benefits programs, please see "Compensation Discussion and Analysis—Elements of Compensation Program—Benefits."

Grants of Plan-Based Awards

The following table provides information concerning grants of share-based awards made to our named executive officers in fiscal year 2014:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	All Other Option Awards: Number of Securities Underlying Options (#)(1)		Exercise or Base Price of Option Awards($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Constantine Iordanou	5/13/2014	—	—	—	63,000		57.27	959,427
	5/13/2014	—	—	63,000	—		—	3,608,010
	2/28/2014	—	—	—	302,555	(3)	56.12	4,499,991
Mark D. Lyons	5/13/2014	—	—	—	11,000		57.27	167,519
	5/13/2014	—	—	11,000	—		—	629,970
	2/28/2014	—	—	—	32,272	(4)	56.12	479,991
Marc Grandisson	5/13/2014	—	—	—	16,000		57.27	243,664
	5/13/2014	—	—	16,000	—		—	916,320
	11/6/2014	—	—	—	26,997		57.08	396,537
	11/6/2014	—	—	26,997	—		—	1,540,989
David H. McElroy	5/13/2014	—	—	—	10,000		57.27	152,290
	5/13/2014	—	—	10,000	—		—	572,700
W. Preston Hutchings	5/13/2014	—	—	—	10,000		57.27	152,290
	5/13/2014	—	—	10,000	—		—	572,700

(1) All of the grants indicated above were awarded under the 2012 Long Term Incentive and Share Award Plan in the form of share-settled SARs and restricted share awards or units.

The May and November 2014 awards will vest over a three-year period. The SARs were granted at the closing price of the shares on the date of grant and, subject to the award agreements, will expire 10 years from the grant date. Such restricted share awards shown in the above table were granted in the form of restricted common shares, except for Mr. McElroy's award, which was granted in the form of restricted common share units that will be settled in common shares after the termination of his employment as provided in the award agreement.

(2) The amounts shown in this column represent the grant date fair value of the underlying award computed in accordance with accounting guidance governing share-based compensation arrangements as discussed in note 20, "Share-Based Compensation," of the notes accompanying our consolidated financial statements included in our 2014 Annual Report.

(3) Mr. Iordanou elected to receive 100% of his approved cash bonus for 2013 in the form of SARs under an election provided by the Company for Bermuda-based employees. On February 28, 2014, Mr. Iordanou was awarded 302,555 SARs. The SARs are fully vested and will expire 10 years from the date of grant. The Black-Scholes value of this SAR is reflected in the "Summary Compensation Table" in the "Bonus" column for 2013, but had an

intrinsic value of zero on the grant date.

(4) Mr. Lyons elected to receive 40% of his approved cash bonus for 2013 in the form of SARs under an election provided by the Company for Bermuda-based employees. On February 28, 2014, Mr. Lyons was awarded 32,272 SARs. The SARs are fully vested and will expire 10 years from the date of grant. The Black-Scholes value of this SAR is reflected in the "Summary Compensation Table" in the "Bonus" column for 2013, but had an intrinsic value of zero on the grant date.

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Outstanding Equity Awards at 2014 Fiscal Year-End

The following table provides information concerning unexercised options and stock that has not vested for each named executive officer outstanding as of December 31, 2014.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Constantine Iordanou (4)	450,000	—	—	18.76	2/23/2016	143,906	8,504,845	—	—
	135,000	—	—	23.71	5/11/2017				
	135,000	—	—	23.10	5/9/2018				
	114,750	—	—	19.29	5/6/2019				
	212,253	—	—	24.67	2/25/2020				
	126,000	—	—	25.01	5/5/2020				
	100,065	—	—	33.91	5/6/2021				
	161,636	—	—	37.05	2/28/2022				
	67,334	33,666	—	38.58	5/9/2022				
	300,187	—	—	49.12	2/28/2023				
	23,690	47,240	—	53.53	5/9/2023				
	302,555	—	—	56.12	2/29/2024				
	—	63,000		57.27	5/13/2024				
Mark D. Lyons	47,750	—	—	19.88	8/2/2016	89,992	5,318,527	—	—
	25,050	—	—	23.71	5/11/2017				
	25,050	—	—	23.10	5/9/2018				
	22,800	—	—	19.29	5/6/2019				
	24,000	—	—	25.01	5/5/2020				
	18,900	—	—	33.91	5/6/2021				
	12,000	6,000	—	38.58	5/9/2022				
	—	60,000	—	40.10	9/6/2022				
	10,000	5,000	—	40.10	9/6/2022				
	4,008	7,992	—	53.53	5/9/2023				
	32,272	—	—	56.12	2/29/2024				

	—	11,000	—	57.27	5/13/2024				
Marc Grandisson	97,793	—	—	18.35	11/15/2015	96,719	5,716,093	—	—
	60,000	—	—	18.76	2/23/2016				
	31,350	—	—	23.71	5/11/2017				
	30,000	—	—	23.10	5/9/2018				
	22,800	—	—	19.29	5/6/2019				
	30,000	—	—	25.01	5/5/2020				
	24,000	—	—	33.91	5/6/2021				
	16,667	8,333	—	38.58	5/9/2022				
	—	33,600	—	42.65	11/12/2022				
	5,911	11,789	—	53.53	5/9/2023				
	—	16,000		57.27	5/13/2024				
	—	26,997		57.08	11/6/2024				

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	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
David H. McElroy	22,500	—		19.35	6/8/2019	41,461	2,450,345	—	—
	13,500	—		25.01	5/5/2020				
	4,200	—		33.91	5/6/2021				
	1,600	800		38.58	5/9/2022				
	—	25,000		40.10	9/6/2022				
	2,839	5,661		53.53	5/9/2023				
	—	10,000		57.27	5/13/2024				
W. Preston Hutchings (5)	18,000	—		18.76	2/23/2016	40,057	2,367,369	—	—
	15,750	—		23.71	5/11/2017				
	18,000	—		23.10	5/9/2018				
	15,300	—		19.29	5/6/2019				
	16,500	—		25.01	5/5/2020				
	16,800	—		33.91	5/6/2021				
	11,200	5,600		38.58	5/9/2022				
	—	16,100		42.65	11/12/2022				
	4,190	8,357		53.53	5/9/2023				
	—	10,000		57.27	5/13/2024				

(1) Each of the above stock options and SARs, as applicable, vest in three equal annual installments commencing on the first anniversary of the grant date, except for the awards granted in November 2012 and 60,000 SARs and 25,000 SARs, respectively, granted on September 6, 2012 to Messrs. Lyons and McElroy. Such awards will cliff vest on the fifth anniversary of the grant date. All of such options and SARs will expire 10 years from the date of grant (subject to the terms of the award agreements).

(2) The above restricted share or unit awards vest in three equal annual installments commencing on the first anniversary of the grant date, except for the awards granted in November 2012 and 60,000 restricted shares and 25,000 restricted units, respectively, granted on September 6, 2012 to Messrs. Lyons and McElroy. Such awards

will cliff vest on the fifth anniversary of the grant date. In addition, Mr. McElroy's awards granted in September 2012, May 2013 and May 2014 were in the form of restricted common share units and will be settled in common shares after the termination of employment as provided in the award agreements. Mr. Lyons' awards granted in May 2012 were also granted in the form of restricted common share units, a portion of such units will be settled in common shares after the termination of his employment as provided in the award agreements and the balance will be settled in common shares on the applicable future vesting dates.

(3) Market value of unvested shares or units on an aggregate basis are valued as of December 31, 2014 in accordance with applicable SEC rules.

(4) As of December 31, 2014, such stock option and SAR awards have been transferred other than for value to a grantor retained annuity trust, except for 129,682 stock option awards from the February 2006 grant, which are held directly by Mr. Iordanou.

(5) Each stock option or SAR award has been transferred other than for value to a company which is owned by a family trust, with Mr. Hutchings, his spouse and their children as beneficiaries.

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Option Exercises and Stock Vested

The following table provides information concerning each exercise of stock options and each vesting of stock during fiscal year 2014 for the named executive officers:

Name	Option Awards Number of Shares Acquired on Exercise (#)		Value Realized on Exercise ($)	Stock Awards Number of Shares Acquired on Vesting (#)		Value Realized on Vesting ($)(1)	
Constantine Iordanou	360,000	(2)	15,876,000	90,712		5,157,897	
Mark D. Lyons	114,250		4,272,217	21,308	(3)	1,202,217	(3)
Marc Grandisson	135,000		5,185,531	22,244			