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COMPANY INTERVIEW

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Max Capital Group Ltd. (MXGL)



JOE ROBERTS serves as Executive Vice President and Chief Financial Officer of Max Capital Group Ltd. From 2001 until early 2002, Mr. Roberts served as Vice President in Finite Underwriting for Overseas Partners Re Ltd., a Bermuda-based reinsurance company specializing in providing quality reinsurance solutions for its business partners. He worked in public accounting in Bermuda from 1994 through 2001 with KPMG, with a specialization in providing assurance-based services to the financial services sector. Mr. Roberts served as Senior Manager with KPMG from 1998. From 1987 to 1994, he worked in public accounting in London, primarily with Moore Stephens. Mr. Roberts is a member of the Institute of Chartered Accountants in England and Wales.

SECTOR – NON-LIFE INSURANCE

(AJV603) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Mr. Roberts: Max Capital Group Ltd. is a global specialty insurance and reinsurance company that offers many different property and casualty product lines, in addition to some life reinsurance. We started underwriting in 2000 when we were a Bermuda reinsurance company primarily focused on alternative business. Since that time, however, and as the market has changed, we have transitioned into a more traditional insurance and reinsurance company. We still operate principally out of Bermuda, but have very significant operations in both Ireland and the US.

TWST: You said the market has changed. What were the changes?

Mr. Roberts: When we started in 2000, underwriting conditions were difficult and we had

a period of soft or lower pricing in the insurance and reinsurance industry. And, as we say in our business, you weren't paid enough to take a lot of risks at those times, so we initially concentrated on larger transactions that transferred less underwriting risk than in traditional reinsurance arrangements, but which enabled us to benefit from the growth of our invested assets. After the World Trade Center tragedy in 2001 and the related insurance losses, market conditions changed dramatically, with the cost of buying insurance increasing significantly. We refer to this phenomenon as a "hardening" of the market. The results of this hardening included better terms and conditions for sellers of insurance and, hence, potentially enhanced profitability. Inevitably this attracted new capital into the insurance and reinsurance market to take advantage of those opportunities.

TWST: What is the competitive landscape like and what are your competitive advantages?

Mr. Roberts: The competitive landscape has again turned more difficult. Years 2002, 2003 and 2004 were pretty good on the underwriting side, before we had hurricanes Katrina, Rita and Wilma (KRW) in 2005. KRW further drove up the prices of property and other short-tail coverage and what we saw until recently was a relatively high pricing environment on the property side. This, together with a low level of hurricane and other natural catastrophe losses, resulted in 2006 and 2007 being very profitable years for our industry. Max itself produced record net income in 2006 and again in 2007. Unfortunately the combination of new capital and high profitability led to some excess capacity in the market, which, of course, has driven down prices, making it a much more competitive environment than it has been over the past five to seven years.

“Our 2007 earnings produced an ROE of 20.4% — an ROE above 16.5% for the fourth time in the past five years, with only the 2005 KRW hurricane year falling below that level, yet still returning a small profit. We believe we are well positioned to continue that success in the future.”

TWST: What are your principal products and services?

Mr. Roberts: We principally offer property and casualty insurance and reinsurance in various forms and for various classes of risk. From Bermuda and Ireland, we provide general liability, professional liability, property and aviation insurance for a worldwide Fortune 1000-type clientele seeking higher-value transactions, as well as an extensive range of reinsurance products, including most casualty, property and specialty lines. We started Max Specialty, our US insurance company, in the second quarter of 2007. Max Specialty operates in the US

excess and surplus lines market and provides a wide range of commercial insurance products to smaller US companies. These are typically lower-value transactions than those written from Bermuda. We also offer life and annuity products on a reinsurance basis out of our Bermuda offices.

TWST: What is the advantage of working out of Bermuda?

Mr. Roberts: There are many advantages of doing so. The first one is the very good regulatory environment promoted by the Bermuda Monetary Authority, which has done a good job over the past 30 years, working very closely with the market participants, to implement comprehensive regulations that are thoroughly effective but that still permit an entrepreneurial spirit to thrive here.

The second advantage is Bermuda’s geographical location between the US and Europe. Insurance these days is very much a global business. Bermuda benefits from its status as an English-speaking jurisdiction that is readily accessible to many of our clients and brokers. This and the advanced infrastructure really help our business to thrive.

Thirdly, the tax environment is friendly. As a predominantly long-tail casualty writer, we generate significant investment income over the life of the business written, more so than a short-tail property catastrophe company, where the duration is shorter. Therefore, the investment and tax environment in Bermuda is important, as it helps us to make potentially better returns for our shareholders and also to have more funds available to settle claims.

TWST: What are the main items on your strategic agenda, as you look out over the next two to three years?

Mr. Roberts: We are looking at continued geographic and product diversification. As I said, we do now operate out of the US as well as Bermuda

and Ireland, and we offer a diverse product range. Nevertheless, we may expand into other markets as opportunities arise and we are looking to extend our European operations, as we feel there is probably more good business there that we can take advantage of over the next couple of years. We are also interested in writing more non-US dollar premiums; most of the property and casualty business that we write currently is US dollar denominated.

TWST: What are the possible challenges or problems over the next few years?

Mr. Roberts: A continuing concern is falling premium rates — we have been seeing some decline in most classes of business. There are some select lines that continue to promise attractive rewards, but other classes are becoming marginal. Rising loss costs are always a potential concern regulatory changes, legal costs and inflation can significantly drive up our claims over time.

And then, of course, there is the unpredictability of natural catastrophes. A large portion of our property catastrophe exposure is in the US and we were fortunate that 2006 and 2007 were pretty good years for that business. But it's equally clear that our industry's strong performance was somewhat fortuitous, as there was significant storm activity in those years. In fact, 2007 was the first year in recorded history when two hurricanes made landfall at Category 5 strength, with Hurricane Dean hitting the east coast of the Yucatan and Hurricane Felix doing extensive damage in Nicaragua. Neither, however, resulted in significant insured losses. Needless to say, we may not be so lucky this year. It's also been a number of years since we had an earthquake in an area with high insured values and that continues to be a concern. The other overarching concern that I think we have relates to the turmoil in the financial sector. The credit crunch over the last year has been driving

prices, sub-prices and general market conditions, leading to an actual or perceived devaluation of a number of items and certainly to a lack of value in the insurance sector. We are not immune to that and we would hope to see some resolution of the credit crisis in the near future.

TWST: What is the picture that you would hope to see for the company in about three years?

Mr. Roberts: Our key goal remains a 15% return on equity each year, because the fundamental metric we believe in here at Max is to grow book value over time. We have limited control over our share price and the market expectation of what our share price should be, but what we can do is manage our risk and our profile within the organization to try to achieve a 15% return each year. We have been quite successful over the past five years, showing a trailing average return on equity of 14.9%. We believe it's important to not only achieve 15% ROE over time, but to aim for some consistency from year to year. Accordingly, we carefully assess and manage our risks across the balance sheet, buying reinsurance and using other tools to seek to limit our downside and protect our earnings stream over time. This approach should improve consistency, but may also result in Max not matching the profitability of some other insurance companies in some of the industry's best years.

TWST: Would you tell us about your own background and expertise and the same for one or two of your colleagues?

Mr. Roberts: At Max, we have a number of very talented individuals heading up our insurance and reinsurance businesses. Our strategy has been to try to find individuals who we consider to be some of the best in class — people who are seasoned underwriters, have very good relation-

ships with clients and who can bring a substantial book of business with them and also have the talent to lead and develop those niche franchises that we are looking for in the specialty markets in which we operate.

Our CEO is Marty Becker. Marty has actually been on the Board since 2004, but, in October 2006, he took over on the departure of Bob Cooney, who was instrumental in setting the company up. Marty has excellent experience in building companies and we have already benefited significantly from his expertise. He has great relationships in the investor community and in the broker and market environment, and will continue to take the platform forward.

My background is predominantly in public practice, working with public accounting firms in both London and in Bermuda before joining Max Capital in 2002 in the role of Controller. I have been Chief Financial Officer since early 2007.

Our Chief Operating Officer and Chief Risk Officer is Peter Minton. Peter has a strong investment and underwriting background, which aids us in allocating our resources into appropriate areas, as we see opportunities arise in the marketplace.

Angelo Guagliano is the Chief Executive Officer of Max Bermuda Ltd., our principal operating subsidiary. Angelo has been underwriting for more than 25 years and was formerly with XL Capital. Angelo joined us in 2003 to head up our insurance operations.

John Doucette heads up our property and casualty reinsurance business, which operates principally from Bermuda. John has been with Max since we commenced operations in 2000. Prior to Max, John spent a number of years at Swiss Re and started his career

with Tillinghast. John has successfully developed our reinsurance team into one with strong underwriting talent, a good track record and an excellent reputation. In fact, in a recent survey of reinsurers by brokers, Max Bermuda was ranked fifth behind Munich Re, Swiss Re, Scor and RenRe as the “Treaty Reinsurer currently leading the industry in terms of its overall proposition” (*Global Broker* – July/August 2007).

Chris Rutten heads up our life and annuity reinsurance operations in Bermuda. Chris was previously with ING Reinsurance.

John Boylan heads up our Dublin insurance operations. Since John joined the group in 2003, he has developed our Dublin operations and produced an excellent book of business. John was previously with XL Capital in Dublin.

Max Specialty, our US surplus lines company, is headed up by Steve Vaccaro. Steve joined Max late in 2007. He and his team are the newest additions to the Max group. Steve was previously with the Markel Group. He has been in this industry for more than 30 years, underwriting business in both hard and soft markets, and had an excellent track record with Markel.

TWST: What occupies your own attention most on a day-by-day basis?

Mr. Roberts: The investor community is very important to Max and I spend some of my time keeping them apprised of developments. Like any CFO of a public company, however, my operational responsibilities are quite demanding and vary depending on the time of year. In the earlier part of the year our finance team is primarily focused on finalizing our year-end filings for the SEC, regulatory returns for each of our jurisdictions and GAAP financial statement preparation. And as soon as you finish the year-end, you are almost into first quarter. I also

spend a lot of time looking at our strategic direction, including M&A-type activity that might fit well and looking at different teams that may enhance our business. Of course, the financial reporting responsibilities of any CFO clearly include the review of controls and operations and also the assets that we invest in.

TWST: What would be your criteria for M&A?

Mr. Roberts: The number-one criterion for Max is for any transaction to be accretive to our shareholders. We have a nice diverse platform and what we are looking for is something that would be a good strategic fit and makes sound financial sense. For example, we may be interested in a team or a company that is established in a jurisdiction and/or providing a product that would be new to Max or is operating in a currency that we currently are not. Spending significant dollars on an acquisition potentially has negative consequences for our existing shareholders, at least in the short term. So we have typically chosen to build additional resources and platforms in order to enhance our value, as opposed to buying them and potentially paying somebody else for that value. This approach would not preclude us from potentially looking at an acquisition, but we would be cautious and certainly cognizant of its impact on shareholder value.

TWST: Do you see any need to improve your capital structure?

Mr. Roberts: We believe Max's capital structure is currently more than adequate. Along with a number of peer companies, we believe we have sufficient capital to write the business volumes we expect and we have actually been in a capital returning mode of late. Over the past year and a half we have returned more than \$200 million to our shareholders through share repurchases. So I think we are well capitalized, but because of

the softening market conditions we may not be able to effectively deploy all of our capital in underwriting activities. As a result, at least for the time being, we will continue to be active repurchasers of our stock. I think the industry as a whole is reasonably well capitalized at the present time.

TWST: Would you describe your shareholder base?

Mr. Roberts: The majority of our shares are held by a number of institutional investors, as well as some original family investors. Members of our management group are also significant stakeholders. We actively try to align the interests of our shareholders with those of our employees by granting Max stock awards to all employees.

TWST: What would be the two or three best reasons for the long-term investor to look closely at Max Capital?

Mr. Roberts: At present our shares are trading at a discount from the March 31, 2008, fully diluted book value per share of \$25.50. We believe this, together with the level and consistency of our performance over the past five years, as measured by return on equity, points to strong return potential for our shareholders in the years ahead. Our 2007 earnings produced an ROE of 20.4% □ an ROE above 16.5% for the fourth time in the past five years, with only the 2005 KRW hurricane year falling below that level, yet still returning a small profit. We believe we are well positioned to continue that success in the future in spite of the softening insurance market conditions because of our diversity in product and geographical region. In addition, financial and insurance stocks in general appear to have been adversely affected by investor concerns over the sub-prime crisis, even though many companies in this group have suffered little direct impact. I believe Max falls in this latter sub-group and that investors may

wish to position themselves to benefit from a potential resurgence in insurance stocks as the credit crisis is resolved and investor concerns about it subside.

TWST: Thank you. (MC)

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