MOODY'S
INVESTORS SERVICE

Credit Opinion: Alterra Capital Holdings Limited

Global Credit Research - 08 Jul 2011

Hamilton, Bermuda

Ratings

Category	**Moody's Rating**
Rating Outlook	STA
LT Issuer Rating	Baa2
Alterra USA Holdings Limited	
Rating Outlook	STA
BACKED Senior Unsecured	Baa2
Alterra Finance LLC	
Rating Outlook	STA
BACKED Senior Unsecured	Baa2
Alterra Bermuda Limited	
Rating Outlook	STA
Insurance Financial Strength	A3

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Key Indicators

Alterra Capital Holdings Limited[1]

	Q1 2011	**2010**	**2009**	**2008**	**2007**	**2006**
Total Assets ($ Mil.)	$ 10,250	$ 9,917	$ 7,340	$ 7,252	$ 6,539	$ 5,849
Equity ($ Mil.)	$ 2,723	$ 2,918	$ 1,565	$ 1,280	$ 1,584	$ 1,390
Net Income ($ Mil.)	$ (47)	$ 302	$ 246	$ (175)	$ 303	$ 217
Gross Premiums Written ($ Mil.)	$ 1,667	$ 1,411	$ 1,375	$ 1,254	$ 1,078	$ 865
Net Premiums Written ($ Mil.)	$ 490	$ 1,040	$ 895	$ 840	$ 797	$ 635
High Risk Assets % Invested Assets [2]	7.8%	8.2%	8.7%	14.1%	20.7%	23.5%
Reinsurance Recoverable and Goodwill % Equity	39.4%	33.5%	65.3%	67.1%	37.3%	38.7%
Gross Underwriting Leverage	2.3x	1.9x	3.1x	3.4x	2.2x	2.4x
Return on Average Equity	-1.7%	13.5%	17.3%	-12.2%	20.4%	16.8%
Sharpe Ratio of Return on Revenue (5 yr.)	---	66.8%	46.8%	39.7%	154.3%	97.1%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-1.0%	-5.0%	-4.1%	-5.3%	-3.5%	-0.6%
A&E Net Funding Ratio (1 yr.)	---	---	---	---	---	---
Financial Leverage [3]	14.9%	14.1%	12.3%	21.4%	9.4%	0.7%
Earnings Coverage [4]	-4.5x	11.1x	12.1x	-3.7x	8.0x	---

[1] US GAAP [2] High-risk assets include equities, other investments and non-investment grade bonds. [3] Debt includes debt equivalents for operating lease commitments and uncollateralized letters of credit used to support Funds at Lloyd's. Excludes the bank swap loan, which was terminated on August 31, 2009 [4] EBIT coverage includes a portion of operating lease commitments as fixed charges.

Opinion

SUMMARY RATING RATIONALE

Alterra Capital Holdings Limited (NASDAQ: ALTE) is a Bermuda holding company whose subsidiaries write specialty insurance and reinsurance from hubs in Bermuda, Dublin, U.S., Lloyd's and Latin America, among others. The group's debt obligations include: 1) $90.6mn of senior notes outstanding issued by Alterra USA Holdings Limited ("Alterra USA") and guaranteed by ALTE (10-year, 7.20%, due Apr 14, 2017), and 2) $350mn senior notes issued by Alterra Finance LLC and guaranteed by ALTE (10-year, 6.25%, due Sept 30, 2020).

Our Baa2 rating on the Alterra Finance LLC senior notes is based on the full and unconditional guarantee from ALTE. Alterra Finance does not directly or indirectly own any subsidiaries that can provide credit support.

Our Baa2 rating on the Alterra USA senior notes is based predominantly on the full and unconditional guarantee from ALTE. The notes have limited support from Alterra USA's principal subsidiary, Alterra Reinsurance USA Inc., due to limited dividend capacity as a result of negative net income in 2010 (-$2mn) and only a small unassigned surplus position (policyholders' surplus of $668mn but unassigned surplus of $19mn at March 2011).

Our Baa2 issuer rating on ALTE is based on its readily manageable debt leverage and our expectation of ample credit support from the operating subsidiaries. Dividends from Alterra Bermuda Limited ("Alterra Bermuda"), which represents c. 90% of the group's net assets, is the main source of credit support for ALTE's debt obligations (including those it has guaranteed). Bondholders are structurally subordinated to policyholders at Alterra Bermuda.

The A3 insurance financial strength rating of Alterra Bermuda is based on good product diversification, comfortable capital adequacy, generally stable and respectable operating returns, and manageable catastrophe exposure which would likely lessen the need to raise capital after a major event. The ability to raise equity capital remains unclear as nearly all Bermuda re/insurers have been trading below book value since December 2008.

These strengths are tempered by a general weakening of industry reserve adequacy, uncertainty from newer platforms (US Specialty and Lloyd's), significant reliance on bank finance for letters of credit, and somewhat higher asset leverage than most Bermuda peers which means investment performance can have a significant impact on results.

We believe Alterra's reserve position is reasonable but remain circumspect about D&O/E&O financial crisis claims in the legacy-Harbor Point reinsurance portfolio.

Credit Strengths

- Readily manageable debt leverage, very good fixed charge coverage and ample dividend capacity from Alterra Bermuda;

- Comfortable capital adequacy (helped by the Harbor Point merger);

- Product diversity and multiple operating platforms mitigate some of the impact from industry cyclicality;

- Meaningful but manageable catastrophe exposure (and less exposure than many Bermuda peers);

- High-quality, liquid investments can be a source of credit support for bondholders and policyholders;

Credit Challenges

- Reserve releases -- which have been a meaningful contributor to earnings -- may diminish, but a key variable will be any loss development on financial crisis claims in the legacy-Harbor Point professional lines reinsurance portfolio;

- Newer segments (U.S. Specialty and Lloyd's) create more uncertainty around reserve adequacy and pricing;

- Significant reliance on bank finance to provide letters of credits for clients and to fund Lloyd's syndicate commitments, especially since LOCs can be tied up for a long time for casualty classes of business;

- Asset leverage is somewhat higher than many Bermuda peers;

- Ability to tap equity capital remains unclear as nearly all Bermuda insurers have been trading below book value since December 2008;

Rating Outlook

The rating outlook is stable.

What to Watch For:

- U.S. hurricane season (June 1 to November 30);

- Trends in casualty insurance pricing: current accident year combined ratios for the Insurance and U.S. Specialty segments are running in the mid-to-high 90s;

- Extent of continued reserve releases;

- Continued build-out of Lloyd's operations.

What Could Change the Rating - Up

- Debt-to-capital ratio below 20% cross cycle;

- EBIT fixed charge coverage above 7x cross cycle;

- ROE above 10% cross cycle;

- Gross underwriting leverage below 2.0x cross cycle;

What Could Change the Rating - Down

- Debt to capital ratio above 25%;

- EBIT fixed charge coverage below 5x in consecutive years;

- Decline in shareholders' equity (including share repurchases) by more than 10% over a rolling twelve month period;

- Signs of reserve deterioration;

Notching Considerations

Bondholders at the parent company (including bondholders of debt guaranteed by the parent) are structurally subordinated to policyholders at Alterra Bermuda, which hold most of the group's liquid assets. Accordingly, the Baa2 senior debt is rated lower than the A3 insurance financial strength of Alterra Bermuda. Our standard practice is to reflect a two notch difference for insurance groups that maintain the majority of assets in Bermuda - as opposed to three notches in the U.S.--because Bermuda regulations impose lighter restrictions on dividend transfers (to the holding company) compared to U.S. regulations.

Recent Results and Developments

For 1Q2011, Alterra reported gross premiums written of $ 627.8mn, a net loss of -$46.7mn ($106.3mn of catastrophe losses, net of reinstatement premiums) and shareholders' equity of $2,723.2mn at Mar 2011 (vs. $2,918.3mn at Dec 2010).

On June 21, 2011, Alterra announced that its initial loss estimate from the series of U.S. tornadoes/flooding that hit during April and May 2011 is in the range of $18mn to $28mn, pretax and net of reinsurance and reinstatement premiums.

In Sept 2010, Alterra Finance LLC, a U.S. finance subsidiary, issued $350mn senior notes which are guaranteed by Alterra Capital Holdings Limited (10-year, 6.25%, due Sept 30, 2020). Part of the proceeds was used to repay a $200mn revolving loan under the legacy-Harbor Point credit facility.

On May 12, 2010, Max Capital Group Ltd. merged with Harbor Point Limited to form Alterra Capital Holdings Limited. The merger involved a stock for stock exchange essentially at tangible book value, followed by a $305mn special dividend to the combined shareholders.

DETAILED RATING CONSIDERATIONS

Alterra's operations are the main source of credit support for bondholders. The following discussion speaks to the operations and claims-paying ability (financial strength) of the operating subsidiaries. We rate Alterra Bermuda A3 for insurance financial strength based on our adjusted scorecard (see last page).

Insurance Financial Strength Rating

Factor 1 - Market Position, Brand and Distribution: Baa

Alterra operates in very competitive markets particularly since current industry capacity is near all-time highs. Many of Alterra's chosen markets have few barriers to entry. Therefore competitors are numerous and also differ in objectives and level of commitment, which tends to increase rivalry. The U.S. Specialty (2007) and Lloyd's (2008) operations are more recent. Until these operations mature into their expense bases, high expense ratios will be a disadvantage compared to larger insurers.

Alterra operates in five segments::

- Insurance (2010 GPW = $399.6mn; 2010 NPW = $218.9mn): Products are generally sold to Fortune 1000 corporations in the US and Europe, sourced through the Bermuda market and other international hubs. This business tends to attract many competitors because average premium dollars are bigger than those in main-street business. A barrier to entry, however, is the ability to offer significant capacity given the size of these risks. Larger insurers are best positioned to do this while midsize insurers like Alterra have to rely more extensively on reinsurance support to achieve competitive underwriting capacity. Management intends to pursue higher-risk/higher-hazard classes that are less price sensitive in order to mitigate current competition. Competitors include other Bermuda insurers, Lloyd's syndicates and large U.S. and international insurers.

- Reinsurance (2010 GPW = $509.1mn; 2010 NPW = $444.9mn): Products provide reinsurance protection to insurance companies in the U.S., Europe, and other international markets. Keys to competition include financial strength, capacity and service. Larger reinsurers (e.g., Munich Re, Swiss Re, Hannover Re, Partner Re) generally have an advantage along all these dimensions, including their ability to market products direct to clients. Moreover, c.40% of this segment is casualty reinsurance (incl. professional liability) for which reinsurance buyers tend to be more sensitive to size and credit quality. We think the merger with Harbor Point -- and the bigger balance sheet -- will add comfort to reinsurance buyers, particularly with the trend of relaxing collateral requirements in the U.S.. Nevertheless, the casualty reinsurance market continues to be challenging as clients have generally chosen to retain more business and prices have a ways to go before they can be considered comfortably adequate.

- U.S. Specialty Insurance (2010 GPW = $294.5mn; 2010 NPW = $206.0mn): Products are generally sold to commercial customers whose unique characteristics often make them more difficult to place with standard/admitted insurers. Because standard insurers are currently flush with capital, they are competing more aggressively for these risks and leveraging their ability to round out accounts (i.e., offering multiple products). Specialized classes such as ocean marine insurance are also seeing substantial competition from Lloyd's syndicates that leverage their cat capabilities. Larger insurers command an expense ratio advantage (Alterra segment expense ratio c.35% for FY 2010).

- Alterra at Lloyd's (2010 GPW = $202.6mn; 2010 NPW = $165.2mn): The Lloyd's operation provides access to Lloyd's global licenses and to certain reinsurance business that doesn't typically get to the Bermuda market. Relationships are very important in the Lloyd's market because financial security is less of a distinguishing factor since policyholders have recourse to the Lloyd's Central Fund. In 2008/2009, planned capacity was not fully utilized but additional underwriters were recruited in 4Q 2009. Stamp capacity for 2011 is GBP 140mn, same as 2010. In 2010, a new Brazilian representative office began writing property, property cat, aviation, accident & health and casualty. Alterra acquired Syndicate 1400 in November 2008. Syndicate 1400 has historically performed worse than its peer group (cf. Moody's Analytics Continuity Opinion Profile for Syndicate 1400).

Adam Mullan (ex Max Re Europe) was appointed the new agency CEO from Oct 2009. Matthew Petzold (s.1400 underwriter) remained the agency underwriting director.

- Life and Annuity Reinsurance (2010 GPW = $4.9mn; 2010 NPW = $4.5mn): This segment focuses on reinsuring existing closed blocks of life and annuity business on an opportunistic basis with typically a handful of deals each year. The aim is to duration match assets and liabilities and profit from the float. Given lower investment yields, the company does not plan to write more deals in the foreseeable future.

Factor 2 - Product Risk and Diversification: A

Alterra's multiple platforms allow management to trade from one class of business to another as market conditions change, mitigating the impact of industry cyclicality. Product diversification is generally good. Gross premiums are split c.50%-50% between short-tail and long-tail lines. But the geographic distribution of business is overweight to the U.S. (c.3/4 GPW) which tends to be more litigious than other jurisdictions. Because Alterra writes both direct insurance and reinsurance for some of the same underlying classes, particular care has to be taken to prevent overlap of exposures.

The main risks for each segment are:

- Insurance: This segment is characterized by exposure to idiosyncratic claims (e.g., a railroad is held liable for an accident) as well as systemic claims (e.g., a severe downturn in equity markets tends to trigger more D&O claims). Excess liability policies are also characterized by long claim payout and reporting patterns which increase reserve uncertainty due to economic/medical/judicial inflation and changing social trends.

- Reinsurance: Key risks for catastrophe reinsurance are exposure to natural cats and heavy reliance on vendor models for loss projection. Key risks for casualty reinsurance are long claim payout patterns and reliance on timely and accurate claims reporting by clients, both of which increase reserve uncertainty.

- U.S. Specialty Insurance: This segment is characterized by a steady flow of submissions (sourced through wholesale brokers and managing agents) and therefore the possibility for exposures to aggregate very quickly. As such, the consequences of incorrect rates and/or adverse selection can also be magnified across many policies quickly. As an excess and surplus lines insurer, however, Alterra has more flexibility to adjust rates and policy forms than standard insurers, who are subjected to more regulations. This business also has significant reinsurance protection with about half the premiums ceded to external reinsurers historically (although the company is looking to retain more going forward).

- Alterra at Lloyd's: Consistent with Lloyd's reputation, this business tends to be more specialized, more complex and less homogeneous than mainstream risks, which makes the business more difficult to quantify. There is also potential correlation to some of the risks in the direct insurance segments. Key man risk is also a factor since the success of a Lloyd's syndicate tends to rest with a few key underwriting teams and their relationships. 2011 plan includes: Property Cat XL 24%, Casualty Treaty 19%, Property Pro Rata 14%, Banks 12%, Personal Accident Cat (incl. EL) 8%, Aviation 8%, Property D&F 6%, A&H Insurance 4%, Surety 2%. A&H Insurance & Aviation written since Q4 2009. Casualty Treaty & Surety written since 2010. Property D&F written since 2011. Geographic mix planned : N. America 26%, Europe (incl. UK) 27%.

- Life and annuity reinsurance: Mortality/morbidity experience may deviate from original assumptions or, more likely, investment returns may deviate from original assumptions, as was the case in 2008.

Factor 3 - Asset Quality: Aa

We consider asset quality to be very good. The company's high-grade liquid investments can be sold to provide additional credit support to bondholders and policyholders, although historically operating cash flows have been sufficient.

Our stress tests on the investment portfolio indicate stress losses of c.$0.3bn, which would have a moderate impact to capital.

High-risk assets (non-investment grade bonds, equities, other investments) are 7.8% of cash and investments (Mar 2011), which is lower than or on par with other Bermuda insurers who write a meaningful proportion of long-tail lines (cf. AXIS, Allied World). We don't expect material write-downs on other assets which include mainly premiums receivable and reinsurance recoverable.

INVESTMENT PORTFOLIO:

At Mar 2011, the investment portfolio contained generally high-quality assets: Cash and cash equivalents (12.8% of total cash and investments), US government and agencies (11.0%), Non-US governments (9.5%), Corporates (38.7%), Municipal (2.5%), ABS (1.5%), Agency RMBS (13.8%), Non-agency RMBS (1.2%), CMBS (4.5%), and Other/alternative investments (4.6%).

Non-investment grade bonds were 4.0% of total bonds at Mar 2011.

The average credit quality of fixed income securities is Aa. The investment portfolio has a longer duration than that of many Bermuda peers (4.1 years at Mar 2011) so that the assets can be generally matched to ALTE's higher proportion of long-tail lines and longer duration of life and annuity reinsurance liabilities (average duration of these (re)insurance liabilities was c.5.0 years at Mar 2011).

"Other investments" include principally hedge funds marked to market (80.6%), catastrophe bonds (8.2%) and an index-linked structured deposit with a guaranteed minimum redemption amount (7.9%). The proportion of other/alternative investments has substantially declined from its height of over 20% in 2007, which led to substantial realized/unrealized losses in 2008.

Other than equity call options embedded in convertible bonds, ALTE currently does not use derivatives to gain asset exposure.

REMAINING ASSETS:

Excluding cash and investments, remaining assets make up 23.4% of total assets (88.2% of total shareholders' equity at Mar 2011) and consist notably of: 1) losses and benefits recoverable from reinsurers (10.3% assets / 38.7% SHE; predominantly all amounts due from reinsurers rated the same or higher than Alterra or secured on a funds-withheld basis (including Grand Central Re in which Alterra Bermuda owns a 7.5% equity stake) and 2) premiums receivable due from policyholders or reinsurance clients (7.9% assets / 29.7% SHE). Goodwill and intangibles is modest (0.6% assets / 2.2% SHE) as the Harbor Point merger did not create goodwill (i.e., produced a negative goodwill gain of $95.8mn).

Factor 4 - Capital Adequacy: A

We are comfortable with Alterra's capital adequacy. Gross underwriting leverage compares favorably to that of `A3' rated peers after controlling for mix of business (= 2.3x at Mar 2011 = trailing twelve month P&C gross premiums + P&C gross loss reserves + 25% of trailing twelve month life/annuity premiums + 25% of life/annuity gross reserves, divided by equity).

The Harbor Point merger improved the group's capital adequacy despite the $305mn post-close special dividend. Harbor Point was very well capitalized, operating with one of the lowest premium leverage ratios in the industry (0.32x for FY 2009).

In evaluating risk capital, we have focused on three main risks:

- Under-pricing or under-reserving: We believe reported reserves as of Dec 2009 are reasonable (cf. Reserve Adequacy discussion below).

- Poor investment performance: Our stress case losses would have a moderate impact to capital (cf. Asset Quality discussion above).

- Catastrophes: Exposure to natural catastrophes is meaningful but not as significant as for some Bermuda peers (see scorecard metrics).

Alterra would likely remain commercially viable even if faced with our hypothetical stress scenario. This scenario assumes 1-in-250 year annual aggregate modeled catastrophe losses (not disclosed), a 5% net P&C reserve charge ($158mn) and stress investment losses (c.$0.3bn), all occurring in tandem.

Factor 5 - Profitability: A

Historical performance can be characterized by generally stable operating returns that were overshadowed by substantial realized/unrealized losses on alternative investments in 2008 (aside: 2002-2010 average ROACE = 9.9% (average12.7% if exclude 2008); roughly breakeven in 2005 despite Hurricane Katrina).

The profit outlook remains challenging as interest rates remain low and industry capacity is still ample. Active recruitment of Lloyd's underwriting teams may create some growth opportunities but this will be paired with soft pricing in the vast majority of ALTE's chosen markets.

The float from long-tail lines, which make up about half the business, has meant that investment income has contributed more to earnings than underwriting income (for example, FY 2010 investment income equated to 19.0% of net premiums earned vs. 85.7% underwriting combined ratio). We expect this trend to continue in the medium term as underwriting remains competitive.

Reserve releases have been an important feature of earnings (see below for impact on combined ratios) though not to the same extent as some Bermuda peers (cf. Allied World). Future releases may not be sustainable at past levels although an important variable will be whether the professional liability reinsurance reserves inherited from Harbor Point will experience development on claims related to the financial crisis.

Combined ratios and the related favorable/(unfavorable) prior years' reserve development (in parentheses) were:

- All segments: 112.5% (1Q2011, 8.0pts), 85.7% (2010, 9.0pts), 88.1% (2009, 9.9pts), 91.9% (2008, 15.9 pts), 88.2% (2007, 8.8 pts), 86.4% (2006, 1.0 pts), 106.0% (2005, -1.3 pts).

- Insurance: 82.4% (1Q2011, 13.5pts), 76.0% (2010, 19.3pts), 76.9% (2009, 18.9 pts), 88.2% (2008, 12.4 pts), 86.2% (2007, 4.4 pts), 70.6% (2006, 10.6 pts), 107.3% (2005, 0.0 pts).

- Reinsurance: 112.9% (1Q2011, 9.9pts), 86.8% (2010, 7.1pts), 92.1% (2009, 8.3 pts), 87.4% (2008, 19.9 pts), 83.9% (2007, 11.6 pts), 93.9% (2006, -3.5 pts), 105.7% (2005, -1.7 pts).

- U.S. Specialty: 99.0% (1Q2011, 0.0pts), 96.9% (2010, 0.4pts), 99.5% (2009, -1.1 pts), 138.5% (2008, 0.0 pts).

- Alterra at Lloyd's: 160.7% (1Q2011, 0.0pts), 83.4% (2010, 11.1 pts), 86.3% (2009, 6.5 pts).

- Life & Annuity Reinsurance: Income (loss) before taxes were $0.5m (1Q2011), ($8.4m) (2010), $23.0m (2009), ($130.3m) (2008 - negative returns on investments), $39.5m (2007), $8.5m (2006), ($2.2m) (2005). Given low yields, Alterra does not expect to write deals in the immediate future.

Factor 6 - Reserve Adequacy: A

In our opinion the reserve position is reasonable (+/- 5%). An important variable is the adequacy of legacy-Harbor Point reserves, particularly for exposures vulnerable to D&O/E&O claims from the financial crisis. Currently there is very little disclosure around those reserves. Given the relative size of reserves however (HP $0.7bn vs. Max Capital $2.2bn at Dec 2009), any reserve deterioration from legacy-Harbor Point's professional liability reinsurance business is unlikely to be a substantial swing factor.

An independent actuarial firm reviews the loss reserves of Alterra at least once a year. Alterra has reported favorable reserve development in each year since 2006. Moreover, most of the unfavorable reserve development prior to 2006 was related to alternative risk contracts for which an increase in loss reserves was also accompanied by an increase in premiums. Harbor Point reported favorable reserve development in each year since its inception in 2006.

Brief observations for each business segment:

- Insurance: These reserves consist mostly of excess liability and professional liability policies written for Fortune 1000 corporations. For accident years prior to 2007, loss trends on the professional liability classes have turned out to be considerably better than initial assumptions. Within these classes, Alterra appears to have less exposure to financial crisis claims compared to some Bermuda peers.

- Reinsurance: For Alterra (ex legacy-Harbor Point), about half of the reinsurance reserves come from several large contracts. Some of these contracts have been reserved as a full limit loss.

- U.S. Specialty: Reserve balances are relatively small because this segment did not launch until 2008. Reserve estimation will lean heavily on industry data until the company accumulates enough loss experience. Policies can aggregate very quickly in this segment and unexpected deviations in loss trends can multiply across many policies.

- Alterra at Lloyd's: Similarly, because of the recent vintage of these operations, reserve estimation will lean heavily on industry data.

- Life & Annuity Reinsurance: Loss experience in aggregate has generally been in line with mortality and morbidity assumptions. However,

actual investment yields have deviated materially from original assumptions.

Factor 7 - Financial Flexibility: A

Alterra has a readily manageable debt load that allows for borrowing capacity and good financial flexibility. In particular, ALTE has a manageable debt-to-capital ratio (14.9% at Mar 2011; includes operating lease commitments), very good EBIT fixed charge coverage (11.1x in 2010, 12.1x in 2009, -3.7x in 2008 due principally to unrealized investment losses, 8.0x in 2007, and average 6.9x for 2007-2010) and ample dividend capacity from Alterra Bermuda (unrestricted dividend capacity is greater than the total group debt outstanding).

This flexibility is partly offset by extensive use of bank finance to provide letters of credit to clients, support Lloyd's syndicate commitments and to fund general corporate purposes. Alterra has entered into five credit agreements:

- $600mn five-year senior credit facility (expires Aug 7, 2012; Bank of America as lead) that allows various Alterra entities to issue up to $450mn of secured LOCs, and up to $150mn of unsecured LOCs or to borrow up to $150mn on an unsecured basis for general corporate purposes.

- $75mn letter of credit facility (expires Dec 12, 2011; Bank of Nova Scotia).

- $850mn five-year senior credit facility (expires June 12, 2012; Bank of America as lead) that allows various Alterra entities to issue up to $600mn of secured LOCs, and up to $250mn of unsecured LOCs or to borrow up to $250mn on an unsecured basis for general corporate purposes;

- GBP 60mn letter of credit facility used to fund Lloyd's operations (which ING Bank can terminate at any time prior to Dec 31, 2011, subject to a four year notice requirement for any outstanding letters of credit);

- GBP 30mn secured letter of credit facility to support the operations of Alterra Re UK (Citibank N.A.).

At Mar 2011, there were $900.2mn LOCs outstanding under the US dollar denominated facilities and GBP 68.7mnLOCs outstanding under the sterling denominated facilities.

A key pressure point for the industry is the ability to access equity capital if and when a major catastrophe strikes. The ability to do so remains uncertain as nearly all Bermuda re/insurers, including Alterra, have been trading below book value since Dec 2008. Like many peers, ALTE's shareholder base is concentrated (i.e., the top 20 shareholders make up c.63% of total shares outstanding at Mar 2011).

Financial Covenants

ALTE was in compliance with all covenants as of Mar 2011.

The covenants vary by facility but, among other things, require total debt-to-total capital to be less than 35% and Alterra Bermuda's net worth to be greater than a minimum amount.

Rating Factors

Alterra Capital Holdings Limited[1]

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	< Baa	Score	Adjusted Score
Business Profile						**A**	**Baa**
Market Position, Brand and Distribution (20%)						**Baa**	**Baa**
Relative Market Share Ratio, Global Reinsurance				**X**			
Direct Premiums % GPW				**X**			
Product Focus and Diversification (15%)						**Aa**	**A**
Product & Geographic Diversification		**X**					
Financial Profile						**Aa**	**A**
Asset Quality (10%)						**Aaa**	**Aa**
High Risk Assets % Invested Assets	**7.8%**						
Reinsurance Recoverable and Goodwill % Equity	**39.4%**						
Capital Adequacy (20%)						**Aa**	**A**
Gross Underwriting Leverage		**2.3x**					
Gross Natural Catastrophe Exposure			**X**				
Net Natural Catastrophe Exposure		**X**					
Profitability (10%)						**A**	**A**
Return on Average Equity (5 yr. avg.)			**11.2%**				
Sharpe Ratio of Return on Revenue (5 yr.)				**66.8%**			
Reserve Adequacy (10%)						**Aaa**	**A**
Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. avg.)	**-3.7%**						
A&E Net Funding Ratio (5 yr. avg.)	**NA**						
Financial Flexibility (15%)						**Aa**	**A**
Financial Leverage	**14.9%**						
Earnings Coverage (5 yr. avg.)			**6.9x**				

Aggregate Profile		Aa3	A3

[1] Balance sheet ratios as of March 2011. Income statement ratios are 5-year averages (2006-2010) except that earnings coverage is an average from 2007-2010.

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