



Moody's Investors Service

## Rating Action: **Moody's affirms Max Capital Group on announced merger; outlook to stable from negative**

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Global Credit Research - 04 Mar 2010

### **\$90.5 million of backed senior notes affected.**

New York, March 04, 2010 -- Moody's Investors Service has affirmed the ratings of Max Capital (Baa2 issuer rating, NASDAQ: MXGL), Max USA Holdings Ltd. (Baa2 backed senior unsecured), and Max Bermuda Ltd. (A3 insurance financial strength) and changed the ratings outlook from negative to stable. These rating actions follow yesterday's announcement that Max Capital plans to merge with Harbor Point Limited (unrated), another Bermudian reinsurer.

Moody's affirmed Max's ratings and returned the outlook to stable for three reasons: 1) the company has reduced its alternative investments, which contributed to a 19% drop in shareholders' equity in 2008 (from 14% of cash and investments at year end 2008 to 6% at year end 2009), 2) it has fully integrated the Lloyd's operations it acquired in late 2008 and repaid all loans under its credit facility, and 3) it would benefit from the proposed merger with Harbor Point.

The proposed merger would involve a stock for stock exchange essentially at tangible book value, followed by an approximate \$300 million special dividend to the combined shareholders. The combined company, renamed Alterra, would have pro forma shareholders' equity of about \$3 billion as of 12/31/2009.

"We think a merger with Harbor Point would be good for credit because it would double the company's capital base and improve its chances of remaining viable -- and of accessing capital -- after a major catastrophe," said Kevin Lee, a senior credit officer at Moody's. "The merger also has the potential to reduce reliance on bank finance over the longer term and enhance reception from reinsurance buyers due to a larger balance sheet and the addition of another reputable management team."

Risks associated with the merger include reserve uncertainty around Harbor Point's casualty reinsurance portfolio, which includes some coverages that may be exposed to directors & officers claims from the credit crisis. However, Moody's believes Harbor Point has very good capital adequacy (ratio of 2009 net premiums written to equity is 0.32x, one of the lowest in the industry).

For both Max Capital and Harbor Point, Moody's expects manageable losses from the recent Chile earthquake and European windstorm Xynthia.

The Baa2 issuer rating of Max Capital Group Ltd. is based on the credit support provided by its various insurance operating subsidiaries and sufficient borrowing capacity due to comparatively low financial leverage (ratio of debt-to-capital was 12.3% at 12/31/2009, including GBP 60mn in uncollateralized letters of credit outstanding and operating lease debt equivalent). Max Capital guarantees the senior notes of its downstream holding company, Max USA Holdings Inc., which accordingly is also rated Baa2.

Max Bermuda Ltd. is the group's principal operating subsidiary, representing about 80% of the group's net assets, and is therefore the main source of credit support for the senior notes. Max Bermuda's A3 insurance financial strength rating is based on good underwriting profitability in the last six years which has enabled the company to build capital and maintain sufficient capital adequacy. These credit strengths are tempered by the limited operating history of some of Max's platforms (i.e., U.S. Specialty and Lloyd's operations), competition from larger players who can better compete on price and capacity, exposure to catastrophic losses, and somewhat higher asset leverage than most Bermudian peers which means investment performance can have a significant impact on results.

The merger is expected to close in second quarter 2010, at which time Moody's does not expect to make any changes to Max's ratings.

The following ratings have been affirmed with a stable outlook:

Max Bermuda Ltd. -- insurance financial strength at A3;

Max Capital Group Ltd. -- issuer rating at Baa2;

Max USA Holdings Ltd. -- backed senior unsecured at Baa2.

Max Capital Group Ltd., headquartered in Bermuda, provides specialty insurance and reinsurance with about an even split between short and long-tail lines of business. For full year 2009, the company reported gross premiums written of \$1,375 million, net income of \$246 million, and shareholders' equity at December 31, 2009 of \$1,565 million.

Harbor Point Limited, headquartered in Bermuda, provides property, casualty and specialty reinsurance with about an even split between short and long-tail lines. For full year 2009, the company reported gross premiums written of \$608 million, net income of \$250 million, and shareholders' equity at December 31, 2009 of \$1,890 million.

The last rating action on Max Capital occurred on June 16, 2009, when Moody's affirmed the ratings and continued the negative outlook.

The principal methodology used in rating Max Capital was Moody's Global Rating Methodology for Reinsurers, published in July 2008 and available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Moody's insurance financial strength ratings are opinions about the ability of insurance companies to punctually pay senior policyholder claims and obligations.

For more information, please visit our website at [www.moody.com](http://www.moody.com).

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