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T W O T H O U S A N D

Managing Prosperity

2008 Bermuda Update Report

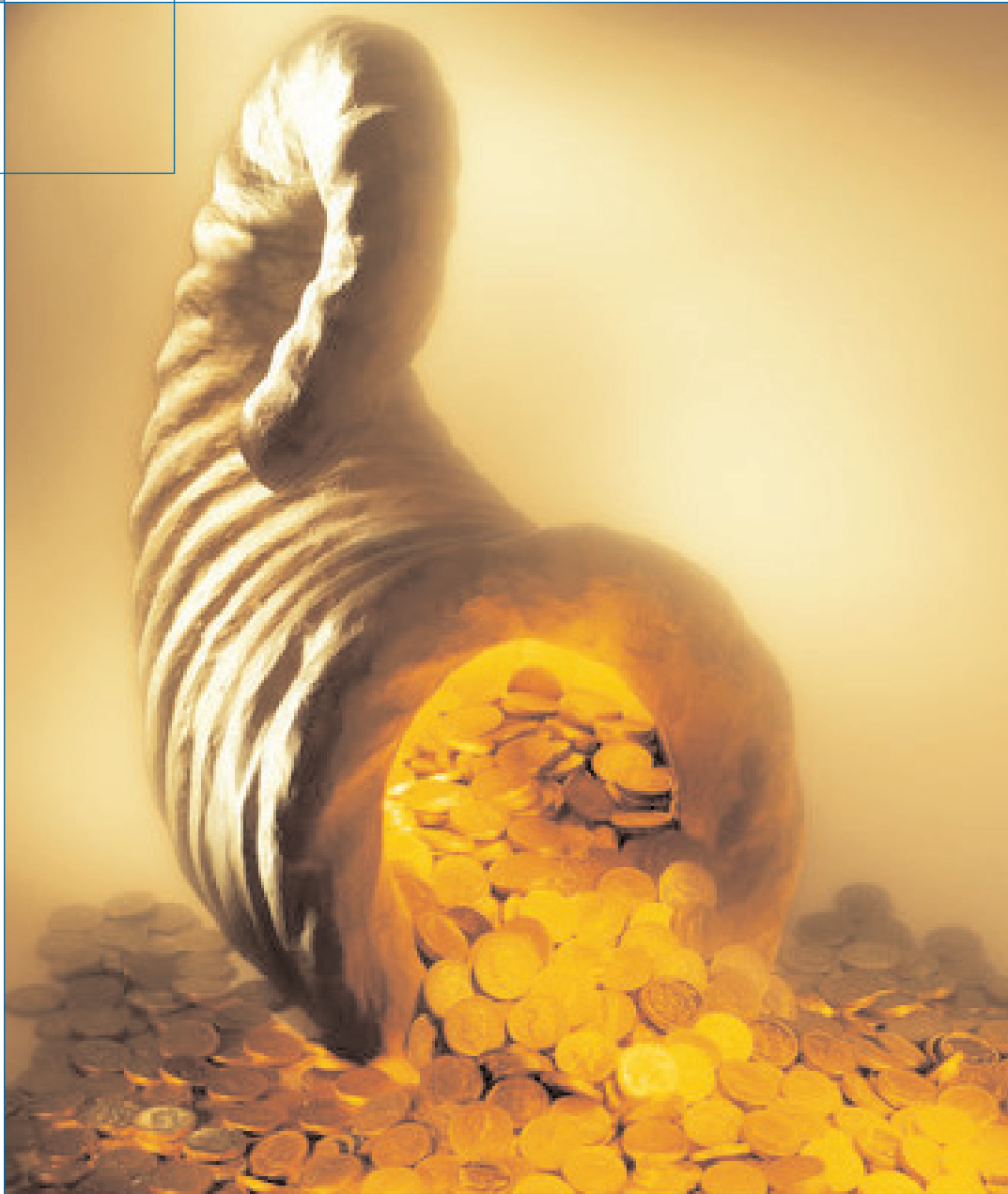


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Executive Summary

For the past 10 years, most Bermuda companies have outperformed the Standard & Poor's (S&P) 500 in generating shareholder value. The Guy Carpenter & Company, LLC ("Guy Carpenter") Bermuda Composite has shown considerable book value and dividend growth. This financial performance has been driven substantially by Bermuda's low tax rate, experienced executives and friendly regulatory regime.

Bermuda faces the challenges of prosperity in 2008. The good fortune of low catastrophe losses in 2006 and 2007 has caused balance sheets to swell, but the opportunities to earn the outsized returns desired by investors have nearly vanished. For the coming year, it is almost inevitable that the profit rate of Bermudian companies will decline.

At 18.4 percent in 2007, the Guy Carpenter Bermuda Composite's return on equity (ROE) is enviable compared to most investment opportunities in today's economy. Retained earnings increased companies' capital by 14.2 percent in 2007, creating a high hurdle for the coming year. Insurers would need to increase earnings by at least that amount to maintain their current rates of return, a daunting proposition, given the softness in insurance and reinsurance markets. In 2007, gross written premiums for Bermuda companies grew at a modest pace of 5.1 percent.

Underwriting profits were strong for the Bermuda Composite in 2007, with the combined ratio recording a record low of 84.9 percent. The low level of insured losses from catastrophes played a major role in delivering these strong results. But, it is unrealistic to expect a third benign catastrophe year in a row.

Sidecar use dropped, as rates receded from the record highs of the 2006 summer and discouraged the entry of new reinsurance capacity into the industry. Sidecars successfully served their purpose, having facilitated the flow of capital into and out of reinsurers without disrupting balance sheets, ultimately making it easier to manage supply. They may regain prominence in the event of high catastrophe losses and a hardening market.

The Bermuda Composite retention ratio increased in the early years of the decade, probably reflecting the hard market in those years. But, it has remained relatively flat since 2005. Shortages of retrocession capacity have been among the factors impacting the retention of premium.

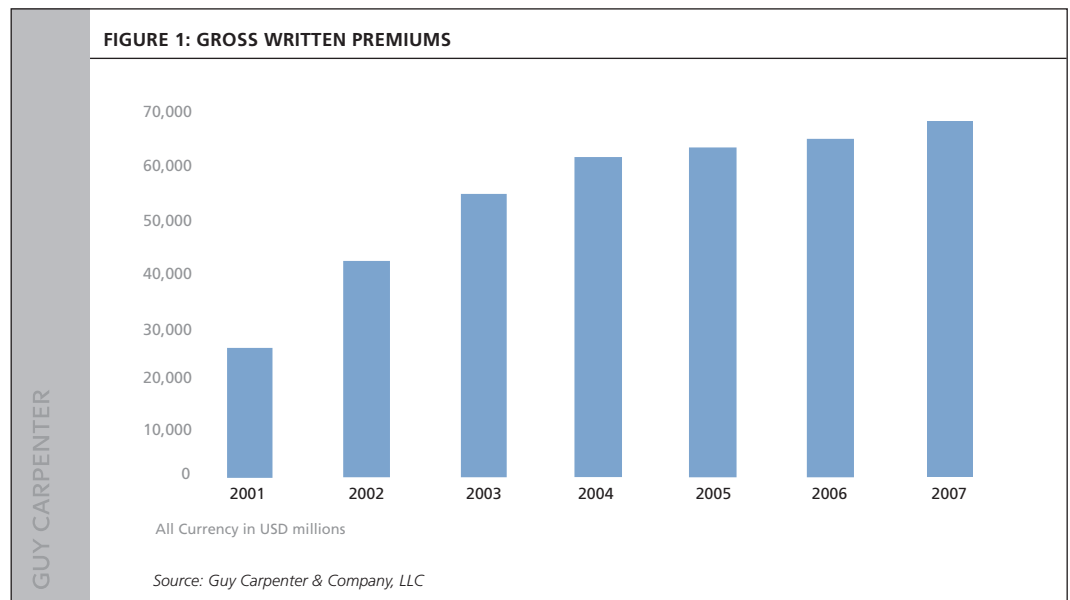
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Premium Income and Market Trends

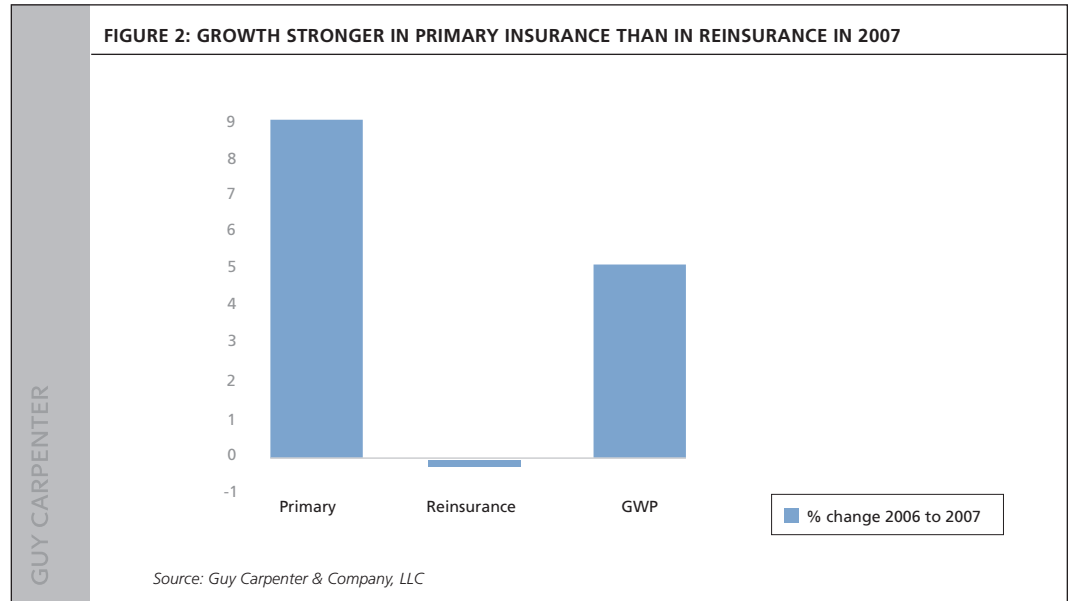
Gross written premium (GWP) and net written premium (NWP) grew moderately in 2007, as measured by the Bermuda Composite. This continues a slow growth trend that reaches back to 2005; the most recent year with reasonably strong growth was 2004. The Bermuda Composite is comprised of 25 Bermuda-domiciled insurance holding companies, most of which write both primary insurance and reinsurance. Due to the high shares of the Bermuda market owned by ACE Ltd. (“ACE”) and XL Capital Ltd. (“XL Capital”), the Bermuda Composite is weighted toward primary insurance, which accounts for 56.6 percent of GWP.

Gross Written Premiums

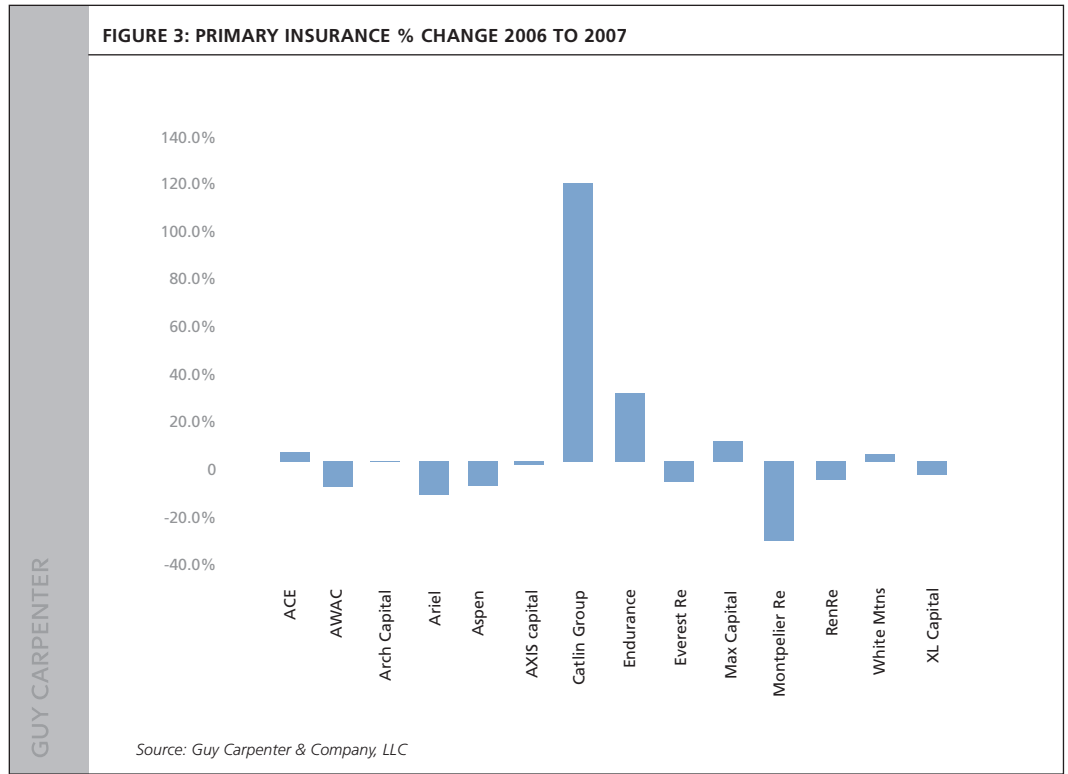
GWP for the Bermuda Composite increased by 5.1 percent in 2007 to USD67.6 billion, consistent with worldwide trends.



Most GWP growth occurred in the primary insurance sector of the Bermuda Composite, which was up 9 percent from 2006 to 2007. Reinsurance was effectively flat, declining by a modest 0.2 percent year-over-year. Cedents competed with reinsurers, as profitable business has enlarged balance sheets and increased confidence about retaining more risk.



In general, primary insurance GWP volume continued to increase in 2007, as the Bermuda Composite companies sought diversification and better risk-adjusted returns, particularly in excess and surplus lines. Substantial rate increases were limited largely to catastrophe reinsurance, and they occurred only in the specific geographic areas where most of the existing reinsurers were trying to reduce their exposures. New reinsurers were careful to avoid a concentration of risk. Reinsurance premium growth in the two years following 2005 was affected further by increasing competition in casualty lines, one-time reinstatement premiums that were recorded in 2005 and higher capital levels imposed by the major rating agencies.

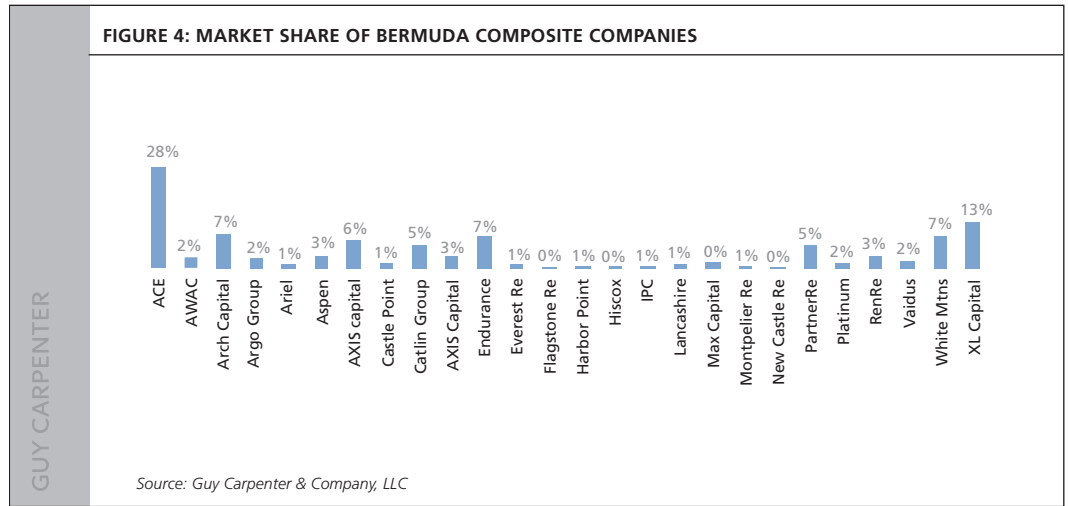


ACE and Catlin led GWP growth for the primary market in Bermuda in 2007. ACE experienced small percentage gains on a large revenue base, while Catlin posted a high growth percentage on a smaller base of revenue.

TABLE 1: PRIMARY INSURANCE AND REINSURANCE WRITTEN BY BERMUDA COMPANIES IN 2007			
	Insurance	Reinsurance	Reinsurance % of Total
Flagstone Re	0	577	100.0%
Harbor Point	0	673	100.0%
IPC	0	404	100.0%
New Castle Re	0	189	100.0%
PartnerRe	0	3,210	100.0%
Platinum	0	1,140	100.0%
Validus	0	541	100.0%
Montpelier Re	42	612	93.6%
Ariel	39	317	89.0%
Everest Re	851	3,226	79.1%
RenRe	417	1,393	77.0%
CastlePoint	111	285	72.0%
Aspen	681	1,137	62.5%
Endurance	742	1,040	58.4%
Max Capital	431	345	44.5%
AXIS Capital	2,039	1,551	43.2%
Arch Capital	2,565	1,575	38.0%
AWAC	969	536	35.6%
XL Capital	5,342	2,756	34.0%
White Mtns	2,922	1,268	30.3%
Catlin	2,505	855	25.4%
ACE	14,464	3,276	18.5%
Argo Group	1,130	51	4.3%
Hiscox	n/a	n/a	n/a
Lancashire	0	0	n/a
Composite	35,443	27,212	43.4%

Source: Guy Carpenter & Company, LLC
All currency in USD millions

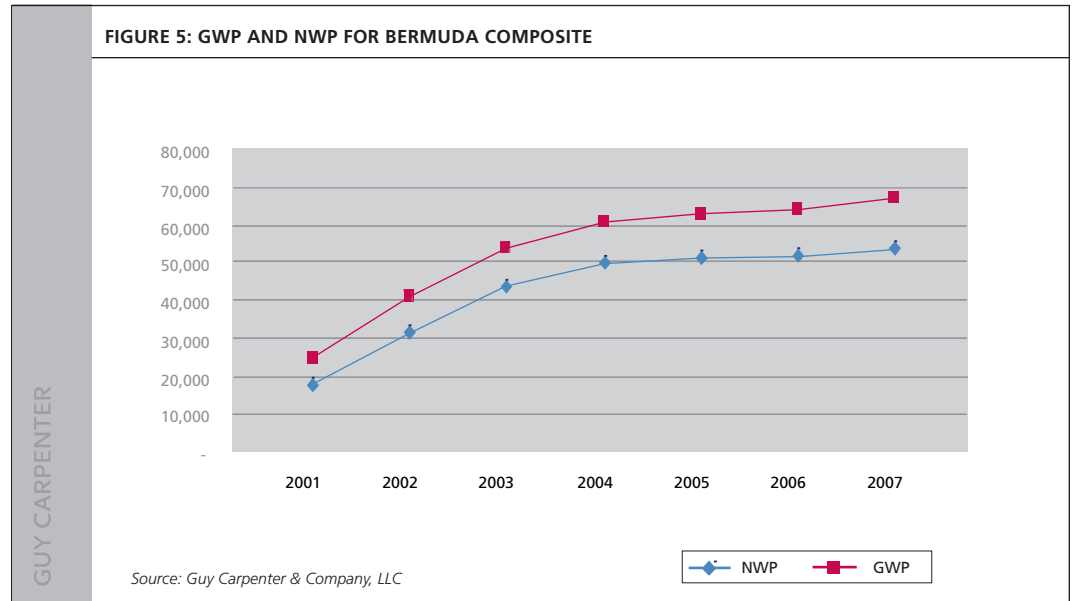
In 2007, more than 50 percent of the GWP by the Bermuda Composite companies was for primary insurance. ACE accounted for 28.3 percent of the Bermuda Composite, and XL Capital garnered a substantial 12.9 percent share. Both are concentrated in the primary insurance sector. For ACE, 81.5 percent of written premium is in the primary insurance sector, comprising 40.8 percent of the Bermuda Composite's primary insurance premium written. Sixty-six percent of XL Capital's written premium is in the primary sector, constituting 15.1 percent of Bermuda Composite primary insurance premium written.



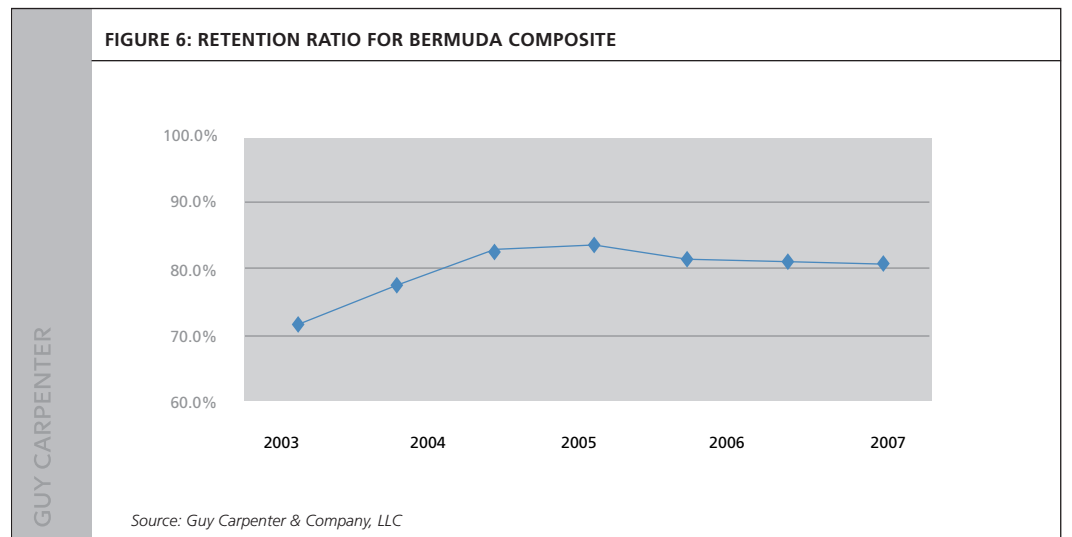
ACE’s and XL Capital’s broad product offerings tend to stabilize the weighted Bermuda Composite, belying the volatility inherent in smaller groups specializing in reinsurance. Both firms participate substantially in the reinsurance market, representing 22.8 percent of the Bermuda Composite total reinsurance GWP in 2007.

Net Written Premiums

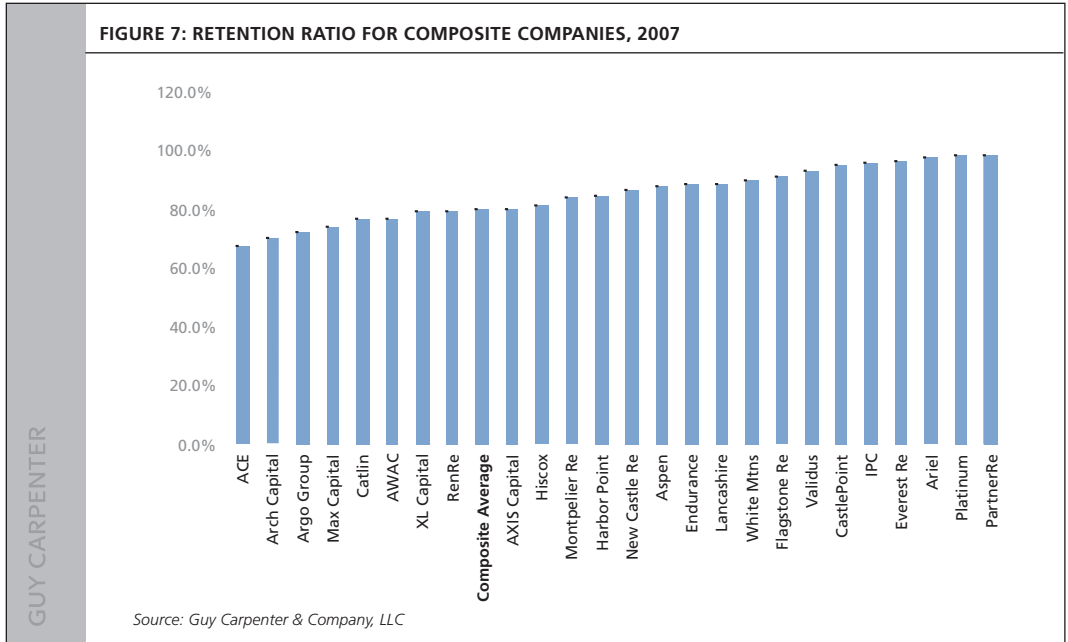
NWP has grown at approximately the same rate as GWP since 2001. Increasing at a compound annual growth rate (CAGR) of 20.4 percent from 2001 through 2007, NWP slightly outpaced the 18.1 percent GWP growth rate.



The Bermuda Composite’s retention ratio has been relatively flat since 2005. The retention ratio peaked in 2004, capping a period of rapid growth that began in 2001. A hard market in the early years of this decade likely pushed the retention ratio higher. Currently, shortages of retro capacity at a market-clearing price are among the factors impacting the retention of premium.



The primary insurance/reinsurance distinction is among the retention ratio drivers. Bermuda-domiciled carriers with large primary businesses, such as ACE, tend to use more reinsurance, leading to lower retention ratios. At the other end of the spectrum are companies such as PartnerRe, which are conservative in their use of retrocession and strive to write on their own capacity.



Projections for 2008

Current conditions for the Bermuda Composite companies are likely to remain the norm for 2008. Most Bermuda groups anticipate overall declines of 5 percent to 10 percent. Optimism did appear on some 2007Q4 earnings calls, particularly as to opportunities regarding professional liability and specialty lines. Despite anticipated overall declines, these firms see opportunities for premium growth in niche markets.

The basic question that needs to be addressed is when reinsurers will feel the need to stand firm and refuse to move from their technical rates. Given the high level of profitability, reinsurers are cutting their rates, as clients and their brokers push for premium reductions.

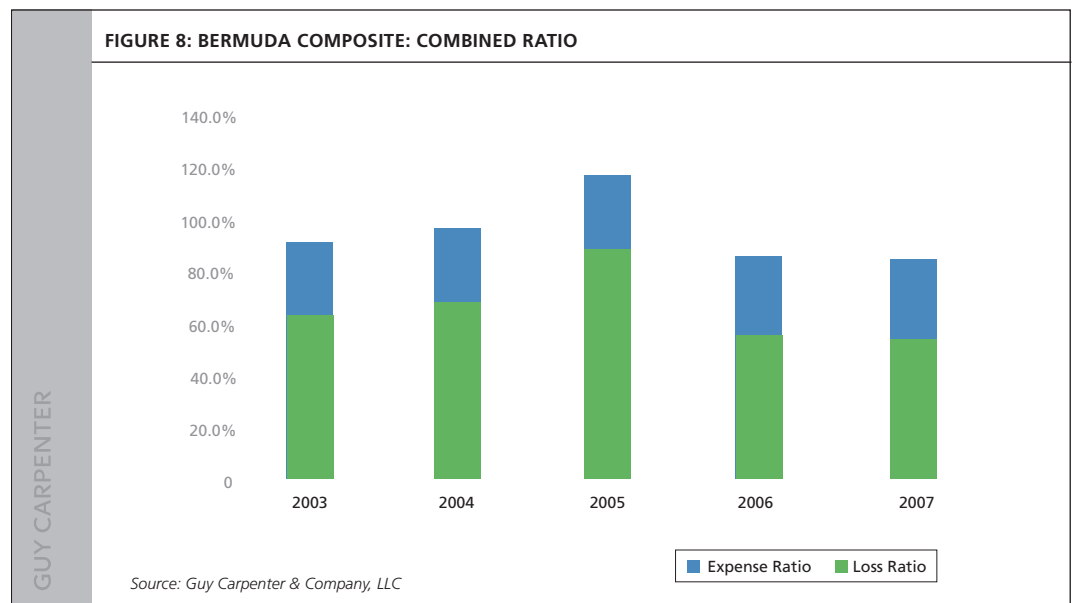
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Earnings

Bermuda-domiciled companies remained relatively profitable in 2007. Low levels of insured losses, contained expenses and disciplined underwriting contributed to the 2007 financial performance. For 2008, earnings for Bermuda-domiciled (re)insurers are expected to decline, as the market softens and opportunities for above-average returns diminish.

Underwriting

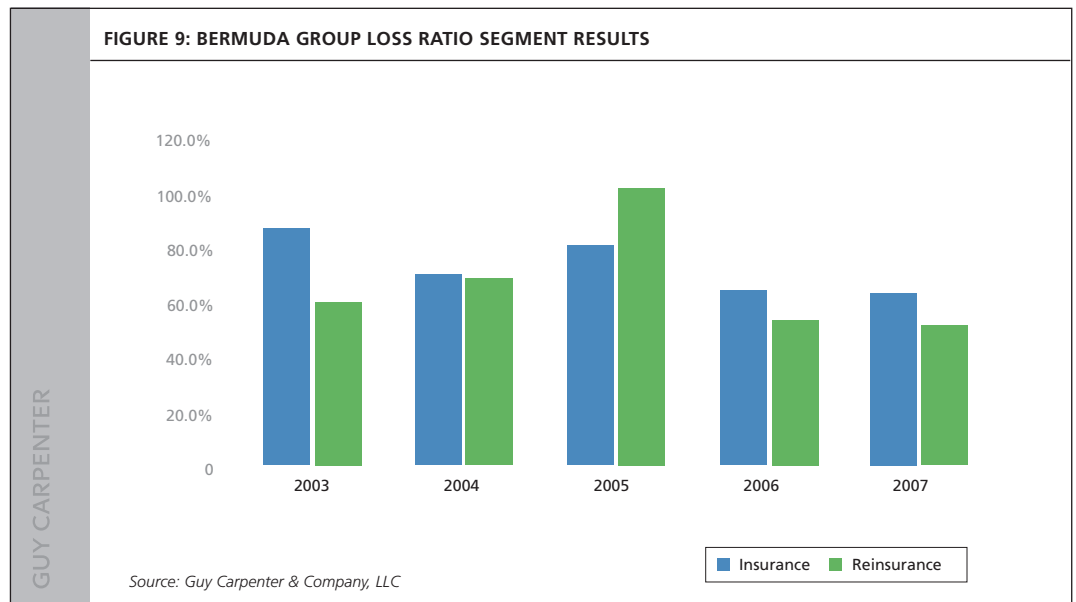
The Bermuda Composite’s combined ratio stayed below 90 in 2007, as in 2006. Profitability remained favorable for the second year in a row, following the highly unprofitable level of 116.2 percent in 2005, the year of Hurricanes Katrina, Wilma and Rita. The combined ratio for the Bermuda Composite dropped slightly to 84.9 percent in 2007 from 85.7 percent in 2006, reflecting a decline in the loss ratio. Given such profitable levels of underwriting, it is not surprising that price competitiveness has accelerated for Bermuda-based companies.



For catastrophe-exposed lines of business, underwriting profitability tends to be driven by the loss ratio. Low catastrophe losses led to particularly high underwriting profits for property-based companies in relation to the overall market. Ariel, for example, reported a loss ratio of 11.6 percent, resulting in an overall combined ratio of a stellar 41.6 percent in 2007. The top eight companies in terms of underwriting profit in 2007 were short-tailed specialists. White Mountains was the only company to show an underwriting loss in 2007, as a result of its relatively high expense ratio of 39.3 percent.

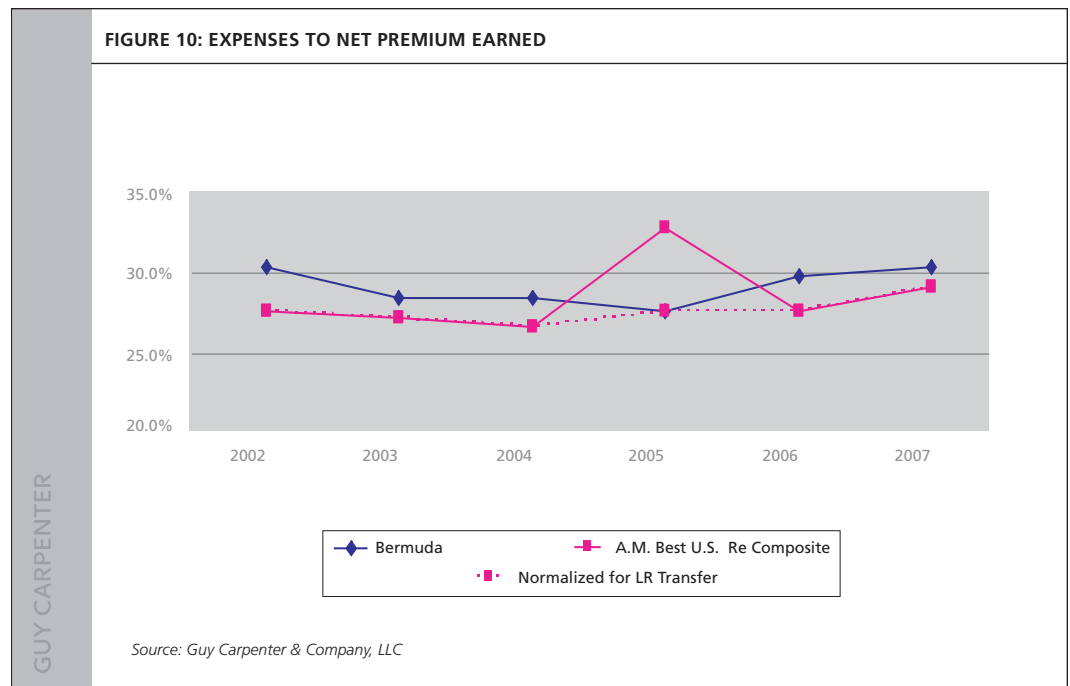
Many Bermuda firms are relatively new, making it difficult to gauge their abilities to manage loss exposures. They do not have sufficient operating histories to support empirical review. For reinsurers writing longer-tailed exposures, it will not be possible to determine the adequacy of loss reserve methodologies for years. The Class of 2005 and earlier groups that had unexpectedly high 2005 catastrophe losses have yet to be tested by a subsequent large loss event. Widespread aggregate zonal exposures tracking is a simple and effective supplement to the more refined catastrophe models and risk mitigation programs implemented after 2005.

The overall stabilizing influence that insurance writings have provided to the Bermuda Composite is most evident in segment results over the last five years. In four of the last five years, the reinsurance loss ratio was lower than the loss ratio for primary business. However, the loss ratios for primary businesses were below that of the reinsurance sector in 2005, offsetting the impact of disasters in that year for companies that had a diversified primary and reinsurance book.



Expenses

The costs of operating in Bermuda are high, but they can be managed. Bermuda has one of the world’s highest per capita income levels, 50 percent above that of the United States.¹ Consequently, most Bermuda-based reinsurers keep small local staffs, with most of their employees in other countries. Reinsurers have to navigate logistical challenges such as finding qualified employees, locating adequate office facilities and securing long-term housing. These high costs are offset by smaller staff sizes, making expense ratios for Bermuda-domiciled reinsurers consistent with those of peer firms based elsewhere.

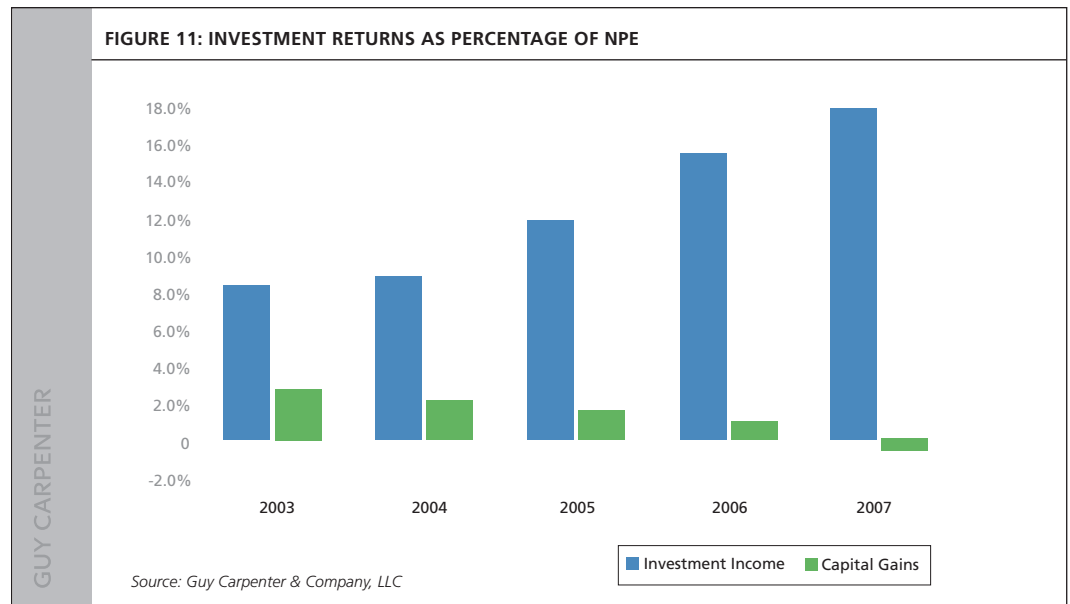


While U.S.-domiciled firms appear to have a slight expense ratio advantage, they do differ from Bermuda-based companies in the products and services offered, distribution channels and the use of individual operating companies for the United States and holding companies for Bermuda. Further, a detailed expense breakdown is not available for the Bermuda groups, while statutory filings for U.S. companies provide granular data.

¹ CIA World Factbook.

Investment Income

Bermuda Composite investment income (as a percentage of premiums) more than doubled from 8.4 percent in 2003 to 18 percent in 2007. In 2007, investment income grew at a rate of 23.6 percent, slower than the 2006 rate of 38 percent, still a substantial return. Capital gains as a percentage of net premium earned (NPE), on the other hand, continued to slide from the 2003 high of 2.4 percent, probably reflecting the strong stock market for this period. Weak equity markets actually led to a loss in 2007.



Earnings

Net income as a percentage of NPE dropped slightly to 24.4 percent in 2007, from 26.3 percent in 2006. This reflects both underwriting and investment results. The “other income” ratio, at -2.1 percent, dragged performance downward. Losses due to subprime exposure were among the principal causes.

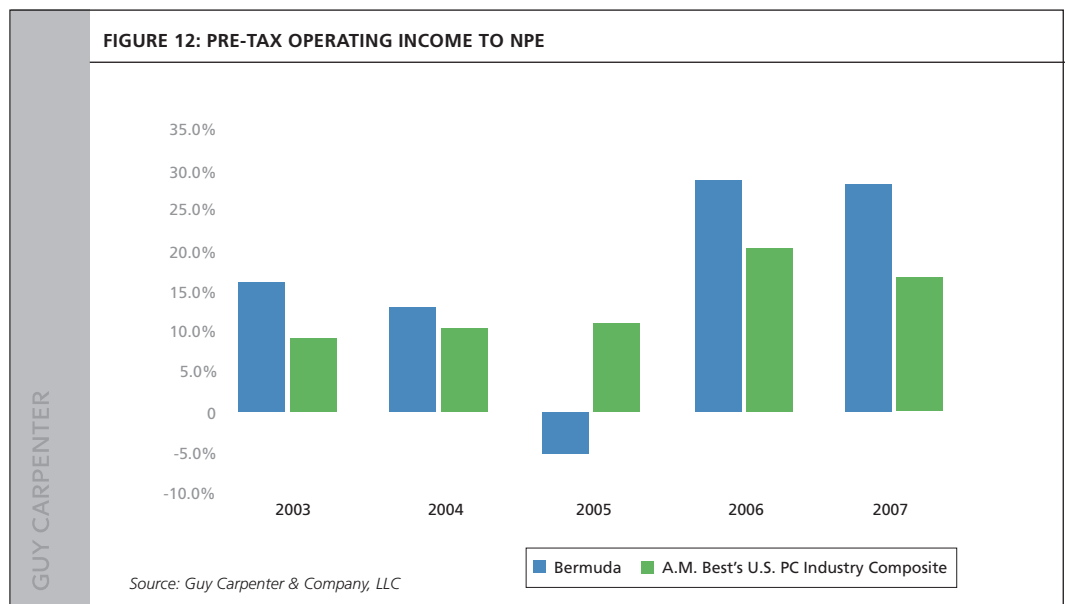
TABLE 2: ABBREVIATED AGGREGATE INCOME STATEMENT (AS A PERCENTAGE OF NPE)

	2003	2004	2005	2006	2007
Net Underwriting Income	8.4	4.1	(16.2)	14.2	15.1
Net Investment Income	8.4	8.9	11.6	15.6	18.0
Capital Gains (Losses)	2.4	2.4	1.5	0.8	(0.5)
Other Income	0.9	1.7	1.4	1.2	(2.1)
Interest Expense	1.6	1.8	2.1	2.6	2.9
Taxes	1.9	1.5	0.7	2.9	3.2
Net Income	16.6	13.8	(4.5)	26.3	24.4

Source: Guy Carpenter & Company, LLC

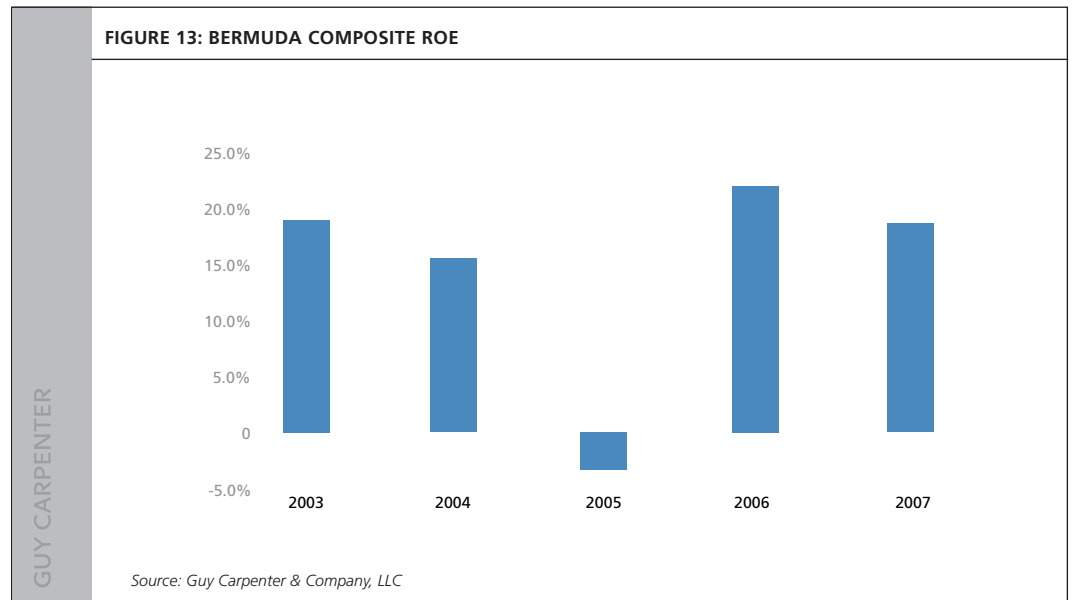
With the exception of 2005, the Bermuda market has outperformed the United States for the past five years. However, the Bermuda Composite has more volatility than the United States, since the Bermudian companies are more concentrated on catastrophe-exposed lines of insurance than the overall U.S. industry. More than 40 percent of U.S. premiums are in the auto insurance line, which generally has minimal catastrophe exposure.

U.S.-domiciled (re)insurer profitability fell faster than that of the Bermuda Composite, as price competition in primary insurance has been more intense than in reinsurance.



Return on Equity

Most of the Bermuda groups have a minimum target Return on Equity (ROE) of 15 percent. At 14.5 percent, the five-year average annual growth rate effectively reaches that goal. Lancashire and Hiscox led the Bermuda Composite in terms of ROE in 2007, at 33.3 percent and 31.5 percent respectively. Favorable cat results were again the main causal factor.



Average ROE for the Bermuda Composite dropped to 18.4 percent in 2007, down from 21.8 percent in 2006. Subprime losses contributed to the decline. But, ROE is expected to drop further in 2008. Increased equity through retained earnings and the expectation of higher catastrophe losses are likely drivers.

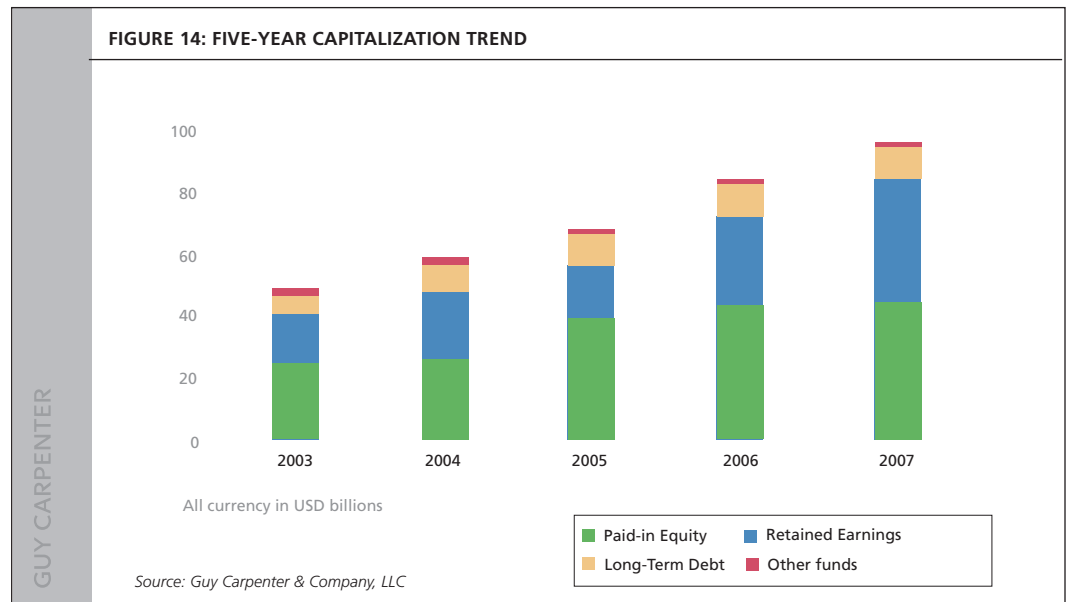
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Balance Sheet

Members of the Bermuda composite continued to experience substantial total capital growth through 2007, though increases did slow from the five-year CAGR. Book values benefited from both capital growth and investment returns, causing the Bermuda Composite book values, on average, to outpace the S&P 500.

Capital

Bermuda Composite group equity positions continued to swell in 2007. The rate of growth slowed, though. Total capital increased by 14.2 percent, slower than the five-year CAGR of 18.8 percent. Growth in 2006 and 2007 was driven by earned capital, rather than the contributed capital from share issuance that supported the increase in 2005 and earlier years.



As the market softened through 2007, Bermuda continued to attract capital for both new and relocating operations, although there was not sufficient enrollment to merit a “class.” Some of the newer companies in 2007 included the re-domestication of Lloyd’s associated holding companies and by U.S. insurance groups that recently decided to expand into reinsurance.

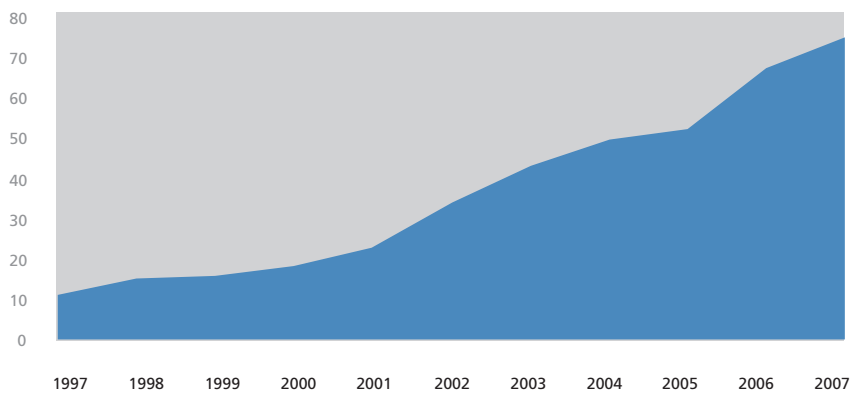
Most of the groups in the Bermuda Composite have operating companies or offices located in their principal markets, particularly the United States, to help them stay close to clients and promote their businesses. Bermuda-domiciled groups have become increasingly interested in Ireland, Switzerland and Singapore. Of the three, Ireland appears to be attracting the most attention. XL Capital noted in its 2006 Annual Report that Ireland provides the ability to conduct business throughout the European Union under the EU's reinsurance directive.

Most of the Bermuda Composite groups began as specialty operations. Later, they diversified their writings, largely on the impetus of merger and acquisition (M&A) activity. Further, they have broadened their product offerings, particularly through the use of managing agents. ACE and XL Capital are both examples of one-time specialty writers that have diversified over time. Both started during the liability crisis of the 1980s, writing excess liability coverage for large U.S. corporations. The two groups are now among the most diversified global insurance organizations in the world. Similarly, PartnerRe started as a catastrophe writer and branched into multiple lines, though staying close to its reinsurance heritage. But, catastrophe-related business accounts for less than 15 percent of PartnerRe's total book. With broad product offerings and a worldwide presence, references to the "Bermuda Market" from a holding company perspective are no longer appropriate.

Recently, many Bermuda groups have entered into the U.S. Excess and Surplus (E&S) lines markets by establishing U.S.-based subsidiaries. Typically, they are reinsured heavily by a Bermuda affiliate. Via reverse integration, Argonaut Group ("Argo") moved to Bermuda while retaining its E&S market leadership in the United States, demonstrating an innovative way to execute the Bermuda-domiciled/U.S. E&S structure. Argo merged with the Bermuda-based PXRe and thus redomesticated. Argo, which ranks in the top 20 E&S writers in the United States, is now able to retain more of its growing book of E&S business, expand its business scope to reinsurance and level the tax advantage enjoyed by its Bermuda rivals in an increasingly competitive market. Argo is neither an isolated case nor the first to do this. But, it is the first of its kind to be included in the Bermuda Composite. Other groups have been excluded either due to their smaller size or limited third-party reinsurance activities.

Bermuda’s attraction as a center for (re)insurance operations is evident in the aggregate equity position of its companies listed on U.S. stock exchanges. Aggregate equity for this group, has grown at a double-digit rate in all but two of the last 10 years. The group returned below-average (but still respectable) results of above 5 percent in 1999 and 2005, with natural catastrophe losses affecting the results of both years. Large losses from Hurricanes Katrina, Rita and Wilma slowed growth in 2005. In the following year, the hard property market generated by these disasters attracted more capital to Bermuda. European storms Martin and Lothar, along with Hurricane Floyd in the United States, contributed to below-average performance in 1999, but laid the foundation for an increased inflow of capital in the hard market of 2000 and 2001.

FIGURE 15: AGGREGATED EQUITY OF U.S. LISTED BERMUDA GROUPS CONTAINED IN THE COMPOSITE



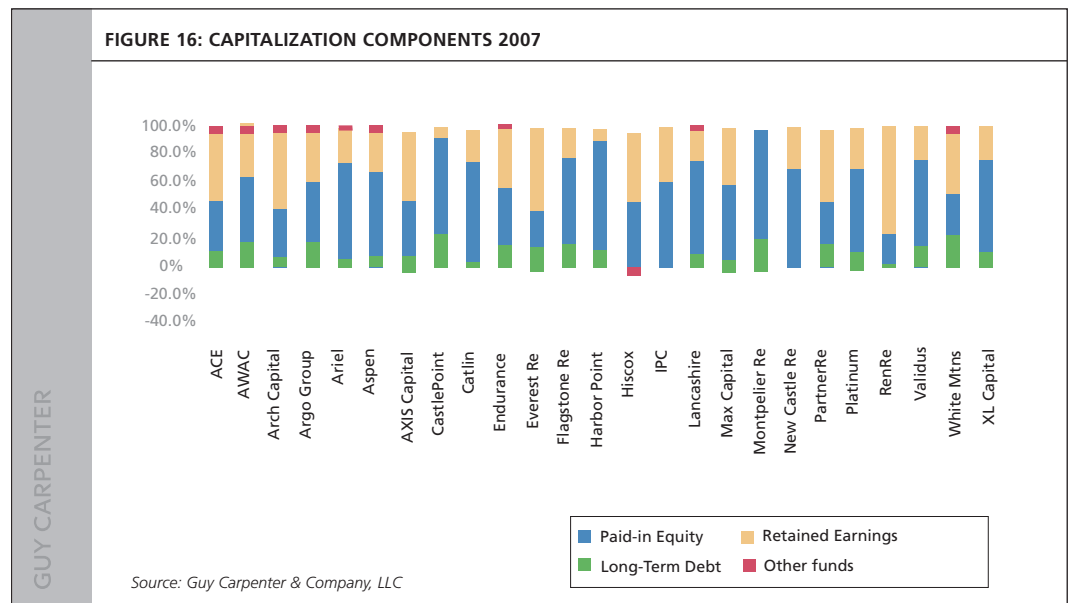
Source: Guy Carpenter & Company, LLC

Five companies in the Bermuda Composite are not included in the chart. Three are listed on the London Stock Exchange (Catalin, Hiscox and Lancashire), and two are privately held (Harbor and Ariel).

GUY CARPENTER

Quality of Capital

Most of the Bermuda Composite groups have relatively conservative capital structures (in terms of financial leverage). Only two have a trust-preferred and long-term debt-to-equity ratios greater than 20 percent. None is above 25 percent, while three exceeded 30 percent at year-end 2006. The simple average for all of the Bermuda groups was 13.4 percent, compared with 13.9 percent in 2006. Long- and short-term debt-to-equity for the Bermuda Composite was 17.3 percent in 2007 compared to 19.4 percent in 2006. Longer-established carriers, like ACE and XL Capital, have the highest amounts of total capital in the Bermuda Composite. Only Montpelier Re had negative retained earnings in 2007.



Asset Distribution

The Bermuda Composite companies had invested conservatively, on average, by the end of 2007. Bonds, cash and cash equivalents, as well as assets of similar risk levels, accounted for 82 percent of company investments. IPC, White Mountains and Everest Re had the highest percentages of assets invested in unaffiliated common stocks: 25.5 percent, 14.1 percent and 10.4 percent respectively.

TABLE 3: BERMUDA COMPANIES ASSET DISTRIBUTION							
ASSETS	2001	2002	2003	2004	2005	2006	2007
Bonds	52.2%	55.7%	60.5%	62.9%	59.7%	61.6%	61.7%
Common & Preferred Stocks	2.5%	2.3%	2.4%	3.5%	3.3%	3.3%	3.3%
Other Quoted Investments	0.8%	0.7%	0.7%	0.7%	0.7%	0.9%	0.9%
Cash & Short-Term Investments	16.3%	13.8%	9.9%	7.9%	12.9%	11.6%	11.3%
Investments in Affiliates	1.7%	2.0%	2.0%	2.0%	1.8%	1.7%	1.5%
Unquoted & Other Investments	1.3%	1.2%	1.1%	1.7%	2.1%	2.7%	3.5%
Subtotal Cash & Inv. Assets	74.9%	75.7%	76.5%	78.6%	80.5%	81.8%	82.3%
Insurance Receivables	11.1%	11.8%	11.2%	10.0%	8.7%	8.2%	7.7%
Deposits with Cedents	1.2%	1.3%	1.5%	1.8%	1.3%	0.9%	0.8%
Goodwill	5.6%	4.4%	3.6%	2.9%	2.5%	2.3%	2.2%
Other Assets	7.1%	6.8%	7.1%	6.7%	7.1%	6.8%	7.0%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Source: Guy Carpenter & Company, LLC</i>							

Groups with a higher proportion of invested assets in the category “unquoted and other invested assets” were Arch at 20.6 percent, Flagstone at 15.7 percent and RenaissanceRe (“RenRe”) at 11.6 percent. The ratios for these companies are all well above the Bermuda Composite rate of 3.5 percent. Assets falling into this category include short-term investments of funds received under securities lending agreements, hedge funds, collateralized loan obligations, life settlement contracts, catastrophe bonds, private equity partnerships and other assets with lower levels of liquidity.

Reinsurance Recoverables

Reinsurance recoverables as a percentage of equity dropped from 90.9 percent in 2003 to 49.4 percent in 2007 for the Bermuda Composite. Strong equity growth was among the primary drivers. The decline in reinsurance recoverables is improving the credit quality of Bermuda counterparties. Companies with longer histories or with casualty exposures, such as ACE and White Mountains, tend to have a higher exposure to reinsurance recoveries.

Subprime-Related Investment Exposure

As conservative investors, it is not surprising to find that most Bermuda Composite holding companies have minimal direct exposure to subprime securities. Four of the groups in the Bermuda Composite had some direct involvement in subprime-related investments through positions in financial guarantee insurers.

RenRe and PartnerRe each had invested in Channel Re, with ownership interests of 32.7 percent and 20 percent, respectively. Channel Re, which provided financial guarantee reinsurance exclusively to MBIA, recorded unrealized mark-to-market losses for financial guarantee contracts. They accounted for the contracts as derivatives under Generally Accepted Accounting Principles (GAAP) in a manner that resulted in write-downs of USD151.8 million for RenRe and USD92.8 million for PartnerRe in 2007.

ACE's 24 percent equity interest in Assured Guaranty Ltd. was carried at USD392 million, down from USD469 million in 2006. ACE reported that it had a small portfolio of subprime asset-backed holdings of USD137 million at year-end 2007.

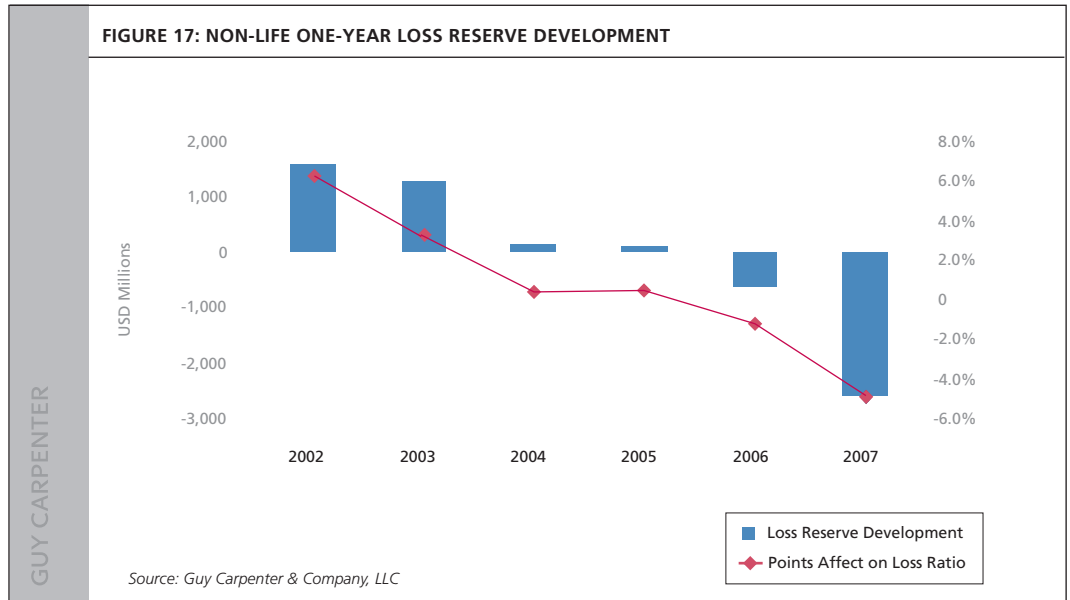
XL Capital had the largest exposure of the four groups, much of which was from its involvement with Security Capital Assurance (SCA), a monoline provider of financial guarantee products. XL Capital took a write-down on its 46 percent interest in SCA of USD550 million. Another USD330 million in charges arose from an excess of loss agreement with SCA (USD300 million) and facultative agreements with SCA (USD30 million). XL Capital also recorded USD500 million in net realized investment losses from "other than temporary impairments" and a mark-to-market charge of USD150 million for a publicly traded financial affiliate.

Adequacy of Loss Reserves

For 2007, in the absence of reserve releases, the Bermuda Composite average combined ratio would have increased rather than decreased. With the exception of the Everest Re Group, which strengthened its Asbestos & Environmental (A&E) reserves following a comprehensive study of those losses, loss reserve redundancies were recorded by all of the major groups in 2007.

White Mountains recorded one of the larger redundancies (USD425.4 million, representing 0.4 percent of net premium earned). This followed a deficiency of USD251.7 million in 2006. Other sizable loss reserve takedowns were recorded by AXIS (USD337 million), Platinum Underwriters (USD319 million) and RenRe (USD233.2 million). The last four years stand in stark contrast to large reserve increases in 2002 and 2003.

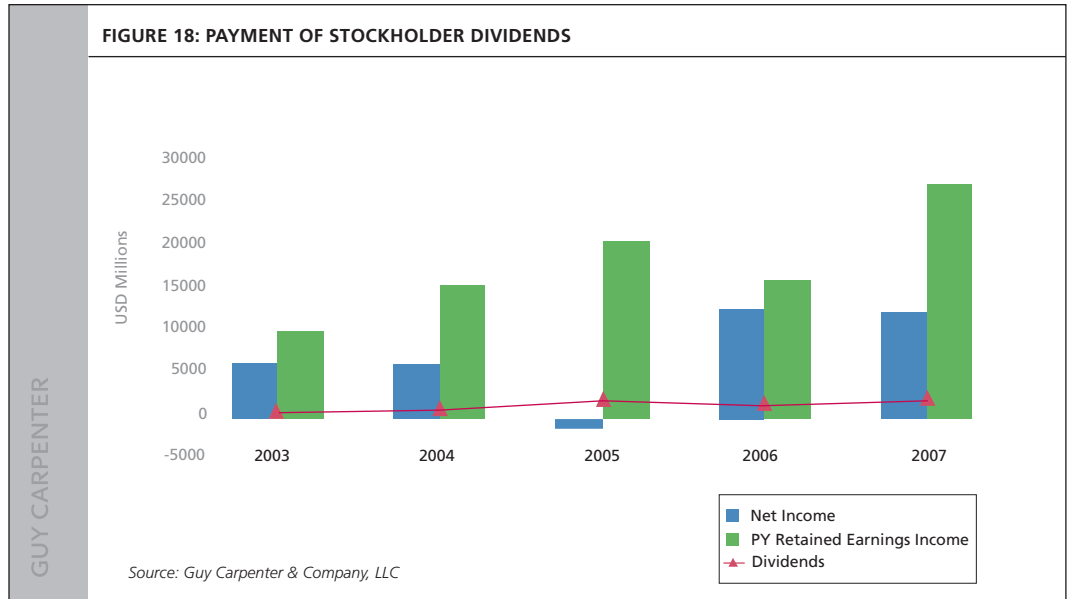
A large part of the adverse loss reserve development in 2003 was from XL Capital’s book of North American reinsurance business, most of which was a result of the NAC Re business merger in 1999. The substantial adverse loss reserve development in 2002 was primarily from ACE, which posted USD516 million in pre-tax reserves for asbestos liabilities and USD193 million mainly for primary U.S. casualty business written in 1999.



Dividend Trends

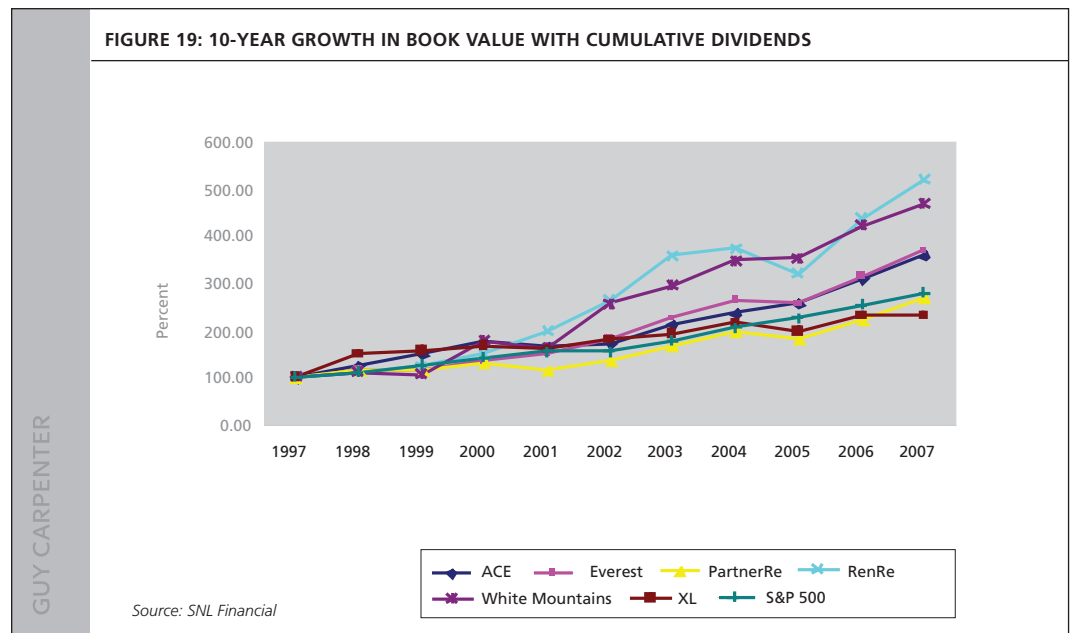
Dividends paid to shareholders have been relatively high, totaling USD2.3 billion, 18 percent of net income, in 2007. This indicates the preference of Bermuda companies to repatriate dormant capital.

Bermuda companies tend to return excess capital to investors at a greater rate than US- and UK-based (re)insurers. Economic, tax and regulatory considerations contribute to this strategy, and dividend ratios reflect the results. Such commitments are made at inception and most Bermudian companies have honored these pledges.



Growth in Book Value

Book values increased for most Bermuda companies in 2007. A fundamental benchmark used by many of the publicly traded groups is an increase in book value plus accumulated shareholder dividends over an extended period of time. This measure is also important in credit analysis, as it may enhance the financial flexibility of the entity. The increase in book value result needs to be measured against the risk assumed by each individual group, its caution in reserving and the strength of its capital.



All six companies measured showed substantial increases in book value over the past decade. RenRe led the field with a gain of more than 400 percent. Four of the six companies had growth rates that exceeded the gain in the overall S&P 500.

Waxing and Waning of Sidecars

Sidecars are special purpose vehicles (SPVs) through which third-party investors (e.g., hedge funds and private equity funds) provide extra underwriting capacity to existing reinsurers and insurers. Thus, they ease capital into and out of the reinsurance market. These SPVs tend to be used for property-catastrophe retrocession and other short-tail lines of business. Some, such as marine and energy, do have long-tail exposure. The post-Katrina proliferation of sidecars eased the ingress and subsequent retirement of reinsurance capital.

Many sidecars were formed to provide extra capacity through collateralized quota share treaties, which were in short supply for the U.S. renewals immediately following Hurricanes Katrina, Rita and Wilma. More than USD3 billion of capacity was supplied through sidecars in 2006.

Current market conditions and the availability of insurance-linked securities (ILS) have led to a reduction in the use of sidecars. The principal benefit of the SPVs, for investors, is the ability to invest in a short-term vehicle with an innate exit strategy, rather than having to capitalize a new company (and fund both start-up and operational overhead). When the next major disaster occurs, though, sidecars are likely to reemerge in order to facilitate the entry of capital quickly and at minimal cost.

Montpelier Re's Blue Ocean sidecar was dissolved in 2007. Other non-renewed sidecar arrangements include those between White Mountains and sidecars Olympus Re and Helicon Re, Harbor Point and Bay Point Re, RenRe and Timicuan Re, Lancashire and Sirocco Re, Hiscox and Panther Re and Validus and Petrel Re. New Point Re, another Harbor Point sidecar, was downsized.

TABLE 4: BERMUDA SIDECARS				
Bermuda Group Sidecars	Domicile	Sponsor	Licensed	Active in 2008
Bay Point Reinsurance Ltd (1)	Bermuda	Harbor Point	2006	No
Cyrus Reinsurance II Ltd (1)	Bermuda	XL Capital; Highfields Capital	2007	Yes
Helicon Reinsurance Co Ltd (1)	Bermuda	White Mountains	2005	No
Mont Fort Re Ltd (1)	Bermuda	Flagstone	2006	Yes
Mont Gele Re Ltd (1)	Caymans	Flagstone	2007	Yes
Olympus Reinsurance Co Ltd (1)	Bermuda	White Mountains	2005	No
Panther Re Bermuda Ltd (1)	Bermuda	Hiscox; WL Ross & Co	2006	No
Petrel Reinsurance Ltd (1)	Bermuda	Validus; First Reserve Corp.	2006	No
Rockridge Reinsurance Ltd (1)	Caymans	Montpelier	2005	No
Sirocco Reinsurance Ltd (1)	Bermuda	Lancashire	2006	No
Starbound Reinsurance II Ltd (1)	Bermuda	RenRe	2007	Yes
Stoneheath Re (1)	Caymans	XL Capital	2006	Yes
Timicuan Reinsurance Ltd (1)	Bermuda	RenRe	2006	No
<i>Source: Guy Carpenter & Company, LLC</i>				

Not as prominent as they were, sidecars will continue to play a role as capital providers, though, in a different manner that offers increased flexibility. Mont Fort, for example, is a Class 3 insurer and is also registered as a “segregated accounts” company under the Bermuda Segregated Accounts Companies Act 2000. The Act enables Mont Fort to establish segregated accounts, referred to as cells, with each having a distinct business strategy, underwriting strategy and underwriting risk management program.

5

Corporate Activity

Bermuda continued to facilitate fiscal efficiency in 2007, contributing to the destination's value to holding companies. Some consolidation is expected as conditions continue to weaken, especially in the reinsurance segment. Acquisition activity did increase in 2007, but this was intercontinental rather than strictly Bermudian. Mergers among Bermudian companies have not occurred in any significant volume since the mid- to late-1990s. The possible increase of M&A activity on the island is likely to be unpredictable, due to the absence of a post-2001 precedent.

Two Lloyd's operations, Kiln Ltd. (subsequently purchased by Tokio Marine & Nichido Fire Insurance Company in mid-December, 2007) and Hardy Underwriting Bermuda Ltd. (formerly known as Hardy Underwriting Group plc.), moved to Bermuda in 2007 to improve their strategic positioning in the global market. They joined two other Lloyd's participants, Catlin Group Ltd. and Hiscox Ltd., both of which moved to Bermuda in late 2005.

While others are not changing their domiciles, they are making substantial investments in Bermuda. Brit Insurance Holdings plc, through its underwriting control and 19.6 percent investment in Norton Re and now Norton Re II, has a Bermuda presence. Amlin plc, through Amlin Bermuda Ltd., established a presence on the island in 2005, and Canopus Group, though still mainly writing through Lloyd's, established Canopus Underwriting Bermuda and Class 3 reinsurance company Canopus Bermuda (a Bermuda-based capital provider) in 2007.

We are observing in Bermuda some variations on a fairly typical expansion strategy: a company initially forms in Bermuda and subsequently opens subsidiaries in the United States and London. With the purchase of a Lloyd's syndicate, the Bermuda-based reinsurer has instant use of Lloyd's broad licenses throughout the world, as well as established acceptance among buyers.

In 2005, Montpelier formed syndicate 5151 and a management company in the United States. The U.S. facility writes property facultative business on behalf of the syndicate. Flagstone established a Swiss subsidiary. Validus acquired Talbot Underwriting Ltd in 2007, and Ariel Holdings acquired Atrium Underwriting plc. Since Talbot supplies all of the capacity at its syndicate, premium volume for Validus Holdings is expected to double. Atrium, conversely, has a base of traditional names, and the managing agent controls approximately 25 percent of its capacity. Thus, Ariel's overall premium level may increase but only to a lesser degree.

Regulation

The Bermuda Monetary Authority (BMA) has instituted significant changes for the supervision and control of insurers, particularly those in the Class 4 category.² The changes include more detailed financial statements, the introduction of a risk-based capital (RBC) framework for capital adequacy and stress testing.

The changes were introduced because of the need to keep pace with the capital standards of other regulatory bodies, including those of the International Association of Insurance Supervisors (IAIS). Further, the changes are expected to improve the treatment of Bermuda-based reinsurance recoverable balances under the National Association of Insurance Commissioners' (NAIC's) proposal to reduce U.S. reinsurance collateral requirements as domiciliary regulatory standards are taken into account. Florida has already adopted reduced collateral guidelines, and New York plans to do so by July 1, 2008. The reduced collateral safety net will put even more reliance on the rating agencies and ceding companies' own analysis for credit risk due from Bermuda and other international markets.

New Bermuda regulatory requirements include:

- An updated Code of Conduct outlining the responsibilities for the Board of Directors as well as senior management
- Introduction of an RBC approach (similar to that of the NAIC), which will better enable the BMA to determine an insurer's capital solvency requirement and institute "graduated intervention tools"
- With the RBC requirement, insurers will be required to conduct stress tests and extreme event scenario simulations

Statutory statement changes will be included as well to accommodate the RBC calculation and introduce other disclosures. This includes operating results and loss triangles for 24 predefined lines of business, a catastrophe risk charge based on a 99 percent Tail Value at Risk (TVaR) aggregate loss and reinsurance recoverables listed by reinsurer and A.M. Best rating category. There is a proposal that will enable an insurer to substitute its own internal model if it can be shown that it's more accurate in determining the company's regulatory capital requirement.

The BMA has not indicated that the statutory return will be shared with the public or that the RBC calculation, which was heavily influenced by the regulated companies, will be made available to third parties. Further conciliation to the privacy of regulated companies extends even the public disclosure of the audited GAAP statement, which may be suppressed if a company deems that the disclosure would put it at a competitive disadvantage. In those cases, a limited amount of the filing would be made available on the BMA's website.

² Bermuda's largest, higher-profile carriers, capitalized at a minimum of USD100 million, are in the Class 4 category.

(Re)insurers will have to provide projected financial results for the following statutory financial year. While the regulatory process will continue to be heavily dependent on third parties (e.g., auditors, principal representatives and loss reserve specialists), the BMA does plan to conduct a limited number of on-site reviews and is increasing its staff to increase its activities in that area. Also, the BMA has proposed that (re)insurers at the legal entity level file audited GAAP or IFRS financial statements with the BMA starting with year-end 2007. The filings will be published publicly via the BMA website.

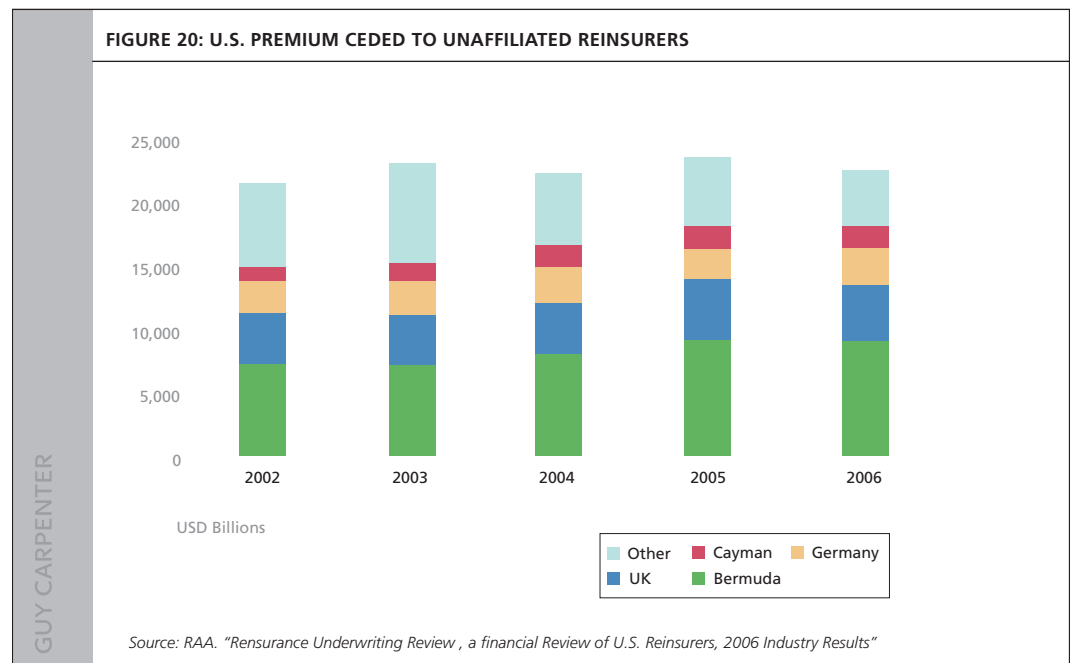
Rating Changes

In 2007 there were a few changes in the S&P ratings for the members of the Guy Carpenter composite. A.M. Best reported three changes: Aspen Insurance Bermuda and Endurance were raised from A- to A and XL Re was downgraded to A from A+. S&P raised RenRe’s grade to AA- from A+.³

Bermuda’s Place in the Global Reinsurance Market

Bermuda supplies considerable capacity to risk-bearers around the world, as evidenced by the more than USD28 billion in assumed reinsurance premiums written in 2007. The influence of U.S.-based cedents was salient. According to the Reinsurance Association of America (RAA), Bermuda accounted for more than 40 percent of total U.S. premium ceded to non-U.S. reinsurers.

Although Bermuda had been capturing a larger percentage share of U.S. premium ceded offshore, the amount remained steady in 2006, according to RAA data.



3 Please see Appendix G: Rating Agency Changes for specific company information.

Appendix A:

Bermuda Composite Underwriting Results

APPENDIX A: BERMUDA COMPOSITE UNDERWRITING RESULTS									
Company	EXPENSE RATIO (%)			LOSS RATIO (%)			COMBINED RATIO (%)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Ariel	n/a	32.9	30.0	n/a	10.9	11.6	n/a	43.8	41.6
New Castle Re	n/a	21.5	19.8	n/a	10.4	27.0	n/a	31.9	46.8
Lancashire	n/a	37.5	24.8	n/a	16.1	23.9	n/a	53.6	48.7
IPC	14.7	18.1	18.0	237.1	14.7	31.9	251.8	32.8	49.9
RenRe	28.2	27.1	27.7	116.6	29.2	33.6	144.8	56.3	61.3
Montpelier Re	22.7	30.7	29.5	178.0	29.6	31.9	200.7	60.3	61.3
Validus	n/a	26.9	29.3	n/a	29.8	33.1	n/a	56.6	62.4
Flagstone Re	n/a	33.6	32.4	n/a	13.9	40.4	n/a	47.5	72.9
AXIS Capital	21.5	24.3	25.2	80.3	52.9	50.1	101.9	77.2	75.3
Hiscox	34.8	35.1	35.4	65.9	43.0	43.9	100.7	78.2	79.2
Endurance	27.7	31.0	32.9	95.8	50.5	47.0	123.5	81.5	79.9
AWAC	18.7	19.8	22.5	105.7	59.0	58.8	124.4	78.8	81.3
PartnerRe	30.8	31.8	32.0	87.3	55.0	50.8	118.1	86.8	82.8
Aspen	27.1	29.3	29.9	90.1	53.1	53.1	117.2	82.4	83.0
Catlin	30.2	35.6	36.8	71.1	51.4	46.4	101.3	87.0	83.2
Platinum	27.6	28.5	27.6	87.8	56.9	55.9	115.4	85.4	83.5
Arch Capital	29.5	28.4	29.5	67.2	58.1	55.8	96.8	86.5	85.3
Harbor Point	n/a	49.0	38.7	n/a	43.8	47.3	n/a	92.8	86.1
ACE	25.1	26.9	26.2	74.5	61.2	61.6	99.6	88.1	87.9
XL Capital	29.5	31.4	32.0	104.7	60.7	59.1	134.2	92.1	91.1
Everest Re	26.2	26.5	27.9	94.0	63.2	63.7	120.2	89.7	91.6
Max Capital	16.1	25.9	31.8	93.4	67.7	64.0	109.4	93.6	95.7
CastlePoint	n/a	52.7	44.1	n/a	51.9	52.9	n/a	104.6	96.9
Argo Group	n/a	n/a	38.2	n/a	n/a	61.3	n/a	n/a	99.4
White Mtns	35.1	39.8	39.3	75.2	66.1	63.6	110.4	105.9	102.9
Composite Avg	27.5	29.6	30.2	88.7	56.1	54.7	116.2	85.8	84.9

Source: Guy Carpenter & Company, LLC

Appendix B:

Bermuda Composite Return on Equity

APPENDIX B: BERMUDA COMPOSITE ROE					
	PRE-TAX INCOME / AVERAGE ROE				
Company	2003	2004	2005	2006	2007
Lancashire	n/a	n/a	n/a	15.3%	33.3%
Hiscox	26.1%	25.0%	14.8%	31.9%	31.5%
Validus	n/a	n/a	n/a	16.7%	25.9%
AXIS Capital	22.3%	16.5%	3.0%	25.2%	23.7%
Arch Capital	19.7%	17.4%	12.1%	24.4%	22.9%
Endurance	18.0%	19.7%	-14.5%	25.3%	22.5%
Aspen	19.0%	18.9%	-9.1%	21.2%	22.0%
Catlin	25.5%	21.6%	2.9%	18.7%	21.6%
AWAC	16.1%	9.5%	-9.0%	24.6%	21.1%
ACE	23.6%	15.4%	12.0%	21.7%	20.4%
Max Capital	18.4%	16.8%	1.0%	16.9%	20.4%
Montpelier Re	28.0%	14.1%	-53.6%	23.8%	20.1%
Platinum	19.5%	10.5%	-12.2%	21.2%	19.7%
PartnerRe	20.1%	16.8%	-0.9%	24.6%	19.7%
Everest Re	17.8%	16.3%	-7.2%	21.4%	19.1%
IPC	18.2%	8.6%	-38.0%	21.9%	18.7%
Ariel	n/a	n/a	n/a	14.3%	17.8%
RenRe	31.4%	6.8%	-10.1%	28.8%	17.6%
New Castle Re	n/a	n/a	n/a	n/a	17.3%
Flagstone Re	n/a	n/a	n/a	21.6%	16.3%
White Mtns	15.2%	13.6%	8.5%	18.6%	13.5%
Harbor Point	n/a	n/a	n/a	5.7%	10.5%
CastlePoint	n/a	n/a	n/a	n/a	7.7%
XL Capital	6.6%	17.1%	-14.8%	21.3%	5.1%
Argo Group	n/a	n/a	n/a	n/a	n/a
Composite Avg	18.7%	15.3%	-3.4%	21.8%	18.4%

Source: Guy Carpenter & Company, LLC

Note: Guy Carpenter calculates as pre-tax income to average shareholders equity. Of note, RenRe reported a 28 percent ROE for 2007. Its definition differed from that used in this table. In particular, they exclude subprime losses.

Appendix C:

Bermuda Composite Total Capital

APPENDIX C: BERMUDA COMPOSITE TOTAL CAPITAL (USD MILLIONS) – 2007				
Company	Long -Term Debt	Paid-in Capital	Retained Earnings	Other Funds
ACE	2,120.0	6,828.0	9,080.0	769.0
XL Capital	1,269.7	7,360.6	2,578.3	9.2
Everest Re	979.2	1,806.5	3,956.7	(78.4)
White Mtns	1,471.2	1,691.2	2,718.5	303.7
AXIS Capital	499.3	2,371.7	2,968.9	(182.0)
PartnerRe	877.6	1,519.8	2,753.8	48.0
Arch Capital	300.0	1,452.5	2,428.1	155.2
RenRe	100.0	826.8	2,606.0	44.7
Catlin	100.8	2,215.2	768.8	33.0
Aspen	249.5	1,846.2	858.8	112.6
Endurance	448.8	1,233.7	1,220.9	57.7
AWAC	498.7	1,283.3	820.3	136.2
Validus	350.0	1,397.6	537.3	(0.1)
Platinum	250.0	1,339.1	683.6	(24.3)
IPC	-	1,334.9	791.7	(0.9)
Montpelier Re	427.4	1,694.5	(43.6)	2.2
Harbor Point	200.0	1,424.4	144.3	10.3
Argo Group	311.4	716.6	592.3	75.6
Max Capital	99.8	902.0	702.2	(20.3)
Hiscox	-	845.8	886.2	(86.4)
Ariel	100.0	1,039.4	389.7	10.5
Flagstone Re	264.9	906.2	296.9	7.4
Lancashire	132.3	895.4	299.5	20.7
New Castle Re	-	500.1	210.4	-
CastlePoint	134.0	385.4	37.4	(1.0)

Source: Guy Carpenter & Company, LLC

Appendix D: Reinsurance Recoverables

APPENDIX D: REINSURANCE RECOVERABLES					
Company	Reinsurance Recoverables as % of Equity				
	2003	2004	2005	2006	2007
ACE	186.3	174.5	150.2	120.8	102.4
AWAC	16.4	23.7	67.0	42.8	42.6
Arch Capital	54.9	54.4	85.1	67.8	62.3
Argo Group	n/a	n/a	n/a	n/a	59.0
Ariel	n/a	n/a	-	1.0	8.5
Aspen	14.4	23.9	69.7	26.8	18.3
AXIS Capital	15.1	33.3	56.8	42.0	36.4
CastlePoint	n/a	n/a	n/a	10.9	18.2
Catlin	71.4	60.3	82.8	73.6	52.7
Endurance	11.4	11.4	11.1	13.8	19.1
Everest Re	54.2	43.8	35.9	24.1	20.3
Flagstone Re	n/a	n/a	-	2.3	3.7
Harbor Point	n/a	n/a	0.1	7.2	9.3
Hiscox	102.2	94.6	106.1	67.1	48.9
IPC	0.7	1.1	0.8	0.7	1.4
Lancashire	n/a	n/a	0.1	6.2	6.7
Max Capital	73.3	71.2	51.1	49.7	47.5
Montpelier Re	4.7	9.7	47.1	18.7	13.2
New Castle Re	n/a	n/a	n/a	0.3	1.7
PartnerRe	21.0	17.7	21.2	18.8	18.5
Platinum	8.5	12.4	13.4	8.1	5.4
RenRe	12.1	13.2	37.2	16.5	11.4
Validus	n/a	n/a	-	3.1	14.0
White Mtns	134.7	113.8	145.9	102.9	84.4
XL Capital	108.6	113.8	98.9	69.8	64.6
Composite Avg	80.9	78.3	78.1	56.9	49.4

Source: Guy Carpenter & Company, LLC

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Appendix E: Adequacy of Loss Reserves

APPENDIX E: ADEQUACY OF LOSS RESERVES					
Company	PREVIOUS YEAR RESERVE DEVELOPMENT / NPE (%)				
	2003	2004	2005	2006	2007
RenRe	(8.4)	(10.5)	(17.2)	(8.9)	(16.4)
PartnerRe	1.7	(4.2)	(7.3)	(7.9)	(12.9)
Max Capital	4.0	0.0	17.9	(1.6)	(12.4)
AXIS Capital	(3.9)	(9.0)	(15.0)	(8.0)	(12.3)
AWAC	(4.9)	(6.0)	(3.9)	(8.8)	(10.6)
Endurance	(3.1)	(8.4)	(9.4)	(3.5)	(10.0)
Validus	n/a	n/a	n/a	-	(7.9)
Platinum	(6.0)	(5.7)	(4.2)	(3.8)	(7.7)
IPC	4.7	(3.8)	12.2	8.5	(7.6)
XL Capital	14.9	3.7	15.6	(1.6)	(6.5)
Montpelier Re	(8.3)	(12.4)	(2.0)	(4.1)	(6.5)
Arch Capital	(1.9)	(3.4)	(4.0)	(2.5)	(6.3)
Hiscox	3.3	1.3	(0.8)	3.6	(6.2)
Aspen	(1.2)	(5.0)	(3.4)	(3.1)	(6.2)
Catlin	3.9	(3.3)	(7.7)	0.2	(5.6)
Argo Group	n/a	n/a	n/a	n/a	(3.5)
ACE	1.8	5.0	0.7	(0.1)	(1.8)
Harbor Point	n/a	n/a	-	-	(1.6)
Ariel	n/a	n/a	n/a	-	(1.2)
New Castle Re	n/a	n/a	n/a	-	(1.1)
White Mtns	6.0	3.0	4.2	6.6	(0.4)
CastlePoint	n/a	n/a	n/a	-	-
Flagstone Re	n/a	n/a	n/a	-	-
Lancashire	n/a	n/a	n/a	-	-
Everest Re	5.3	5.6	(0.7)	3.5	5.2
Composite Avg	3.2	0.3	0.2	(1.3)	(5.0)

Source: Guy Carpenter & Company, LLC

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Appendix F: Growth in Book Value with Cumulative Dividends

APPENDIX F: GROWTH IN BOOK VALUE WITH CUMULATIVE DIVIDENDS			
	3 YR (%)	5-YR (%)	10-YR (%)
ACE	51.9%	108.6%	258.4%
Arch Capital	77.6%	160.0%	140.7%
Aspen	43.3%		
AXIS Capital	57.2%		
Endurance Specialty	34.9%		
Everest Re	40.0%	99.2%	266.8%
IPC	0.7%	28.7%	85.1%
Max Capital	42.9%	81.9%	
Montpelier Re	-5.7%	38.4%	
PartnerRe	36.7%	103.7%	168.2%
Platinum Underwriters	29.0%	58.4%	
RenRe	38.9%	97.2%	417.3%
White Mountains	33.8%	83.4%	366.1%
XL Capital	6.4%	28.5%	129.3%

Source: SNL Financial

Note: Eight companies have been added to account for Bermuda companies that were not in business in the base year of 1997.

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Appendix G: Rating Agency Changes

APPENDIX G: RATING AGENCY CHANGES (MARCH 14, 2008)		
COMPANY	CURRENT AMB RTG	CURRENT S&P RTG
ACE Tempest Re	A+ g S	A+ S
Allied World Assurance	A S	A- S
Arch Re	A S	A S
Ariel Re	A- S	NR
Aspen Ins	A S	A S
AXIS Specialty	A S	A P
CastlePoint Re	A- S	NR
Catlin Ins	A S	A- P
Endurance Specialty	A S	A S
Everest Re	A+ g S	AA- S
Flagstone Re	A- S	NR
Folksamerica Re	A- S	A- S
Fund American Re	A- S	NR
Harbor Point Re	A S	A- S
Hiscox Ins	A- S	NR
IPCR	A g N	A- S
Lancashire Ins	A- S	NR
Max Bermuda	A- S	NR
Montpelier Re	A- S	A- N
Partner Re	A+ g S	AA- S
Peleus Re	A S	NR
Platinum Underwriters	A g S	NR
RenRe	A+ S	AA- S
Validus Re	A- S	NR
XL Re	A g S	A+ S

Source: Standard & Poor's, A.M. Best

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