

Max Capital And Harbor Point Ratings Affirmed Following Completion Of Merger

Overview

- Max Capital Group Ltd. and Harbor Point Ltd. have completed their anticipated merger.
- Max Capital Group Ltd., which will serve as the ultimate holding company for the merged group, has changed its name to Alterra Capital Holdings Ltd.
- We have affirmed the ratings on the renamed holding company and all other Max and Harbor Point entities, which this holding company now ultimately owns.
- The stable outlook reflects our expectation that the group's consolidated earnings will remain strong and supportive of the ratings.

Rating Action

On May 13, 2010, Standard & Poor's Ratings Services affirmed its 'BBB' counterparty credit rating on Bermuda-based insurance and reinsurance holding company Alterra Capital Holdings Ltd. (Alterra Capital; NASDAQ:ALTE), which was formerly known as Max Capital Group Ltd. At the same time, Standard & Poor's affirmed its 'BBB' counterparty credit ratings on Alterra Capital's intermediary holding-company subsidiaries Alterra USA Holdings Ltd. (formerly Max USA Holdings Ltd.), Max Europe Holdings Ltd., and Max UK Holdings Ltd. In addition, Standard & Poor's affirmed its 'A-' counterparty credit and financial strength ratings on Alterra Capital's operating subsidiaries: Alterra Insurance Ltd. (formerly Max Bermuda Ltd.), Max America Insurance Co., Max Specialty Insurance Co., Max Re Europe Ltd., Max Insurance Europe Ltd., Harbor Point Re Ltd., and Harbor Point Reinsurance US Inc. The outlook on all of these companies remains stable.

Primary Credit Analysts:

Laline Carvalho
New York
(1) 212-438-7178
laline_carvalho@
standardandpoors.com

Secondary Credit Analysts:

Pablo Feldman
ASA
New York
(1) 212-438-7278
pablo_feldman@
standardandpoors.com

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Rationale

These affirmations follow the completion of the previously announced merger of equals between Max Capital and Harbor Point Ltd. (a privately held company that was the ultimate parent for Harbor Point Re Ltd. and Harbor Point Reinsurance US Inc.). The transaction has created a significantly larger insurance and reinsurance group (Alterra) with about \$3 billion in shareholders' equity and \$2 billion in gross premium writings.

As anticipated, W. Marston Becker, Chairman and CEO of the former Max Capital, has taken over as President and CEO of the newly merged group, the ultimate holding company of which is Alterra Capital. John Berger—previously CEO and President of Harbor Point—has become Alterra Capital's CEO of Reinsurance and Vice Chairman of the board of directors.

We expect that over the next few months, the names of all of the legal entities of the newly formed group will change to include "Alterra." Until then, these companies will continue to operate under their current Max or Harbor Point legal names.

Among the positive factors of the transaction is Alterra's improved diversification by platform, product, and distribution channel. In addition, the combination of Max's reinsurance division with Harbor Point's has significantly increased the merged group's market presence in the reinsurance sector, strengthening its competitive position. Given Alterra's ability to switch resources to more profitable lines among its reinsurance, property/casualty, and life divisions, the merged group also benefits from greater flexibility to follow cycle-management strategies while reporting less volatility in premium writings. We expect that given the greater diversification of earnings streams, Alterra's earnings volatility will also decrease compared with Harbor Point's previous stand-alone profile.

Partially offsetting these positive factors is significant integration risk. In our opinion, retention of key management and staff at Alterra will be an important element in the merger's success, given both companies' strong expertise. We also believe there is execution risk related to Alterra capitalizing on its enhanced competitive position to produce a stable platform with strong, high-quality earnings over the long run. Partially offsetting these concerns is the complementary nature of Max Capital and Harbor Point's writings and client base, which should simplify the task of merging the books of business and help reduce any friction among management and staff at the merged organization.

Outlook

We believe Alterra's capital adequacy will be very strong in the next two years. Financial leverage will likely remain modest at 8%-12% range over the next year. We also expect that Alterra Capital's consolidated earnings will remain strong and supportive of the ratings, with a combined ratio of 86%-92% and a return on revenue upwards of 15% over the next two to three years, assuming a normal level of catastrophe losses.

Related Criteria And Research

- Standard & Poor's Insurance Ratings Criteria, March 2, 2010.

Ratings List

Ratings Affirmed

Alterra Capital Holdings Ltd.

Max UK Holdings Ltd.

Max Europe Holdings Limited

Alterra USA Holdings Ltd.

Counterparty Credit Rating

Local Currency BBB/Stable/—

Alterra Insurance Ltd.

Max Specialty Insurance Company

Max Re Europe Ltd.

Max Insurance Europe Limited

Max America Insurance Company

Counterparty Credit Rating

Local Currency A-/Stable/—

Financial Strength Rating

Local Currency A-/Stable/—

Alterra USA Holdings Ltd.

Senior Unsecured BBB

Harbor Point Re Ltd.

Harbor Point Reinsurance US Inc

Counterparty Credit Rating

Local Currency A-/Stable/—

Financial Strength Rating

Local Currency A-/Stable/—

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