

# Best's Rating Report



## ALTERRA BERMUDA LIMITED

Hamilton HM 11, Bermuda



A

**Composite Reinsurer**  
**Ultimate Parent: Alterra Capital Holdings Limited**

**ALTERRA BERMUDA LIMITED**  
Alterra House, 2 Front Street, Hamilton HM 11, Bermuda  
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AMB#: 087119  
Ultimate Parent#: 058184

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**BEST'S FINANCIAL STRENGTH RATING**  
Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XV.

### RATING UNIT MEMBERS

| AMB#   | COMPANY                        | BEST'S FSR |
|--------|--------------------------------|------------|
| 002061 | Alterra America Insurance Co   | A g        |
| 077979 | Alterra Europe plc             | A g        |
| 003677 | Alterra Excess & Surplus Ins   | A g        |
| 083138 | Alterra Reinsurance Europe plc | A g        |
| 013819 | Alterra Reinsurance USA Inc.   | A g        |

### RATING RATIONALE

**Rating Rationale:** The rating affirmation of Alterra Bermuda and its strategic affiliates reflects its solid risk-adjusted capitalization and global distribution platform. The Alterra organization was a result of the May 2010 merger between Max Capital Group Ltd. and Harbor Point Limited. The merger provided enhanced diversification, increased capacity and greater scale to the operations.

The negative outlook for Alterra and its subsidiaries reflects the change that was announced in August 2011 with regards to the departure of John Berger from the organization's executive management level and Board of Directors. This change has taken place less than a year and a half after the merger. A.M. Best views this recent announcement as a material change in the management structure, which was initially considered by A.M. Best at the time of the merger. In May 2010, when the rating was assigned to Alterra and its operating subsidiaries, A.M. Best gave significant consideration to the organizational structure of the board of directors, the executive management team and the key committees that were established to help steer and execute the strategy of the company. A.M. Best still views these elements to be critical to the organization and will continue to monitor the development of the company and its operational strategy. While from A.M. Best's perspective the recent change in management has introduced a new level of uncertainty to the organization in terms of execution and development of future business strategies and retention of other key personnel, A.M. Best recognizes that currently Alterra has a deep bench of talent to draw upon to help lead the organization over the near term.

Other partially offsetting rating factors are the current pricing pressures that exist in the casualty insurance and reinsurance markets, and the currently remote yet looming threat of inflation, which could take its toll on casualty writers, including Alterra, in the intermediate and longer term.

**Best's Financial Strength Rating: A**

**Outlook: Negative**

### FIVE YEAR RATING HISTORY

| Date     | Best's FSR | Date     | Best's FSR |
|----------|------------|----------|------------|
| 08/05/11 | A          | 03/04/10 | A- u       |
| 09/07/10 | A          | 12/11/08 | A-         |
| 05/13/10 | A          | 10/16/07 | A-         |

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## BUSINESS REVIEW

Alterra Bermuda Limited (Alterra) is the Bermuda-based operating unit of Alterra Capital Holdings Limited (NASDAQ: ALTE). Alterra Capital Holdings Limited is a Bermuda-based holding company that was formed as a result of the merger between Max Capital Group Limited and Harbor Point Limited in May 2010. The holding company and the operating companies were rebranded with the Alterra name. Through Alterra Capital Holdings Limited's operating subsidiaries, traditional reinsurance and insurance of both long-tailed and short-tailed liabilities are provided. Affiliated operating companies of Alterra distribute products for the group in the U.S., Europe (including Lloyd's), Canada, Japan, Latin America, Australia and New Zealand.

Underwriting operations provide a diversified and balanced mix of short-tail and long-tail insurance and reinsurance capacity. Covered risks include the re/insurance of general casualty, professional lines, workers' compensation, accident and health, medical malpractice, property, agriculture, aviation, credit/surety, marine and energy, disability, annuities, life insurance, and structured settlements.

Reinsurance products are offered on both excess of loss and quota share bases, and are generally written on market terms, where Alterra participates alongside other reinsurers. Whole account coverage is underwritten with a focus on casualty risk exposures.

Alterra Excess & Surplus Insurance Company (Alterra Excess & Surplus) was acquired on April 3, 2007. Alterra Excess & Surplus provides access to the U.S. excess and surplus lines market with coverage in property, casualty, marine, umbrella and excess liability to the middle market. The company uses a two-pronged marketing approach, with products being offered to a select group of national brokers and regional MGAs with which management has had previous successful relationships. In June 2008, Alterra America Insurance Company was acquired. Alterra America Insurance Company offers the same type of coverages as Alterra Excess & Surplus but on an admitted basis.

In November 2008, Imagine Group (UK) Limited (Imagine Lloyd's), a Lloyd's insurance operation, was acquired from Imagine Insurance Company Limited. It has since been rebranded as Alterra at Lloyd's Limited and through Lloyd's Syndicates 1400, 2525, and 2526, a diverse portfolio of specialty risks is written, which includes property catastrophe, financial institutions, international casualty, personal accident, employers' and public liability, and professional indemnity business. The Lloyd's syndicates, which have operations in Copenhagen, Rio de Janeiro and Tokyo, in addition to London, complement Alterra's underwriting operations in Bermuda, Ireland and the U.S.

Alterra Reinsurance USA Inc. (Alterra Re USA) is the company's sole U.S.-based reinsurance operation, and it was formed in 2007. Alterra Re USA utilizes mainly the broker market distribution system in order to access both the U.S.- and foreign-based ceding companies and offers property and casualty quota share and excess of loss reinsurance capacity. The current principal lines of business include agriculture, non-standard auto, aviation, credit/surety, general casualty, medical malpractice, professional liability (mainly directors and officers as well as errors and omissions risks), property (per risk and quota share) and workers' compensation.

Life and annuity products focus on existing blocks of business and typically take the form of co-insurance structures, where the risk is generally reinsured on the same basis as that of the original policy. In a co-insurance transaction, Alterra receives a percentage of the gross premium charged to the policyholder by the client, less an expense allowance that is granted to the client, as the primary insurer. By accepting the transfer of liabilities and the related assets from the client in these co-insurance transactions, Alterra seeks to enable the client to achieve capital relief and improved returns on equity. Alterra seeks to write life and annuity reinsurance contracts with respect to individual and group disability, whole life, universal life, corporate-owned life, term life, fixed annuities, annuities in payment and structured settlements. None of Alterra's life transactions contain any variable annuity business. Recently, no meaningful opportunities to write new life and annuity reinsurance contracts have been identified where an attractive investment spread can be earned. Accordingly, Alterra has determined not to write any new life and annuity contracts in the foreseeable future.

**Regulatory & Accounting Environment:** The Minister of Finance, through the Registrar of Companies, the Inspector of Companies, and the Insurance Advisory Committee, supervises insurance companies in Bermuda. Companies may be local companies licensed to conduct business in Bermuda (must be at least 60% owned by Bermudians), or exempted companies incorporated in Bermuda for non-domestic business, where overseas investors may have 100% ownership. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee, which is dependent upon the level of authorized capital. The government has granted the company a tax exemption until March 28, 2016.

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Alterra is the greatest of \$100 million, 50% of net premiums written or 15% of loss and loss expense provisions and other insurance reserves.

## FINANCIAL PERFORMANCE

Alterra's pro forma five-year average combined ratio has been relatively stable and profitable; however, overall operating performance has experienced some volatility, most notably in 2008. Catastrophe losses in 2008 from hurricanes Ike and Gustav were minimal, but the impact of the financial crisis resulted in significant losses for the investment portfolio. These losses exceeded A.M. Best's expectations, but since then, the company has reduced its allocation to hedge funds and has taken a more conservative investment stance. The current investment posture coupled with the financial market rebound in 2009 has aided in strengthening the company's balance sheet. Consequently, longer-term return measures have been skewed as a result of the volatility experienced in 2008.

## CAPITALIZATION

The company's risk-adjusted capitalization is at an excellent level and remains commensurate with the company's rating and business profile per A.M. Best's risk-based capital model (BCAR). Following the merger between Max Capital Group Ltd. and Harbor Point Limited in May 2010, shareholders' equity for the consolidated organization was roughly \$3 billion. In September 2010, the ultimate holding company issued \$350 million of senior notes due in 2020.

## LIQUIDITY

Fixed income securities are highly liquid and highly rated. Investments in the individual funds of alternative investments require varying notice periods before redemptions are processed and cash is returned. Fixed income securities fund insurance reserves and related claim payments. Broadly speaking, Alterra's investment portfolio allocations are similar to that of most Bermuda market companies, which A.M. Best views as relatively conservative.

## SOURCE OF INFORMATION: Audited Financial Statement Summarized Accounts as of December 31, 2010

|                                      | ASSETS                 |                          |                        |
|--------------------------------------|------------------------|--------------------------|------------------------|
|                                      | 12/31/2010<br>USD(000) | 12/31/2010<br>% of total | 12/31/2009<br>USD(000) |
| Cash and equivalents                 | 608,456                | 7.3                      | 578,934                |
| Long term fixed maturity investments | 5,469,267              | 65.8                     | 3,882,836              |
| Other investments                    | 375,948                | 4.5                      | 318,073                |
| Invested assets                      | 5,845,215              | 70.4                     | 4,200,909              |
| Receivables                          | 848,199                | 10.2                     | 820,469                |
| Reinsurance recoverable              | 756,810                | 9.1                      | 808,066                |
| Intangibles                          | 98,078                 | 1.2                      | 64,572                 |
| Other assets                         | 150,314                | 1.8                      | 160,292                |
| Total assets                         | 8,307,072              | 100.0                    | 6,633,242              |

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## LIABILITIES & SURPLUS

|  | 12/31/2010<br>USD(000) | 12/31/2010<br>% of total | 12/31/2009<br>USD(000) |
|--|------------------------|--------------------------|------------------------|
| Life / Health reserves                 | 1,275,580              | 15.4                     | 1,372,513              |
| Property / Casualty reserves           | 3,382,424              | 40.7                     | 2,782,447              |
| Unearned premium reserves              | 699,051                | 8.4                      | 508,313                |
| <b>Total policy reserves</b>           | <b>5,357,055</b>       | <b>64.5</b>              | <b>4,663,273</b>       |
| Other liabilities                      | 418,158                | 5.0                      | 443,567                |
| <b>Total liabilities</b>               | <b>5,775,213</b>       | <b>69.5</b>              | <b>5,106,840</b>       |
| Equity - common stock                  | 58,829                 | 0.7                      | 58,829                 |
| Paid-in capital                        | 1,804,168              | 21.7                     | 784,895                |
| Accumulated other comprehensive income | 90,176                 | 1.1                      | 15,052                 |
| Retained earnings                      | 578,686                | 7.0                      | 667,626                |
| <b>Total equity</b>                    | <b>2,531,859</b>       | <b>30.5</b>              | <b>1,526,402</b>       |
| <b>Total liabilities &amp; equity</b>  | <b>8,307,072</b>       | <b>100.0</b>             | <b>6,633,242</b>       |

## STATEMENT OF INCOME

|   | 12/31/2010<br>USD(000) | 12/31/2009<br>USD(000) |
|---|------------------------|------------------------|
| Direct premiums written                                 | 370,118                | 436,759                |
| Reins assumed   | 767,143                | 704,629                |
| <b>Gross premiums written</b>                           | <b>1,137,261</b>       | <b>1,141,388</b>       |
| Reins ceded   | 269,792                | 305,375                |
| <b>Net premiums written</b>                             | <b>867,469</b>         | <b>836,013</b>         |
| Change in unearned premiums                             | -139,260               | 61,926                 |
| <b>Net premiums earned</b>                              | <b>1,006,729</b>       | <b>774,087</b>         |
| Net investment income                                   | 196,750                | 162,478                |
| Net realized gains/(losses)                             | 28,263                 | 75,865                 |
| Other revenue   | 1,118                  | 1,130                  |
| Non-operating revenue                                   | ...                    | 104                    |
| <b>Total revenue</b>                                    | <b>1,232,860</b>       | <b>1,013,664</b>       |
| Benefits & reserves                                     | 625,008                | 570,735                |
| Operating expenses                                      | 331,087                | 196,618                |
| Non-operating expenses                                  | 1,637                  | ...                    |
| <b>Total benefits &amp; expenses</b>                    | <b>957,732</b>         | <b>767,353</b>         |
| Earnings before interest & taxes (EBIT)                 | 275,128                | 246,311                |
| Interest expense  | 13,807                 | 12,657                 |
| <b>Pre-tax income/(loss) from continuing operations</b> | <b>261,321</b>         | <b>233,654</b>         |
| Total taxes   | 261                    | 1,525                  |
| <b>Net income/(loss) before minority interest</b>       | <b>261,060</b>         | <b>232,129</b>         |
| <b>Net income/(loss) from continuing operations</b>     | <b>261,060</b>         | <b>232,129</b>         |
| <b>Net income/(loss)</b>                                | <b>261,060</b>         | <b>232,129</b>         |

## STATEMENT OF CHANGES IN EQUITY

|   | 12/31/2010<br>USD(000) | 12/31/2009<br>USD(000) |
|---|------------------------|------------------------|
| Common shares, beginning balance                        | 58,829                 | 58,829                 |
| Common shares, ending balance                           | 58,829                 | 58,829                 |
| Paid-in capital - Beg bal                               | 784,895                | 784,895                |
| Paid-in capital - Equity units                          | 1,131,023              | ...                    |
| Paid-in capital - Contingent capital cost               | 125,000                | ...                    |
| Paid-in capital - other                                 | 13,250                 | ...                    |
| <b>Paid-in capital - End bal</b>                        | <b>1,804,168</b>       | <b>784,895</b>         |
| AOCI - beginning balance                                | 15,052                 | -45,834                |
| AOCI - change in unrealized gains/losses on investments | 84,061                 | 49,588                 |
| AOCI - change in unrealized gains/losses - other        | -3,228                 | -2,237                 |
| AOCI - foreign currency adjustments                     | -5,709                 | 13,535                 |
| <b>AOCI - ending balance</b>                            | <b>90,176</b>          | <b>15,052</b>          |
| Retained earnings, beginning balance                    | 667,626                | 485,497                |
| Retained earnings, net income                           | 261,060                | 232,129                |
| Retained earnings, common dividends                     | 350,000                | 50,000                 |
| <b>Retained earnings, ending balance</b>                | <b>578,686</b>         | <b>667,626</b>         |
| <b>Total shareholder equity</b>                         | <b>2,531,859</b>       | <b>1,526,402</b>       |

## STATEMENT OF CASH FLOWS

|   | 12/31/2010<br>USD(000) | 12/31/2009<br>USD(000) |
|---|------------------------|------------------------|
| Net cash provided/(used) in operating activities  | 10,734                 | 168,688                |
| Net cash provided/(used) in investment activities | 357,218                | 187,963                |
| Net cash provided/(used) in financing activities  | -336,243               | -494,538               |
| Effect of exchange rates on cash                  | -2,187                 | 7,456                  |
| <b>Total increase (decrease) in cash</b>          | <b>29,522</b>          | <b>-130,431</b>        |
| Cash, beginning balance                           | 578,934                | 709,365                |
| <b>Cash, ending balance</b>                       | <b>608,456</b>         | <b>578,934</b>         |

## HISTORY

Alterra is a subsidiary of Alterra Capital Holdings Limited and is incorporated in Bermuda, where it maintains its principal office. Alterra Capital Holdings Limited is the result of the merger between Max Capital Group Limited and Harbor Point Limited that took place in May 2010. Max Capital Group Limited's origins date back to 1999 when it was formed as Maximus Capital Holdings Limited on July 8, 1999. Since then, the name has changed several times, and following the merger, the company has been rebranded. Alterra operates as an insurance company under Bermuda Law and is registered as a Class 4 insurer and long-term insurer.

## MANAGEMENT

**Subsidiaries/Affiliates:** Alterra Reinsurance Europe plc, 100%; Alterra Europe plc, 100%; Alterra Excess and Surplus Insurance Company, 100%; Alterra America Insurance Company, 100%; Alterra Reinsurance USA Inc., 100%.

# Best's Rating Report



**Officers:** President, Andrew Cook; Executive Vice Presidents and Chief Underwriting Officers, Louis Adanio (Property Insurance), John Boylan (Insurance Operations), James C. Gray (Professional Liability Insurance), Jed Rhoads.

**Directors:** W. Marston Becker, Andrew Cook, Peter A. Minton, Joseph W. Roberts.

## REINSURANCE

Alterra provides reinsurance coverage to its operating affiliates in the U.S. and Europe through respective whole account quota share agreements.

### BALANCE SHEET ITEMS

|                      | USD<br>(000)<br>2010 | USD<br>(000)<br>2009 | USD<br>(000)<br>2008 | USD<br>(000)<br>2007 | USD<br>(000)<br>2006 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Invested assets      | 5,845,215            | 4,200,909            | 4,212,182            | 4,586,149            | 4,093,982            |
| Total assets         | 8,307,072            | 6,633,242            | 6,442,008            | 6,398,019            | 5,810,203            |
| Debt & notes payable | ...                  | ...                  | 225,000              | 280,000              | 210,000              |
| Total liabilities    | 5,775,213            | 5,106,840            | 5,158,621            | 4,738,877            | 4,482,433            |
| Total equity         | 2,531,859            | 1,526,402            | 1,283,387            | 1,659,142            | 1,327,770            |
| Total capital        | 2,531,859            | 1,526,402            | 1,508,387            | 1,939,142            | 1,537,770            |

### INCOME STATEMENT ITEMS

|                             | USD<br>(000)<br>2010 | USD<br>(000)<br>2009 | USD<br>(000)<br>2008 | USD<br>(000)<br>2007 | USD<br>(000)<br>2006 |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Gross premiums written      | 1,137,261            | 1,141,388            | 1,111,567            | 1,040,949            | 865,197              |
| Net premiums written        | 867,469              | 836,013              | 820,524              | 793,863              | 634,651              |
| Net investment income       | 196,750              | 162,478              | 173,552              | 181,263              | 149,511              |
| Net realized gains/(losses) | 28,263               | 75,865               | -251,838             | 182,801              | 78,952               |
| Net income/(loss)           | 261,060              | 232,129              | -130,494             | 331,758              | 220,179              |

## LIQUIDITY RATIOS (%)

|  | 2010  | 2009  | 2008  | 2007  | 2006  |
|--|-------|-------|-------|-------|-------|
| Total investments to total reserves    | 120.5 | 102.5 | 112.2 | 125.9 | 123.0 |
| Liquid assets to total liabilities     | 105.2 | 87.4  | 80.8  | 82.0  | 76.9  |
| Total investments to total liabilities | 111.8 | 93.6  | 95.4  | 104.4 | 100.7 |
| Bonds to total reserves                | 102.1 | 83.3  | 78.8  | 89.7  | 82.6  |

## PROFITABILITY RATIOS (%)

|                         | 2010 | 2009 | 2008  | 2007 | 2006 |
|-------------------------|------|------|-------|------|------|
| Loss ratio              | 62.1 | 73.7 | 85.8  | 82.7 | 74.9 |
| Expense ratio           | 32.9 | 25.4 | 17.5  | 17.2 | 24.2 |
| Combined ratio          | 95.0 | 99.1 | 103.3 | 99.8 | 99.0 |
| Investment income ratio | 19.5 | 21.0 | 21.7  | 22.2 | 22.5 |
| Return on assets        | 3.5  | 3.6  | -2.0  | 5.4  | 4.0  |
| Return on revenues      | 25.9 | 30.0 | -16.3 | 40.6 | 33.1 |
| Return on equity        | 12.9 | 16.5 | -8.9  | 22.2 | 17.9 |

## LEVERAGE & DEBT RATIOS (%)

|                                      | 2010 | 2009 | 2008 | 2007 | 2006 |
|--------------------------------------|------|------|------|------|------|
| Net premiums written to equity       | 34.3 | 54.8 | 63.9 | 47.9 | 47.8 |
| Cash flow coverage (x)               | 0.8  | 13.3 | 22.2 | 3.4  | 36.8 |
| Interest coverage (x)                | 17.9 | 13.5 | 5.7  | 5.3  | 11.3 |
| Debt to equity                       | ...  | ...  | 17.5 | 16.9 | 15.8 |
| Debt to total capital                | ...  | ...  | 14.9 | 14.4 | 13.7 |
| Cash and equivalents to total assets | 7.3  | 8.7  | 11.0 | 5.7  | 7.2  |

## Why is this *Best's*<sup>®</sup> Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

### Secure Best's Financial Strength Ratings

|            |           |
|------------|-----------|
| A++ and A+ | Superior  |
| A and A-   | Excellent |
| B++ and B+ | Good      |

### Vulnerable Best's Financial Strength Ratings

|            |                              |
|------------|------------------------------|
| B and B-   | Fair                         |
| C++ and C+ | Marginal                     |
| C and C-   | Weak                         |
| D          | Poor                         |
| E          | Under Regulatory Supervision |
| F          | In Liquidation               |
| S          | Rating Suspended             |

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