

Composite/Multi-Line
Insurers, Reinsurers
Bermuda
Credit Analysis

Max Capital Group Ltd.

Ratings

Security Class	Rating
Long-Term IDR	A-

Affiliates

Max USA Holdings Ltd. Long-Term IDR	A-
Senior Unsecured Notes Max Bermuda Ltd.	BBB+
Max Insurance Europe Limited Max Re Europe Limited Max Specialty Insurance Co. Insurer Financial Strength	A

Outlook

Stable

Financial Data

Max Capital Group Ltd.

	Date	\$ Mil.
Net Income	3/31/08	8
Equity	3/31/08	1,512
Debt and Hybrids	3/31/08	425

Analysts

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Related Research

- *Fitch Affirms Ratings of Max Capital; Outlook Stable, June 10, 2008*
- *Max Capital Group, Ltd., April 7, 2008*
- *Property/Casualty Insurers' Year-End 2007 Review, March 26, 2008*
- *Bermuda Market Overview, March 3, 2008*
- *Review and Outlook 2007-2008: US Property/Casualty Insurance, Dec. 3, 2007*
- *Reinsurance Review and Outlook: Conditions and Trends Support Stable Ratings, Aug. 31, 2007*

Rating Rationale

- Fitch's ratings on Max Capital Group Ltd. (Max Capital) reflect the company's disciplined and flexible approach to managing underwriting risk and investment risk, along with its favorable operating results. Partially offsetting these positives are the execution risk derived from Max Capital's growing diversified specialty product strategy and reserve risk associated with the long-tail casualty reinsurance/insurance lines that the company started writing in 2002-2003.
- Fitch recognizes the benefits of Max Capital's strategy of maintaining flexibility to shift its disciplined underwriting approach based on changing market conditions and expected returns on capital. Most recently, Max Specialty was launched in April 2007 as the company's US-based excess and surplus lines platform to complement its Bermuda- and Ireland-based insurance and reinsurance operations and thus further diversify the company's property/casualty product and geographic exposure. The company expects that US specialty business could grow to account for about 10%-15% of Max Capital's gross premium volume in 2008.
- On the asset side of the balance sheet, Max Capital's strategy includes investing in a combination of traditional fixed-income securities as well as a portfolio of alternative investments. The strategy calls for about 80% (80.6% as of March 31, 2008) of the overall portfolio to consist of traditional investments and about 20% (19.4% as of March 31, 2008) to consist of alternative investments, primarily hedge funds. This target allocation was reduced in 2006 from between 20% and 40% in alternative investments, as the company is allocating more capital to underwriting opportunities, and thus reducing asset risk.
- Overall profitability improved in 2007 and 2006 as catastrophe activity subsided following sizable but manageable hurricane losses suffered in 2005. Through the first three months of 2008, underwriting results continued to be favorable; however, negative alternative investment returns resulted in a sizable decline in Max Capital's overall profitability.

Key Rating Drivers

- Failure of Max Capital to maintain its disciplined underwriting approach in the overall competitive market and soft rate environment could lead to a downward rating action.
- Future earnings that are significantly below or above the range of management's current return on equity target of the mid- to high teens could have negative or positive pressure, respectively, on the ratings.
- Significant adverse reserve development in the long-tail casualty insurance/reinsurance lines that the company started writing in recent years could cause Fitch to lower the ratings.
- An imbalance in the level of underwriting risk assumed on the liability side of the balance sheet relative to the investment risk taken on the asset side could put downward pressure on the ratings.

Max Capital's strategy is designed to be flexible and take advantage of insurance industry trends that management believes are providing the best opportunity for returns on capital.

Key Rating Issues

Underwriting Flexibility to Shift Strategy Based on Changing Market Conditions

Fitch recognizes the benefits of Max Capital's strategy of maintaining flexibility to shift its disciplined underwriting approach based on changing market conditions and expected returns on capital. The company's underwriting focus was originally on a wide range of large-sized, long-duration reinsurance risks provided through highly structured insurance products as well as shorter-duration alternative risk-transfer products. As the market conditions for these products diminished relative to more traditional reinsurance and insurance risks, the company shifted its focus.

Max Capital's original product strategy called for an emphasis on life and annuity transactions. Accordingly, the mix of business in the first year of operations (2000) was 70% life and annuity and 30% property/casualty. However, as a result of a low interest-rate environment that reduced demand for life and annuity products and the increased market demand and improved pricing conditions of the property/casualty market in 2001, Max Capital moved towards a property/casualty product focus. As such, the mix of business (based on net premium written) shifted to 70% property/casualty in 2001, and was 98% in 2002 and 90% in 2003.

In 2004 and 2005, life and annuity opportunities returned to the market with pricing at attractive levels and less competition. As a result, the business mix shifted to a reduced 76% and 73% in property/casualty, respectively. Due to opportunities in short-tail property and property catastrophe reinsurance and insurance following the significant industry hurricane losses in 2004–2005, the mix of business shifted to 93% property/casualty in 2006 before shifting back down to 62% in 2007.

Most recently, in April 2007, Max Specialty was launched as the company's US-based excess and surplus lines platform to complement its Bermuda- and Ireland-based insurance and reinsurance operations. Stephen J. Vaccaro Jr., previously with the Markel Group, serves as Max Specialty's president and chief executive officer (CEO). The company expects that US specialty business could grow to account for about 10%–15% of Max Capital's gross premium volume in 2008.

Portfolio Includes Significant Alternative Investments

On the asset side of the balance sheet, Max Capital's strategy includes investing in a combination of traditional fixed-income securities as well as a portfolio of alternative investments. The strategy calls for about 80% of the overall portfolio to consist of traditional investments and about 20% to consist of alternative investments, primarily hedge funds. This target allocation was reduced in 2006 from between 20% and 40% in alternative investments, as the company is allocating more capital to underwriting opportunities, and thus reducing asset risk.

The principal alternative investment portion is in the company's Bermuda-domiciled subsidiary, Max Diversified Strategies Ltd. (MDS). MDS is a fund-of-funds managed by Alstra Capital Management, LLC, an affiliate of Moore Capital Management, LLC, that is currently invested in approximately 35 underlying funds. The returns resulting from this unique investment strategy, together with prudent underwriting and a competitive general and administrative expense base, allow the company to compete effectively on both product structure and price.

Sophisticated Modeling Balances Underwriting Risk with Investment Risk

Fitch considers Max Capital's modeling capability to be one of its distinguishing features, with every transaction modeled and priced to a target return on capital. The company

also uses a series of proprietary and nonproprietary actuarial and financial models to manage its overall enterprise risk in consideration of both its underwriting risk and investment risk. The results are analyzed on an integrated basis to determine the correlation between the underwriting risks and the investment risks and the likely impact of a transaction on surplus. The level of underwriting risk assumed on the liability side of the balance sheet is balanced relative to the investment risk taken on the asset side, such that the modeled statistical probability of experiencing a reduction in capital is less than 20%.

Peer Analysis

Fitch views Max Capital's peer group as Bermuda-based companies included in Fitch's rated universe that write on both a primary and reinsurance basis and derive a good proportion of their premium revenues from a broad mix of both casualty and property lines, although some companies are more concentrated than others.

Comparing basic financial metrics of net premiums written and shareholders' equity, Max Capital is much smaller than the median of the peer group, although it is larger than 'A-'-rated peers. Max Capital's recent combined ratios and five-year (2003–2007) average are in line with peer averages.

Bermuda Peer Summary Statistics

(\$ Mil.)

	IFS Rating	Net Premium Written		Equity		Combined Ratio		2003–2007 Average
		2007	2006	2007	2006	2007	2006	
ACE Ltd.	AA–	11,979	12,030	16,677	14,278	87.9	88.1	92.7
Arch Capital	A+	2,902	3,017	4,036	3,591	84.1	85.4	89.5
Everest Re	AA–	3,919	3,876	5,685	5,108	91.6	89.7	99.2
Flagstone Re	A–	527	282	1,210	865	72.8	47.6	NA
Imagine Group	A–	456	655	639	573	89.8	102.8	105.8
Max Capital	A	797	635	1,584	1,390	88.2	86.4	95.0
Montpelier Re	A–	549	579	1,653	1,493	61.3	60.3	90.1
PartnerRe	AA	3,757	3,690	4,322	3,786	80.4	84.6	93.7
RenaissanceRe	A	1,435	1,530	3,478	3,280	59.3	54.7	82.9
XL Capital	A+	7,127	7,617	10,102	10,131	88.8	89.5	102.0
Median		2,169	2,274	3,757	3,436	86.0	85.9	93.7

NA – Not available as Flagstone was formed in 2005.

Source: SNL Financial, Fitch.

Return on Average Equity Analysis

(%)

	IFS Rating	2003–2007		
		Avg. ROAE/ Std. Dev. in ROAE	Std. Dev. in ROAE	Avg. ROAE
ACE Ltd.	AA–	4.0	3.8	15.0
Arch Capital	A+	3.5	5.2	18.1
Max Capital	A	1.9	7.8	14.6
Partner Re	AA	1.6	9.6	15.2
Everest Re	AA–	1.2	9.8	11.6
RenaissanceRe	A	0.9	17.1	15.1
XL Capital	A+	0.4	13.5	5.9
Montpelier Re	A–	0.2	35.1	6.0
Median		1.4	9.7	14.8

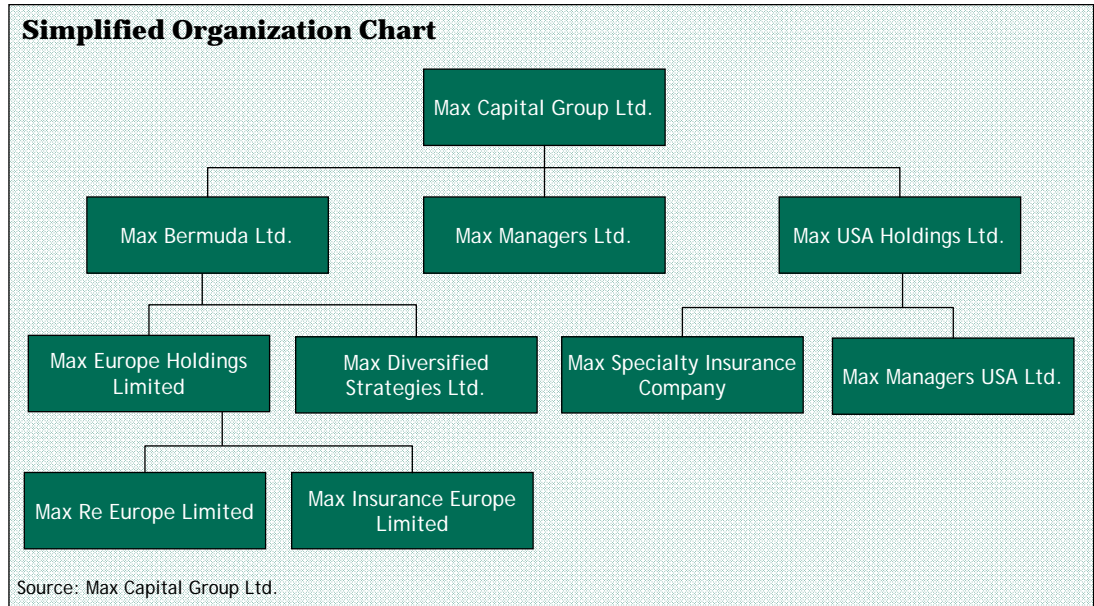
Std. Dev. – Standard deviation. ROAE – Return on average equity.

Source: SNL Financial, Fitch.

When assessing returns on capital, Fitch considers the volatility of returns as well as the absolute levels of returns. Fitch's expectation is that as volatility around returns on capital increase, the absolute level of return on capital should increase.

In order to evaluate which publically traded (re)insurers in Max Capital's peer group generated higher ROAE per unit of volatility during 2003–2007, Fitch divided each (re)insurer's average ROAE by its standard deviation of ROAE for the period. While Max

Max Capital's risk-adjusted returns are better than the peer median.



Capital has produced average ROAE in line with the peer median, favorably, it has generated higher-than-median risk-adjusted returns based on this metric.

Company Profile

Ownership Structure

Max Bermuda Ltd. is a Bermuda-based (Class 4) multi-line reinsurance and insurance company that was formed in July 1999 and commenced operations in January 2000. The company is the principal operating subsidiary of Max Capital Group Ltd., a publicly traded, Bermuda-based holding company formed in conjunction with Max Bermuda Ltd.

Max Capital's largest shareholder is Moore Holdings, LLC (Moore Holdings) and its affiliated entities (22.2%), a founding investor, with management/directors also having a significant ownership interest.

The company conducts its European activities through Max Europe Holdings Limited and its reinsurance and insurance operating subsidiaries, Max Re Europe Limited and Max Insurance Europe Limited.

Max Re Europe Limited is a Dublin, Ireland-based subsidiary that was established late in 2000 as a means for Max Capital to expand its reinsurance business into the European marketplace. Max Re Europe Limited retains 10% of business written and retrocedes 90% to Max Bermuda Ltd. The company is also supported by a capital maintenance agreement with Max Capital.

Max Insurance Europe Limited is another Dublin-based insurance subsidiary, which was formed in mid-2003 to underwrite traditional European primary insurance business. The company is qualified to underwrite business in any European Union (EU) country, writing the same insurance products as the Bermuda company. Max Insurance Europe retains approximately 10% of the business written, ceding 90% of the business either through an external quota-share treaty (40%–60%) or to Max Bermuda Ltd. (30%–50%).

At Dec. 31, 2007, Max Europe Holdings had \$77 million of shareholders' equity with \$24 million at Max Re Europe Limited and \$50 million at Max Insurance Europe Limited.

Fitch's insurer financial strength ratings on Max Re Europe Limited and Max Insurance Europe Limited are based on the explicit operating and balance sheet support provided by Max Capital through both reinsurance support and capital maintenance agreements.

Max USA Holdings Ltd. (Max USA) is a direct, wholly owned subsidiary of Max Capital Group Ltd. and was formed in December 2006 as a holding company for the US operations. Max USA owns Max Specialty, a Delaware-licensed nonadmitted insurance operating company eligible in 48 other states that was acquired in April 2007. In June 2008, Max Specialty acquired an admitted insurance company (expected to be renamed Max America Insurance Company) eligible in all 50 states.

Fitch's ratings on Max USA and Max Specialty are based on a group rating approach with the companies viewed as important subsidiaries of Max Capital. Max Capital Group Ltd. also fully and unconditionally guarantees the senior notes of Max USA. The rating of Max Specialty is also based on the explicit operating and balance sheet support provided by Max Bermuda Ltd. through a quota-share reinsurance agreement.

Max Managers Ltd. is a Bermuda-based insurance manager that provides insurance underwriting and administrative services on a fee basis. Max Managers USA Ltd. is a Delaware-domiciled managing general underwriter formed late in 2007 to underwrite policies for Max Specialty primarily focused on casualty business for smaller health care and nursing home clients.

The company had 209 employees at Dec. 31, 2007, up significantly from 132 at Dec. 31, 2006, and only 29 people at year-end 2002, as the company has added underwriters and actuaries in Bermuda, Dublin and the US to support its new business initiatives. The management team and underwriting team are very knowledgeable and experienced, having previously served in key roles at various prominent insurers.

Key Historical Events

In February 2007, Fitch removed Max Capital's ratings from Rating Watch Negative. This rating action reflected a reduced level of uncertainty following Fitch's assessment that Max Capital's franchise, reputation, competitive and financial position were not adversely impacted as a result of the company's reopened internal finite risk investigation and further restatement in November 2006, which followed the company's May 2006 restatement. Fitch also feels confident that W. Marston "Marty" Becker, Max Capital's chairman and CEO, and the management team will continue to successfully execute the company's business strategy going forward. Mr. Becker was appointed chairman and CEO following the resignation of Robert J. Cooney, one of the company's founders, in October 2006. Mr. Becker has been a director of Max Capital since 2004 and has 25 years of industry experience, most recently as the CEO of Trenwick Group, Ltd.

The restatements of financial results for the years 2001–2005 and the first six months of 2006 followed an internal investigation by the company's audit and risk management committee of three finite risk retrocessional contracts written in 2001 and 2003 that were found to be accounted for incorrectly. The committee voluntarily contacted the Securities and Exchange Commission (SEC) in connection with the internal review and in October 2006, the company received a subpoena from the SEC requesting certain documents and information as part of an investigation related to the finite contracts. In December 2007, the SEC notified Max Capital that it had completed its investigation of

Max Capital offers both property/casualty reinsurance and insurance and life and annuity reinsurance. This includes writing both long- and short-tail traditional products with a specialty focus in the property/casualty market as well as longer-tail highly structured risk transfer in the life and annuity markets.

the company's finite restatements and did not recommend any enforcement action against Max Capital.

Products

Property/Casualty

The property/casualty business is diversified into several long-tail and short-tail product line exposures, with a focus on both casualty business and property and special business.

The product strategy is centered on underwriting both ongoing business through aggregate stop-loss, individual risk insurance, excess layer or quota-share treaty reinsurance contracts. To limit the amount of underwriting risk assumed, Max Capital will generally write business to a maximum foreseeable loss of about 25% of beginning-year surplus in any given year (about a one-in-250-year event).

Within the property/casualty business, Max Capital operates in three segments: reinsurance, primary insurance and US specialty insurance.

Reinsurance

The reinsurance business includes the more traditional reinsurance products that the company began writing in the second half of 2002, as well as the business lines that were previously reported separately as structured reinsurance and alternative risk transfer. In 2004, the company combined the results of the structured segment into the alternative risk segment, which in turn was combined into the reinsurance segment in 2005.

The traditional reinsurance products include professional liability; casualty and medical malpractice excess of loss; workers' compensation working layer excess of loss; agriculture; and aviation, marine, and property excess of loss and quota share. The company shifted its product balance more toward property and aviation business in 2007 and experienced a decline in casualty business due to the nonrenewal/restructuring of several contracts. Max Capital has also recently been focused on writing smaller accounts with a greater number of clients, varying the underlying exposures assumed, resulting in a lower average contract size and better overall diversification.

Structured reinsurance and alternative risk-transfer reinsurance was composed of products that included financial reinsurance, or finite elements. This business was the primary focus of Max Capital's property/casualty operations when the company was first formed. However, beginning in late 2001 and early 2002, as expected returns on these products declined relative to products with higher levels of insurance risk transfer, the focus shifted in favor of more traditional underwriting risk business. In addition, an increased regulatory focus has even further reduced market demand for these products.

Segment Results — Max Re Capital Ltd.

(\$ Mil., US GAAP)

	Property/Casualty					Total	Life/ Annuity	Total
	Structured ^a	Alternative Risk ^b	Reinsurance	Insurance	US Specialty			
Net Premium Written								
2007	—	—	300.6	180.9	13.6	495.2	301.4	796.6
2006	—	—	388.3	202.0	—	590.3	44.3	634.7
2005	—	—	564.0	209.6	—	773.5	273.5	1,047.1
2004	—	221.9	313.7	133.8	—	669.5	211.6	881.1
2003	164.2	166.4	301.1	106.2	—	737.9	86.6	824.5
Net Premium Earned								
2007	—	—	312.9	199.6	4.0	516.5	301.4	817.9
2006	—	—	422.8	197.9	—	620.7	44.3	665.0
2005	—	—	607.1	172.9	—	780.0	273.5	1,053.5
2004	—	291.3	273.0	124.0	—	688.4	211.6	899.9
2003	209.4	176.6	196.0	45.9	—	627.9	86.6	714.5
Combined Ratio (%)								
2007	—	—	83.9	86.2	NA	88.2	—	—
2006	—	—	93.9	70.6	—	86.4	—	—
2005	—	—	105.7	107.3	—	106.0	—	—
2004	—	108.1	84.4	80.5	—	93.8	—	—
2003	120.3	93.8	86.6	92.8	—	100.3	—	—

^aCombined with Alternative Risk in 2004. ^bCombined with Reinsurance in 2005.
Source: Max Capital Group Ltd.

Primary Insurance

The primary insurance business was launched early in 2003 to take advantage of opportunities in the market, primarily driven by a shortage of available capacity. The lines of business include excess general liability, directors' and officers' (D&O), errors and omissions, aviation, employment practices liability for larger public companies, excess property and first-party product recall insurance for consumer product manufacturers.

The more traditional risk-transfer reinsurance and insurance business has been a somewhat opportunistic expansion given the favorable market conditions. This business is backed principally by traditional investments, namely fixed maturities, as the equalization of total entity risk assumption through a dialed-down liability risk to offset asset risk would not apply. As market conditions have softened recently, growth in primary insurance has leveled off and declined slightly.

US Specialty

In the second quarter of 2007, the company began writing US excess and surplus (E&S) lines insurance offering property (catastrophe, non-catastrophe, middle market), inland marine, casualty, excess liability and umbrella niche insurance products. E&S is focused on providing insurance to higher-risk classes requiring greater underwriting expertise and broader pricing flexibility.

E&S insurance is provided through Max Specialty, targeting smaller-sized clients, but a higher volume of transactions and operating through two divisions, brokerage and contract binding.

Expanding into US specialty lines insurance business provides Max Capital an opportunity to further diversify the company's property/casualty product and geographic exposure. Max Specialty outsources the management of its own investment portfolio, with business backed solely by fixed maturities investments.

Life and Annuity

In terms of the life and annuity segment, Max Capital focuses on in-force blocks of disability and whole life products, as well as structured settlement business. The product strategy is focused on unlocking value in existing blocks of business. Assumption of unseasoned or newly originated blocks of business is not part of the focus. To take advantage of its innovative investment strategy, the company targets transactions that involve a significant premium transfer. In adhering to its policy of tempered underwriting risk, Max Capital seeks deals that offer relatively low cash-flow variance. On the life side, Max Capital focuses on 100% coinsurance transactions.

The life and annuity business tends to have a limited number of potentially large premium transactions, which can result in significant period-to-period fluctuations in volume. The company wrote two life and annuity reinsurance contracts in 2003, two in 2004, three in 2005, one in 2006, six in 2007 and none through the first three months of 2008, with the amount of premium volume in these periods varying considerably.

Target Markets

Max Capital has a favorable target market that consists of insurers and reinsurers worldwide as well as global Fortune 1000 companies, in addition to sophisticated specialty customers that have a need for long-duration customized reinsurance solutions and with whom the company would seek to establish a long-standing relationship.

Although North America is Max Capital's largest market, the company also looks to source business in Europe through Max Europe. About 45% of the company's gross premium business came from customers based in Europe in 2007, up from 36% in 2006 and 35% in 2005.

Distribution Channels

Distribution channels include professional brokers, managing general agents (MGAs) and direct means. The broker channel has produced virtually all of the company's property/casualty business, while the company's life and annuity business has been mostly acquired on a direct basis. For the E&S lines, the company utilizes both brokerage and contract binding channels. Management has had close relationships with the MGAs for over 20 years.

Financial Analysis

Profitability

Overall profitability improved in 2007 and 2006 as catastrophe activity subsided following sizable but manageable hurricane losses suffered in 2005. Through the first three months of 2008, underwriting results continued to be favorable; however, negative alternative investment returns resulted in a sizable decline in Max Capital's overall profitability. It is important to note that hedge fund accounting requires unrealized gains and losses in the alternative investment portfolio to flow through net income rather than through other comprehensive income, adding volatility to the company's profitability.

The combined ratio for the property/casualty segment was 88.8% through the first three months of 2008, 88.2% in 2007 and 86.4% in 2006. This follows a combined ratio of 106.0% for the full year of 2005 due to \$157.4 million of net losses from Hurricanes Katrina, Rita and Wilma, including \$73.4 million from the reinsurance segment, \$50.0 million from primary insurance and \$34.0 million from its investment in DaVinci Re.

Fitch expects Max Capital's profitability to continue to be favorable in 2008 and beyond, with future earnings likely within the range of management's current return-on-equity target of the mid- to high teens.

Operating Performance

(\$ Mil.)

	Three Months Ended		2007	2006	2005	2004	2003
	3/31/08	3/31/07					
Gross Premium Written	307	214	1,078	865	1,246	1,044	1,010
Net Premium Written	202	137	797	635	1,047	881	825
% Change	47	(31)	26	(39)	19	7	39
Net Premiums Earned	136	139	818	665	1,053	900	714
Total Revenue (Before Gains)	187	182	1,007	816	1,165	988	785
% Change	2	(6)	23	(30)	18	26	71
Pretax Gains Alternative Investments	(26)	54	187	85	40	82	124
Pretax Realized Gains Fixed Maturities	1	(1)	(4)	(6)	(1)	10	19
Interest Expense	6	3	24	12	8	4	3
Pretax Operating Income	32	27	120	138	(30)	50	(5)
Preferred Dividends	0	0	0	0	0	0	0
Net Income Available to Common	8	80	303	217	10	142	127

Note: GAAP.

Source: Max Capital Group Ltd.

Through the first three months of 2008, gross and net written premiums increased 43.6% and 47.0%, respectively, driven by new initiatives in agriculture reinsurance business and US specialty lines.

Gross written premiums increased 24.6% in 2007 following a decline of 30.6% in 2006, and increases of 19.4% in 2005 and 3.3% in 2004. Net written premiums followed a similar trend, increasing 25.5% in 2007 after dropping 39.4% in 2006, with growth of 18.8% in 2005 and 6.9% in 2004.

The premium growth in 2007 was due to a significant increase in life and annuity net volume to \$301.4 million from only \$44.3 million in 2006. This increase was partially offset by a drop in property/casualty reinsurance and insurance business as rates continue to soften in the competitive market environment.

The drop in premiums in 2006 was driven by an 84% decrease in life and annuity net volume and reduced participation on certain reinsurance renewals. Also, the company recognized \$154.6 million of additional net premiums in 2005 on two excess-of-loss structured reinsurance contracts written in prior years that did not recur in 2006.

Max Capital wrote an increased amount of business in property and property catastrophe reinsurance and insurance lines following the hurricane losses in 2004 and 2005, as market conditions became more favorable. However, property and property catastrophe rates have been softening since mid-2006 as catastrophe activity has been mild and capacity has returned to the market. Furthermore, rates continue to soften in most other lines of business as the market environment has become more competitive. This has resulted in continued premium declines in most property/casualty business lines as the company maintains its disciplined underwriting approach.

Operating and Underwriting Ratios

(%)

	Three Months Ended		2007	2006	2005	2004	2003
	3/31/08	3/31/07					
% Pretax Operating Return on Assets	1.92	1.83	1.94	2.47	(0.62)	1.28	(0.18)
% Return on Common Equity	2.0	22.5	20.4	16.8	0.9	17.0	17.8
Loss Ratio	69.2	69.5	64.0	67.7	93.4	74.6	74.5
Expense Ratio	19.6	21.5	24.2	18.7	12.6	19.2	25.8
Combined Ratio	88.8	91.0	88.2	86.4	106.0	93.8	100.3

Note: GAAP.

Source: Max Capital Group Ltd.

Investment Performance — Return

(%)

Fund/Index	2007	2006	2005	2004	2003
Long/Short Equity	26.94	4.07	3.37	8.23	17.92
Convertible Arbitrage	—	—	(4.53)	1.31	10.13
Global Macro	13.67	4.03	3.13	10.26	19.16
Diversified Arbitrage	15.87	(1.71)	10.47	6.73	10.06
Opportunistic	20.38	24.73	22.45	27.68	3.24
Distressed Securities	15.74	16.32	10.83	23.12	42.85
Emerging Markets	18.53	9.97	15.87	22.15	25.92
Fixed Income Arbitrage	25.04	12.64	(8.62)	2.17	15.43
Event-Driven Arbitrage	36.14	8.15	7.50	17.31	24.90
Commodity Trading Advisers	6.63	8.32	10.22	(2.03)	14.08
Long/Short Credit	3.41	15.32	7.11	13.14	—
Total MDS	16.78	6.30	5.88	9.81	16.67
Reinsurance Private Equity	97.33	31.64	(43.00)	(11.06)	15.81
Total Alternative	16.97	6.96	3.34	8.23	16.57
Total Traditional	5.11	3.78	3.83	4.22	3.26
Aggregate Portfolio	10.38	4.73	3.66	5.63	7.74

MDS – Max Diversified Strategies Ltd.
Source: Max Capital Group Ltd.

Investments produced a total return of 0.61% through the first three months of 2008, compared to 2.07% for the first three months of 2007, with an alternative investment return of –2.11% and traditional portfolio return of 1.41%. The net loss in the alternative investment portfolio was driven by the significant volatility in the equity markets that negatively impacted the long/short equity and diversified arbitrage strategies. This follows an investment portfolio return of 10.38% in 2007, split between the traditional portfolio return of 5.11% and the alternative portfolio return of 16.97%. Max Capital targets an alternative investment portfolio return of 8%.

Since inception, Max Capital has postulated a strong potential for high alternative-investment portfolio returns, but with a limited downside. Over difficult investment environments Max Capital's alternative investment portfolio has performed reasonably well, demonstrating its limited downside, having produced a positive return each full year. The portfolio has also demonstrated some of its upside potential, although by design the MDS portfolio generally is not expected to outperform the market in favorable environments. Overall, investment returns have been less volatile and more favorable on a risk-adjusted basis than the industry portfolio.

Investments and Liquidity

Traditional Investments

The traditional portfolio, to which the company intends to allocate at least 80% of the total investment portfolio (80.6% as of March 31, 2008), consists of publicly traded US Treasury and US agency securities, agency and nonagency mortgage-backed securities (MBS), asset-backed securities (ABS), corporate debt, cash and cash equivalents (including repurchase agreements), 'F1'-rated commercial paper, time deposits and offshore money market funds. Under board-mandated investment guidelines for the traditional portfolio, each security purchased must have a minimum rating of 'BBB-', and the portfolio, as a whole, must maintain a minimum weighted-average credit rating of 'AA'. The fixed maturity investments had an average duration of approximately 4.6 years as of Dec. 31, 2007, in line with an approximately 5.0-year duration of the company's reserves. The company maintains a very conservative traditional investment portfolio of liquid, high-quality securities.

Max Capital's investment strategy includes investing in a combination of traditional fixed-income securities and a portfolio of alternative investments. The result is an overall higher investment risk strategy than that of the industry and its peers, but with a limited downside risk.

The fixed maturities portfolio has limited exposure to subprime mortgage credit risk with \$48.5 million in subprime securities (\$5.9 million unrealized loss) and \$38.4 million in securities with exposure to Alt-A mortgages (\$5.4 million unrealized loss) as of March 31, 2008, of which over 90% are rated 'AAA' with the remainder rated 'AA'.

Management of the traditional investment portfolio is outsourced to General Re New England Asset Management, Inc., Asset Allocation Management Company, LLC and Conning Asset Management Company.

Alternative Investments

The company manages the alternative investment portfolio to comprise about 20% of the total investment portfolio (19.4% as of March 31, 2008). The alternative-investment portfolio is principally invested in MDS, a fund-of-funds, that currently follows nine investment strategies.

The MDS strategies are employed through investments in approximately 35 underlying alternative investment funds, one of which is affiliated with Moore Holdings. Investments must be in a minimum of five distinct alternative-investment strategies, with no more than 5% of the alternative-investment portfolio invested in a single fund and no one strategy representing more than 25% of the alternative-investment portfolio. Although a somewhat balanced mix is targeted among the strategies, the company employs an opportunistic allocation method when considering the relevant overall mix of funds. Decisions take into consideration external factors such as economic, financial and political trends and events as well as factors such as relative performance, correlation and capacity of the various funds. MDS maintains the option to invest in new funds. MDS' strategy is not to target solely higher returns, but higher risk-adjusted returns.

Many of MDS' alternative investment strategies are constructed to be market neutral, with low or zero correlation to the stock/bond market returns. However, alternative returns are correlated to the available opportunity set of market returns as well as the level of interest rates.

The company has another alternative investment strategy, reinsurance private equity, which consists of a strategic investment in Grand Central Re Limited, a Bermuda-based "sidecar" reinsurer formed and capitalized in 2001 as a joint venture between Max Capital and Bayerische Hypo- und Vereinsbank AG (Hypo Bank). Max Bermuda Ltd. owns 7.5% of Grand Central Re, with Hypo Bank owning the remaining portion. Max Capital participates in the underlying results of Grand Central Re and also receives fee income for providing insurance management services. Grand Central Re's business consisted predominately of business retroceded to it by Max Bermuda Ltd. before it was placed into run-off in 2004.

Reinsurance private equity also had included a 5% investment in DaVinci Re, a specialty property catastrophe sidecar reinsurer formed in 2001. In December 2006, Max Capital Group Ltd. sold its entire investment in DaVinci Re in order to free up capital for its own property catastrophe operations and as part of the plan to reduce the alternative investment allocation.

Investment Portfolio Market Value

(\$ Mil., Years Ended Dec. 31)

Investment Sector	2007		2006		2005		2004		2003	
	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
Traditional Investments										
Cash	397.7	7.8	441.9	9.7	314.0	7.4	239.2	6.8	201.5	7.6
US Government and Agency	714.3	13.9	560.2	12.4	565.1	13.4	506.2	14.4	409.4	15.5
Corporate Securities	1,684.8	32.9	1,436.0	31.7	1,286.3	30.4	989.7	28.2	569.9	21.6
ABS and MBS	752.6	14.7	592.8	13.1	530.5	12.5	527.5	15.0	603.0	22.9
CMO	511.5	10.0	439.1	9.7	301.0	7.1	132.6	3.8	22.1	0.8
Non-US Government	—	—	—	0.0	—	0.0	—	0.0	—	0.0
Total Traditional	4,060.9	79.3	3,470.0	76.5	2,996.9	70.9	2,395.2	68.2	1,805.9	68.5
Alternative Investments										
Global Macro	69.1	1.3	60.4	1.3	100.8	2.4	139.1	4.0	112.7	4.3
Long/Short Equity	270.0	5.3	180.6	4.0	127.5	3.0	99.1	2.8	71.7	2.7
Convertible Arbitrage	—	0.0	—	0.0	41.4	1.0	90.3	2.6	88.1	3.3
Diversified Arbitrage	161.9	3.2	169.2	3.7	180.0	4.3	170.4	4.8	117.7	4.5
Distressed Securities	168.1	3.3	210.6	4.6	194.5	4.6	154.2	4.4	132.3	5.0
Opportunistic	35.6	0.7	29.5	0.7	23.7	0.6	24.2	0.7	9.4	0.4
Emerging Markets	98.6	1.9	108.5	2.4	97.6	2.3	68.6	2.0	58.4	2.2
Fixed Income Arbitrage	32.3	0.6	25.7	0.6	22.9	0.5	86.2	2.5	65.1	2.5
Event Driven Arbitrage	170.6	3.3	169.9	3.7	212.2	5.0	94.6	2.7	47.4	1.8
Commodity Trading Advisers	—	0.0	27.9	0.6	78.8	1.9	55.9	1.6	52.6	2.0
Long/Short Credit	51.5	1.0	81.0	1.8	118.1	2.8	70.8	2.0	—	0.0
Total MDS	1,057.8	20.6	1,063.4	23.4	1,197.5	28.3	1,053.4	30.0	755.3	28.6
Reinsurance Private Equity	3.9	0.1	2.5	0.1	33.4	0.8	65.7	1.9	76.1	2.9
Total Alternative	1,061.7	20.7	1,065.9	23.5	1,230.9	29.1	1,119.0	31.8	831.4	31.5
Total Investment Portfolio	5,122.6	100.0	4,535.9	100.0	4,227.8	100.0	3,514.2	100.0	2,637.3	100.0

ABS – Asset-backed securities. MBS – Mortgage-backed securities. CMO – Collateralized mortgage obligation. MDS – Max Diversified Strategies Ltd.
Source: Max Capital Group Ltd.

Reinsurance private equity produced favorable returns in 2007 and 2006, following negative returns in 2005 and 2004 driven by hurricane losses in DaVinci Re of \$34 million in 2005 and \$15 million in 2004.

Max Capital maintains good liquidity, supported by sizable cash balances, consistent operating cash flows and favorable financial flexibility of its parent. The company has produced positive operating cash flows every year since inception. The alternative portion of the investment portfolio has constrained liquidity, although a minimum of 80% must be kept monthly or quarterly liquid (81% as of Dec. 31, 2007). This is partially offset with the highly liquid traditional portion of the portfolio, with a sizable amount of cash and short-term investments. The long-tail nature of its liabilities also partially offsets the illiquid nature of the alternative portfolio.

Cash Flow and Liquidity

(\$ Mil.)

	Three Months Ended		2007	2006	2005	2004	2003
	3/31/08	3/31/07					
Cash Flow from Operations	90	67	443	519	380	607	397
Cash Flow from Investing	107	(252)	(592)	(388)	(550)	(557)	(342)
Cash Flow from Financing	(102)	101	101	(7)	249	(16)	54
% Liquid Assets/Liabilities	99	104	103	105	103	103	92

Note: GAAP.
Source: Max Capital Group Ltd.

Fitch's ratings reflect its view that the company's reserves will prove to be adequate, particularly in the long-tail casualty insurance/reinsurance lines that the company started writing in more recent years.

Reserve Adequacy and Development

Through the first three months of 2008, Max Capital had approximately \$7.8 million of favorable prior-year reserve development. In 2007, reserve development was \$63.8 million favorable, primarily from the property/casualty reinsurance segment including a \$15.2 million reserve release related to an agreement to settle a large block of prior-period reserves offset by \$20.0 million of adverse development on 2005 hurricane marine losses. In 2006, Max Capital had favorable prior-year development of \$10.2 million, which included \$20.5 million of positive development due to favorable loss trends in excess liability insurance business that the company started writing in 2003, partially offset by \$8.6 million of adverse reserve development in the reinsurance segment for 2005 hurricane losses.

In 2005, prior-year reserve development was \$139.4 million adverse, compared to \$0.1 million adverse in 2004. The net adverse development in 2005 was primarily related to \$179.9 million of reserve strengthening for two contracts in the reinsurance segment related to workers' compensation and whole account coverages, partially offset by \$40.5 million of favorable development on other reinsurance reserves.

It is important to note that Max Capital often receives additional premiums and interest, net of acquisition costs, which partially offset the increases in prior-year loss estimates and substantially reduces the impact to the income statement. For example, the additional losses in 2005 generated \$154.6 million of additional premiums and interest.

Max Capital's loss reserves are accounted for on both a Bermuda regulatory and GAAP basis. Reserves are reviewed quarterly internally, with a full external review annually. Property/casualty reserves are carried on an undiscounted basis. Life and annuity benefit reserves are carried on a discounted basis and are based, as is typical in the life insurance industry, on management assumptions. As of Dec. 31, 2007, the reserves were split approximately 66% property/casualty (89% of which were casualty reserves) and 34% life and annuity, just about the reverse of the split at year-end 2000 of 35% and 65%, respectively.

Max Capital's liability risk profile also benefits by not being encumbered by legacy liability issues, since the company has only been in operation since 2000.

Reinsurance Protection and Credit Quality

Max Capital has a 50%–60% quota share (depending on the underlying product line and limit) for the excess general liability and professional liability insurance business, in addition to a \$35 million excess of \$15 million clash cover for the traditional reinsurance and insurance business. Max Capital also added a property-per-risk excess-of-loss cover to support the property insurance business that it commenced late in 2004 and added quota-share and excess-of-loss reinsurance for the US specialty business started in 2007. The company expects to cede a sizable portion of the US specialty business until it becomes more established.

The company's underwriting policy is to retain a maximum net exposure of not more than 5% of surplus for any individual contract. Approximately 26.1% and 26.6% of gross premiums were retroceded in 2007 and 2006, respectively, up from 16.0% in 2005.

As part of an agreement with Grand Central Re that ran for three years from Jan. 1, 2001, to Dec. 31, 2003, Max Bermuda Ltd. ceded up to a 25% portion of its structured property/casualty (not the alternative risk or traditional book) and life and annuity business to Grand Central Re. The agreement helped to expand Max Capital's underwriting capacity.

Fitch views as reasonable Max Capital's use of retrocession as part of its ordinary course of business. This increases underwriting capacity while maintaining the company's ability to temper risk on either a single risk or overall portfolio basis.

The credit quality of Max Capital's reinsurance recoverables is good, especially when taking into consideration funds withheld as collateral.

The company's largest recoverable balance is still with Grand Central Re, accounting for 18.1% of total losses recoverable at March 31, 2008, down from 41.3% at Dec. 31, 2006. The company also retains funds from Grand Central Re that are currently equal to approximately 111.2% of its recoverable balance.

Capitalization

Relative to other (re)insurers, there is an embedded value in the company's surplus since, as a somewhat recently formed entity, it is currently unencumbered by legacy issues, such as reserve inadequacy and unrecoverable reinsurance, and recognizes income from its transactions over the duration of its reserves.

From an operational leverage perspective, Max Capital has a reasonable ratio of invested assets to shareholders' equity, although the actual amount will depend on the perceived levels of risk associated with the underlying liabilities and assets. The company's ratio was 3.2 times (x) at Dec. 31, 2007, down from 3.4x at Dec. 31, 2006, and 3.5x at Dec. 31, 2005.

In August 2007, Max Capital entered into a new five-year \$600 million credit facility (with an option to increase up to \$800 million) with various banks for letters of credit

to be issued by Max Bermuda Ltd. and certain of its insurance subsidiaries. This also includes up to \$150 million for unsecured loans to Max Capital Group Ltd. and Max Bermuda Ltd. The company also has two additional letter-of-credit facilities totaling \$120 million.

Financing Alternatives

(\$ Mil.)

Principal Bank Facilities	Used	Available
Letter of Credit	356	214
Revolver	50	100

Source: Max Capital Group Ltd.

These letter-of-credit facilities provide Max Capital's reinsurance clients (in cases where the company assumes business) with backup support should it be required by those counterparties or their regulators. The facilities are collateralized with bonds and will be expanded as necessary.

Capitalization and Interest Coverage

	Three Months Ended		2007	2006	2005	2004	2003
	3/31/08	3/31/07					
Total Capital (\$ Mil.)	1,936	1,683	2,014	1,600	1,336	1,053	913
% Total Debt	22	14	21	13	11	14	16
% Hybrid Preferred	0	0	0	0	0	0	0
% Preferred Equity	0	0	0	0	0	0	0
% Minority Interest	0	0	0	0	0	0	0
% Common Equity	78	86	79	87	89	86	84
% Adjusted Debt/Tangible Capital	22.2	14.0	21.6	13.1	11.2	14.2	16.4
EBIT/Interest Expense (x)	6.0	9.0	6.0	12.2	(2.7)	13.8	(0.7)
EBIT/Interest Expense and Preferred Dividends (x)	6.0	9.0	6.0	12.2	(2.7)	13.8	(0.7)
Adjusted Debt/EBIT(x)	2.8	1.9	3.0	1.4	(6.9)	2.8	(68.2)

Tangible Capital – Total Capital minus Total Intangibles. Note: GAAP. Adjusted Debt includes debt, preferred equity and redeemable preferred.

Source: Max Capital Group Ltd.

Fitch considers Max Capital's capitalization to be strong. The company has been able to grow its capital through both retained earnings and public offerings of common stock.

Financial Leverage and Balance Sheet Quality

Max Capital has demonstrated consistent growth in shareholders' equity. As of March 31, 2008, shareholders' equity was \$1.512 billion, an increase of 8.7% from \$1.390 billion at Dec. 31, 2006, driven by strong net income in 2007 partially offset by share repurchases.

Max Capital Group Ltd.'s balance sheet debt-to-total-capital ratio was 22% at March 31, 2008, up from 13% at year-end 2006. The increase was due to \$100 million of 7.20% unsecured senior notes due 2017, privately issued by Max USA in April 2007. The proceeds were used to repay short-term borrowings on the company's credit facility. Max USA had drawn down on this facility to capitalize its new operating subsidiary, Max Specialty. At March 31, 2008, Max Capital had \$50 million outstanding under its revolver loan facility for the capitalization of Max USA.

Debt also consists of a \$325 million total return swap loan at March 31, 2008 (increased from \$210 million at Dec. 31, 2006) financing transaction that the company conservatively classifies on its balance sheet as a bank loan for GAAP purposes, although Fitch does not consider this as pure debt. Excluding the swap loan, the company's debt-to-total-capital ratio drops to only 6% at March 31, 2008.

In August 2007, Max Capital also filed a \$500 million automatic shelf registration statement for the potential offering of debt securities, common or preferred shares, depositary shares and other securities as a well-known seasoned issuer.

Debt-Servicing Capabilities

GAAP operating earnings coverage was favorable though the first six months of 2007, following the new debt issuance. Fitch expects Max Capital to maintain operating earnings coverage of at least 3x–7x. Debt service will be funded by available cash and dividends from operating subsidiaries.

Fitch views the company's recent capital returned to shareholders as reasonable, with dividends increased to \$0.09 per share in the third quarter of 2007, up from \$0.07 per share paid since the third quarter of 2006 and \$0.05 per share paid each quarter since the second quarter of 2005. Also, the company paid \$114.4 million to repurchase 4.3 million common shares in 2007 and \$93.9 million to repurchase 3.3 million shares through the first three months of 2008. As of March 31, 2008, the remaining authorization under the share repurchase program was \$85.8 million.

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