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2010 Reinsurance Outlook:
A Balanced Market

January 1, 2010

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2010 Reinsurance Outlook: A Balanced Market

Overview

The reinsurance market showed a fair amount of stress at the beginning of 2009, following a high level of large loss activity and the financial market downturn in 2008. There were several large losses in the market, including Hurricane Ike, which we estimate as one of the three largest losses to the market ever. Reinsurers also sustained losses on their asset portfolios and in bond guarantee and related insurance operations. As with all other financial institutions, reinsurers were concerned about their ability to raise fresh capital, and this further reduced their risk tolerances.

The stress increased the cost of reinsurers' capital and raised prices. This trend was apparent at January 1, increased for second quarter renewals, and then began to subside by July 1. By late 2009, much of the pressures had eased. Catastrophe experience has been benign this year to the worldwide market, with no individual event costing reinsurers over $1 billion. Equity and currency markets have recovered about half of their 2008 and early 2009 losses, and the credit market has reopened for financial institutions. Many reinsurers' stock prices have recovered much of the steep losses they had sustained last winter. **Most have far more capital than a year ago.**

By year-end, prices have now softened from mid-year levels. Capacity is abundant. While reinsurers are maintaining their technical discipline, most ceding companies are able to place improved terms.

However, falling business production and rising expense ratios are concerns for both insurers and reinsurers. The currently depressed levels of employment and economic activity are producing flat or declining exposure bases. **Market premium volumes continue to shrink, both due to reduced exposures, and increased levels of price competition among insurers.** To manage excess capital, we expect many reinsurers to buy back shares, merge or do both during 2010.

Our analysis follows at the links shown below:

Section A. Current U.S. Market Conditions

1. *Property Catastrophe*
2. *Clash, WC and Life Catastrophe*
3. *Policy - Exposed Contracts*
4. *Terrorism Coverage*

Section B. 2009 Market Losses

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A. Current U.S. Market Conditions

In early 2009, reinsurers' capacity (the supply of reinsurance) was down in peak zones, and many Property renewals approached the market with losses from spring storms, Hurricane Ike or fires. Pricing for Casualty lines was mixed, and largely driven by individual experience. However, in all classes, January contracts with rate increases significantly out-numbered those with decreases. By July 1 these trends were partly offset by several factors:

- Strong half-year earnings for many reinsurers.
- Improvements in financial results stabilized XL's and Swiss Re's ratings. Transatlantic Re was successfully spun out of AIG.
- Reinsurers anticipated reduced catastrophe model estimates from new hazard studies for California, moderate reductions in the Atlantic hurricane outlook, and decreased levels of demand surge, partly due to slack in the economy.
- Large, diversified reinsurers offered more capacity, especially for national accounts. Some provided more Cat support for working layer clients than they had in the past.
- The recession reduced premiums overall and softened some ceding companies' desire for limit increases.
- The euro, Swiss franc and British pound significantly strengthened against the dollar, creating more capacity, especially at Lloyd's.

Mid-year renewals showed increasing capacity as the months passed, with moderately improved flexibility on peak zone pricing. By year-end, the market's finances improved further. However, Berkshire Hathaway largely non-renewed Cat business written by its National Indemnity unit. Berkshire's acquisition of Burlington Northern – Santa Fe required almost $16 billion in cash. This limits their appetite to assume significant Cat exposure in early 2010.

Results since mid-year show:

- Continued excellent earnings by reinsurers
- Benign large loss experience affecting reinsurers
- Further weakening of the U.S. dollar, and
- Meaningful declines in leverage at most reinsurers

January 1, 2010 renewals showed increased capacity for most classes, but reinsurers are balancing their own needs for both growth and underwriting discipline. As ceding companies face reduced premium budgets, this has led to a late renewal season, in many cases.

1. *Property Catastrophe*

Catastrophe contract premiums generally decreased by single digits at January 1, 2010, and a bit more for programs requiring broad market support that paid larger increases the year before.

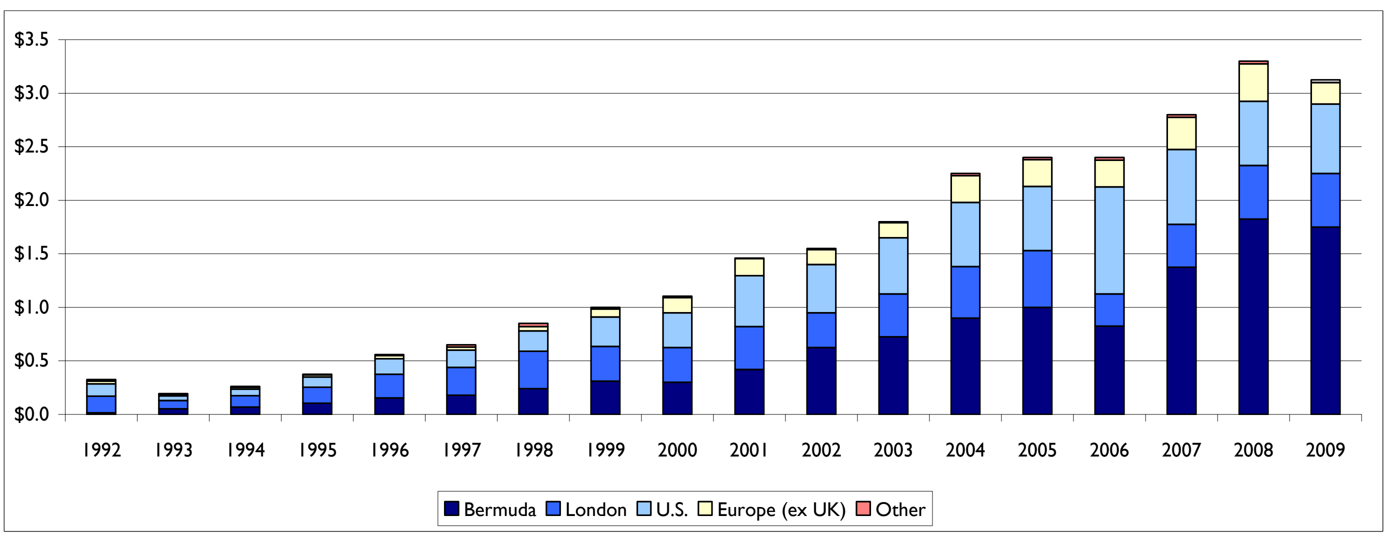
Property catastrophe rate-on-line increases

	Coastal Exposed		Non-Coastal	
	with Recent Loss	without Loss	with Recent Loss	without Loss
January, 2006	+25% to 100%	+10% to +25%	+20% to +50%	+5% to +15%
April – July, 2006	+60% to 300%	+30% to 100%	Few placements	Few placements
January, 2007	+15% to +40%	0% to +20%	+10% to 25%	-10% to 10%
April – July, 2007	-10% to 0%	-20% to -10%	Few placements	Few placements
January, 2008	-20% to -10%	-20% to -10%	-15% to -5%	-15% to +5%
April – July, 2008	-15% to -5%	-20% to -10%	Few placements	Few placements
January, 2009	+15% to +50%	+5% to +20%	+10% to +40%	0% to +10%
April – July, 2009	+15% to +40%	+10% to +20%	Few placements	Few placements
January, 2010	-5% to 0%	-15% to -5%	+5% to +15%	-10% to -5%

Note: Measured in dollar amounts for programs with comparable exposure levels.

Capacity placed on some of the largest individual programs in 2009 and 2010 declined slightly from 2008 levels, but remains near record levels. Some second-tier programs increased. Several U.S. insurers now buy over $2 billion in limit.

Property catastrophe capacity



Note: Size of largest U.S. placement in $Bns, based on maximum amount exposed in any zone by a single ceding company program, including aggregate excess contracts. Excludes Cat bond capacity or side cars; includes Berkshire Hathaway. Market regions are shown by underwriting office, not domicile.

Coastal and National accounts

Some national programs placed substantially more limit at mid-year 2009 to replace reduced Cat bond and FHCF capacity. But, at the same time, reinsurers had lower capital and had adjusted their business plans, reducing capacity. Few mid-year renewals had price reductions and accounts with 2008 Ike or Gustav losses had large increases.

Surplus lines companies generally shrank in coastal areas, as this business migrated to the admitted market at lower pricing. This eased their need for capacity.

Florida

Florida-exposed companies, at least out-of-state companies, bought larger programs from the market to supplement the FHCF's reduced bonding capacity. Even with the FHCF taking up a large piece of the risk, Florida still represents the largest commitment of reinsurers' capacity in the world, at about $75 billion in 2009.

Citizen's Insurance writes 40% of the Florida personal wind market (as either Homeowners or Wind-only policies) and over 60% in the more-exposed southern counties. Neither Citizen's nor the FHCF has protection placed in the private reinsurance market. With the FHCF's capacity impaired, Citizen's could expose private market policyholders to multi-billion dollar assessments over several years. The FHCF's 2008 liquidity facility from Berkshire Hathaway was not renewed in 2009.

Other U.S. zones

Capacity in the Northeast for wind exposure and in Southern California for shake exposure remain tight. Although, reinsurers are reflecting increased capital levels, and lower California earthquake model results, and accordingly made more aggregate limit available. Some ceding companies were able to increase their placements.

Outside of those few peak concentration zones, capacity has been ample, and prices have softened moderately through 2009 as reinsurers have competed for this diversifying business.

Energy and Aviation

These two classes have seen losses recently. Ike (in 2008) was a significant loss to Gulf oil production regions and the Western Atlas rig fire in the Indian Ocean this year was the largest single-platform loss since 1998. The Continental Express, Air France and Yemenia Air losses, and other crashes with fewer deaths, have pushed the Aviation market's loss ratio well over 100% in 2009. Prices for both lines have increased notably.

Involuntary markets

State residual markets absorbed significant amounts of coastal risk from 2004 through 2007, in certain cases increasing market shares from the low single digits into the teens. Unpredictable buying habits related to these facilities have given some reinsurers pause. There was incremental demand for reinsurance and interest in alternative forms of capital from some residual market plans (Massachusetts, Rhode Island, New York, North Carolina and South Carolina all placed more), as most of these facilities continue to grow.

TWIA in Texas sustained nearly a total loss from Hurricane Ike and exhausted its funding, but no longer buys reinsurance. For 2009, Texas opted to fund losses up to $2.5 billion with post-event bonds. It is unclear how losses above this level would have been funded. The California Earthquake Authority also has a large market share, weighted toward the most exposed counties, and they maintain a large reinsurance placement. A.M. Best is paying increased attention to insurers' involuntary exposures to peak zone events.

Retrocessions and ILWs

The retrocessional market has begun to stabilize after the departures last year of CIG and Lehman Brothers and the downsizing of others. Prices decreased through 2009. But at current prices, there is still limited supply.

Late reporting of Ike losses has delayed recovery from some industry loss warranty contracts until late in 2009. This increased attention to basis risk and spurred changes in the way those contracts are structured.

Collateralized reinsurance

Fund managers and "alternative asset" investors have invested directly in insurance risk by providing fully-funded limits, largely in peak zones and for retrocessions. Most of these funds lost capital (and investors) in late 2008. Investors' minimum ROLs are moving closer to their target ROEs. But several multi-strategy funds remain interested in insurance risk and can move quickly if opportunities meet their return requirements. They are generally uncompetitive on layers that pay ROLs less than 10%, including LIBOR, with 7% to 8% of that paid by the ceding company.

2. Clash, WC and Life Catastrophe

Overall market capacity for some peak zones decreased during early 2009, but rebounded by year-end. Costs for lower layers continued to fall as reinsurance prices were impacted by lower subject premium or levels of underlying exposures. Higher layer ROLs are consistent with market minimums, which have been flat during 2009. Capacity for California increased as some, but not all, reinsurers give credit for lower model estimates. Demand varied, as some regional companies purchased less, but some large new programs were placed in 2009. There is an increased appetite to place per person covers, but capacity is still seen as too expensive. MAOLs had risen in 2007 and 2008, but were generally stable in 2009 and at January, 2010.

	Clash, WC and Life Catastrophe
January, 2006	-5% to +5%
April – July, 2006	-10% to 0%
January, 2007	-10% to 0%
April – July, 2007	-15% to -10%
January, 2008	-15% to -10%
April – July, 2008	-20% to -10%
January, 2009	-3% to +5%
April – July, 2009	-5% to +3%
January, 2010	-15% to -5%

Note: Measured in dollars amounts or ROLs. Comparable programs at renewal.

3. Policy - Exposed Contracts

In early 2009, most working and other policy-exposed contracts renewed with higher rates. Generally with lower subject bases, many renewals were still at lower premium amounts. These classes of business do not depend on capital as much as catastrophe covers. The effect of reduced industry capital has been less significant on these contracts. Rates on January, 2010 renewals were largely driven by accounts' own recent experience, but with lower ceded deposit premiums in most cases, due to reduced subject premiums.

	Working	High Excess With Recent Losses	High Excess With No Loss
January, 2006	0% to +10%	+15% to +25%	0% to +15%
April – July, 2006	0% to +30%	+25% to +50%	+5% to +15%
January, 2007	0% to +40%	+10% to +25%	-10% to 0%
April – July, 2007	-10% to -5%	0% to +10%	-10% to 0%
January, 2008	-10% to -2.5%	-0% to +10%	-10% to 0%
April – July, 2008	-5% to +5%	-0% to +10%	-10% to 0%
January, 2009	-5% to +10%	+25% to +50%	0% to +10%
April – July, 2009	-5% to +10%	+25% to +50%	0% to +10%
January, 2010	-5% to 0%	0% to +15%	-10% to +5%

Note: Measured as rates on subject income, not dollar amounts

Property per risk

Reinsurers sustained a marked run of losses to large risks (often fires) worldwide and to many U.S. middle market accounts in 2008 and 2009. This drove rate increases in many cases. The higher U.S. frequency may be related to housekeeping and maintenance issues in this depressed economy. We have not yet seen an uptick in arson. The increased frequency reverses a favorable trend that has helped the industry's profitability, despite falling direct prices. Insurance to value is also a current challenge, due to falling real estate prices.

Casualty, including Umbrella

Reinsurers express concerns about much lower interest rates (partly recouped since March), continued soft pricing in the primary market and decreasing reserve adequacy. Longer-term, deficits and the weaker dollar may cause higher levels of general inflation, and healthcare reform may raise medical costs covered by WC and Liability coverages. Many reinsurers also assert that increased capital requirements and general economic risks justify rate increases. Buyers generally do not accept this logic for working layers, causing extended negotiations on some renewals.

There is some spillover from the property market to casualty classes. Pricing expectations rose for both buyers and sellers in early 2009, but this was a temporary effect. Also, a number of new players (such as AWAC, Aspen and Catlin) entered the on-shore casualty market in 2007 and 2008.

Financial lines

Public company D&O, financial institutions professional lines, and political risk are quite distressed now, as reinsurers look to avoid the next wave of claims on the credit, banking, mortgage and hedge fund troubles. Market estimates are over $15 billion of direct losses. The impact on reinsurers will be less, and spread over approximately $7 billion per year in D&O/E&O premiums ceded by U.S. insurers. On an all-lines basis, we estimate that reinsurers in total sustained a one point increase in overall loss ratio for 2007 through 2009 due to reinsured D&O and E&O on sub-prime and related claims, with the losses concentrated among relatively few reinsurers.

4. Terrorism Coverage

Reinsurers write their terrorism exposures without retrocessions or TRIA protection (and often competing for capacity with affiliates' direct operations). So, their limited capacity requires meaningful ROLs. Some market trends are:

- Ceding companies often have similar occurrence retentions on terrorism and natural catastrophes, so retention levels for terrorism have also tended to increase. At the top-end of programs, TRIA retentions have fallen due to lower subject premium incomes, and the exclusion of Auto in 2007.

- Significant capacity is available (over $1 billion per ceding company, less in "Tier 1" cities). This is ample for most regional carriers, but not for nationwide accounts with multi-billion dollar TRIA retentions. Some commercial nationals buy no terror protection beyond TRIA. Regional carriers tend to have broader coverage in underlying programs and also purchase higher Cat and Clash limits for terror.

- NBCR coverage is more constrained at $500 million (less for key cities) and it remains expensive. It is more common in regional account placements.

- Companies exposed in the Northeast, and especially in Metropolitan New York, find capacity limited for both Windstorm and Terrorism reasons and often choose to limit their terrorism protection, in order to maximize windstorm coverage.

B. 2009 Market Losses

Catastrophe experience in 2009 has been far below average levels for both U.S. insurers and reinsurers. Holborn has been tracking the following events, none of which are a major loss to reinsurers.

U.S. reinsured events and major foreign losses

Event	Date	Description	Reported Deaths	Direct Loss	Reinsured Loss
Klaus	January 24-25	Windstorm, largely in Spain and France	16	>2Bn euro	>500Mn euro
Kentucky Freeze	January 26-28	PCS event number 62	36	$2Bn	<$500Mn
Australia Fires	February 7	Wildfires in Victoria	210	>$1Bn (U.S.)	<$500Mn
Continental Express 3407	February 12	Dash 8 crashed near Buffalo, NY	50	Approx. $150Mn	Direct*
Italian Earthquake	April 6	Magnitude 6.3 in Abruzzo Region	305	>1Bn euro	Approx. $250Mn
Air France 447	June 1	A330 lost over South Atlantic	228	$1Bn	Direct*
Yemenia 626	June 30	A310 crashed on approach	152	Approx. $100Mn	Direct*
Central Iowa Hailstorm	August 9	3+ inch hail in and near Hardin County	0	>$750Mn	>$100Mn
Hurricane Bill	August 21-23	T.S. force winds in Bermuda, New England and Canada	4	Limited	None
Typhoon Ketsana / Manilla Flood	September 24-28	Typhoon damage in Philippines, Vietnam and elsewhere. Record rainfall and flood	475+	>$1Bn	Limited
Samoa Tsunami	September 28	Offshore EQ caused 20+ ft. waves	200+	Approx. $250Mn	Limited
Indonesia EQ	September 30	Magnitude 7.6 at Padang	1,100+	$1Bn	<$500Mn
Typhoon Melor	October 8	Cat 1 landfall at Honshu, Japan	2	$750Mn - $1.25Bn	$200Mn - $300Mn
West Atlas Rig	November 1	Production platform leakage and fire in the Indian Ocean	0	$750Mn	Direct*
Hurricane Ida / Central American Flood	November 5-11	T.S. landfalls in Nicaragua and Alabama, Flooding in El Salvador, U.S. Nor'easter	200+	Approx. $500Mn	Limited
15 Events	***2009 Total***		***>3,000***	***$14Bn - $16Bn***	***$3Bn-$4Bn****

Notes: Estimates include WC, Life and energy classes, and loss adjustment expenses.

** Aviation and Energy participations by reinsurers on these individual risks are largely through their Direct and Fac books, not treaty coverages. The reinsurance market total includes reinsurers' participation in these losses.*

C. Asset Market Improvements

The problems in the credit markets and banking industry changed the economic balance of reinsurance supply and demand in 2008 and 2009:

- Equity markets fell by well over 50% from year-end 2007, causing surplus losses to many, but not all, reinsurers through the first quarter of 2009. Markets began to improve in March, and had recovered half of their losses by year end. But they still remain at 2004 levels.

S&P 500 equity index

- Wider interest rate spreads also mean that many longer-term and corporate bonds are underwater, limiting flexibility in the event reinsurers need to liquidate assets.

- All financial institutions have less access to new capital than in 2007. So a "reload" after a major loss now would be more costly than after Katrina, although easier now than a year ago. However some insurers successfully approached the market in the second half, including Fairfax, Transatlantic and Amlin. AIG/Chartis's IPO, now delayed past this summer, will be the bellwether transaction.

- Lower levels of business activity and insured values have reduced direct premiums worldwide and caused downward adjustments on treaties.

Reinsurers' asset exposures are still large relative to capital

Asset price changes create larger percentage swings in capital levels. This is especially true for European reinsurers who generally have higher leverage ratios, and also stricter IFRS accounting rules for reflecting current changes in bond values. Since March, these reinsurers benefited from improvements in asset values.

	Year-End 2008		Asset Leverage	
	Total Assets	**Total Capital**	**Year-end 2008**	**2009 Estimates**
U.S. Reinsurers	$46.75	$19.72	2.4x	2x
Offshore U.S. GAAP Reporters	248.91	66.65	3.8x	3x
IFRS Reporters	622.22	60.41	10.3x	8x
Lloyd's Syndicates, not included above	93.90	22.23	4.0x	3x
Worldwide Market	**$1,011.78**	**$169.01**	**6.0x**	**4.6x – 5.0x**

Notes: Dollar amounts in $Bns. Professional reinsurers only. Excludes Berkshire Hathaway and Equitas.

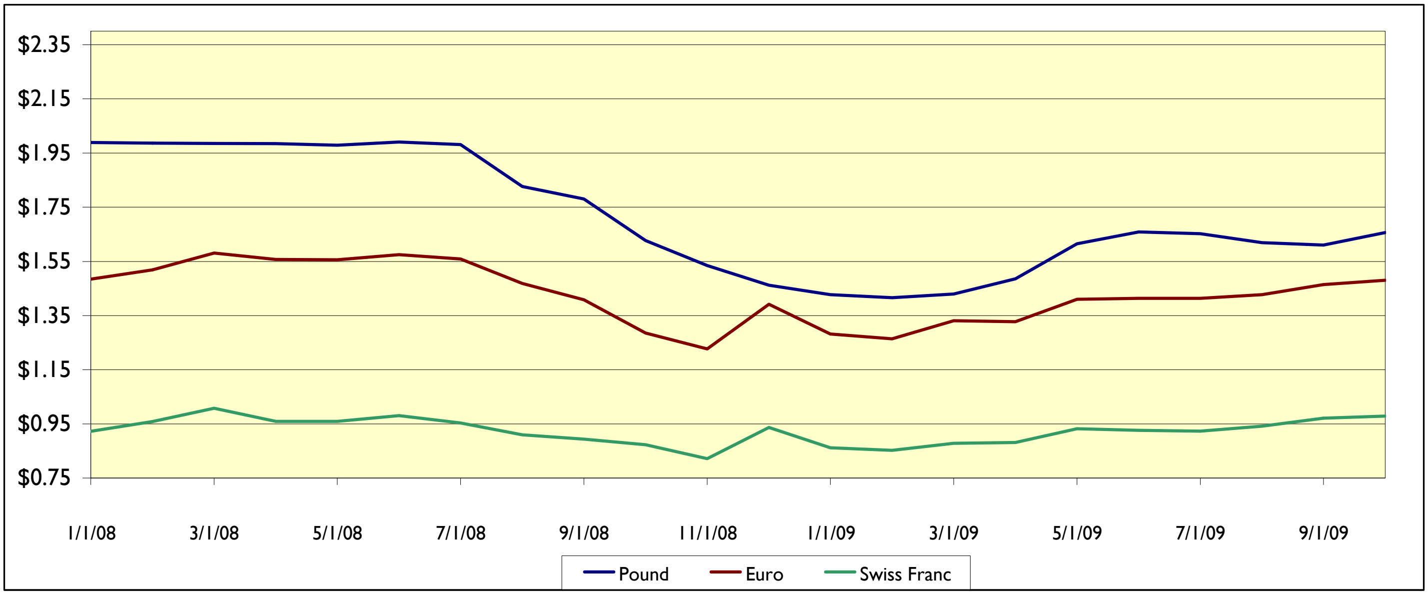
Structural issues with Cat bonds

Cat bonds require interest rate swaps in order to pay LIBOR-based returns to investors. Bonds pay as the ceded losses are paid, so they do not have a definite settlement date, and may have several partial payments. They also cannot settle until the losses are finally known, creating a potential extended term that cannot be pre-funded.

In 2009, Cat bond contracts relied on simpler and more transparent swap investments, such as government bond or insured money market collateral, but that raised their costs. Investors are also now charging for the credit risk of swap counterparties, further raising overall costs. There were fewer, as well as in some cases, reduced, issues in 2009. Nevertheless, investor interest remains high, due to increased spreads.

The euro, British pound and Swiss franc strengthened against the dollar during the last three quarters of 2009, and that increases industry capacity.

Foreign currencies fell sharply against the U.S. dollar in late 2008, but then rebounded during 2009.



D. Worldwide Reinsurance Industry Results

The worldwide reinsurance industry is:

- **Moderately profitable** overall (an 8% - 9% compound ROE since year-end 2000)
- **Volatile** (calendar year ROE's ranging between -9% and +20%)
- **Shrinking** (the 2009 market is smaller than 2003's)
- **Stronger** (leverage ratios down over 25% since 2001, even after the recent financial market declines)
- **Moving out of the U.S.**

Holborn performs an on-going analysis of the worldwide industry, adjusting national data for foreign affiliates and exchange rates. We estimate 2009 results of:

- Net Earned Premiums – $155 billion - $165 billion (down approx. 5%)
- Combined Ratio – 82% - 86% (down at least 3 points)
- Net Income – $25 billion to $35 billion (near record levels)
- Return on Equity – 15% to 20% (strong, but not a record)
- Year-end Capital – over $210 billion (up at least 25%, GAAP basis except for RAA members)
- Assets – up, but only by 3% to 5%
- Leverage ratios: gross premiums-to-capital below 90%, assets to capital below 500%. (Both are down sharply from '08)

In addition to strong income, reinsurers booked other gains to surplus. Exchange rates contributed to the increase, but there were also well over $10 billion in unrealized capital gains, most notably improved mark-to-market adjustments by Europeans that report under IFRS rules. Investment returns were about 5% to 10% of invested assets.

Large industry events in 2009 added only about 3 to 4 points to reinsurers' property loss ratios, about 5 points less than normal.

Based on current levels in currency markets and investments, Holborn estimates that the 2010 global reinsurance market results will show:

- Lower underwriting profits, driven by continuing rate decreases, and a return to expected large loss levels
- Less volatile asset markets and capital bases than in 2008 and 2009
- Lower premium volumes, as rate increases, if any, will not outpace the continuing declines in subject premiums.

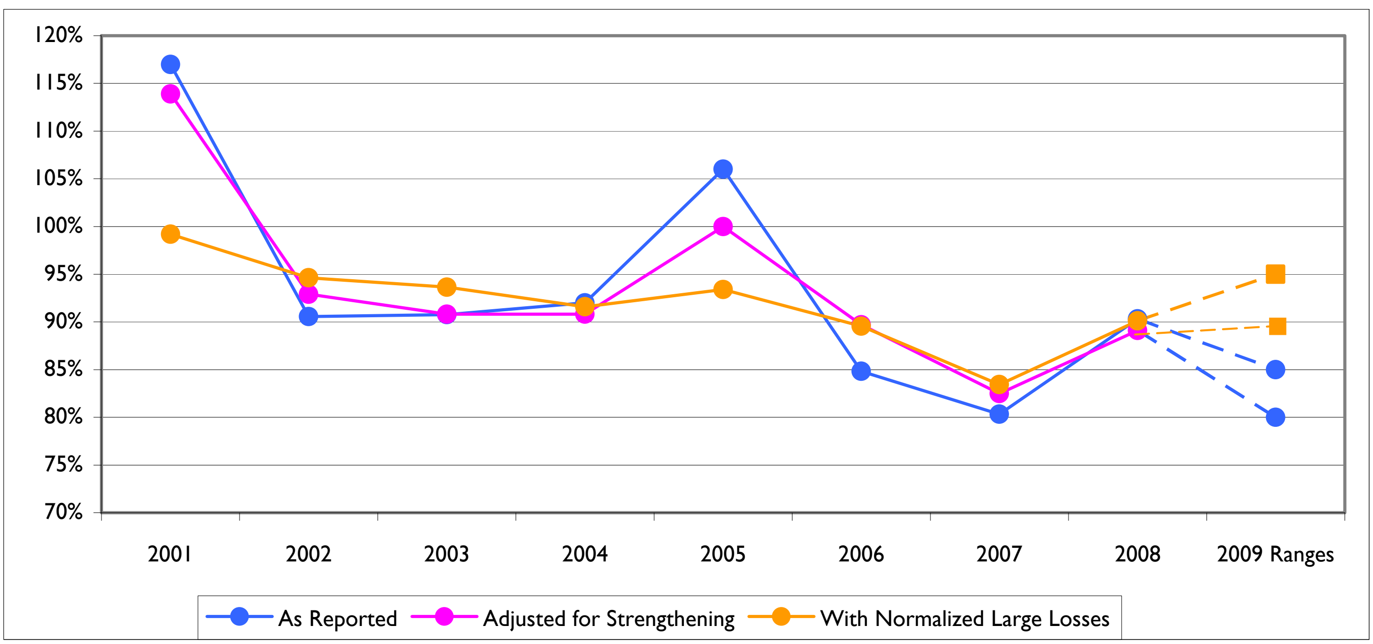
Worldwide industry results

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Capital Funds	Return on Equity
2001	$125,655	$97,047	($17,328)	117.9%	($7,148)	$74,422	-9.2%
2002	156,393	125,691	6,117	95.1%	4,169	80,271	5.6%
2003	203,412	173,934	14,349	91.8%	11,314	126,905	14.1%
2004	203,781	181,778	12,582	93.1%	14,151	145,110	11.2%
2005	185,901	164,895	(7,726)	104.7%	2,264	150,762	1.6%
2006	195,961	166,176	26,882	83.8%	30,604	193,915	20.3%
2007	206,423	180,345	29,777	83.5%	32,611	204,750	16.8%
2008	193,563	169,363	18,034	89.4%	5,527	168,008	2.7%
2009(est.)	$180Bn-$190Bn	$155Bn-$165Bn	$23Bn-$28Bn	82%-86%	$25Bn-$35Bn	$210Bn-$220Bn	15%-20%
2001-2008	**$1,471,089**	**$1,259,232**	**$82,687**		**$93,491**	**$1,145,143**	
8-Year Average	**$183,886**	**$157,404**	**$10,336**	**93.4%**	**$11,686**	**$143,143**	**7.5%**

Notes: $Mns. Gross premiums include retrocessions.

We also review underwriting results adjusting for reserve strengthening and large losses, based on a 25-year history of worldwide events that cost more than one-half percent of U.S. gross written premiums. We believe that amount represents the level where one or more events in a year would begin to affect reinsurance price levels.

Industry combined ratios



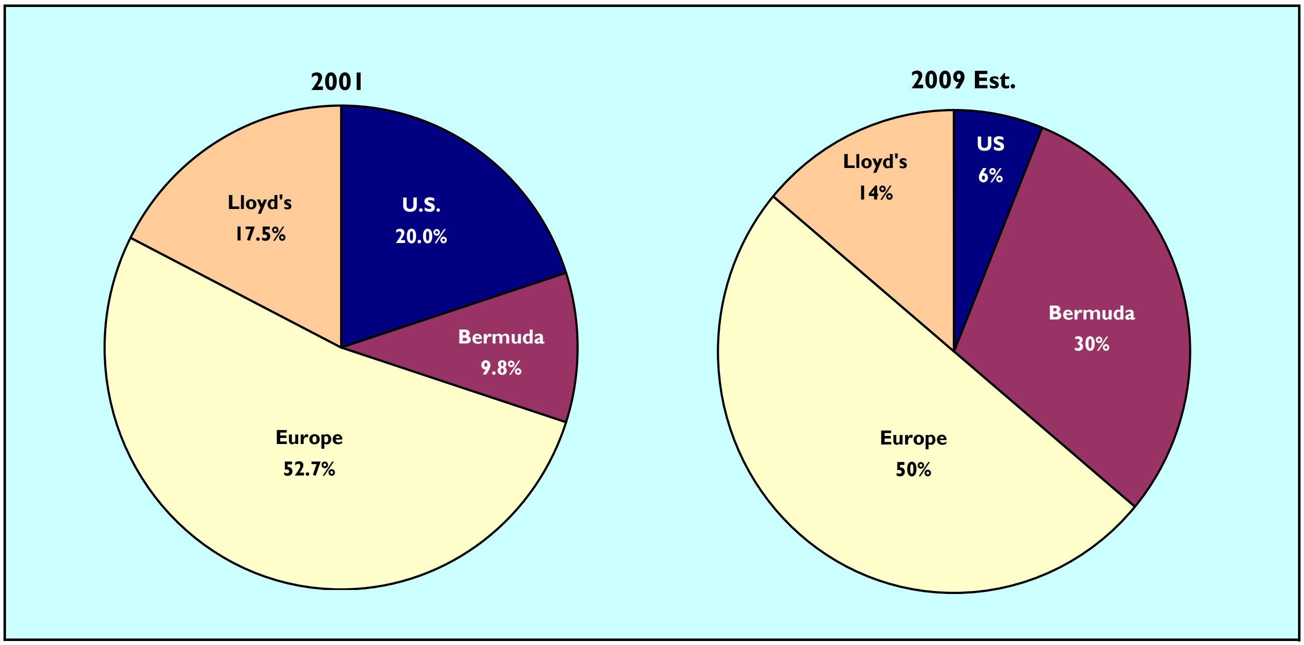
Notes: Trade basis, calendar year. Details in Appendix 2

On a normalized basis, with large losses smoothed at the twenty-five year average level and without reserve strengthening, results are much less volatile. In 2009, reinsurer results are roughly ten points better than our normalized ratios, due to reserve take-downs and good large loss experience.

Domicile market shares
(Based on group parents)

Bermuda-based companies have been consistently gaining market share, as much new capital has been invested there, most recently by UK companies. Since Bermuda-based reinsurers generally trade through brokers, the broker market's share has increased, as well.

The domestically-owned reinsurance industry has lost much of its market share. The continuing switch to Swiss and Irish domiciles is an interesting trend, as some companies are concerned about U.S. tax treatment on Bermudian operations in the future.



Note: Bermuda includes ACE and Flagstone, which are largely managed from Bermuda, but domiciled in Switzerland. They wrote a 12% share of the worldwide market in 2009.

Growth in premiums and capital

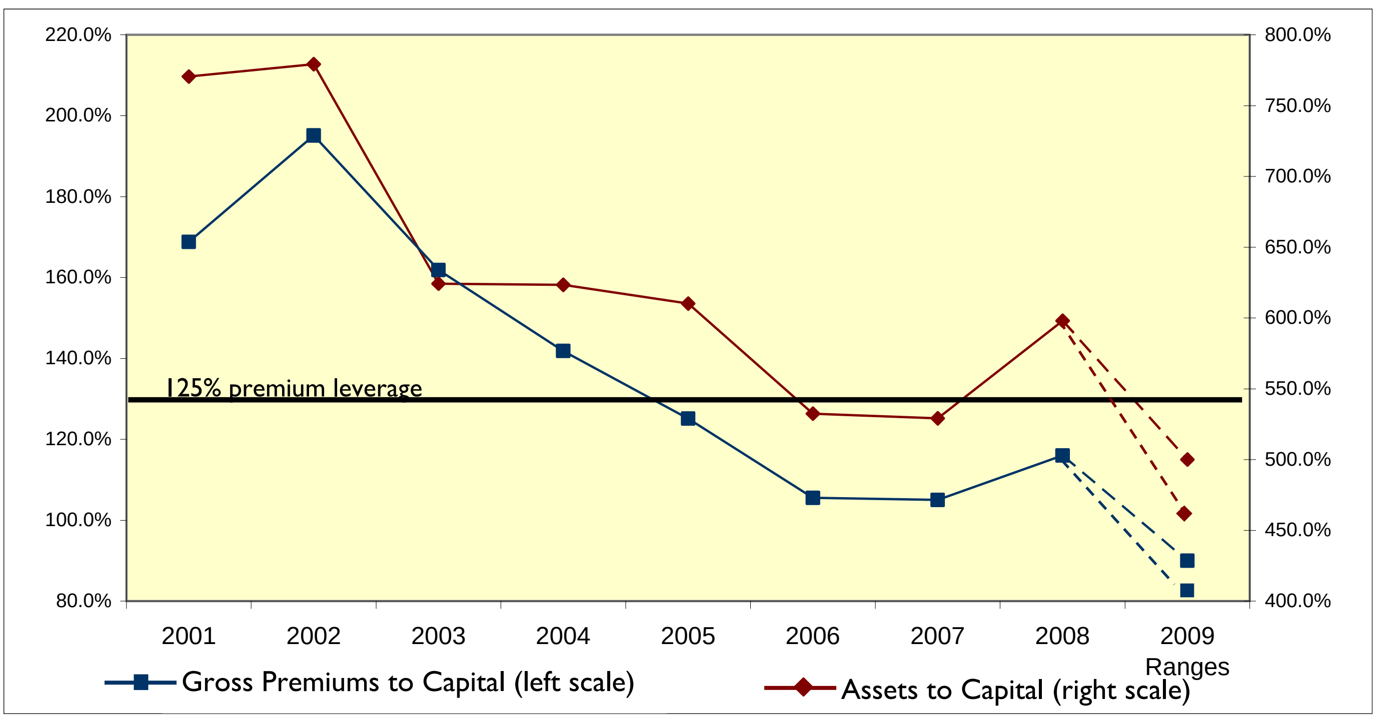
	Gross Premiums Written	Premium Growth Rate	Adjusted For Exchange Rates	Capital Funds	Premium Leverage Ratio	Asset Leverage Ratio
2001	$125,655			$74,422	168.8%	7.71x
2002	156,393	24.3%	17.5%	80,271	194.8%	7.81x
2003	203,412	29.8%	18.8%	126,905	160.3%	6.30x
2004	203,781	0.1%	-3.9%	145,110	140.4%	6.30x
2005	185,901	-8.8%	-1.8%	150,762	123.3%	6.19x
2006	195,961	5.4%	-2.3%	193,915	101.1%	5.50x
2007	206,423	5.3%	3.2%	204,750	100.8%	5.48x
2008	193,563	6.2%	-3.0%	169,008	114.5%	6.25x
2009 Est.	$180Bn - $190Bn	-2% - -7%	-5% - -10%	$210Bn - $220Bn	80% - 90%	4.6x - 5.0x
2001-2008	**$1,471,089**			**$1,145,143**		
8-Year Average	**$183,886**	**6.3%**	**3.7%**	**$143,143**	**135.9%**	**6.08x**

Note: $Mns.

Clash, program, facultative and retrocessional placements shrank drastically after the 2001 terror attacks. Many property catastrophe retentions rose after Katrina, reducing the size of the market. The economic slow-down also reduced industry premiums.

Market leverage ratios

Gross premiums to capital ***Assets to capital***



Holborn estimates that at a market average premium-to-capital ratio above 125% (shown as a black line in the previous graph), some reinsurers would need to reduce capacity. A reduction in reinsurance market capital of over $50 billion would be required for this to happen, representing multiple Katrina-sized events. (Large losses would also move prices for reasons other than leverage.) However, even a 5% drop in the value of investment portfolios could cause leverage problems for some reinsurers.

Industry capital rebounded in 2009

	Net Income/Loss	Increases from Exchange Rates	Reductions from Restructuring and Mergers	Mark to Market Losses (After-tax)	Net Capital Increases	Changes in Capital Funds
2001	($7,148)	($1,810)	$0	$0	$5,472	($3,485)
2002	4,169	6,875	(6,800)	0	1,605	5,849
2003	11,314	6,253	7,100	0	21,967	46,634
2004	14,151	4,734	0	0	(681)	18,204
2005	2,264	(8,688)	0	0	12,077	5,652
2006	30,604	8,045	(5,000)	0	9,505	43,153
2007	32,611	6,804	0	0	(28,581)	10,834
2008	5,527	(8,039)	(1,500)	(35,000)	3,270	(35,742)
2009 Est.	$25Bn - $35Bn	$10Bn - $20Bn	(5,000)	10,000	0	$40Bn - $60Bn
2001 – 2008	**$93,491**	**$14,174**	**($6,200)**	**($35,000)**	**$24,635**	**$91,099**
8-Year Average	**$11,686**	**$1,772**	**($1,244)**	**($2,778)**	**$3,079**	**$11,388**

Notes: $Mns. Restructurings involve: Munich-Allianz, Hannover-DHI, Converium-SCOR, Swiss-ERC, XL-SCA, Partner-Paris and Validus-IPC. Negative amount shown as capital increases in 2007 is largely stock repurchases. Net capital increases are calculated to balance to total change, and include miscellaneous items.

2010 Forecasts

Holborn forecasts the market will continue to show moderate, if any, growth and falling leverage ratios.

	Gross Premiums Written	Combined Ratio	Net Income	Net New Capital	Change in Capital	Year-end Capital	Gross Leverage Ratio
2010 Forecasts	$170,000 - $185,000	95% - 100%	$10,000 - $20,000	($10,000) - ($5,000)	$5,000 - $15,000	$220,000 - $240,000	75% - 85%
2009 Estimates	$180,000 - $190,000	82% - 86%	$25,000 - $35,000	Approx. $0	$40,000 - $60,000	$210,000 - $220,000	80% - 90%
2008 Actual	$193,563	89.4%	$5,527	$3,307	($34,742)	$168,008	114.5%
2001–2008 Averages	$183,886	93.4%	$11,686	$4,855	$11,264	$143,143	136.8%

Note: $Mns.

The 2010 estimates assume large loss experience at historical levels and more mergers and stock buy back programs among major reinsurers. Mergers are increasingly likely and tend to reduce capital. The estimates also assume that the equity and currency markets remain near 2009 levels.

E. For More Information

Our **Holborn Perspectives** analysis of catastrophe losses through 2009 is available at: www.holborn.com/holborn/news.html

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Holborn prepares the latest information on these issues in a variety of easy-to-use formats. We provide updates on recent and potential catastrophe events for several regions through an e-mail service. We also offer clients a monthly summary of reinsurer financial news and rating information. Holborn's Eye-in-the-Sky(SM) data management tool provides individually-tailored, real-time alerts on events that expose clients' accumulations.

About Holborn

Holborn is the largest independent reinsurance brokerage firm in the U.S., offering advanced analytic tools, global market access and responsive account services to clients. The company was formed in 1920, making us one of the most experienced reinsurance brokers in the world. We are owned exclusively by our employees. This contributes to Holborn's stable client base and noteworthy ability to attract and retain talent.

Please contact Holborn at 212-797-2285 for reprints of this or previous Holborn Perspectives whitepapers, and for more information. They are also available from our website at http://www.holborn.com/holborn/reports.html.

Appendices

1. Reinsurers Results by Domicile
2. Normalized Results
3. Reinsurers Included in Study
4. Significant Market Losses: 1985-2009

1. Results by Domicile

RAA members (excludes National Indemnity and eliminates foreign-owned companies)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Policyholders' Surplus	Total Assets	Return on Equity
2001	$25,141	$18,122	($8,025)	143.0%	($1,702)	$17,963	$97,358	-9.6%
2002	27,630	19,939	(4,716)	121.0%	616	18,754	70,756	3.4%
2003	22,405	17,205	(431)	102.5%	923	20,262	67,507	4.9%
2004	18,665	16,094	(1,340)	108.3%	890	21,214	64,605	4.4%
2005	16,785	13,941	(4,428)	131.8%	(825)	23,951	66,501	-3.9%
2006	12,537	10,799	414	96.2%	2,047	19,273	46,158	8.5%
2007	12,703	11,120	620	94.4%	2,183	21,013	50,399	11.3%
2008	12,003	10,447	(238)	102.3%	1,312	19,717	46,748	6.2%
Average	**$18,484**	**$14,708**	**($2,268)**	**115.4%**	**$680**	**$20,268**	**$63,754**	**3.0%**

Note: $Mns.

Bermuda reinsurance industry (excludes "sidecars" and Lloyd's capacity not 100% owned, includes Partner, Ace and Flagstone)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Capital Funds	Total Assets	Return on Equity
2001	$12,263	$10,369	($858)	108.3%	($816)	$15,622	$76,269	-5.7%
2002	16,996	15,157	2,196	85.5%	1,368	18,186	93,229	8.8%
2003	51,671	46,264	3,206	93.1%	6,287	43,017	168,509	34.6%
2004	58,463	52,387	1,909	96.4%	6,206	49,578	205,576	14.4%
2005	60,778	54,440	-6,889	112.7%	(2,211)	53,103	241,919	-4.5%
2006	60,853	54,157	6,904	87.3%	12,681	70,190	263,052	23.9%
2007	57,010	45,373	7,369	83.8%	11,638	75,937	260,147	16.6%
2008	58,494	46,512	3,058	93.4%	(343)	66,653	248,907	-0.5%
Average	**$47,066**	**$40,582**	**$2,112**	**94.8%**	**$4,351**	**$49,036**	**$194,701**	**10.2%**

Note: $Mns.

European-owned reinsurance industry (global business of Munich, Swiss, Hannover, Converium, SCOR, Glacier and Paris Re)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Policyholders' Surplus	Total Assets	Return on Equity
2001	$66,225	$55,039	($3,229)	105.9%	($559)	$35,070	$336,413	-1.4%
2002	$87,253	$74,454	$8,427	88.7%	977	31,370	$386,962	2.8%
2003	$101,794	$90,824	$9,933	89.1%	1,065	45,651	$474,242	3.4%
2004	$100,186	$92,010	$11,335	87.7%	4,579	51,134	$541,295	10.0%
2005	$83,891	$77,347	$5,765	92.5%	5,330	54,853	$508,904	10.4%
2006	$95,440	$86,249	$15,486	82.0%	9,972	72,585	$620,759	18.2%
2007	$105,629	$99,017	$17,747	82.1%	11,417	79,273	$669,405	15.7%
2008	$97,970	$93,155	$13,483	85.8%	1,847	60,405	$622,222	2.3%
Average	**$92,299**	**$83,512**	**$9,868**	**88.2%**	**$4,328**	**$53,793**	**$4,160,203**	**7.5%**

Note: $Mns., converted at year-end exchange rates.

Lloyd's market (pre-tax, excludes syndicates 100% owned by other reinsurers)

	Gross Premiums Written	Net Premiums Earned	Net Underwriting Gain	Combined Ratio	Net Income/ Loss	Capital Funds	Total Assets	Return on Equity
2001	$22,026	$13,517	($5,216)	138.6%	($4,071)	$5,768	$63,449	-57.6%
2002	24,514	16,141	210	98.7%	1,208	11,961	$74,581	20.9%
2003	27,542	19,641	1,641	91.6%	3,038	17,976	$82,018	25.4%
2004	26,467	21,287	678	96.8%	2,476	23,184	$93,146	13.8%
2005	24,447	19,167	(2,174)	111.3%	(30)	18,855	$102,549	-0.1%
2006	30,973	23,755	4,078	82.8%	6,946	26,120	$102,520	36.8%
2007	31,081	24,835	4,041	83.7%	7,374	28,527	$103,440	28.2%
2008	25,096	19,249	1,730	91.0%	2,711	22,232	$93,899	9.5%
Average	**$26,518**	**$19,699**	**$624**	**96.8%**	**$2,457**	**$19,328**	**$715,601**	**4.3%**

Note: $Mns., converted at year-end exchange rates.

2. Normalized Results

Results excluding reserve strengthening and worldwide industry losses over ½% of U.S. GWP (direct)

	Net Income/ Loss	Casualty Reserve Strengthening	Property Reserve Strengthening	Estimated Cat Losses	Tax Effect	Adjusted Net Income/ Loss	Adjusted Return
2001	(7,148)	$3,853	($3,000)	$23,000	($6,114)	$10,591	13.6%
2002	$4,169	$2,750	$3,000	$1,500	($1,851)	$9,568	12.9%
2003	$11,314	$1,722	$0	$2,250	($839)	$14,447	18.0%
2004	$14,151	$3,970	($2,000)	$8,250	($2,066)	$22,304	17.6%
2005	$2,264	$7,805	($10,000)	$28,500	($4,951)	$23,618	16.3%
2006	$30,604	($9,686)	$8,000	$0	$304	$29,222	19.4%
2007	$32,611	$1,699	$4,000	$2,250	($1,651)	$38,910	20.1%
2008	$5,527	$358	($2,000)	$8,000	($1,322)	$10,563	5.2%
2009 Est.	$25,000 - $35,000	($5,000)	$2,000	$750	$450	$22,000 - $33,000	13%-18%
2001-2008	**$93,491**	**$12,471**	**($2,000)**	**$73,750**	**($18,490)**	**$159,222**	**15.3%**

Notes: $Mns. No tax-effect on unconsolidated Bermuda companies or Lloyd's syndicates. Reserve strengthening reflects disclosed amounts for U.S. casualty excess business, and Holborn estimates of property losses that emerge in the year following major events.

Results excluding reserve strengthening and with large losses at 25-year average level relative to U.S. GWP

	Adjusted Net Income No Strengthening and No Large Losses	Adjusted Net Income No Strengthening But Average Large Losses	Normalized Combined Ratio	Normalized Return
2001	$10,591	$6,326	100.7%	8.1%
2002	$9,568	$4,645	99.8%	6.2%
2003	$14,447	$8,722	95.3%	10.9%
2004	$22,304	$16,317	91.9%	12.9%
2005	$23,618	$17,372	88.8%	12.0%
2006	$29,222	$22,804	95.8%	15.1%
2007	$38,910	$32,684	86.9%	16.9%
2008	$10,563	$4,519	90.4%	2.2%
2009 Est.	$22,000 - $33,000	$16,000 - $27,000	91% - 94%	10% - 15%
2001-2008	**$159,222**	**$113,390**	**93.9%**	**10.4%**

Note: $Mns.

3. Reinsurers Included in Study

We combined the published experience of the RAA members, Lloyd's, Bermuda public companies and the major European reinsurer groups. We exclude reinsurance departments of insurer groups, such as Liberty Mutual, MAPFRE and Generali, and also Berkshire Hathaway's National Indemnity Co., as we consider it to be principally an investment vehicle and not a reinsurer. However, for consistency, we include insurers' such as Lloyd's, ACE, AWAC and XL that are influential lead markets but may not write most of their volume as reinsurance. We also exclude specialist Life reassurance and mortgage guarantee companies. Equitas and companies now in runoff are excluded from the years after they stopped underwriting. The companies in the study and the years each one is included:

ACE (2000 – 2009)

American Agricultural Insurance Company (2000 – 2009)

Amlin (Bermuda) Ltd. (2007-2009)

Arch (2003 – 2009)

Argo Reinsurance Ltd. (2007-2009) / PXRe Reinsurance Company (2000 – 2006)

Ariel/Rosemont (2007 – 2009)

Aspen (2003 – 2009)

AWAC (2003 – 2009)

AXIS (2003 – 2009)

Berkley Insurance Company (2000 – 2009)

Catlin (Bermuda) (2003-2009)

CNA Re (2000 – 2002)

Converium (2000 – 2006)

EMC Reinsurance Company (2000 – 2009)

Endurance (2003 – 2009)

Everest Reinsurance Company (2000 – 2009)

Farmers Mutual Hail Insurance Company of Iowa (2000 – 2009)

Flagstone Reinsurance (2006-2009)

GE Insurance Solutions (2004 – 2005) / Employers Reinsurance Corporation (2000 – 2003)

General Re Group (2000 – 2009)

Gerling Global Group (2000 – 2002)

Glacier Re (2006-2009)

Hannover Re (2000 – 2009)

Hartford Re Company (2000 – 2002)

Hiscox Insurance Ltd. (Bermuda) (2006-2009)

IPC Re, Ltd. (2000 – 2009)

Lancashire (2006-2009)

Lloyds (2000 – 2009, Market total GAAP results, eliminating syndicates consolidated into other reinsurers' results.)

Mapfre U.S. Re (2003 – 2005)

Max Re (2003-2009)

Montpelier (2003-2009)
MS Frontier Ltd. (Bermuda) (2007-2009)
Munich Re (2000 – 2009)
Odyssey Re Corp. / Odyssey America Re Corp (2000 – 2009)
Omega (Bermuda) (2006-2009)
Overseas Partners U.S. Reinsurance Company (2000 – 2002)
Partner Re (2001 – 2009)
Paris Re (2006 – 2009) / AXA Re (2004 – 2006) / Axa Corporate Solutions Reinsurance Co. (2000 – 2003)
Platinum Re (2002 – 2009) / St. Paul Re (2000 – 2001)
PMA Capital Insurance Company (2000 – 2003)
QBE Reinsurance Corporation (2000 – 2009)
Renaissance Re (2000 – 2009)
SCOR (2000 – 2009)
Swiss Re (2000 – 2009)
Toa Reinsurance Company of America (2000 – 2009)
Tokio Millennium (Bermuda) (2003-2009)
Transatlantic/Putnam Reinsurance Cos. (2000 – 2008)
Trenwick America Reinsurance Corporation (2000 – 2005)
White Mountain Re (2007-2009) / Folksamerica Reinsurance Company (2000 – 2007)
XL Ltd. (2000 – 2009)

Notes: Berkshire Hathaway's National Indemnity and Equitas units are excluded. Berkshire's General Re unit and the Faraday Syndicate at Lloyd's are included. Bermuda "Sidecars" do not report comparable figures and are not included.

4. Significant Market Losses 1985-2009

Year	Loss	Reported Fatalities	Worldwide Direct Insured Losses	% of U.S. Industry GWP	Reinsured Losses	% of Reinsurance Industry GWP
1985	Mexico City Earthquake	10,153	$4Bn	2.6%	$.5Bn – $1.5Bn	NA
1987	UK Winterstorm (87J)	23	$5Bn	2.4%	$1Bn – $1.5Bn	NA
1988	Piper Alpha Rig Explosion	167	$2.5Bn	1.0%	$1.5Bn – $2Bn	NA
1988	Hurricane Gilbert	341	$6Bn	2.8%	$2Bn – $3Bn	NA
1989	Exxon Valdez Oil Spill	0	$4.5Bn	1.6%	Direct*	NA
1989	Hurricane Hugo	56	$7.5Bn	3.4%	$2Bn – $3Bn	NA
1989	Loma Prieta Earthquake	63	$7.5Bn	3.4%	$2Bn – $3Bn	NA
1989	Phillips Petroleum Explosion	23	$1.5Bn	0.7%	Direct*	NA
1990	UK Winter Storm Daria (Burns' Day)	95	$7Bn	0.3%	$2Bn – $3Bn	NA
1990	UK Winter Storm Vivian	64	$5Bn	2.1%	$1Bn – $2Bn	NA
1991	Typhoon Mireille, Japan	52	$5Bn	2.1%	$2Bn – $3Bn	NA
1992	**Hurricane Andrew**	**26**	**$15.5Bn**	**6.3%**	**$3Bn – $4Bn**	**NA**
1993	Mississippi Flood	50	$3Bn	1.2%	<$1Bn	NA
1994	**Northridge Earthquake**	**72**	**$17.5Bn**	**6.5%**	**$5Bn – $6Bn**	**NA**
1995	Kobe Earthquake	6,434	$5Bn	1.8%	< $2Bn	NA
1995	Texas Hail (Cat 38)	13	$4Bn	1.4%	< $1Bn	NA
1995	Hurricane Opal	70	$3Bn	1.1%	$1Bn – $2Bn	NA
1996	Hurricane Fran	26	$3.5Bn	1.2%	$1Bn – $2Bn	NA
1998	Hurricane Georges	604	$4Bn	1.3%	$1Bn – $2Bn	NA
1999	Izmit, Turkey Earthquake	17,217	$4Bn	1.3%	< $1Bn	NA
1999	Hurricane Floyd	57	$5Bn	1.6%	$1Bn – $2Bn	NA
1999	Typhoon Bart	26	$4Bn	1.3%	$1Bn – $2Bn	NA
1999	European Winter Storm Lothar	50	$9Bn	2.9%	$3Bn – $4Bn	NA
1999	European Winter Storm Martin	30	$6Bn	2.0%	$1Bn – $2Bn	NA
2001	**September 11th Attacks**	**3,017**	**$41Bn**	**11.3%**	**$20Bn – $25Bn**	**15% - 20%**
2001	Hurricane Allison	41	$3.5Bn	1.0%	$1Bn – $2Bn	0.8% - 1.6%
2002	Czech Floods	84	$4Bn	1.0%	$1Bn – $2Bn	0.6% - 1.3%
2003	St. Louis Tornadoes	45	$3.5Bn	0.8%	$1Bn – $2Bn	0.5% - 1.0%
2003	California Wild Fires	15	$3Bn - $4Bn	0.8%	< $1Bn	< 0.5%
2004	**Hurricane Charley**	**35**	**$12.5Bn**	**2.6%**	**$1.5Bn – $2.5Bn**	**0.75% - 1.25%**
2004	Hurricane Frances	49	$7Bn	1.5%	$1Bn – $2Bn	0.5% - 1.0%
2004	Typhoon Songda	45	$3.5Bn	0.7%	$1Bn – $1.5Bn	0.5% - 0.75%
2004	**Hurricane Ivan**	**123**	**$11.5Bn**	**2.4%**	**$1.5Bn – $2.5Bn**	**0.75% - 1.25%**
2004	Hurricane Jeanne	3,035	$5Bn	1.1%	$1Bn – $2Bn	0.5% - 1.0%
2005	Indian Ocean Tsunami	230,000	$5Bn	1.0%	< $1Bn	0.6% - 1.1%
2005	**Hurricane Katrina**	**1,836**	**$65Bn**	**13.3%**	**$20Bn – $24Bn**	**9.7% - 14.6%**
2005	**Hurricane Rita**	**34**	**$8Bn – $10Bn**	**1.6% - 2.1%**	**$2Bn – $3Bn**	**1.1% - 1.6%**
2005	**Hurricane Wilma**	**35**	**$12Bn – $15Bn**	**2.5% - 3.1%**	**$3Bn – $4Bn**	**1.6% - 2.2%**
2007	California Wild Fires	14	$3Bn	0.8%	< $1Bn	< 0.5%
2007	European Winter Storm Kyrill	44	$6Bn	1.2%	$1Bn – $1.5Bn	0.5% - 0.7%
2007	UK Floods	13	$7Bn	1.4%	$1Bn – $1.5Bn	0.5% - 1.7%
2008	Hurricane Gustav	112	$6Bn – $8Bn	1.2% - 1.7%	$1Bn – $2Bn	0.5% - 1.0%
2008	**Hurricane Ike**	**103**	**$18Bn – $22Bn**	**3.7% - 4.6%**	**$6Bn - $7Bn**	**3.1% - 3.6%**
2009	Winter Storm Klaus	16	$3Bn – $4Bn	0.6% - 0.8%	< $1Bn	< 0.5%
1985 – 2009 Totals	**44 Events**	**274,408**	**$360Bn - $380Bn**	**0.6% - 0.8%**	**$105Bn - $150Bn**	
25-Year Averages	**1.76 per year**	**10,976**	**$14.5Bn - $16Bn**	**4.5% - 5.5%**	**$4.25Bn - $6Bn**	**4% - 6%****

Source: Holborn estimates of worldwide market loss, all coverages, including LAE; Foreign currencies converted at historic rates; based on PCS, III, Sigma and market reports. Actual loss amounts, not adjusted for inflation.

**Note: Reinsurers' participations on these events were largely as direct and fac placements, not treaty.*

***Average since 2001*

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