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Fitch Affirms Alterra's Ratings; Outlook Stable

CHICAGO--(BUSINESS WIRE)--Fitch Ratings has affirmed Alterra Capital Holdings Limited's (Alterra) 'A-' Issuer Default Rating (IDR). Additionally, Fitch has affirmed Alterra's subsidiaries' 'BBB+' senior debt rating and 'A' Insurer Financial Strength (IFS) rating. The Rating Outlook is Stable. A full list of ratings follows at the end of this release.

Fitch's affirmation follows the completion of its routine periodic review process. Alterra's ratings continue to reflect the company's improved profile including solid capitalization and earnings, reasonable financial leverage and reduced investment risk, while maintaining its disciplined and flexible approach to managing risk. The ratings also reflect the effect of reduced underwriting opportunities tied to competitive conditions in many of the company's core business lines. Fitch notes that it expects first quarter catastrophe losses, including the New Zealand and Japan earthquakes (the latter based on preliminary Fitch estimates), to impact Alterra's earnings, but not result in a material capital event.

Fitch believes the merger of Max Capital Group Ltd. and Harbor Point Limited to form Alterra in 2010 favorably created a more diversified, multi-line reinsurance and insurance company. Alterra has a sizable and stable underwriting platform with shareholders' equity of \$2.9 billion as of Dec. 31, 2010 and \$1 billion of net premiums written in 2010. Financial leverage as measured by total debt to capital increased to 13% at Dec. 31, 2010 from 5% in 2009 with the issuance of \$350 million in senior debt; however, Fitch believes leverage remains reasonable and below peer average.

Overall profitability improved in 2010 and 2009 as catastrophe activity subsided following sizable, but manageable catastrophe losses and alternative investment losses suffered in 2008. Alterra's combined ratio was 85.7% and 88.1% in 2010 and 2009, respectively, compared to 91.9% in 2008. The company reported net income of \$302 million and \$246 million in 2010 and 2009, compared to a net loss of \$175 million in 2008. Fitch expects Alterra's profitability to continue to be favorable in 2011.

In light of the company's solid earnings, capital growth and reduced opportunities to deploy capital through underwriting activities, Alterra has repurchased a significant number of its common shares in recent years. During 2010, Alterra repurchased \$208 million of common shares, following \$34 million in 2009. Additionally, in 2010 Alterra declared a special dividend following the merger closing in the amount of \$300 million. Going forward, Fitch's expectation is that Alterra will manage its share repurchase plan, dividend payments and underwriting opportunities such that the company's financial leverage and underwriting leverage remain supportive of its current ratings.

Fitch recognizes the benefits of Alterra's strategy of maintaining flexibility to shift its disciplined underwriting approach based on changing market conditions and expected returns on capital. Prior to the merger with Harbor Point in 2010, Lloyd's of London syndicates and an excess and surplus lines platform were added to complement the company's Bermuda- and Ireland-based insurance and reinsurance operations. While Fitch recognizes the benefits of Alterra's strategy of maintaining underwriting flexibility, it also creates additional execution risk. Fitch expects Alterra to maintain its disciplined underwriting approach in the overall competitive market and soft rate environment.

Key rating drivers that may lead to an upgrade over the long term include a demonstrated successful integration of businesses under the new Alterra platform, including a material increase in stockholders' equity, and a consistent track record of underwriting profitability.

Key rating drivers that may lead to a downgrade include a trend of underwriting losses, a material reduction in stockholders' equity by more than 20%, and an increase in financial leverage to over 25% total debt to capital.

Fitch has affirmed the following ratings:

Alterra Capital Holdings Limited

--IDR at 'A-'.

Alterra Finance LLC

--IDR at 'A-';

--\$350 million 6.25% senior notes due Sept.30, 2020 at 'BBB+'.

Alterra USA Holdings Limited

--IDR at 'A-';

--\$90.6 million 7.2% notes due April 14, 2017 at 'BBB+'.

Alterra Bermuda Limited

Alterra Reinsurance Europe Limited

Alterra Insurance Europe Limited

Alterra Reinsurance USA Inc.

Alterra Excess & Surplus Insurance Company

Alterra America Insurance Company

--IFS at 'A'.

The Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (Aug. 13, 2010);

--'Non-Life Insurance Rating Methodology' (March 24, 2010)

--'Fitch's Approach to Rating Insurance Groups' (Dec. 14, 2010)

--'Insurance Industry: Global Notching Methodology and Recovery Analysis' (Dec. 29, 2009).

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547766

Non-Life Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506369

Fitch's Approach to Rating Insurance Groups

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=586765

Insurance Industry: Global Notching Methodology and Recovery Analysis

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493114

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