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Research Update:

Alterra Capital Holdings Ltd. And Core Subsidiaries Ratings Raised; Outlook Stable

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Overview

- In our view, the core operating subsidiaries of Alterra Capital Holdings Ltd. (Alterra Capital) have a strong competitive position based on a larger and enhanced operating platform.
- We believe that the amalgamation of Max Capital Group Ltd. and Harbor Point Ltd. is successfully completed and the ERM platform of the consolidated entity has evolved in accordance with the risk profile of the combined entity.
- We are raising our financial strength and counterparty credit ratings on the core companies of Alterra Capital to 'A' from 'A-' and the counterparty credit ratings on Alterra Capital Holdings Ltd. and intermediate holding companies to 'BBB+' from 'BBB'.
- The outlook on the ratings is stable.

Rating Action

On Nov. 16, 2011, Standard & Poor's Ratings Services raised its financial strength ratings and counterparty credit ratings on all core companies of Alterra Capital to 'A' from 'A-' and the counterparty credit ratings on Alterra Capital Holdings Ltd. and intermediate holding companies to 'BBB+' from 'BBB'. The outlook on the ratings is stable.

Rationale

The rating action reflects Standard & Poor's view that Alterra has benefited from a larger and enhanced operating platform and improved diversification by platform, product, and account type following its creation on May 12, 2010, through the merger of Max Capital and Harbor Point. Given the more diverse earnings streams, Alterra delivered a combined ratio of about 103.5% for the first nine months of 2011 including all corporate expenses despite significant catastrophe losses the global industry incurred during that time.

We believe that enterprise risk management (ERM) at Alterra is strong. We believe that the merger of Max Capital and Harbor Point is successfully completed and that the risk culture at Alterra is a key factor in the speed and diligence of the integration process. Underwriting, pricing, reserving, risk management, investments, human resources, and financial reporting functions are fully integrated at Alterra, and integration risk is minimal at this point.

Other factors supporting the ratings include Alterra's very strong capital

adequacy, strong investments and liquidity, and management's significant depth and breadth. Partially offsetting these strengths are the potential pricing and reserving risks related to the group's significant long-tail casualty writings, potential earnings volatility as a result of losses stemming from weather-related and man-made catastrophes, and the lower proportion of premiums sourced outside the U.S. compared with other Bermuda-based insurers and reinsurers.

Outlook

The stable outlook reflects our belief that Alterra's capital adequacy will remain very strong over the next two years, to offset potential volatility of the substantial catastrophe exposures. We expect financial leverage to remain modest at about 15%-20% through 2012 and fixed-charge coverage within 4x-6x (assuming annual catastrophe losses below $100 million). For 2011, and assuming $25 million of catastrophe losses for the remainder of the year, the combined ratio for the property/casualty segment including all corporate expenses will likely be about 100% with a return on revenue (ROR) of 7%-10%. For 2012, assuming annual catastrophe losses of $100 million, we expect the combined ratio including all corporate expenses to be 97%-100% and the ROR to be higher than 12%. For 2011, gross premiums written will likely reach $1.9 billion, mostly because of the roll over of Harbor Point premiums into Alterra's financials and modest growth in Alterra at Lloyd's and Alterra Latin America. In 2012, gross premiums written likely will increase by low single-digit percentage points, mainly because of the expansion of Alterra Latin America and new underwriting teams at Alterra at Lloyd's.

Although we don't expect to change the ratings in the next two years, the ratings could come under pressure if the company's capital adequacy decreases and remains below the 'AA' level; if the company reports major adverse reserve development, stemming from its casualty loss reserves (more than 2.5 percentage points of net loss reserves); if underwriting performance lags that of its peers; if earnings volatility increases over multiple years; or if there is a major change in the risk profile of its investment portfolio. We are unlikely to raise the ratings on Alterra over the next two years primarily because, in our view, the company's competitive position and global reach is unlikely to improve relative to its peers'.

Related Criteria And Research

- Management And Corporate Strategy Of Insurers: Methodology And Assumptions , Jan. 20, 2011
- Evaluating Insurers' Competitive Positions, April 22, 2009
- Evaluating The Enterprise Risk Management Practices Of Insurance Companies , Oct. 17, 2005

Ratings List

Upgraded; Outlook Action

	To	From
Alterra Capital Holdings Ltd.		
Alterra USA Holdings Ltd.		
Alterra Capital UK Ltd.		
Alterra Capital Europe Ltd.		
Counterparty Credit Rating		
Local Currency	BBB+/Stable/--	BBB/Positive/--
Alterra America Insurance Co.		
Alterra Reinsurance USA Inc.		
Alterra Excess & Surplus Insurance Co.		
Alterra Europe PLC		
Alterra Bermuda Ltd.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--

Upgraded

Alterra Finance LLC		
Senior Unsecured	BBB+	BBB
Alterra USA Holdings Ltd.		
Senior Unsecured	BBB+	BBB

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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