

ORGANIZATION

The Audit Committee of the Board of Directors of Arch Capital Group Ltd. (the “Company”) shall consist of three or more members of the Board of Directors. Each member of the Audit Committee shall meet the independence and other eligibility requirements of the U.S. Securities and Exchange Commission (the “SEC”) and The Nasdaq Stock Market LLC (“Nasdaq”) (unless otherwise permitted by such independence and eligibility requirements of the SEC and Nasdaq), shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years, and shall otherwise be independent of management and the Company and free of any relationship which, in the opinion of the Board of Directors, would interfere with the director’s exercise of independent judgment as an Audit Committee member.

Audit Committee members shall be appointed by and may be replaced by the Board of Directors. Unless a chair of the Audit Committee (the “Chair”) is selected by the Board of Directors, the members of the Audit Committee shall designate a Chair by the majority vote of the full Audit Committee membership. The Chair of the Audit Committee, in consultation with the appropriate members of the Audit Committee, the Chair of the Board of Directors and management, will develop the Audit Committee’s agenda. The Chair of the Audit Committee will chair all regular sessions of the Committee. In the absence of the Chair of the Audit Committee, the Audit Committee shall select another member to preside. The Audit Committee is governed by the same rules regarding meetings (including meetings in person or by telephone or other similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board of Directors. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement in accordance with the audit committee requirements of Nasdaq. At least one member of the Audit Committee shall be an audit committee financial expert as defined by the SEC.

PURPOSE

The primary purpose of the Audit Committee is to assist the Board of Directors in overseeing the accounting and financial reporting processes of the Company and its audits of financial statements and in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditors’ qualifications and independence, (3) the performance of the Company’s internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements.

The Audit Committee is also responsible for producing an annual report for inclusion in the Company’s proxy statement.

It is not the responsibility of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are in all material respects complete and accurate and in accordance with generally accepted accounting principles. The Company's financial statements are the responsibility of management. The independent auditors are responsible for planning and conducting audits to determine whether the financial statements present fairly in all material respects the financial position and financial performance of the Company.

The Audit Committee shall also function as the Company's Qualified Legal Compliance Committee ("QLCC") under applicable SEC rules and shall have all the rights and powers necessary, and the authorities and responsibilities to act as QLCC, including those set forth in such rules and in procedures adopted by the Audit Committee.

MEETINGS

The Audit Committee shall meet on a regular basis and is empowered to hold special meetings as circumstances require, and shall make regular reports to the Board of Directors. The Chair, in consultation with the Committee members, will determine the frequency and length of meetings. In order to foster open communication, the Audit Committee shall meet regularly with management, the independent auditors and internal audit in separate executive sessions to discuss any matters that the Audit Committee or any of these groups believes should be discussed privately.

AUTHORITY AND RESPONSIBILITIES

The following functions shall be the common recurring activities of the Audit Committee in carrying out its responsibilities. These functions should serve as a guide with the understanding that the Audit Committee may carry out additional functions and adopt additional policies and procedures as may be required or appropriate in light of business, legislative, regulatory, legal or other conditions or changes.

Retention and Oversight of Auditors

- The Audit Committee shall have the sole authority to appoint and replace the independent auditors.
- The Audit Committee shall have direct responsibility for the compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting), and the independent auditors shall report directly to the Audit Committee.

Independence of Auditors

- The Audit Committee shall obtain from the independent auditors each year a formal written statement delineating all relationships between the independent auditors and the Company, as well as any other communications pursuant to applicable auditing standards, including the requirements of the Public Company Accounting Oversight Board.
- The Audit Committee shall periodically engage in a dialogue with the independent auditors regarding any disclosed relationships or services which may impact the objectivity and independence of the independent auditors.
- The Audit Committee shall pre-approve all audit and permitted non-audit services to be provided to the Company by the independent auditors (or subsequently approve non-audit services in those circumstances where a subsequent approval is necessary and permissible) in accordance with the rules and regulations of the SEC. The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permitted non-audit services, provided such pre-approval decision is presented to the full Audit Committee at its next scheduled meeting.
- Based on a review of the independent auditors' formal statement and reports and the Audit Committee's dialogue with the independent auditors, the Audit Committee shall make a determination regarding the independence of the independent auditors and take appropriate action, or recommend that the Board of Directors take such action.

Review of Financial Statements and Disclosures

- The Audit Committee shall review with Company management and the independent auditors the proposed overall scope of the Company's annual independent audit, the adequacy and integrity of the Company's system of internal control over financial reporting, including information technology security and control, and the Company's audited financial statements and related disclosures.
- The Audit Committee shall review material risk-related statements contained in financial statements and SEC filings, and review other risk management-related disclosures as required by other laws or regulations.
- The Audit Committee shall discuss with the independent auditors their judgments about the quality (and not merely the acceptability) of the Company's accounting principles as applied in its financial reporting.

- The Audit Committee shall review with the independent auditors significant changes to the Company's accounting principles and practices.
- The Audit Committee shall, prior to the filing of an audit report with the SEC, obtain from the independent auditors reports on all critical accounting policies and practices to be used, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors.
- The Audit Committee shall, prior to the filing of an audit report with the SEC, obtain from the independent auditors any other material written communications between the independent auditors and management, including a schedule of unadjusted audit differences.
- The Audit Committee shall review disclosures made to the Audit Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q regarding any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting, and any fraud involving management or other employees who have a significant role in the Company's internal control over financial reporting.
- The Audit Committee shall recommend to the Board of Directors the inclusion of the Company's audited consolidated financial statements in the Company's Form 10-K and shall provide its report for inclusion in the Company's annual proxy statement.

Compliance and Ethics and Related Procedures

- The Audit Committee shall establish procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- The Audit Committee shall review periodically with management and the independent auditors any codes, programs, standards or policies adopted by the Company which seek to ensure that the business of the Company is conducted in an ethical and legal manner, as well as the systems established by the Company to monitor compliance with such codes, programs, standards or policies. Such reviews will be undertaken in the manner and not less frequently than required by the terms of the applicable code, program, standard or policy.

- The Audit Committee shall adopt written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation under applicable SEC rules.

Internal Audit

- The Audit Committee shall review with management and internal audit the charter for the internal audit function, along with the objectives, plans, activities, budget, staffing and the effectiveness of the internal audit function.

Regulatory Matters

- The Audit Committee shall review with the Company's counsel any legal and regulatory matters that may have a material impact on the Company's financial statements.
- The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval.
- The Audit Committee shall review and assess compliance with all applicable rules and regulations of the SEC and Nasdaq specifically applicable to the composition and responsibilities of the Audit Committee.

Operational Risk

- The Audit Committee shall review the Company's operational risks, including information technology risks, business continuity and data security, outsourcing, business processes and reputational risks.
- The Audit Committee shall review risks relating to reserves, and reinsurance credit risk, including reviewing counterparty risk limits.

Certain Authorities

- The Audit Committee is authorized to engage outside legal counsel and other advisers as it determines to be necessary or appropriate to carry out its duties. The Audit Committee shall have the sole authority to appoint, retain, engage, oversee and terminate any outside legal counsel or other advisers used to assist in the performance of its duties hereunder and shall have sole authority to approve the advisors' fees and other retention terms. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of reasonable compensation to independent auditors, outside legal counsel or any other adviser retained by the Audit Committee and ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

- The Audit Committee is empowered to seek any information it requires from employees.

Other Responsibilities

- The Audit Committee shall perform such other activities as the Board of Directors may from time to time deem necessary or appropriate.