

Composite/Multi-Line Insurers, Reinsurers U.S., Bermuda, and U.K. Full Rating Report

Alterra Capital Holdings Limited

Ratings

Security Class	Rating
Long-Term Issuer Default Rating (IDR)	A-
Affiliates	
Alterra Finance LLC	
Alterra USA Holdings Limited	
Long-Term IDR	A-
Senior Unsecured Notes	BBB+
Alterra Bermuda Limited	
Alterra Europe plc	
Alterra Reinsurance Europe plc	
Alterra Reinsurance USA Inc	
Alterra Excess & Surplus Insurance Co	
Alterra America Insurance Co	
Insurer Financial Strength	A

Rating Outlook

Stable

Financial Data

Alterra Capital Holdings Limited		
	Date	\$ Mil.
Net Income	12/31/10	302
Equity	12/31/10	2,918
Debt and Hybrids	12/31/10	440

Analysts

Gretchen K. Roetzer
 +1 312 606-2327
gretchen.roetzer@fitchratings.com
 Brian C. Schneider, CPA, CPCU, ARE
 +1 312 606-2321
brian.schneider@fitchratings.com

Related Research

- Applicable Criteria**
- Insurance Rating Methodology, March 31, 2011
 - Non-Life Insurance Rating Methodology, March 31, 2011
 - Global Notching Methodology and Recovery Analysis, March 31, 2011
 - Fitch's Approach to Rating Insurance Groups, Dec. 14, 2010
- Other Research**
- Property/Casualty Insurers' Year-End 2010 Financial Results, Mar. 16, 2011
 - Bermuda 2011 Market Update, Jan. 19, 2011
 - 2011 Outlook: U.S. Property/Casualty Insurance, Dec. 7, 2010

Rating Rationale

- On March 14, 2011, Fitch affirmed Alterra Capital Holdings Limited's (Alterra) ratings and maintained the Stable Outlook. Alterra's ratings continue to reflect the company's favorable 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 Ratings notes that it expects first-quarter 2011 catastrophe losses, including the New Zealand and Japan earthquakes (the latter is based on preliminary Fitch estimates), to affect 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 (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 the peer average.
- Overall profitability improved in 2010 and 2009 as catastrophe activity subsided following sizable, but manageable catastrophe and alternative investment losses suffered in 2008. Alterra's combined ratio was 85.7% and 88.1% in 2010 and 2009, respectively, compared with 91.9% in 2008. The company reported net income of \$302 million in 2010 and \$246 million in 2009 compared with 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.

Key Rating Drivers

- 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 more than 25% total debt to capital.

Key Rating Issues

Favorable Company Profile but Aggressive Capital Management

Alterra's ratings reflect the company's favorable 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 believes the combination 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.

Alterra has repurchased a significant number of its common shares in recent years in light of the company's recent solid earnings, capital growth and reduced opportunities to deploy capital through underwriting activities. During 2010, Alterra repurchased \$208 million of common shares, following \$34 million in 2009. In February 2011, Alterra's board of directors authorized an increase in the share repurchase plan of \$200.0 million. Following this authorization, the amount available as of Feb. 8, 2011 is \$261.1 million. Additionally, in 2010 Alterra declared a special dividend following the merger closing in the amount of \$300 million. In February 2011, Alterra declared a dividend of \$0.12 per share. Dividends have been steadily increasing over the years from \$0.05 per share in 2005.

Going forward, Fitch's expectation is that Alterra will manage its share repurchase plan, dividend payments, and underwriting opportunities so that the company's financial leverage and underwriting leverage remain supportive of its current ratings.

Underwriting Flexibility to Shift Strategy Based on Changing Market Conditions

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 a specialty excess and surplus lines platform were added in 2008 and 2007, respectively, to complement the company's Bermuda-based 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, particularly from Alterra's growing specialty products segment, which includes some long-tail business that inherently has more room for pricing and reserving error.

Fitch expects Alterra to maintain its disciplined underwriting approach in the overall competitive market and soft rate environment. The table on the right shows premiums written were actually down roughly 8% year over year when assuming the amalgamation occurred at the beginning of 2010 and 2009, for comparison purposes. Fitch believes this demonstrates Alterra's continued discipline in this soft market.

Pro Forma Amalgamation Results^a

(\$ Mil.)

	2010	2009
Gross Premium Written	1,794	1,946
Net Premium Earned	1,391	1,383
Total Revenue	1,665	1,714
Net Income	293	453

^aResults as if the Harbor Point/Max Capital amalgamation occurred 1/1/10 and 1/1/09 (actual results reflect the combination only as of May 12, 2010). Note: U.S. GAAP. Source: Company SEC filings.

Alterra'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.

Sophisticated Modeling Balances Underwriting Risk

Fitch has historically considered Alterra's modeling capability to be one of its distinguishing features, with every transaction modeled and priced to a target return on capital. Fitch believes that this remains a strength, but less of a competitive advantage as more peers have developed sophisticated modeling over time. 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, with a target return on equity of the risk free rate plus 10% over the cycle.

To limit the amount of underwriting risk assumed, Alterra 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). 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 so that the modeled statistical probability of experiencing a reduction in capital is less than 20%.

Peer Analysis

Fitch views Alterra's peer group as multi-line 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 earned and shareholders' equity, Alterra is smaller than the median of the peer group. Alterra's recent combined ratios and five-year (2006–2010) average are better than peer averages.

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

Alterra's combined ratios are better than peers.

Return on Average Equity Analysis

	Senior Debt Rating	2006–2010		
		Avg. ROAE/Std. Dev. in ROAE	Avg. ROAE	Standard Deviation in ROAE
Alterra ^a	BBB+	1.0	8.7	8.7
Arch	A–	2.8	19.9	7.0
Axis	A–	2.1	17.2	8.3
CNA	BBB–	0.9	5.3	6.1
Endurance	BBB+	2.0	17.7	9.0
Fairfax	BBB–	1.4	18.4	13.0
White Mountains	BBB	0.8	5.7	7.5
W.R. Berkley	BBB+	2.1	15.2	7.2
XL Group	BBB	(0.1)	(1.3)	21.3
Median		1.4	15.2	8.3

^aPro forma for Max Capital/Harbor Point merger. ROAE – Net return on average common equity. Std. Dev. – Standard deviation. Note: GAAP.
Source: Highline Data, company reports, Fitch.

Peer Summary Statistics

	Senior Debt Rating	Net Premium Earned		Common Equity		Combined Ratio (%)			
		2010	2009	2010	2009	2010	2009	2006–2010 Average	Standard Deviation
		Alterra ^a	BBB+	1,391	1,383	2,918	3,454	86.4	85.0
Arch	A–	2,552	2,843	4,188	3,998	92.5	88.1	89.0	4.6
Axis	A–	2,947	2,792	5,125	5,000	88.7	79.3	82.1	6.7
CNA	BBB–	6,515	6,721	10,954	9,660	94.8	97.4	96.3	1.5
Endurance	BBB+	1,741	1,633	2,648	2,587	88.7	84.0	85.5	5.6
Fairfax	BBB–	4,581	4,422	7,762	7,392	105.2	99.8	100.3	5.3
White Mountains	BBB	3,162	3,600	3,653	3,657	99.9	92.8	98.1	3.1
W.R. Berkley	BBB+	3,836	3,806	3,703	3,596	94.5	94.2	91.6	3.3
XL Group	BBB	5,414	5,707	9,611	8,430	94.8	93.6	92.1	3.2
Median		3,162	3,600	4,188	3,998	94.5	92.8	91.6	4.6

^aEstimated pro forma for Max Capital/Harbor Point merger assuming the amalgamation occurred on Jan. 1, 2010 and Jan. 1, 2009. Note: GAAP.
Source: Highline Data, company reports, Fitch.

In order to evaluate which publicly traded (re)insurers in Alterra's peer group generated higher ROAE per unit of volatility during 2006–2010, Fitch divided each (re)insurer's average ROAE by its standard deviation of ROAE for the period. Alterra has produced lower ROAE and risk-adjusted returns relative to the peer median, primarily due to Alterra's historically high allocation to alternative investments, which produced higher volatility and incurred significant losses during the recession in 2008. Going forward, Fitch believes Alterra will be in line with peers since the company has greatly reduced its allocation to this investment class.

Recent Events

On April 13, 2011, Alterra announced its preliminary loss estimate is in the range of \$60 million to \$100 million pretax and net of reinsurance and reinstatement premiums for the March 11, 2011 Japan earthquake and tsunami. Alterra estimated that its losses from other first-quarter 2011 catastrophe events continue to be within previously announced ranges (*see below*). The total of all first-quarter losses is expected to be less than 5% of Alterra's shareholders' equity as of year-end 2010.

On April 6, 2011, Alterra announced the formation of New Point IV, a sidecar vehicle established to create additional capacity for the property catastrophe collateralized reinsurance market. New Point will be sponsored by Alterra and Stone Point Capital LLC through its private equity fund, Trident V L.P. Alterra and Stone Point have each committed up to \$100 million to capitalize New Point.

On March 28, 2011, Alterra's primary operating subsidiary, Alterra Bermuda Limited, was approved as an "eligible reinsurer" by the state of Florida, which allows lower collateral requirements on nondomestic reinsurers that are "highly rated and financially secure." Alterra Bermuda will now be able to post 20% of loss reserves on property catastrophe reinsurance in Florida rather than the 100% required by most non-U.S. reinsurers. Florida is currently among a small group of states to adopt this rule, which effectively lowers the barriers of entry into the Florida market for non-U.S. reinsurers. Fitch views this approval positively for Alterra since the company's required collateral posting will be reduced, thus increasing its overall financial flexibility.

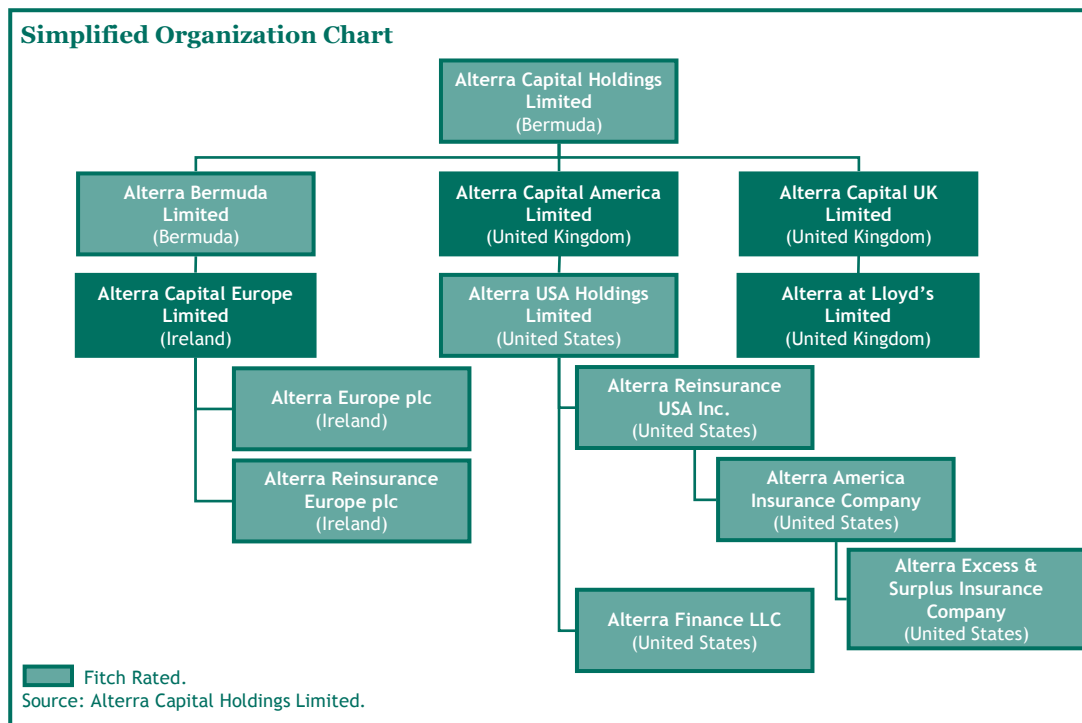
On March 17, 2011, Alterra announced preliminary loss estimates for three first-quarter 2011 natural catastrophe events. Estimates, pretax, and net of reinstatements, include \$5 million–\$8 million related to the Australian floods in January 2011, \$6 million–\$10 million related to Australian Cyclone Yasi on Feb. 2, 2011, and \$15 million–\$20 million related to the New Zealand earthquake on Feb. 21, 2011. Alterra also stated it believed its losses from the March 11, 2011 Japanese earthquake and tsunami would be within its normal risk tolerances in this region based on early information. Fitch believes these current estimates are reasonable given Alterra's ratings and company profile.

Company Profile

Ownership Structure

Max Capital was incorporated in 1999 under the laws of Bermuda. Harbor Point was formed in 2005 through the acquisition of the continuing operations and certain assets of Chubb Re, Inc., the reinsurance business unit of The Chubb Corporation. After the amalgamation was completed in May 2010, Max Capital was renamed Alterra Capital Holdings Limited (Alterra). Alterra is a publicly traded, Bermuda-based holding company formed in conjunction with Alterra Bermuda Ltd. in 1999.

The amalgamation between Max Capital Group and Harbor Point Limited resulted in a more diversified ownership structure. Alterra's largest shareholder is now Trident III (Stone Point Capital) (9.5% diluted), which was the largest shareholder of Harbor Point and it did not



have any Max Capital holdings. The previous largest shareholder of Max Capital, Moore Capital Management LLC (Moore Capital), a founding investor, is now the second-largest shareholder (8.8%). Chubb Corporation, another primary owner of Harbor Point which did not have any Max Capital holdings, is now the third largest owner (8.8%). Prior to the amalgamation, Moore Capital owned 19.5% of Max Capital.

Alterra Bermuda Limited, the principal operating subsidiary of Alterra, is a Bermuda-based (Class 4) multi-line reinsurance and insurance company.

The company conducts its non-Lloyd's European activities through Alterra Capital Europe Limited and its reinsurance and insurance operating subsidiaries, Alterra Reinsurance Europe plc and Alterra Europe plc.

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

Alterra Europe plc (formerly known as Alterra Insurance Europe Limited) is another Dublin-based insurance subsidiary, which was formed in mid-2003. The company underwrites excess liability, property, and aviation insurance products and is authorized to underwrite business in any European Union (EU) country. Alterra Europe plc retains approximately 10% of the business written, ceding roughly 30% of its business through external quota-share treaties, with the remaining balance ceded to Alterra Bermuda Ltd.

Fitch's insurer financial strength ratings (IFS) on Alterra Reinsurance Europe plc and Alterra Europe plc are based on the explicit operating and balance sheet support provided by Alterra through both reinsurance support and capital maintenance agreements.

Alterra offers both property/casualty reinsurance and insurance and life and annuity reinsurance. This includes writing both long-tail 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.

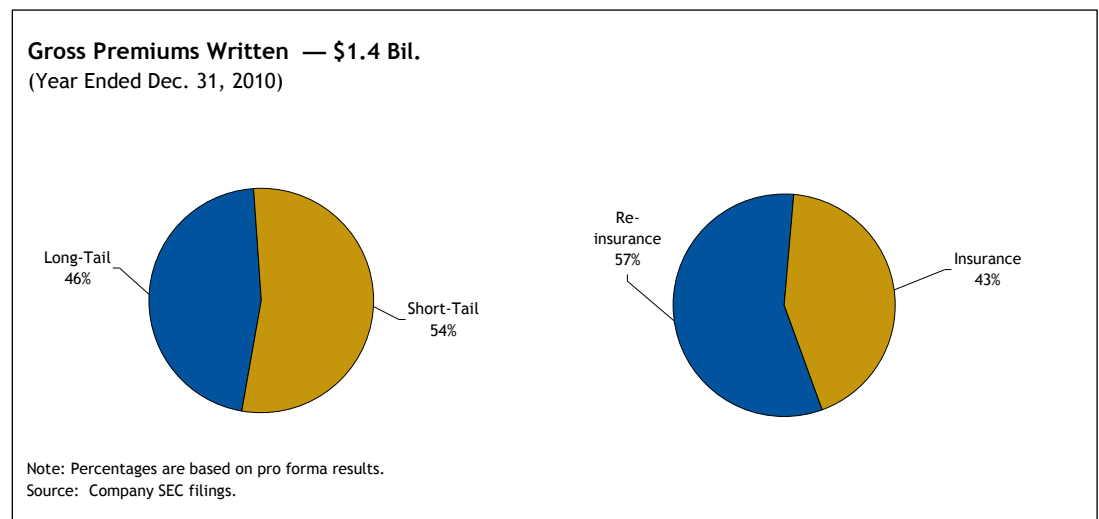
Alterra USA Holdings Ltd. (Alterra USA Holdings) is a direct, wholly owned subsidiary of Alterra and was formed in December 2006 as a holding company for the U.S. operations. Alterra USA Holdings owns Alterra Excess & Surplus Insurance Co., a Delaware-licensed non-admitted insurance operating company eligible in 49 states, the U.S. Virgin Islands, and Puerto Rico that was acquired in April 2007. In June 2008, Alterra Excess & Surplus acquired an admitted insurance company, Alterra America Insurance Company (Alterra America), eligible in all 50 states. ACE USA Holdings also owns Alterra Reinsurance USA Inc. (Alterra Re USA), a Connecticut-domiciled reinsurance company licensed or accredited in all 50 states and the District of Columbia.

Fitch’s ratings on Alterra USA Holdings, Alterra Re USA, Alterra Excess & Surplus, and Alterra America are based on a group rating approach with the companies viewed as core subsidiaries of Alterra. Alterra also fully and unconditionally guarantees the senior notes of Alterra USA. The rating of Alterra Excess & Surplus is also based on the explicit operating and balance sheet support provided by Alterra Bermuda Ltd. through a quota-share reinsurance agreement.

Alterra Capital UK Limited is a direct, wholly owned subsidiary of Alterra and was purchased from Imagine in November 2008 to expand into the Lloyd’s insurance market in the U.K. Alterra UK’s operating subsidiary, Alterra at Lloyd’s Limited, is the managing agent for Lloyd’s Syndicate 1400.

Products

Alterra offers both property/casualty reinsurance and insurance, and life and annuity reinsurance.



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 specialty business.

The product strategy is centered on underwriting ongoing business through aggregate stop-loss, individual risk insurance, excess layer, or quota-share treaty reinsurance contracts.

Within the property/casualty business, Alterra operates in four segments: reinsurance, primary insurance, U.S. specialty insurance, and Alterra at Lloyd’s.

Segment Results — Alterra Capital Holdings Limited

(\$ Mil., U.S. GAAP)

	Property/Casualty				Total	Life/ Annuity	Total
	Reinsurance	Insurance	U.S. Specialty	Alterra at Lloyd's			
Net Premium Written							
2010	444.9	199.5	225.4	165.2	1,035.0	4.5	1,039.6
2009	409.0	215.7	130.4	96.1	851.2	43.3	894.5
2008	327.1	191.3	75.6	4.5	598.5	241.7	840.2
2007	300.6	180.9	13.6	—	495.2	301.4	796.6
2006	388.3	202.0	—	—	590.3	44.3	634.7
Net Premium Earned							
2010	627.6	218.6	186.7	135.0	1,168.0	4.5	1,172.5
2009	387.9	206.0	102.1	95.1	791.0	43.3	834.4
2008	341.8	182.0	43.8	4.3	571.9	241.7	813.5
2007	312.9	199.6	4.0	—	516.5	301.4	817.9
2006	422.8	197.9	—	—	620.7	44.3	665.0
Combined Ratio (%)							
2010	86.8	73.6	97.9	83.4	85.7	—	—
2009	92.1	75.5	99.5	86.3	88.1	—	—
2008	87.4	88.2	138.5	138.5	91.9	—	—
2007	83.9	86.2	NM	—	88.2	—	—
2006	93.9	70.6	—	—	86.4	—	—

NM – Not meaningful.

Source: Alterra Capital Holdings Limited.

Reinsurance

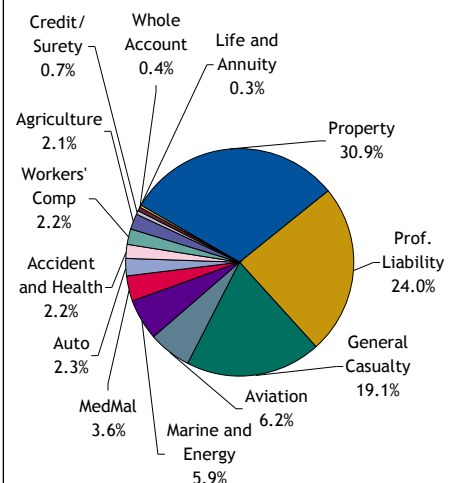
The reinsurance business primarily includes traditional reinsurance products that the company began writing in 2002. All of the underwriting operations of the former Harbor Point companies are included in this segment.

The traditional reinsurance products include professional liability; casualty and medical malpractice excess of loss; workers' compensation working layer excess of loss; agriculture; aviation, marine, and energy; property excess of loss; and quota share. Over the past few years, the company has shifted its product mix to be more balanced, increasing short-tail property business and decreasing long-tail casualty business. Alterra 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.

Primary Insurance

The primary insurance business was launched 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 (E&O), aviation, employment practices liability for larger public companies, excess property, and first-party product recall insurance for consumer product manufacturers.

Lines of Business — GPW \$1.4 Bil.
(As of Dec. 31, 2010)



GPW - Gross premium written. Note: Pro forma as if Harbor Point amalgamation occurred Jan, 1, 2010.
Source: Company SEC filings.

The traditional risk transfer reinsurance and insurance product is Alterra's core business and is backed principally by traditional fixed-maturity investments. As market conditions have softened in more recent years, growth in primary insurance has leveled off.

U.S. Specialty

The company began writing U.S. excess and surplus (E&S) lines insurance in 2007 offering property (catastrophe, noncatastrophe, middle market), ocean marine, inland marine, casualty, excess liability, professional liability, and umbrella niche insurance products. E&S is focused on providing insurance to classes requiring greater underwriting expertise and pricing flexibility.

E&S insurance is provided through Alterra Excess & Surplus, and in the admitted insurance market through Alterra America, targeting smaller-sized clients, but a higher volume of transactions and operating through three divisions — brokerage, contract binding, and marine.

Fitch believes that expanding into U.S. specialty lines insurance business provides Alterra an opportunity to further diversify the company's property/casualty product and geographic exposure. Alterra Excess & Surplus outsources the management of its own investment portfolio, with business backed solely by fixed-maturity investments.

Alterra at Lloyd's

Alterra at Lloyd's began to write business in 2008. Alterra UK provides 100%, 2%, and 22% of the underwriting capacity for Syndicates 1400, 2525, and 2526, respectively, which underwrite a diverse portfolio of specialty risks. Effective Jan. 1, 2011, management of Syndicates 2525 and 2526 was transferred to an unaffiliated third party, Whittington Capital Management, while Alterra at Lloyd's continues to be the managing agent for Syndicate 1400. Syndicate 1400 offers property and property catastrophe reinsurance, personal accident reinsurance, and financial institutions insurance products and had a 2010 "stamp" capacity of GBP140 million. Syndicate 2525 offers employers and public liability insurance products. Syndicate 2526 specializes in professional liability and medical malpractice insurance products.

Life and Annuity

During 2010, Alterra decided not to write any new life and annuity contracts in the foreseeable future given the current low-return investment environment and Alterra's unwillingness to assume more underwriting risk, and given the opportunities Alterra potentially has in its core property/casualty book of business. Prior to 2010, the life and annuity segment focused on in-force blocks of disability and whole life products, as well as structured settlement business. The company did not write any variable annuity products. The product strategy has been 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 investment strategy, the company targeted transactions that involved a significant premium transfer. In adhering to its policy of tempered underwriting risk, Alterra sought deals that offered relatively low cash flow variance. On the life side, Alterra focused on 100% coinsurance transactions.

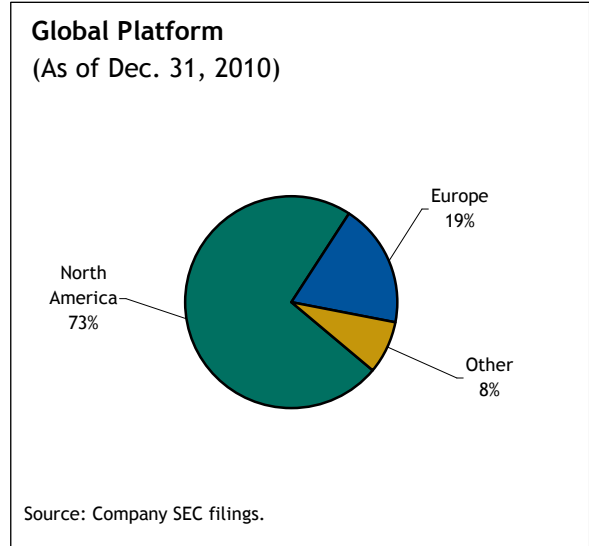
The life and annuity business tends to have a limited number of potentially large premium transactions, which can result in significant period to period fluctuations in volume. The company wrote two life and annuity reinsurance contracts in 2004, three in 2005, one in 2006, six in 2007, six in 2008, three in 2009, and zero in 2010, with the amount of premium volume in these periods varying considerably.

During 2010, Alterra decided not to write any new life and annuity contracts for the foreseeable future.

Target Markets

Alterra 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-term relationship.

Although North America is Alterra’s largest market, the company also looks to source business in Europe through Alterra Europe and Alterra at Lloyd’s. About 19% of the company’s gross premium business came from customers based in Europe in 2010, compared with 14% in 2009.



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 more than 20 years.

Financial Analysis

Profitability

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 with 91.9% in 2008. The company reported net income of \$302 million in 2010 and \$246 million in 2009, compared with a net loss of \$175 million in 2008.

Fitch expects Alterra’s profitability to continue to be favorable in 2011. Fitch notes that it expects first-quarter catastrophe losses, including the New Zealand and Japan earthquakes (the latter based on preliminary Fitch estimates), to affect Alterra’s earnings, but not result in a material capital event. Alterra recently announced initial loss estimates (pretax, net of reinstatement premiums) for three events in first-quarter 2010 including \$5 million–\$8 million related to Australian Floods, \$6 million–\$10 million related to Cyclone Yasi, and \$15 million–\$20 million related to the New Zealand earthquake. Fitch believes these loss estimates are within expectations and a reasonable range given Alterra’s current financial profile.

The combined ratio for the property/casualty segment has been favorable for the past five years following a combined ratio of 106.0% for full-year 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 (Alterra has since sold). In comparison, Hurricanes Gustav and Ike resulted in only \$50 million of net losses in 2008.

Excluding the impact of favorable reserve development, the combined ratio for 2010 was 3.3 points lower (better) than 2009.

Fitch believes Alterra will maintain its strict underwriting guidelines during the continued soft market and will not write premium to gain market share and growth at the expense of underwriting profitability. The gross premium growth of 2.6% in 2010 was driven by the addition of reinsurance premiums written by prior Harbor Point companies. Alterra's premiums also increased due to new product offerings and new underwriting teams in its U.S. Specialty and Alterra at Lloyd's segments, and from expansion into Latin America. Net premium growth was driven by a higher retention of premiums by Alterra with less use of retrocession reinsurance.

Operating Performance

(\$ Mil.)

	2010	2009	2008	2007	2006
Revenue, Excluding Realized Gains (Losses)	1,385	1,005	980	1,006	816
Premiums Earned	1,172	834	814	818	665
Pretax Realized Gains (Losses)	29	81	(233)	184	79
Pretax Net Investment Income	222	170	182	188	150
Pretax Operating Income	278	175	59	119	139
Net Income	302	246	(175)	303	217
% Return on Common Equity	13.5	17.3	(12.2)	20.4	16.8
Loss Ratio (%)	56.1	62.4	68.9	64.0	67.7
Expense Ratio (%)	29.6	25.7	23.0	24.2	18.7
Combined Ratio (%)	85.7	88.1	91.9	88.2	86.4
Points from Prior Year Reserve Development	(9.0)	(9.9)	(18.7)	(12.3)	(1.6)

Note: U.S. GAAP. The results of operations of the former Harbor Point Limited companies are included in the consolidated results for the period from May 12, 2010 to Dec. 31, 2010.
Source: Highline Data, company SEC filings.

Alterra's investment strategy includes investing in a combination of traditional fixed-income securities and a small portfolio of alternative investments.

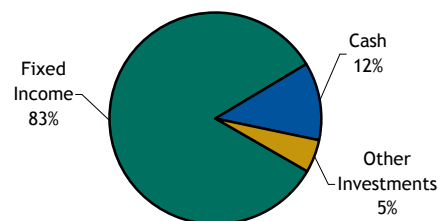
Investments and Liquidity

Cash and invested assets increased 49.4% to \$7.9 billion as of Dec. 31, 2010 from \$5.3 billion in 2009 primarily due to the inclusion of \$2.7 billion of Harbor Point's invested assets in the portfolio, and from the cash proceeds of \$350 million of senior notes issued in September 2010 (\$200 million paid off short term debt and \$150 million for general corporate purposes). This increase in 2010 was partially offset by Alterra's payment of \$350 million in dividends and the repurchase of \$208 million of ordinary shares.

Traditional Investments

The traditional portfolio, which the company intends to allocate between 93% and 95% of the total investment portfolio (95% as of Dec. 31, 2010), consists of available-for-sale publicly traded U.S. Treasury and U.S. agency securities, agency and non-agency MBS, ABS, corporate debt, cash and cash equivalents, time deposits, and offshore money market funds. It also includes a trading portfolio of fixed-maturity securities held by Alterra at Lloyd's. 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'.

Investment Portfolio – \$7.9 Billion
(As of Dec. 31, 2010)



Source: Company SEC filings.

Alterra's fixed-maturity investments had an average duration of approximately 4.7 years as of Dec. 31, 2010, in line with an approximate 5.0-year duration of the company's reserves. The company maintains a very conservative traditional investment portfolio of liquid, high-quality securities.

The fixed-maturity portfolio has limited exposure to subprime and Alt-A mortgage credit risk totaling roughly \$54 million, less than 1% of portfolio value, as of Dec. 31, 2010.

Management of the traditional investment portfolio is outsourced to General Re New England Asset Management, Inc.; Asset Allocation Management Company, LLC; Conning Asset Management Company; Deutsche Insurance Asset Management; Wellington Asset Management; Lazard Asset Management; Blackrock Financial Management; Pacific Investment Management Company LLC; and Credit Agricole Asset Management.

Alterra manages the alternative investment portfolio to comprise about 5%–7% of the total investment portfolio. This target allocation has been reducing steadily since 2006.

Alternative Investments

The company manages the alternative investment portfolio to comprise about 5%–7% of the total investment portfolio (5% as of Dec. 31, 2010). This target allocation has been reducing steadily since 2006 from between 20%–40% in alternative investments as the company is allocating more capital to underwriting opportunities, and thus reducing asset risk and volatility of investment returns.

Investment Portfolio — Fair Value

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

Investment Sector	2010		2009		2008		2007		2006	
	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
Traditional Investments										
Cash	905.6	11.4	702.3	13.3	949.4	17.7	397.7	7.8	441.9	9.7
U.S. Government and Agency	995.5	12.5	525.4	9.9	406.1	7.6	470.5	9.2	560.2	12.4
Corporate Securities	2,735.4	34.5	1,376.0	26.0	1,475.0	27.5	1,392.0	27.2	1,436.0	31.7
Municipal Securities	238.0	3.0	83.7	1.6	48.6	0.9	—	—	—	—
ABS and RMBS	1,255.3	15.8	866.0	16.3	892.0	16.6	752.6	14.7	592.8	13.1
CMBS	334.2	4.2	303.0	5.7	172.2	3.2	511.5	10.0	439.1	9.7
Non-U.S. Government	79.1	1.0	82.0	1.6	660.8	12.3	536.6	10.5	—	0.0
Fixed Maturities Carried at Amortized Cost	1,015.5	12.8	1,033.6	19.5	—	—	—	—	—	—
Total Traditional	7,558.6	95.2	4,971.9	94.0	4,603.3	85.9	4,060.9	79.3	3,470.0	76.5
Alternative Investments										
Global Macro	49.7	16.9	34.3	11.0	87.3	1.6	69.1	1.3	60.4	1.3
Long/Short Equity	82.1	27.9	85.9	27.5	290.2	5.4	270.0	5.3	180.6	4.0
Convertible Arbitrage	—	0.0	—	0.0	10.7	0.2	—	0.0	—	0.0
Diversified Arbitrage	27.9	9.5	34.5	11.1	46.0	0.9	161.9	3.2	169.2	3.7
Distressed Securities	35.8	12.2	62.9	20.1	115.9	2.2	168.1	3.3	210.6	4.6
Opportunistic	2.7	0.9	2.8	0.9	14.7	0.3	35.6	0.7	29.5	0.7
Emerging Markets	13.0	4.4	26.2	8.4	39.7	0.7	98.6	1.9	108.5	2.4
Fixed-Income Arbitrage	—	0.0	14.4	4.6	30.9	0.6	32.3	0.6	25.7	0.6
Fund of Funds	42.8	14.6	—	0.0	—	0.0	—	0.0	—	0.0
Event-Driven Arbitrage	30.2	10.2	41.7	13.4	75.2	1.4	170.6	3.3	169.9	3.7
Commodity Trading Advisers	—	0.0	—	0.0	—	—	—	0.0	27.9	0.6
Long/Short Credit	10.0	3.4	9.4	3.0	38.6	0.7	51.5	1.0	81.0	1.8
Total Hedge Funds	294.3	3.7	312.1	5.9	749.2	14.0	1,057.8	20.6	1,063.4	23.4
Catastrophe Bonds	47.2	12.5	—	0.0	—	0.0	—	0.0	—	0.0
Structured Deposits	26.8	7.1	—	0.0	—	0.0	—	0.0	—	0.0
Equity Method Investments	5.5	1.4	2.8	0.9	4.5	0.1	3.9	0.1	2.5	0.1
Derivatives	4.4	1.2	3.2	1.0	—	0.0	—	0.0	—	0.0
Total Alternative	378.1	4.8	318.1	6.0	753.7	14.1	1,061.7	20.7	1,065.9	23.5
Total Investment Portfolio	7,936.7	100.0	5,290.0	100.0	5,356.9	100.0	5,122.6	100.0	4,535.9	100.0

Source: Alterra Capital Holdings Ltd.

Investments

(\$ Mil.)

	2010	2009	2008	2007	2006
Cash and Invested Assets (Carrying Value)	7,861	5,262	5,357	5,123	4,536
% Fixed Income	84	81	68	72	67
% Equities	—	—	—	—	—
% Mortgages and Real Estate	—	—	—	—	—
% Cash and Short-Term	12	13	18	8	10
% Other	5	6	14	21	23
Investment Yield (%)	3.4	3.2	3.5	3.9	3.4

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

The principal alternative investment portion is hedge funds in the company’s Bermuda-domiciled subsidiary, Alterra Diversified Strategies Limited (ADS), a fund of funds that currently follows nine investment strategies. Given the reduced allocation to hedge funds, Alterra terminated its investment advisor agreement with Alstra Capital Management, LLC, (an affiliate of Moore Capital Management, LLC) in 2009 and decided to manage ADS internally, hiring certain research staff from Alstra.

Other alternative investments include recently added catastrophe bonds, structured deposits, equity method investments, and derivatives. Currently, the exposure amounts for these classes are relatively small versus the hedge funds and the overall investment portfolio. Fitch believes these investments further diversify the alternative investments portfolio (compared with 100% hedge funds in prior years).

Although alternative investments can generate significant negative returns and volatility similar to stock/bond markets during extreme periods, as was evident in 2008, Fitch believes that the reduced allocation to alternatives will minimize any material effect of negative returns and volatility on Alterra’s overall results going forward.

Fitch believes that Alterra maintains very good liquidity, supported by sizable cash balances (\$906 million at year-end 2010), consistent operating cash flows, and favorable financial flexibility of its parent. The company has produced positive operating cash flows every year since inception. Historically, the alternative portion of the investment portfolio has constrained liquidity. However, Fitch believes that this will be less the case as a result of the reduced allocation of alternatives relative to the entire investment portfolio and, in any case, a minimum of 80% of alternatives must be kept monthly or quarterly liquid.

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.

Reserve Adequacy and Development

In 2010, Alterra had approximately \$110.6 million of favorable prior year reserve development. This follows favorable reserve development of \$87.4 million in 2009, \$107.0 million in 2008, \$63.8 million in 2007, and \$10.2 million in 2006. This positive development was primarily driven by long-tail insurance and reinsurance lines of business for 2005 and prior accident years, including professional liability and excess liability, as well as in property lines for more recent accident years.

Alterra’s life and annuity reinsurance reserves have had no material adjustments in 2010, 2009, and 2008.

Alterra’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, 2010, the reserves

were split approximately 76% property/casualty (83% of which were casualty reserves) and 24% life and annuity.

Alterra's liability risk profile also benefits by not being encumbered by legacy liability issues, since the company has only been in operation since 2000. Additionally, the former Harbor Point business did not include any legacy Chubb Re business when it was spun off in 2005.

Fitch views as reasonable Alterra'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.

Reinsurance Protection and Credit Quality

Fitch believes that the credit quality of Alterra's reinsurance recoverables is good, particularly when taking into consideration funds withheld as collateral.

The company's underwriting policy is to retain a maximum net exposure of no more than 5% of surplus for any individual contract.

Alterra has a 50%–60% quota share (depending on the underlying product line and limit) for the excess general liability and professional liability insurance business. Alterra 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 U.S. specialty business started in 2007. The company has ceded a sizable portion of the U.S. specialty business but it is beginning to increase its retention as the business becomes more established.

Capitalization

Fitch considers Alterra's capitalization to be strong. The company has generally been able to grow its capital through both retained earnings and public offerings of common stock. Alterra's equity nearly doubled due to the amalgamation with Harbor Point in 2010. During the year, Alterra also returned roughly \$550 million of capital to shareholders including a \$300 million special dividend, \$50 million of regular dividends, and \$200 million of share repurchases.

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

From an operational leverage perspective, Alterra has historically had a reasonable ratio of invested assets to shareholders' equity, albeit higher than the industry average and peers, in part due to the higher investment leverage inherent in the life business. Favorably, the ratio improved to 2.7x as of Dec. 31, 2010 compared with 3.4x in 2009 and a high of 4.2x in 2008 due to the 19% decline in shareholders' equity, from 3.2x at Dec. 31, 2007, and 3.3x at Dec. 31, 2006.

Alterra has three U.S. dollar-denominated LOC facilities totaling \$1.525 billion with an additional \$350 million available if certain conditions are met. Alterra entered into its two primary five-year credit facilities in 2007 with various banks for secured LOCs to be issued by Alterra Bermuda Ltd. and certain of its insurance subsidiaries. In addition, these facilities include up to \$400 million for unsecured loans to Alterra Bermuda Ltd. The company also has additional LOC facilities totaling GBP90 million for Alterra at Lloyd's syndicates and Alterra Re UK.

Operating Leverage

(x)

	2010	2009	2008	2007	2006
Annualized Gross Premiums Written/Equity	0.48	0.88	0.98	0.68	0.62
Annualized Net Premiums Written/Equity	0.36	0.57	0.66	0.50	0.46
Total Assets/Total Equity	3.4	4.7	5.7	4.1	4.2

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

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

Financing Alternatives

(\$ Mil., As of Dec. 31, 2010)

Principal Bank Facilities	Used	Available
Letter of Credit — US	908	617
Letter of Credit — Lloyd's/U.K.	110	31
Revolver	0	400

Source: Alterra Capital Holdings Ltd.

Financial Leverage and Balance Sheet Quality

Alterra's balance sheet debt-to-total capital ratio was 13% at Dec. 31, 2010, up from 5% in 2009, but down significantly from 26.7% at year-end 2008. The sizable decline from 2008 to 2009 was due to the 2009 repayment of the \$150 million outstanding on the company's revolving loan facility and the \$225 million repayment of a swap loan.

Debt includes the following two senior debt issues: \$350 million of 6.25% unsecured senior notes due 2020 issued in September 2010 by Alterra Finance LLC that were used to repay prior Harbor Point short-term bank debt and for general corporate purposes, and \$90.6 million of 7.2% unsecured senior notes due 2017, with the company repurchasing \$9.4 million of these notes in 2008 and 2009. The \$90.6 million notes were privately issued by Alterra USA Holdings in April 2007, with the proceeds used to repay short-term borrowings on the company's credit facility. Alterra USA Holdings had drawn on this facility to capitalize its new operating subsidiary, Alterra Excess & Surplus.

Alterra also filed a shelf registration statement in May 2010 for the potential offering of debt securities, common or preferred shares, depositary shares, and other securities as a well-known seasoned issuer.

Capitalization and Interest Coverage

(\$ Mil.)

	2010	2009	2008	2007	2006
Total Capital	3,359	1,655	1,747	2,014	1,600
% Total Debt	13	5	27	21	13
% Hybrid Preferred	0	0	0	0	0
% Preferred Equity	0	0	0	0	0
% Minority Interest	0	0	0	0	0
% Common Equity	87	95	73	79	87
% Equity-Credit Adjusted Leverage	13	5	27	21	13
% Adjusted Debt/Tangible Capital	13.3	5.6	27.3	21.6	13.1
Interest Expense	28	21	36	43	14
Operating EBIT/Interest Expense (x)	10.8	9.2	2.6	3.8	11.1

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

Source: Source: Highline Data, company SEC filings.

Balance Sheet Quality

(\$ Mil.)

	2010	2009	2008	2007	2006
Reinsurance Recoverable	956	1,001	847	578	538
Goodwill	20	20	12	12	0
Total Intangibles (Excluding DAC)	59	49	40	20	0
Reinsurance Recoverable/Equity (%)	33	64	66	37	39
Goodwill/Equity (%)	1	1	1	1	0
Total Intangibles (Excluding DAC)/Common Equity (%)	2	3	3	1	0

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

Fitch believes leverage remains reasonable and below peer average.

Debt-Servicing Capabilities

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. GAAP operating earnings coverage was favorable and improved in 2010 at 10.8x. Fitch expects Alterra to maintain operating earnings coverage of at least 5x–7x. Debt service will be funded by available cash and dividends from operating subsidiaries.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2011 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.