Global Reinsurance

Capital Consequences – Billion Dollar Question

October 2008

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BENFIELD GROUP LTD

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Capital Consequences

Billion Dollar Question

Benfield Research

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Capital Consequences

Talking point
Until September, the consensus view of rating trends in 2009 had been one of continued price erosion. The fall out from the credit crunch and escalating losses from Hurricane Ike have undermined this opinion and the outlook for pricing has shifted.

Hurricane losses
2008 was forecast to be a year of above average activity for hurricanes and reinsurer balance sheets were well prepared. It looked as though Hurricane Gustav might be the big event but Hurricane Ike, which followed as a mere Category 2, has been more costly. Loss estimates are still rising but while Ike is likely to enter the top five list of largest insured losses the damage to balance sheets appears to have been significantly less than the impact of Hurricane Katrina in 2005.

Market losses
P&C balance sheets tend to be conservatively invested with the majority of assets invested in high quality investment grade fixed income securities. However, net assets will not be immune from impairment charges and falling mark to market values through widening spreads. Nevertheless the investment experiences of AIG and XL Capital, which have amplified the problems in the extreme, look to be exceptional cases.

Third quarter statements
XL has not been alone in issuing a preliminary third quarter statement. For those reporting, balance sheet damage from both financial and meteorological storms seems relatively well contained and significantly less than the harm inflicted by the 2005 storms. The sample size, is however, small. The third quarter results season is now starting in earnest and will provide an opportunity to see the impact in more detail and assess how much it hurt.

Fear and reality
Extensive Government support of global financial institutions has called into question the doctrine of "market fundamentalism" and ready access to capital is but a distant memory. The fear of restricted markets as much as the increased cost of capital may constitute a market changing event. Both debt and equity markets have been affected as historically high LIBOR spreads and betas prevail.

Witches' brew
The events in isolation may not be market changing but the impact could be greater than the sum of the parts. Losses and loss of confidence are a potent mix for changing behaviour. The onset of global recession and associated increase in cost of claims could act as a catalyst for both insurers and reinsures alike. As always in the (re)insurance market, only significant removal of capital will harden the market.

Billion dollar question

The fall out from the Category 5 credit cyclone and the estimated loss from Hurricanes Gustav and Ike suggests an altered prognosis for reinsurance pricing. The price of risk is being reassessed but there will need to be a significant reduction in capacity if these events are to be ranked as market changing.

The 2008/9 renewal season, like that of 2005/6, will follow a year of significant losses and uncertainty in the insurance industry. The fact that pricing trends in 2004/5, like those for the 2007/8 renewal, were also in negative territory (to the left of the line in Chart 1) is also of interest.

Chart 1

Property Catastrophe renewal Risk adjusted basis

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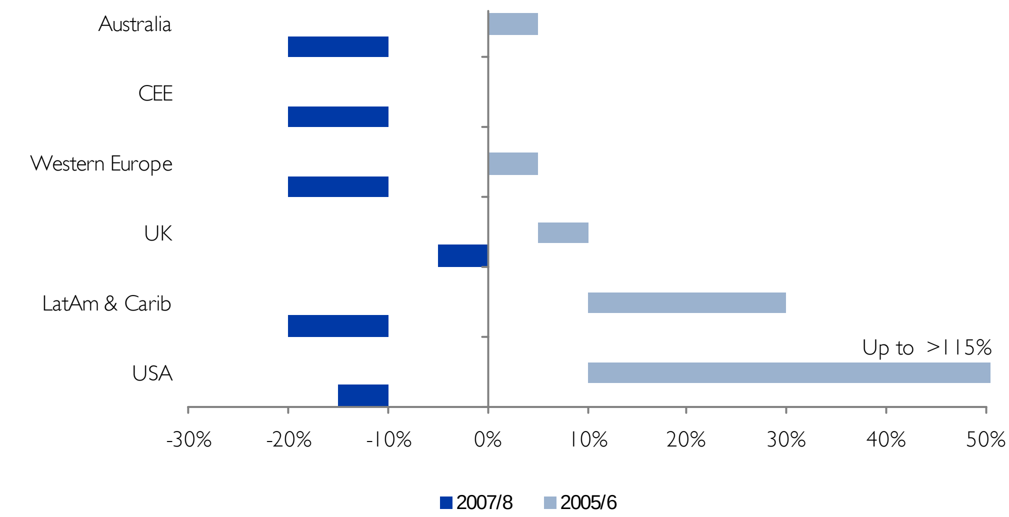


The question for the industry is "has the pricing cycle turned?" and if so, "for how long and by how much?". Will pricing trends for 1 January 2009 renewals all be placed on the right hand side of the axis in Chart1?

A market changing event requires removal of significant capital from the market to generate a change in pricing. Hurricane and investment losses in the third quarter have certainly made their mark but the impact has to be judged on well-bolstered balance sheets.

The answer may lie not so much in reported in balance sheet changes but more in shifting appetite for risk. In the first instance this could affect the supply of capital to the industry. In recent years there has been a fluid relationship with capital providers which has involved both give (share buybacks and special dividends) and take (rights issues and sidecars). The emergence of the cash stretched investor suggests that insurers will have to be more formal and prescriptive in their approach to capital management.

A new found appreciation of risk and necessary pricing reassessment may change the economics of the industry. The cost of capital has risen and insurers could be further squeezed as balance sheets are "de-risked" with lower base rates in prospect. Consequently, there is likely to be a greater reliance on underwriting returns and this will sharpen the focus on pricing. The onset of global recession and associated increases in the cost of claims could compound the argument. In addition, as part of "de-risking", an increase in the demand for (re)insurance, not least through company dislocation, could also be a catalyst.

GI Force

Hurricanes Gustav (G) and Ike (I) look to be the most costly catastrophe events in 2008 and estimates of damage from Ike continue to rise. If Ike losses prove to be larger than the USD14.1bn cost of hurricane Ivan (2004) it will rank fifth in the global list of most costly insured catastrophe losses. However, the GI combined cost will still be significantly less than that of Hurricanes Katrina, Rita and Wilma for company balance sheets.

Gustav was expected to remain a Category 3 storm as it hit the US having caused significant damage in Haiti, Jamaica, the Dominican Republic, Jamaica, the Cayman Islands and Cuba. In fact as it hit the Louisiana coast on 1 September it had weakened to a strong category 2. Early loss forecasts have been lowered: those from the catastrophe modelling agencies and individual companies are shown in Table 1 and Appendix 1 respectively.

Table 1

Market insured loss estimates

Company data

	Announcement Date	Gustav	Ike
AIR Worldwide	01/09/2008	Onshore USD2bn-4.5bn. Offshore USD1.8bn-4.4bn	
AIR Worldwide	13/09/2008		Onshore USD8bn-12bn. Offshore USD0.6bn-1.5bn
RMS	17/09/2008	Onshore & Offshore USD2.5bn-4.5bn	Onshore & Offshore USD7bn-12bn
EQECAT	02/09/2008	Onshore USD3bn-7bn	
EQECAT	19/09/2008		Onshore USD8bn-12bn Offshore USD4bn-6bn

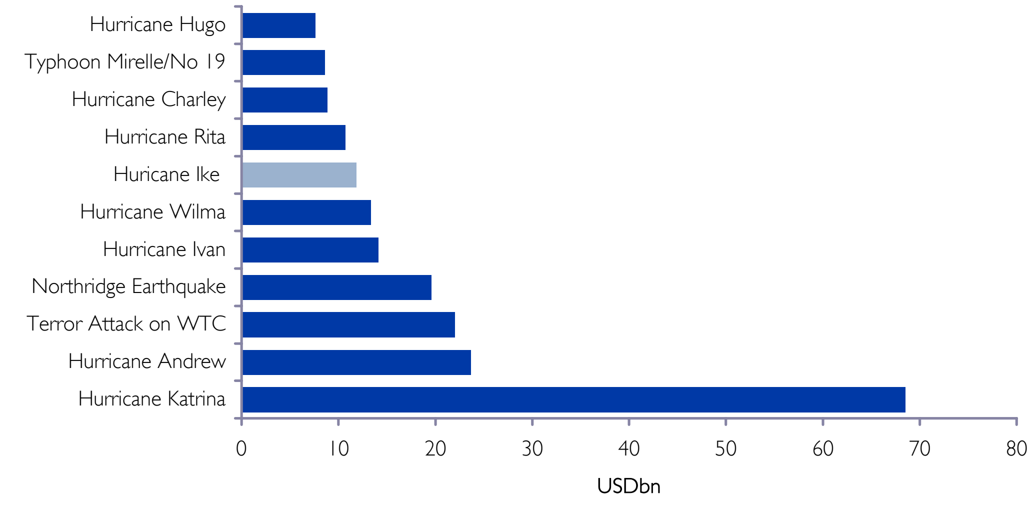
Hurricane Ike followed in quick succession and on 5 September was rated a Category 4 hurricane. As with Gustav, Ike weakened and made landfall in Texas as a Category 2 hurricane. In contrast to Gustav, expectations for Ike have been rising and there is now clear water between the industry estimates of the modelling agencies shown in Table 1 and the more recent pronouncements of several companies. A simple average of the mid point estimates in this table ranks Hurricane Ike as the 7th most costly insured loss event and the fifth most costly storm after Hurricanes Katrina (2005), Andrew (1992), Wilma (2005) and Ivan (2004). Ike is likely to overtake the latter two when final costs are assessed. Chart 2 shows the current ranking.

Validus has observed that industry loss estimates have been significantly understated because Ike's large wind field and the storm's high integrated kinetic energy (IKE), combined with wind damage through the Ohio Valley, were not fully contemplated in current industry estimates. Validus has based its loss estimates on an industry loss of USD15bn-USD17bn. Aspen, likewise, believes that industry forecasts are too low and has based its estimates on an industry loss estimate of USD16bn. More recently Omega declared that, on the basis of information received from insureds, cedants, brokers and agents, losses will ultimately be materially larger than the USD11bn-USD19bn estimated for the combined onshore and marine energy offshore by modelling agencies.

Chart 2

Hurricane Ike vs top ten most costly insured losses 1970-2007

Swiss Re sigma 1/2008, Modelling agencies Benfield Research



While Hurricane Ike losses will undoubtedly be large, on its own it could not be considered a market changing event as regards pricing. Chart 3 shows the top ten Bermudian companies by exposure to Katrina, Rita and Wilma in 2005 and Chart 4 the top ten company exposures from the listing in Table 8 to Gustav and Ike in 2008. Chart 3 is based on after tax storm losses. Chart 4 reflects variances in reporting and more detail is given in Appendix 1. Some companies have reported loss estimates on a post tax basis, others pre-tax or simply in terms of impact on profits which may depend on previously budgeted catastrophe losses. For example the USD55mn of losses estimated at Chaucer are broadly consistent with Chaucer's year to date budget for catastrophe claims, and in the absence of further insurance catastrophes, should not have material adverse effect on the Group's expected underwriting results. To date it would seem that, costly though the 2008 storms will be, the damage in balance sheet terms looks significantly less.

Chart 3

After tax storm losses as % 1H 2005 SHF

Benfield Research

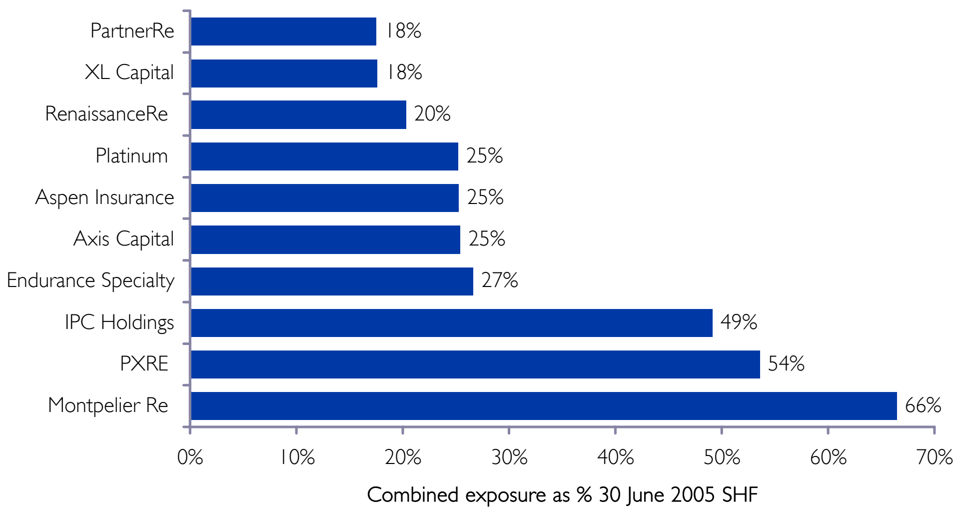


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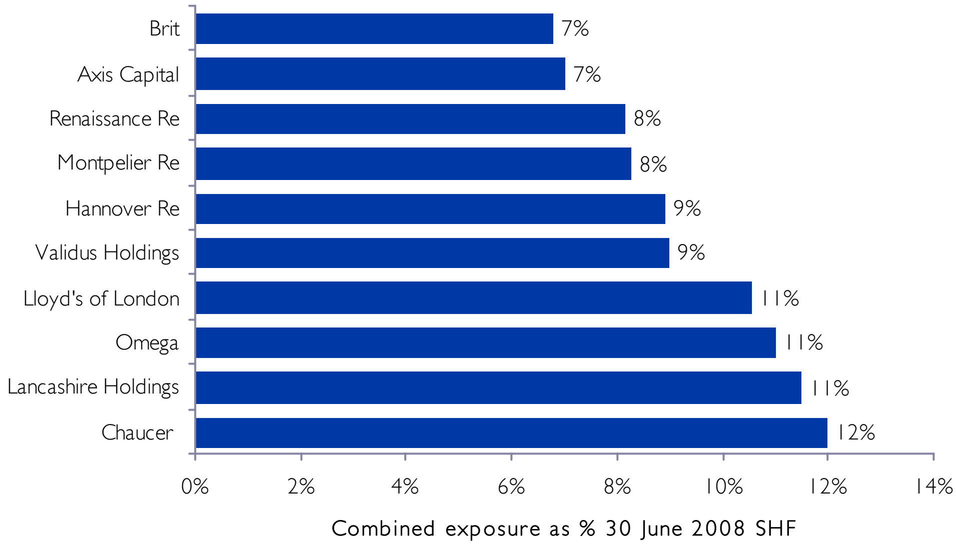
Chart 4

Gustav and Ike exposure as % 1H 2008 SHF

Benfield Research



Net worth

P&C balance sheets tend to be conservatively invested with the majority of assets invested in high quality investment grade fixed income securities. Nevertheless portfolios have not been able to escape the impact of widening credit spreads, collapse in financial institutions, falling stock markets and increased volatility of foreign exchange. Investment returns for the 9M 2008 will be negative for most and this will exacerbate the storm damage to balance sheets.

Table 2 and Table 3 show the asset mix for selected major reinsurers as at 30 June 2008. Some companies have looked to further "de-risk" balance sheets which will entail an acceptance of lower investment yield. Widening spreads including those on corporate bonds will have caused further mark to market losses in the third quarter and the beneficial effect on bond prices due to the reduction in interest rates will not be enough to offset this adverse impact.

Table 2

Investment split as at 30 June 2008

10Q, company data Benfield Research

% invested assets as at 30 June 2008	Fixed income securities	Equities	Cash	Other*	Total invested assets mn**
ACE	80%	3%	1%	15%	46,992
Allied World	85%	0%	6%	9%	6,774
Arch Capital	77%	3%	2%	18%	11,271
Aspen	77%	3%	10%	9%	5,982
Axis Capital	86%	2%	11%	1%	10,135
Endurance Specialty	81%	0%	12%	7%	5,666
Everest Re	76%	8%	2%	14%	14,735
Flagstone Re	41%	5%	29%	25%	1,967
Hannover Re	85%	9%	0%	6%	17,882
IPC Holdings	74%	19%	6%	1%	2,470
Lancashire Holdings	55%	4%	40%	1%	1,903
Max Capital	69%	0%	11%	21%	5,285
Montpelier Re	59%	8%	22%	10%	2,668
Munich Re	83%	15%	0%	2%	109,309
Odyssey Re	52%	13%	13%	22%	8,171
Paris Re	91%	0%	6%	3%	4,514
PartnerRe	84%	9%	4%	3%	12,243
Platinum	77%	0%	19%	4%	4,413
RenaissanceRe	58%	0%	4%	38%	6,504
Scor	64%	8%	24%	3%	10,938
Swiss Re	68%	11%	6%	15%	193,894
Transatlantic Holdings	74%	6%	3%	17%	12,766
Validus	75%	0%	14%	10%	3,445
White Mountains	61%	14%	2%	23%	11,812
XL Capital	81%	2%	10%	7%	35,790

* Other includes investments such as investments in affiliates, real estate funds, short term investments, private equity and alternative investments, catastrophe bonds and miscellaneous other investments
** reporting currency

Table 3

Investment split as at 30 June 2008

10Q, company data
Benfield Research

As % Fixed Income at 30 June 2008	US gov't	Other foreign gov't	Corporate	Municipal/ state other	MBS	ABS	Other	Total**
ACE	7%	25%	27%	5%	34%	3%	0%	37,802
Allied World	39%	0%	24%	1%	34%	2%	0%	5,734
Arch Capital	11%	5%	27%	12%	33%	13%	0%	8,637
Aspen	22%	9%	35%	0%	29%	5%	0%	4,613
Axis Capital	14%	3%	27%	8%	43%	5%	0%	8,703
Endurance Specialty	40%	0%	0%	0%	52%	8%	0%	4,605
Hannover Re	0%	26%	32%	25%	0%	18%	0%	15,130
Lancashire Holdings	39%	1%	26%	0%	25%	0%	9%	1,043
Max Capital*	25%	0%	43%	0%	32%	0%	0%	3,621
Montpelier Re*	34%	0%	28%	0%	38%	0%	1%	1,587
Munich Re	42%	8%	0%	28%	0%	0%	22%	90,443
Odyssey Re	69%	26%	1%	4%	0%	0%	0%	4,402
Paris Re	0%	0%	0%	0%	3%	0%	0%	4,086
PartnerRe*	11%	28%	37%	0%	24%	0%	0%	10,288
Scor	0%	47%	34%	0%	0%	0%	18%	7,030
Swiss Re*	21%	26%	24%	0%	29%	0%	0%	89,262
Transatlantic Holdings	4%	3%	23%	70%	0%	0%	0%	9,496
Validus	26%	7%	27%	0%	35%	6%	0%	2,601
White Mountains*	13%	14%	30%	0%	41%	0%	1%	6,846
XL Capital*	8%	13%	40%	2%	37%	0%	0%	29,121

*MBS and ABS Combined **Reporting currency

3Q 2008 Results

The third quarter results season has yet to begin in earnest and Table 10, Appendix 3 shows the timetable of expected announcements. A number of companies have provided preliminary statements. The sample size is small but Table 4 summarises investment results to date.

Table 4

3Q 2008 investment performance

Company data
Benfield Research

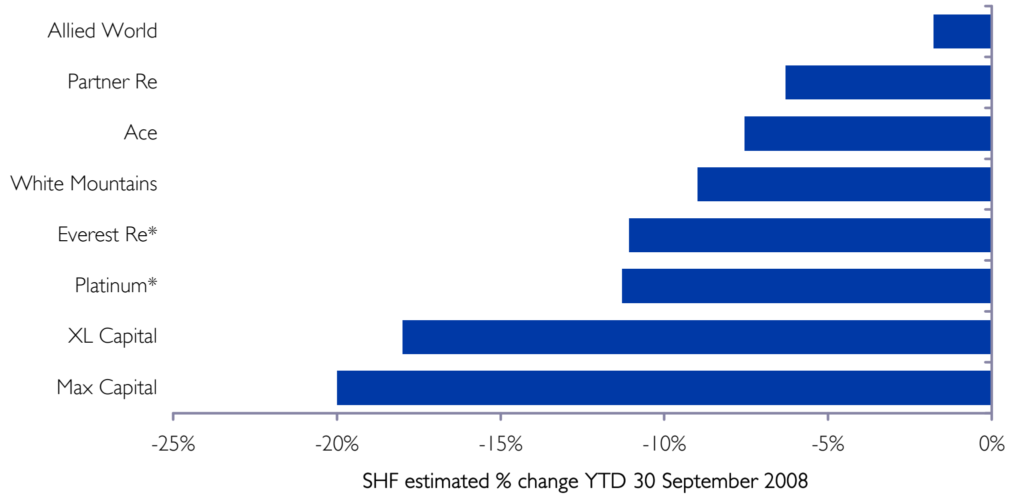
	Investment return	Comment
Ace	n.a.	3Q net realised and unrealised losses USD1.5bn of which USD1.3bn attributable to FI and equities and USD220mn net realised loss from guaranteed minimum income benefit
Allied World	n.a.	3Q net realised and unrealised investment loss of USD150mn and USD50mn respectively
Amlin	9M 2008 -0.4%	
Beazley	9M 2008 -1.1%	GBP13mn cumulative investment losses (GBP26mn in 3Q) GBP12mn write-down on Lehman
Brit	9M 2008 -0.4%	
Catlin	9M 2008 -0.9%	Incl. USD118mn unrealised loss on fixed income and USD10mn write down on Lehman
Chaucer	9M 2008 -2.8%	GBP29mn investment losses
Everest Re	9M 2008 0.3%	3Q pre-tax realised & unrealised losses USD293mn
Hannover Re	9M 2008 2%	9M write-downs EUR466mn
Max Capital	9M 2008 -2.2%	Alternative investments accounted for approx 20% 30 June portfolio.
Omega	9M 2008 2.7%	Minor deterioration in corporate bond portfolio due to widening spreads more than offset by strong performance of treasuries
Platinum	9M 2008 4.8%.	3Q net realised loss USD18.2mn
White Mountains	3Q total return on FI: -2% to -3%; total return on equities -12% to - 13%	
XL Capital	n.a.	9M net realised gains and losses of USD1.9bn including USD1.5bn charge relating to Syncora

Chart 5 shows the estimated impact on shareholders' funds in the year to date. The estimated fall at XL Capital takes account of the USD2.3bn capital raised in August. Book value per share since 31 December 2007 has fallen by an estimated 57%. Conversely, share repurchases have supported the estimated book value for some.

Chart 5

Estimated % change SHF 30 September 2008

Company data Benfield Research



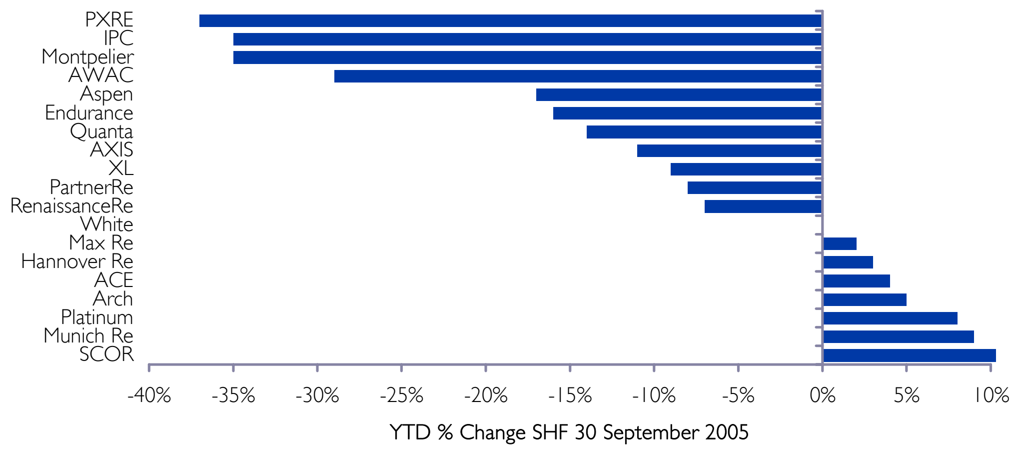
* Actual

It is interesting to compare Chart 5 with the 9M2005 snapshot of shareholders' funds following Katrina and Rita. The majority of insurers showed a depletion of net assets as shown in Chart 6. The picture is, however, not as straightforward as it might at first appear. Montpelier paid a special dividend of USD390mn in the first quarter and the received a capital injection of USD620mn following the storms. Platinum also received a swift injection of capital (USD162mn) before the closing quarter day. Allied World's decrease was exacerbated by the USD500mn special dividend paid in the first quarter.

Chart 6

% Change in SHF 30 September 2005

Company data Benfield Research

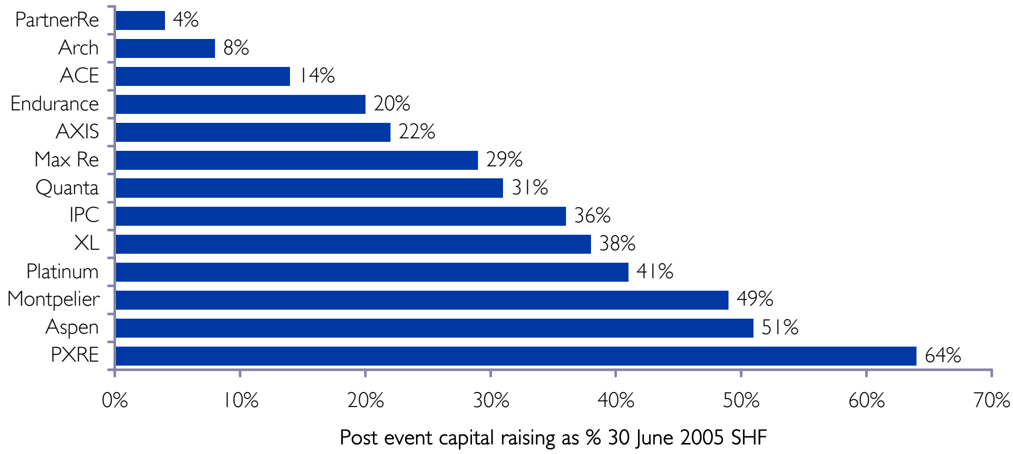


The extent of capital raising was both wide and deep post KRW. Chart 7 summarises the picture for the BBQ group. It would appear that the impact from events in 2005 was more damaging to balance sheets but the ability to swiftly replenish capital may have softened the blow. Companies in 2008 must be thankful that their balance sheets are relatively strong as the scope to effect an "annual venture" arrangement with the capital markets looks limited.

Chart 7

BBQ post KRW capital raising

Company data
Benfield Research



Alphabet studies

AIG will now have to sell significant parts of the business following the USD85bn loan from the US Government (since increased by a further USD38bn) and the acquisition of a 79.9% stake. Loss of investor confidence has also been an issue for XL Capital but early release of third quarter results has done much to assuage immediate fears with a generally positive response from customers.

AIG

At its peak AIG was the world's largest insurance company with a market value of USD239bn.[1] It transacts business in both life and non life insurance and financial services including asset management and has operations in more than 130 countries and jurisdictions. Its insurance network serving commercial, institutional and individual customers is the most extensive of any insurer.

Recent events

AIG expanded from its insurance roots to encompass a wide array of financial services businesses. The principal cause of the group's well publicised problems has been its Financial Products division, which operates independently of the AIG insurance companies and has been active in writing Credit Default Swaps on the back of AIG's former AAA credit rating. With the emergence of problems on sub-prime debt, which formed the collateral for many of the instruments guaranteed, AIG Financial Products had to post additional collateral to meet the potential losses under its contracts. These liquidity requirements mounted rapidly. Reported losses and ratings downgrades prompted a loss of investor confidence and the share price collapsed in early September.

In the absence of a private market solution to AIG's liquidity needs, and to avoid the resultant financial instability following a feared collapse of AIG, the US government intervened with a two year loan from the New York Federal Reserve Bank of up to USD85bn. The loan carries a punitive interest rate (8.5 percentage points over three-months Libor) and is to be repaid from the process of asset sales. In return the US Treasury received a 79.9% equity interest in AIG. Subsequently, AIG has been forced to enter into a securities lending agreement with the Federal Reserve to raise an additional USD38bn.

AIG intends to retain its core P&C insurance operations. The US life business and a majority stake in its international life businesses have been flagged for sale together with other units, including the group's 59% stake in Transatlantic Holdings. Financial strength ratings on the core operating were lowered by each of the major agencies. Current ratings are:

- AM Best: A, under review with negative implications[2]
- S&P: A+, CreditWatch Developing[3]

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[1] The Economist, Size matters, 18 September 2008

[2] 15 September 2008

[3] Downgrade, 15 September 2008. Affirmed: revised to developing 17 September 2008

Reinsurance market impact

AIG is a major purchaser of reinsurance. On a global basis, the group purchased almost USD12bn of P&C reinsurance protection, ceding 20% of its total gross written premiums. Table 5 presents consolidated figures, with intra-group purchases eliminated, so the aggregate purchases by individual entities within the group may be understated.

Table 5

AIG consolidated P&C premium income

AIG 10-K Benfield Research

USD mn	2007	2006	2005
Direct	52,055	49,609	46,689
Assumed	6,743	6,671	6,036
Ceded	(11,731)	(11,414)	(10,853)
Net premiums written	47,067	44,866	41,872
Cession rate	20%	20%	21%

The dislocation at AIG will likely have mixed implications for the international reinsurance market. Transatlantic Holdings is an attractive proposition and is expected to be sold relatively quickly, which should lead to a resolution of its negative CreditWatch status from S&P.[4] [5] S&P has flagged a possible downgrade of up to two notches if it deems the resolution of ownership is unsatisfactory. Any such downgrade would have implications for the liability market where Transatlantic Re is an important player.

The reinsurance needs of individual AIG primary insurance units may well change if and when they are sold, with some business formerly ceded to other AIG entities being placed into the open market. Other things being equal, this could exert upward pressure on reinsurance prices. As a writer of reinsurance, AIG units may still be acceptable to cedants, but some may wish to purchase cover from elsewhere.

AIG's competitors have been quick to seek to capitalise on the company's difficulties. So far, there is little evidence of clients cancelling business, although it seems reasonable to expect that some will reduce or replace AIG lines at renewal. Some primary insurance competitors may seek to purchase additional reinsurance to boost capacity, giving further impetus to price firming, particularly in liability lines.

[4] S&P, AA-, placed on Negative CreditWatch 29 September 2008

[5] A.M. Best, A: downgraded (with other AIG companies)on Negative Review, 15 September 2008

XL Capital

Recent events

As a result of market rumour concerning capital adequacy issues and investment losses, XL's share price fell 54% on 9 October. This prompted the early release of preliminary third quarter results on 14 October. The main features of the results are summarised in Table 6.

Table 6

XL Capital 3Q 2008

Company data Benfield Research

USDmn	3Q 2008	3Q 2007	% change
P&C Operations			
Gross written premiums	1,900	1,794	5.9%
Net earned premiums	1,525	1,583	(3.7%)
Combined ratio	107.1%	85.3%	21.8pp
Underwriting profit/(loss)	(90)	237	n.m.
Net investment income	293	326	(10.1%)
Life profits	38	27	40.7%
Financial operations	4	16	(75.0%)
Net (loss) income from Investment Affiliates	(55)	69	n.m.
Net (loss) income from Operating Affiliates	(1,404)	42	n.m.
Net income (loss)	(1,646-1,671)	328	n.m.
Annualised return on equity	5.8%	22.3%	(74.0%)

The USD1.4bn charge from operating affiliates related to the transaction closed with the problematic affiliate Syncora Holdings Ltd (formerly Security Capital Assurance or SCA) on 5 August 2008. Results included net losses, net of reinsurance recoveries and reinstatement premiums, of USD27.4mn and USD195.4mn relating to Hurricanes Gustav and Ike respectively.

Background to Syncora Holdings Ltd

SCA, which operated in the financial guaranty insurance and reinsurance market, was originally a wholly owned subsidiary of XL Capital. The stake was reduced to 46% through the August 2006 IPO but XL Capital retained a guarantee on all pre IPO liabilities. Financial guarantors guarantee the payment of interest and principal in the event of default by the underlying debt issuer. As a consequence of the US sub-prime related problems, and the widespread default levels across virtually all asset backed security classes, the depletion of capital and reserves at SCA increased the potential for claims under the XL issued guarantee. On 28 July 2008, XL announced an agreement with SCA whereby it would end this potential exposure to claims.

The agreement closed on 5 August 2008 and involved the payment of USD1.4bn in charges to the renamed Syncora Holdings. This was financed by the raising of USD3.4bn in ordinary and preference shares. CFO, Brian Nocco, concluded that the exit from SCA had been "expensive and painful, but was now done".[6] The residual USD1.1bn of exposure relates to securities where the underlying credits are rated BBB+ and above by Standard & Poor's and continue to perform.

[6] Conference call with Benfield Research, 16 October 2008

Capital concerns

The results provided some reassurance on capital adequacy, as the amount of capital raised in August was in excess of the charge required to resolve the affiliate issue. This provided a buffer against the USD800-875mn increase in net unrealised losses within the investment portfolio, due to a continued widening of credit spreads on corporate investments, and against a USD457mn reduction in XL's currency translation account as a result of the strengthening of the US dollar in the quarter.

The group maintains that capital has been replenished, at both group and operating company level, despite the Syncora charge and the additional losses seen in the third quarter. Currently, the operating entities have substantial excess capital and are "all in a very strong position".[7] The group's liquidity position is also strong and it can easily move funds to any entity requiring cash or capital. XL maintains a substantial liquidity facility to support Letters of Credit. Rating triggers which require posting of collateral are set at below A-.

On 10 October, Standard & Poors' affirmed its rating for the group, and 'A+' rating for its core insurance operating subsidiaries, outlook negative. On 16 October, A.M. Best commented that it would not be changing its 'A' rating, with stable outlook, for the group.

Investment portfolio

XL's management has been at pains to point out that it is "de-risking" its investment portfolio in order to reduce its sensitivity to interest-rate movements. A disposal of the life reinsurance business appears likely; this would improve the profile of the investment portfolio by reducing the proportion of corporate bonds, particularly financials. At the end of the third quarter, USD2.2bn of the USD5.1bn held in financials was attributable to the life portfolio. Moreover 40% of the group's overall sensitivity to both interest rate and credit risk was related to the life portfolio, although this accounted for only 17% of total assets.

Table 7

Composition of XL's fixed income portfolio as at 30 September 2008

Company data
Benfield Research

As at	30 September 2008 USDbn	% total
Structured credit portfolio	9.5	29%
Government, agency & cash	12.8	37%
Corporates	11.1	34%
of which Financials	5.1	16%
Non-financials	6.0	18%
Total	33.4	

Outlook

In view of the third quarter results, XL's management had indeed been prudent to raise more capital than was required by the SCA agreement. The group was keen to convey that the general reaction from customers to the third quarter statement has been positive and that business flow has been good, helped by dislocation at AIG. Pricing also appears to be stabilising, or even improving in some areas.

[7] Ibid

Appendix I

Reported exposures to Gustav and Ike

Table 8

Selected companies' exposure to Gustav and Ike

Company announcements, Benfield Research Updated 22 October 2008

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
ACE	03/10/2008	3Q estimated USD315mn net after-tax losses, including reinstatements, from catastrophes including hurricanes Gustav & Ike	USD315	2%
Allied World	01/10/2008	Combined loss for Gustav & Ike USD55mn-USD80mn net of reinsurance and reinstatements. Ins. Segment USD40-55mn. RI segment USD15-25mn	USD68	3%
Amlin	02/10/2008	Estimated USD285mn claims net of reinsurance and reinstatements. GBP45mn reduction of profits after tax	GBP45	4%
Arch Capital	29/09/2008	Gustav USD15mn-30mn. Ins 30%: RI 70%. Ike USD90mn-150mn. Ins 30%: RI 70%	USD143	4%
Argo Group	15/10/2008	Gustav & Ike combined pre-tax loss estimated USD50-70mn	USD60	4%
Aspen	10/10/2008	USD155mn estimated losses from Ike & Gustav with approx USD141mn attributable to Ike	USD155	5%
Axis Capital	25/09/2008	Gustav USD25mn-45mn. RI segment USD15mn-25mn. Ins segment USD10mn-20mn. Ike USD285-385mn. RI segment USD220mn-270mn. Ins segment USD65mn-115mn	USD370	7%
Beazley	14/10/2008	GBP20mn net profit impact	GBP20	5%
Brit	21/10/2008	Estimated USD98mn combined losses from Gustav and Ike, net of reinsurance and reinstatements	GBP57	7%
Catlin	17/10/2008	Estimated USD200mn combined losses from Gustav and Ike, net of reinsurance and reinstatements	USD200	7%
Chaucer	21/11/2008	USD 55mn cost net of reinsurance and reinstatements. Broadly in budget so in absence of further insurance catastrophes should not have material adverse impact on results	USD55	12%

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
Endurance Specialty	06/10/2008	Combined loss for Gustav & Ike USD145mn pre-tax and net of reinsurance and reinstatements	USD145	6%
Everest Re	20/10/2008	3Q Catastrophe loss USD265mn primarily due to Ike and Gustav	USD265	5%
Flagstone Re	16/09/2008	Estimated USD30mn loss for Gustav and USD55mn for Ike, net of reinstatements	USD85	7%
Greenlight Re	01/10/2008	No losses expected	-	0%
Hannover Re	21/10/2008	EUR250mn combined cost of Gustav and Ike	EUR250	9%
Harbor Point	06/10/2008	Gustav estimated net loss USD5mn-10mn. Ike estimated net loss USD60mn-100mn	USD88	6%
IPC Holdings	07/10/2008	Approx. USD90mn net negative impact on 3Q net income result from Gustav & Ike combined, net of reinstatements. Majority of losses attributable to Ike	USD90	4%
Lancashire Holdings	13/10/2008	Estimated combined of approx. USD150mn net of reinsurance and reinstatements of which Gustav accounts for <USD5mn	USD150	11%
Lloyd's	21/10/2008	Estimated combined of approx. GBP1.3bn including on shore and offshore claims	USD2,340	11%
Max Capital	22/09/2008	Gustav & Ike combined loss estimated USD35-50mn net of reinstatements	USD43	3%
Montpelier Re	02/10/2008	Approx. USD130mn combined net financial impact from Gustav & Ike	USD130	8%
Munich Re	01/10/2008	Net, pre-tax loss approx USD100mn for Gustav and approx USD400mn for Ike	USD500	2%
Odyssey Re	02/10/2008	USD 60mn-90mn 3Q after-tax effect of hurricanes Ike and Gustav, net of reinstatements and applicable reinsurance recoveries. Over 90% of estimated loss is attributable to Hurricane Ike	USD75	3%
Omega	20/10/2008	Overall impact from Gustav and Ike estimated at 34mn	USD34	11%
PartnerRe	23/09/2008	Gustav pre-tax loss USD10mn-20mn, net of reinstatements. Revised down from USD25-45mn. Ike pre-tax loss USD175mn-210mn net of reinstatements	USD208	5%
Paris Re	25/09/2008	Gustav pre-tax loss USD10mn-20mn and Ike pre-tax loss USD75mn-95mn net of reinstatements	USD100	4%
Platinum	21/10/2008	Approx. USD15mn loss for Gustav and approx. USD105mn loss for Ike, net of reinstatements and tax benefit.	USD120	6%
Renaissance Re	01/10/2008	Gustav & Ike will have a combined net negative impact on 3Q results of approximately USD275mn, with the majority of these estimated losses attributable to Hurricane Ike	USD275	8%
Swiss Re	23/09/2008	Estimated SD50mn claims for Gustav and USD250mn claims for Ike net of hedging and reinsurance	USD300	1%
Transatlantic Re	26/09/2008	Gustav & Ike combined range USD45mn-60mn net of tax	USD53	2%
Validus Holdings	08/10/2008	Negative effect in 3Q 2008 of approx. USD20mn for Gustav and approx. USD165mn for Ike	USD185	9%
White Mountains	13/10/2008	3Q after tax catastrophe losses	USD100	2%

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
XL Capital	29/09/2008	Gustav USD30mn-35mn loss pre-tax and net of reinsurance and reinstatements. Ins & RI equally affected. Ike USD165mn-235mn pre-tax net of reinsurance and reinstatements. Ins- USD65mn-85mn. RI- USD100mn-150mn	USD233	3%

Appendix 2

Reported exposures to AIG and Lehman

Table 9

Selected companies' exposure to AIG and Lehman

Company announcements, Benfield Research Updated 22October 2008

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
ACE	30/09/2008	Par value debt	USD281	2%
Allianz	16/09/2008	Exposure "absolutely manageable" and mainly in life		n.a.
Allied World	17/09/2008	Lehman: USD52mn senior notes	USD52	2%
Argo Group	15/10/2008	Lehman: Approx USD13mn net pre-tax investment loss and impairment from fixed interest holdings	USD13	1%
Aspen	16/09/2008	Lehman: USD30mn senior debt and USD8mn subordinated debt	USD38	1%
AXA	16/09/2008	AIG: EUR150mn proprietary equity interest of 0.02% of total outstanding common shares; credit exposure, including credit default swaps. Lehman: EUR300mn debt exposure net of tax and policyholder participation; "non-material" equity exposure. proprietary equity interest of about 0.05%	EUR450	1%
Axis Capital	25./09/2008	Amortised cost USD34mn and USD18mn of fixed income securities for Lehman and AIG respectively	USD52!	1%
Beazley	14/10/2008	Lehman senior debt with a par value GBP14mn valued at GBP1.7mn on mark to market end September	GBP 4	4%

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
Catlin	17/10/2008	Exposure to AIG not material. USD11mn Lehman debt written down to USD1mn	USD11	0%
Endurance Specialty	06/10/2008	AIG: As at 30.09.2008, held senior indebtedness with a pre-write down amortized cost of USD3.5mn Lehman: As at 30.09.2008, held senior indebtedness with a pre-write down amortized cost of USD6.5mn	USD10	0%
Flagstone Re	16/09/2008	Approx. USD1mn exposure to AIG related bonds	USD1	0%
Generali	08/10/2008	Lehman: EUR100mn net exposure	EUR100	1%
Greenlight Re	01/10/2008	No material exposure	-	0%
Hannover Re	30/09/2008	AIG: approx. EUR50mn senior corporate bonds and approx EUR0.5mn in equity (before 15.09.2008) Lehman: approx. EUR20mn in senior corporate bonds and below EUR3mn in equity (before 15.09.08)	EUR73	3%
Harbor Point	06/10/2008	As at 30.09.2008 USD 7mn par value each for AIG and Lehman	USD14	1%
IPC Holdings	01/10/2008	Lehman: direct holdings of fixed maturity securities of USD11.2mn (par value) as at 30.09.2008. Small amount of indirect exposure to preferred or common share for both AIG and Lehman	USD11	1%
Lancashire Holdings	19/09/2008	No holdings of securities issued by AIG or Lehman	-	0%
Max Capital	22/09/2008	Face value USD13mn and USD15mn for AIG and Lehman respectively	USD28	2%
Montpelier Re	18/09/2008	The company holds USD19mn senior debt securities issued by Lehman Brothers Holdings Inc and a de minimis amount of Lehman capital stock	USD19	1%
Munich Re	30/09/2008	EUR50mn exposure to AIG is not material. Lehman exposure including derivatives used for hedging is approx. EUR350mn	EUR400	2%
Paris Re	22/09/2008	Exposure to AIG is senior debt of approx. USD7.5mn Lehman senior debt of approx. USD5.1mn	USD13	0%
PartnerRe	16/09/2008	USD82mn senior notes and USD28mn subordinated notes. No direct ownership of Lehman common stock, and has de minimis exposure	USD110	2%
Platinum	01/10/2008	Other-than-temporary impairments and realized losses in 3Q 2008 of approx. USD18mn associated with certain securities held in its investment portfolio incl. Lehman	USD18	1%
QBE	16/09/2008	QBE has an immaterial exposure to reinsurance recoveries on paid, outstanding and incurred but not reported claims to AIG mainly through its subsidiary, Trans Re, and Lexington	-	n.a.
Renaissance Re	01/10/2008	Insignificant direct holdings of fixed maturity securities issued by AIG as well as insignificant reinsurance recoverables and premiums receivable. USD8.7mn (par amount) direct holdings of fixed maturity securities issued by Lehman Brothers Holdings Inc. and its subsidiaries	USD9	0%

	Announcement date	Comment	Combined exposure mn	Combined exposure as % June 2008 SHF
Reinsurance Group of America	17/09/2008	AIG: Amortised cost of senior (USD31mn) and subordinated notes (USD25mn) Lehman: Amortised cost of senior (USD10mn), subordinated notes (USD12mn) and preferred securities (USD8.5mn)	USD86	3%
SCOR	06/10/2008	EUR18mm, mainly bonds issued by American General Finance Lehman: EUR35m mainly in senior notes	EUR53	2%
Swiss Re	17/09/2008	Estimated exposure (excluding reinsurance) approx. CHF200mn and CHF50mn for AIG and Lehman respectively	CHF250	1%
Validus Holdings	18/09/2008	Senior debt and guaranteed investment contracts Face value senior debt	USD27	1%
XL Capital	29/09/2008	AIG: Amortised cost subordinated debt (USD34mn) senior debt (USD66mn). No purchases of Lehman Brothers securities since June 30, 2008. USD2mn equity and no derivative counterparty exposure	USD102	1%
Zurich	02/10/2008	Lehman impairment amounts to about USD295mn after policyholder allocation and before tax	USD295	1%

Appendix 3

3Q 2008 Reporting dates

Table 10

3Q 2008 announcement dates

Company data
Benfield Research

	Reporting date
PartnerRe	22/10/2008
Arch Capital	23/10/2008
IPC Holdings*	23/10/2008
Montpelier Re	23/10/2008
Axis Capital	27/10/2008
Lancashire Holdings	27/10/2008
ACE	28/10/2008
RenaissanceRe*	28/10/2008
Aspen	29/10/2008
White Mountains	31/10/2008
Max Capital*	03/11/2008
Swiss Re	04/11/2008
Munich Re	05/11/2008
Hannover Re	05/11/2008
Flagstone Re**	05/11/2008
Allied World	06/11/2008
Endurance Specialty	06/11/2008
Validus	10/11/2008
Hiscox	10/11/2008
Paris Re	13/11/2008
Catlin	13/11/2008
Chaucer	13/11/2008
SCOR	14/11/2008
Amlin	16/11/2008
XL Capital***	n.a.

* Conference call ** Based on 3Q 2007 reporting date *** In week beginning 20/10/2008 or 27/10/2008

Analyst/Researcher of the Year
Winner - Industry Analysis and Research Team, Benfield

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Benfield European Quarterly
April 2008
FY 2007 Waiting Game

Benfield Bermuda Quarterly
March 2008
FY 2007 Balancing Act

Global Reinsurance Market Review
January 2008
Changing the Game

Benfield European Quarterly
November 2007
9M 2007 Out with the Old

Benfield Bermuda Quarterly
November 2007
9M 2007 Return of Capital