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Questioning Market Leaders For Long Term Investors

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COMPANY INTERVIEW

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Max Capital Group Ltd.

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Max Capital Group Ltd. (MXGL)



W. MARSTON (MARTY) BECKER has served as Chairman and Chief Executive Officer of Max Capital Group Ltd. since October 2006. He has been a Director of Max Capital Group Ltd., formerly known as Max Re Capital Ltd., and Max Bermuda Ltd., formerly known as Max Re Ltd., since April 2004. From 1996 to 1999, Mr. Becker was Chairman and Chief Executive Officer of Orion Capital Corporation, until its sale in 1999 to Royal & SunAlliance, where

he then served as Vice Chairman and a Director of Royal & SunAlliance USA until 2000. He was President and Chief Executive Officer of an Orion Capital subsidiary from 1994 to 1996. From 2002 to 2005, he led the restructuring and wind-down of Trenwick Group Ltd., a Bermuda insurance company and its subsidiary, LaSalle Holdings from 2002-2007. From 2001 to 2004, he was non-executive Chairman of Hales & Company, a boutique insurance industry investment bank and private equity investor. Mr. Becker is Chairman and General Partner of West Virginia Media Holdings, which he co-founded in 2001. He is a Director of Selective Insurance Group, Inc. Mr. Becker earned his Juris Doctor and Bachelor of Science in Business Administration degrees from West Virginia University. He is a Certified Public Accountant and is an admitted attorney in West Virginia.

SECTOR – NON-LIFE INSURANCE

(AMT611) TWST: Would you start with a brief summary of Max Capital?

Mr. Becker: Max Capital celebrates its 10th anniversary this year. The company was founded in 1999 and it has accomplished a number of important milestones along the way, evolving into one of a handful of global enterprises operating in both the specialty insurance and reinsurance arenas. Max today has over 300 employees with major underwriting platforms in Bermuda, Dublin, six US cities, and in London at Lloyd's.

TWST: It's a tough time to be talking about financial services given the existing turmoil in the market. Where do you think we are at this point?

Mr. Becker: I think the property and casualty market is different from the rest of the financial sector. Most property and casualty companies have fairly conservative asset portfolios. At the same time, with the cost of capital having increased so much across the spectrum, the pricing of property and casualty products is actually improving for the carriers right now. So it's an unusually good place to be during a recession.

TWST: Where are you in the IPC Holdings deal? Validus made an unsolicited bid to IPC for about \$1.7 billion and upon reviewing that competing offer, IPC's Board unanimously confirmed its approval of the amalgamation between itself and Max.

Mr. Becker: We believe the IPC merger with Max Capital is a positive transaction for both sets of shareholders. IPC is a fine property cat company that has a track record of producing attractive results from a world class portfolio of business, but IPC has been looking to diversify. The issue with being a monoline property cat company is it's either feast or famine. You either have terrific results or your results are not very good, based in large part upon nature's events, whether it's hurricanes or earthquakes or something else. Max, on the other hand, has a very diverse book of business, both geographically and by product, with a good mix of long-tail and short-tail lines, and so we are a great match for IPC. And both companies will benefit from the enhanced scale of the post-merger operations.

In a diversified enterprise, you can still write property cat business, but you have other lines of business that help to stabilize your results and really bring more consistency in returns. The key is to have diversity across uncorrelated lines, so a mix of long-tail and short-tail lines is essential if you are seeking to optimize the benefits of diversity. So you give up the high highs, but you also give up the low lows. It's a much more investor-friendly enterprise. The transaction that we signed with IPC in early March is progressing extremely well. Our preliminary proxy statements have been filed, the regulatory approvals are well advanced, and it's our expectation that we'll be having a shareholder vote in June. Of course, it's important to understand that the shareholders will only be voting on whether or not to proceed with the IPC/Max merger. The Validus hostile bid will not be up for vote and, in the event that IPC shareholders do not approve the IPC/Max combination, in my view it is unlikely that a deal between IPC and Validus would actually materialize, and certainly not during the Atlantic hurricane season.

TWST: Assuming the amalgamation goes the way that you like, what will Max Capital's global footprint look like after that's completed?

Mr. Becker: The combined enterprise will have the portfolio of diversified products that Max writes today, as well as a significant component of international property cat business. This is extremely attractive because the two parts of the business will have different and non-correlated risk characteristics. The geographic underwriting platform in the merged company will not be different from what it is today, in that all of IPC's employees are in Bermuda. So the Bermuda platform just gets larger, but we don't add any new physical locations. We will, however, have a much strengthened underwriting team in Bermuda, as the accomplished property cat underwriters of IPC join Max's talented insurance and reinsurance specialists. We believe that combining a recognized writer of worldwide property cat business with Max's existing global platform will create a company that will build greater value for all its shareholders.

"Max is a traditional underwriter of specialty insurance and reinsurance. It has successfully transitioned from its origins as a Bermuda reinsurance company with a structured and alternative risk underwriting portfolio and an investment strategy that included a relatively high proportion of hedge funds and other alternative investments. We've successfully executed a 180-degree turn over the past 10 years, and today we believe Max has a really strong traditional underwriting operation. And we run a fairly similar investment portfolio to the other major global writers."

TWST: Is this industry still highly fragmented? Is there still a lot of consolidation to be done?

Mr. Becker: The insurance industry has always had an ability to spawn new entrants and then, over time, there is a merger and consolidation process that takes place. I have said for some time that the Bermuda marketplace is a little overdue for some consolidation. We have too many entities about the same size, doing the same thing. A transaction like the IPC deal takes several months of work and dialogue to ensure that not only does the math work, but the resulting business model is one that's going to be better for your shareholder base. This transaction should be terrific for both sets of shareholders.

TWST: The catastrophe environment has been pretty good for the past couple of years and you must be heartened by the predictions of a tame hurricane season. Are there any other challenges to worry about in the short to medium term?

Mr. Becker: When you're in the insurance business, you spend most of your life worrying about something. The property catastrophe business has generally been good for the past couple of years, but 2005 was a tough year with Katrina, Rita, Wilma; 2006 and 2007 were fairly light years for hurricane losses, despite 2007 having a very active Atlantic hurricane season; and then in 2008 you had Hurricane Ike. So it is a business that's a little bit feast or famine. And, while the predictions are for a tamer hurricane season this year, I'm not sure they have ever been right, one way or the other. You just do not know what Mother Nature is going to do.

TWST: Do you foresee anything coming along in the realm of public policy that will affect you?

Mr. Becker: Clearly, the Obama Administration has been very vocal about its desire to put in place different rules for oversight of off-

shore jurisdictions — not just insurance, but all types of financial services and other products. My guess is most of that would be favorable for companies like Max, because it will clear up the regulatory structure in the US. I think it's highly probable that it will contain federal oversight of insurance. Currently, there are 50 different state oversight insurance bodies, which are very different, and for companies like us, the US is an expensive place to do business. If there were simplified federal rules, it would really level the playing field in the US arena. So my expectation is that there will be legislation, and I think it will have a number of elements. But, on balance, I think it will probably be positive for our industry and for the Bermuda market.

TWST: Turning to your Board of Directors for a moment, what are the special talent assets? What are the resources that they bring to the company, and, over the next year or two, are you looking to make any changes or additions?

Mr. Becker: We have a strongly engaged Board of Directors committed to good corporate governance, disclosure and transparency. As a Board, we recognize that the bar continues to be raised and we are continually evaluating what it means to be a well-governed company.

TWST: What's on the agenda for the company over the next 12 months? What are your priorities and what will make that time frame a success?

Mr. Becker: At Max, we have been very successful at building out our franchise without diluting shareholder value. In 2007, we started a business in the US called Max Specialty, which this year is expected to generate over \$250 million of premiums, and, in November 2008, we announced the acquisition of a Lloyd's platform that we now call Max at Lloyd's. So, I think what

you're going to see is a continued focus on organic growth, bringing on additional specialty teams into our combined enterprise and probably adding specialization in London and the US.

TWST: Would you introduce us to your top level management team? Who are two or three of your key individuals?

Mr. Becker: Today the key officers of Max include Peter Minton, our Chief Operating Officer, who is probably one of the smartest analytical practitioners in our industry today; Joe Roberts, our CFO, who does an outstanding job; Angelo Guagliano, the CEO of Max Bermuda, which is our key underwriting enterprise for Bermuda and for Dublin; and Steve Vaccaro, the CEO and the founder and builder of Max Specialty. After the merger closes, the senior leadership team of the combined entity will include both Max and IPC leaders.

TWST: In your discussions with the investment community, are there any recurring questions or any misperceptions that you're encountering? Do they really understand the Max Capital story?

Mr. Becker: The investor community is starting to really understand that Max, today, is a traditional underwriter of specialty insurance and reinsurance — that it has successfully transitioned from its origins as a Bermuda reinsurance company with a structured and alternative risk underwriting portfolio and an investment strategy that included a relatively high proportion of hedge funds and other alternative investments. We've successfully executed a 180-degree turn over the past 10 years, and today we believe Max has a really strong traditional underwriting operation. And we run a fairly similar investment portfolio to the other major global writers. That story is starting to come through and I think is being appreciated by the Street.

TWST: What are the key metrics that investors should focus on as they track your performance?

Mr. Becker: What they should focus on is a reasonable rate of organic growth, supported by a better than average combined ratio. We pride ourselves on being an effective underwriting organization. So Max's combined ratios for its different lines of business have been largely attractive and, in fact, generally better than our peer group average. What one would expect as we grow is that we continue to focus on the proper risk quantification and profiling that enables us to consistently deliver those results.

TWST: What would you suggest are the one or two sets of information that would give a long-term investor insight into what Max Capital is doing, where it's going and how it's growing?

Mr. Becker: I think the key thing for long-term investors is our embedded growth rate of gross written premiums and how that translates into our return on capital. We believe we manage our capital quite well and that the steadiness and consistency of the return on capital, in Max, has been extremely favorable.

TWST: Thank you. (KL)

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