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Amlin PLC

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Amlin PLC

Major Rating Factors

Counterparty Credit Rating
Local Currency
BBB+/Stable/--

Strengths:

- The group's strong competitive position.
- The group's track record of outperformance in operating metrics.
- Strong capitalization supported by extremely strong capital adequacy.

Weaknesses:

- The group's large appetite for catastrophe risk.
- Possible earnings dilution resulting from the acquisition of Amlin Corporate Insurance N.V.

Rationale

The ratings on U.K.-based holding company Amlin PLC (BBB+/Stable/--, Amlin or "the group") reflect the group's strong competitive position in the global insurance market, track record of outperformance in operating metrics, and strong capitalization. The ratings are constrained, however, by the extent of the group's appetite for catastrophe risk and by the possible dilution of group earnings in the short term as a result of underperformance at the newly acquired Amlin Corporate Insurance N.V. (ACI; A-/Stable/--) relative to the rest of the group.

Standard & Poor's Ratings Services considers Bermuda-based reinsurer Amlin Bermuda Ltd. (A/Stable/--) to be a core subsidiary of the group, owing to the extent of its operational, strategic, and financial integration with the rest of the group, and the size of its capital base.

Amlin enjoys a strong competitive position primarily via its long-established, and well-regarded, franchise in Lloyd's (Lloyd's or the Market; A+/Stable). It has an experienced and stable underwriting team with strong leadership credentials and expertise in most classes of business. The company has also exhibited a competitive advantage through writing targeted lines and careful risk selection that we view to be better than peers, as evidenced by their ability to obtain better pricing levels at the most recent renewal.

Amlin continues to perform at the top of its peer group. Amlin has continually significantly exceeded its 15% cross-cycle return on equity (ROE) target. Between 2004 and June 30, 2009, the group has reported an average combined ratio of 78%, a return on revenue of 29%, and adjusted ROE of 23%. The volatility of earnings is surprisingly low considering the risk profile of the portfolio.

Capitalization is strong, supported by extremely strong capital adequacy. Capital adequacy was redundant at the 'AAA' level at the third quarter of 2009. Quality of capital is considered strong, supported by Amlin's reserving strategy, conservative financial leverage, and strong asset quality. As at Oct. 31, 2009, Amlin held 65% of invested assets in bonds (of which about one-half is invested in government and related securities) and 21% in cash and cash equivalents. Liquidity is very strong.

We view Amlin's large appetite for catastrophe risk as a potential constraint on the rating, but our concern over the large downside risk is mitigated by the group's very strong track record. Amlin's average gross ultimate loss ratio for catastrophe reinsurance during the last 15 years has been excellent. Losses peaked at 153% in 2005. Historically, retrocession has reduced the group's net volatility.

The acquisition of ACI was completed on July 22, 2009, and presents potential for earnings dilution at the group level. This is currently constraining upward potential in the rating. ACI's recent performance has deteriorated from its historically strong results as its staple line--the marine book--has underperformed. The short-tail nature of the marine book and management efforts to reunderwrite this risk mitigate some of our concern about the marine book's ability to significantly weaken Amlin's operating performance over the medium- to long-term. That said, there is potential for ACI's results to miss group expectations again in 2010.

Outlook

The stable outlook on the Amlin group and its subsidiaries reflects our expectation that Amlin will continue to outperform the market through its active cycle management and strong competitive position. However, we also highlight the potential for some earnings dilution in the short term as a result of underperformance at the newly acquired ACI, as well as softening rates in many of the lines written by Amlin.

We would expect competitive position to remain strong, and for the group to continue to expand its international operating platform over time. Operating performance in 2010 is expected to continue to outperform, with the combined ratio coming in below 85%, ROE above 12% and return on revenue (ROR above 15%.

Capitalization is expected to remain at least very strong as the company considers its next strategic initiative, and the group's fixed charge coverage should remain strong in the coming year as well.

Negative movement in the group's rating is unlikely over the rating horizon in the absence of any major events. A positive rating action could follow if management is able to demonstrate continued successful integration of ACI, and more importantly, a continued progression toward returning to ACI's historically strong levels of operating performance through successful rewriting of the subsidiary's marine portfolio. However, any positive movement in the rating is unlikely if pricing does not improving. Any future significant acquisitions would be reviewed on their own merit for any potential rating actions.

Factors Specific To The Holding Company, Amlin PLC

Amlin's liquidity remains strong overall, reflecting the group's continued strong earnings momentum. The group reported net cash flow before financing activities of £174.8 million in 2008, and holds more than £700 million in cash and money market funds and a similar amount invested in 'AAA' rated government and equivalent securities. Additional liquidity is provided by two letter-of-credit facilities--for £250 million and $200 million, respectively--as well as a $200 million revolving facility available to Amlin Bermuda.

Almost $1.6 billion of the group's capital is held in support of its Bermudian subsidiary, Amlin Bermuda Ltd. (A/Stable/--).

Amlin's fixed-charge coverage is expected to remain strong, despite the possible increase in the volatility of its earnings. Given the group's procyclical approach to financial leverage, Standard & Poor's expects that 2006 represented the peak level for the group's debt-servicing costs for the current phase of the underwriting cycle.

Holding company metrics are strong for the rating. In the first half of 2009, the group conducted a share issuance of

23.5 million common shares at 28.125 pence, which raised about £76 million in gross proceeds to be used toward the purchase of ACI. The group's financial leverage was strong as of June 30, 2009. Debt to total capital was 4.4% and fixed-charge coverage was very strong at 25.5x.

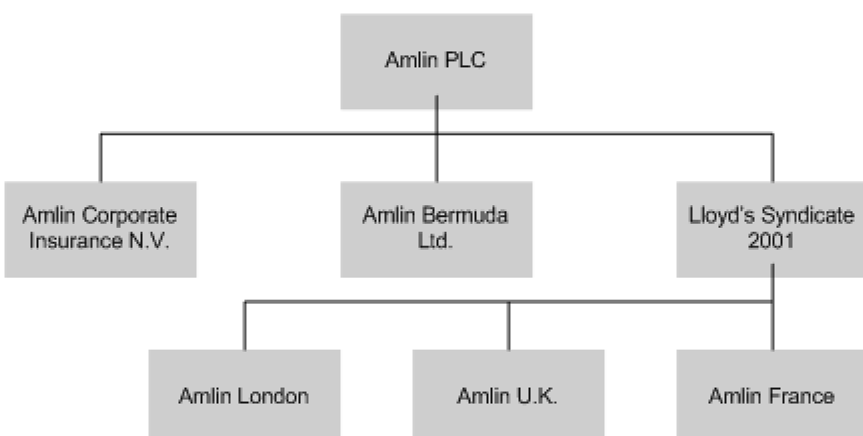
Corporate Profile: A Very Large And Successful Lloyd's Business Is Still The Cornerstone Of The Amlin Group

Amlin is a large specialist commercial insurance and reinsurance group which is listed on the London Stock Exchange. Since 2004, Amlin has been the dedicated capital provider to Syndicate 2001 (LSA 4/Stable), one of the largest syndicates in the Market, with an underwriting capacity of £1.05 billion for 2010, up from £825 million in 2009.

Amlin writes over 30 classes of business, with a bias to short-tailed risks. Reinsurance accounted for 44% of gross premium income in 2008, and catastrophe business for 29% of the total. Following the recent acquisition of ACI, the company's mix of business has materially changed, and is expected to stay this way at least in the short term. On a pro forma basis, reinsurance will represent 28% of premium, catastrophe business only 18%, and the largest line will be marine, comprising 23%. Amlin ranked as the 36th largest reinsurer in our 2009 Global Reinsurance Highlights survey.

Amlin has recently restructured its operating platforms into three entities comprising five divisions. This structure was created during the second half of 2008 to best sustain existing business and to facilitate future strategic growth (see chart 1).

Chart 1
Amlin PLC Structure



Syndicate 2001 is the cornerstone of the group, contributing over 80% of gross premium in 2008.

Amlin London operates through the Syndicate 2001 platform and focuses on reinsurance and property and casualty, marine, and aviation insurance. The division wrote £689.7 million in gross premiums in 2008, down from £751.4 million in 2007. The various business units lead anywhere from 40%-50% of business written, and offer a variety of lines, mainly to U.S. and U.K. (re)insureds.

Amlin U.K. focuses on U.K. commercial lines such as motor fleet, liability, financial institutions, professional indemnity, and property and commercial combined. Amlin U.K. wrote GPW of £152.9 million in 2008, compared to £149.2 million in 2007. Motor fleet comprises the lion's share of premium for this division, and Amlin is a leader in this space. The group is expanding its U.K. property presence in this division.

Amlin France is a newly created entity that combines the French branch office of ACI and the former Anglo French Underwriters (AFU), which was acquired by Amlin during 2008. The new group will be headed by former AFU CEO François Martinache. The French market represents an area of growth for the group. On a pro forma basis, the new division is expected to write about €60 million-€70 million in premium in the early years, providing coverage in professional and general liability, fire, marine, transport, leisure, and jewelers. Fire forms the main source of premium.

Amlin Bermuda (A/Stable/--) was established in 2005 to write international catastrophe reinsurance, building on the company's existing underwriting expertise at Syndicate 2001. Amlin Bermuda focuses on U.S. and international property catastrophe reinsurance (see chart 2). An element of diversity is provided by a 10% (net) whole-account quota share from the syndicate into Bermuda. Syndicate 2001 also places additional variable quota share treaties and facultative risks into Bermuda. Otherwise, virtually all of premium that is not internally ceded to Amlin Bermuda is in respect of property reinsurance.

In July 2009, Amlin completed the acquisition of ACI, a midsize commercial lines insurer that mainly operates in the Benelux region. It has offices in the Netherlands, Belgium, and France. The company operated as the commercial lines insurance arm of Fortis group until its dismantlement in October 2008. The Dutch government took ownership of ACI following the nationalization of all Fortis group's Dutch banking and insurance companies, and then sold it to Amlin. ACI wrote gross premiums of €708.4 million in 2009, focusing on marine, property, liability, fleet insurance, and fronting with the company's Luxembourg-based captive. The company distributes its products mainly through brokers and targets clients generating up to €550 million in sales.

Competitive Position: One Of The Strongest Franchises At Lloyd's, But Targeting New Sources Of Business

Table 1

Amlin Group/Competitive Position					
	--Year ended Dec. 31--				
(Mil. £)	2008	2007	2006	2005	2004
Gross premiums written	1,034	1,045	1,114	994	946
Annual change (%)	(1.0)	(6.4)	12.1	5.1	0.9
Net premiums written	916	938	1,014	829	790
Annual change (%)	(2.4)	(7.4)	22.2	4.9	0.3
Net premiums earned	914	972	974	822	722
Unearned premium reserves/net premiums earned (%)	0.6	48.8	52.1	60.8	68.2

Table 1

Amlin Group/Competitive Position (cont.)					
Total revenue	1,001	1,071	1,051	904	777

Amlin's competitive position is viewed as strong, based on its position as one of the largest and most highly respected franchises at Lloyd's. It has an experienced and stable underwriting team with strong leadership credentials and expertise in most classes of business.

Lloyd's global licensing and its strong brand, diversity, and broker relationships provide Amlin with access to high-quality specialist business at a lower cost than it would incur if it was operating on a stand-alone basis. That said, several trends seem to favor (re)insurers with a broad and entrenched presence across different markets: more business is apparently being placed in local markets, distribution is consolidating, and more financially-strong competitors are trading at Lloyd's.

Therefore, Amlin has made efforts to expand its geographic scope through the establishment of the Bermuda entity in 2005, the acquisition of AFU in 2008 and of ACI in 2009. It has also improved its position by opening new offices in Singapore, bringing in a new property team for the U.K., and acquiring financial interests in several agencies.

Amlin's competitive advantage is chiefly based on its targeted lines of business and superior risk selection. We believe the group is able to differentiate itself as a result of these factors when pricing, exemplified by the company's ability to obtain pricing at levels above the market average during the most recent renewals.

As a derivative of the syndicate, Amlin Bermuda's competitive position is considered strong and improving, and it enables the group to access one of the world's most important markets. Amlin does not have the scale or market influence of its peers on the island and it is concentrated in catastrophe exposed business however.

ACI's competitive position is good, thanks to its long-standing presence in the Benelux market and good risk diversification relative to its size. There are concerns around ACI's reliance on a small number of large brokers, and business concentration in the Benelux countries, but the acquisition by Amlin should bolster ACI's competitive position in the medium term.

The group wrote £1.54 billion in gross premiums in 2009 compared to £1.03 billion in 2008. This growth was caused by improved pricing across most lines, particularly in U.S. property business; favorable foreign exchange rates; as well as the inclusion of ACI premiums for the second half of the year.

Historical

Although approximately one-third of its business comprises property-related risks, Amlin still has a strongly diversified short-tail account writing more than 30 classes of business. The syndicate's leadership credentials (aside from its U.K. commercial account) are strongest in the reinsurance and P&C divisions, which closely resemble Amlin Bermuda's business mix. Amlin's underwriting strategy is weighted to high-severity risks, but typically it writes small lines and it balances this risk exposure with less volatile business in the U.K. such as commercial motor and liability (and now the lines written at ACI).

Amlin's highly profitable property catastrophe reinsurance business represents slightly more than one-quarter of the portfolio and is the basis of Amlin's strong market profile. The account is focused on local and regional accounts and low program layers because Amlin can exert greater underwriting influence relative to larger placements, predict losses more reliably, and achieve diversification. Catastrophe risk exposure is geographically well-spread, with approximately 60% of the group's property risks located in the U.S., which is broadly consistent with global capacity.

Amlin Bermuda's catastrophe account is more heavily weighted to U.S. perils, but is still reasonably well diversified across different territories. Amlin Bermuda wrote $549.5 million of gross premium in 2008, up almost 18% over 2007 as the expanded underwriting team was able to write larger lines due to increased market acceptance. We would expect to see further growth in 2009 as a result of improved catastrophe pricing in the early part of the year, in addition to the reasons mentioned above. Amlin is not a lead market in Bermuda however, given the large capacity being offered. Virtually all of its premium income continues to be underwritten in parallel with the syndicate.

Prospective

For 2010, we expect Amlin to continue to expand its premium base in spite of softening overall prices. Growth will come mainly from the inclusion of a full year of ACI's results, as well as continued growth in the U.K. commercial line, French business from the new Amlin France combination and an increase in catastrophe capacity, subject to continued strong rate levels.

We believe the group is likely to continue to expand its international operating platform to gain access to specialist commercial business that will complement its Lloyd's operation and risk profile. In our view, this is likely to involve one or more acquisitions.

We expect Amlin to remain at the forefront of issues influencing the Lloyd's market and initiatives to improve service quality, both of which should cement or improve Amlin's position.

Management And Corporate Strategy: Characterized By Consistency, Transparency, And Conservatism

Management is a marginally positive factor for the ratings, owing to Amlin's overarching emphasis on consistency, transparency, and strong financial management.

Strategy

Management intends to leverage its Amlin's superior cycle management to expand the business rapidly when market conditions allow. The recent addition of ACI will help the company to scale up its noncatastrophe specialty business on the European continent. This is important as Amlin anticipates writing more catastrophe business over the medium term. To do this without excessively increasing its risk profile, it will need to balance the catastrophe business with non-correlating lines. We therefore believe that the group's development could potentially involve further acquisition(s). An obvious market for expansion is the U.S., but there are also other smaller bolt-on options which would also fit with Amlin's needs.

Amlin made a small capital investment in Leadenhall Capital Partners LLP, which has created several funds that will invest in insurance-linked securities (ILS). The partnership provides Amlin with a number of capital and risk-management-related options, should the need arise. It also ensures that Amlin is commercially well positioned should the ILS market burgeon, but is unlikely to represent a major strategic move by Amlin otherwise.

We consider the strategic rationale supporting the establishment of Amlin Bermuda to be very strong as a complement to, not a replacement for, Amlin's franchise at Lloyd's, given Bermuda's limitations. The group's decision to establish Amlin Bermuda was motivated by a number of factors, including its determination:

- To reduce its level of strategic, operational, and financial dependence on Lloyd's;
- To further exploit its leadership credentials by offering the market increased capacity;
- To overcome some of the constraints faced by Amlin at Lloyd's, such as a potential cap on its growth, broker placement limits, and the likelihood that it will continue to be a net contributor to the Lloyd's Central Fund over time; and
- To capture the fiscal benefits associated with having a Bermudian operating subsidiary.

In our opinion, the ACI acquisition expands the group's underwriting platform, brings balance to the enlarged group's underwriting profile, and provides access to the primary European market. Much of the ACI book is in line with Amlin's specialty in marine, so the group can improve the earnings profile to get more out of the book. However, we are concerned that ACI's disappointing recent operating performance could adversely affect Amlin's history of outperformance. There are also concerns surrounding the successful integration of ACI into the group framework, and the possibility that management's focus could be distracted by the integration process.

Operational management

Amlin's senior group management team has been stable since 2000 and has established a strong track record in terms of performance and ability to capitalize during a hard market. Short- and medium-term succession plans are in place for key underwriters and management, and senior underwriter turnover is low. The departure of Tony Holt, the former underwriting head, in late 2008 displayed the strength in depth of Amlin's management team. Any concern about potential key man risk was put to bed as the group reorganized its management teams and operating structure to institutionalize many of the underwriting processes, and to remove group management from the day-to-day operations of the units to focus on strategic developments and the broader activities of the group. Much of the responsibility for the day-to-day operations of the individual decisions were pushed down to local management, resulting in many operational decisions being made closer to ground level. Since these changes, Amlin have shown that its underwriting strategy, and technical and modeling skills are well-established and consistently applied across the business, and the long-standing team otherwise remains.

Financial management

Amlin has a very strong balance sheet and has demonstrated a conservative approach to financial management, notwithstanding its sensitivity and large appetite for catastrophe risk. The large downside risk acts as a potential constraint on the rating, but is mitigated by the group's very strong track record of writing catastrophe reinsurance (see operating performance).

The group's exposure to peak risks is high relative to its net tangible assets--peak modeled single-event catastrophe exposures at a return period of at least one in 100 years exceeded 40% of net tangible assets from 2004-2007. This figure excludes the earnings capacity of the noncorrelating classes of business and hybrid debt. Exposure to peak risks fell to 29% for 2009 (32% for 2008). The reduction is consistent with the group's strategy of adjusting its catastrophe exposure and financial leverage actively in line with expected margins. As overall pricing adequacy improves, so will the group's catastrophe loss exposure under normal conditions.

We think that the group's financial target of a 15% cross-cycle ROE is reasonable considering Amlin's risk profile and earnings track record, which is underpinned by an ongoing commitment to underwrite for gross profit. Assuming a seven-year cyclical duration, Amlin has exceeded its target; ROE for 2002-2008 was 21%.

The compensation structure is strong in our view and rewards senior underwriters and management for long-term outperformance of both internal targets and other Lloyd's insurers. The scheme pays out for underwriters when they achieve a 15% return on allocated capital per year over a full insurance cycle.

Accounting: High Level Of Transparency

Amlin's financial statements have been prepared under International Financial Reporting Standards. All financial investments (other than cash and cash equivalents) have been classified as "fair value through income." This means that all movements in the valuation of investments are recorded through the income statement. This is consistent with the high level of transparency adopted by Amlin, but it increases the volatility of reported earnings during periods of capital market dislocation.

We have adjusted the combined ratio to exclude the foreign exchange impact of net nonmonetary liabilities.

Total adjusted capital (TAC) for the purposes of calculating capital adequacy includes the following material adjustments:

- A 50% credit for the loss reserve redundancy estimated by Standard & Poor's;
- An aggregate property catastrophe charge at a one-in-250 year return period, less 70% of the associated premium income offset;
- A 100% deduction of non-life deferred acquisition costs after tax;
- Credit given to the discounted value of non-life loss and unearned premium reserves; and
- Hybrid equity credit given for £230 million of subordinated debt.

Operating Performance: Market Leading Performance

Table 2

Amlin Group/Operating Statistics

	--Year ended Dec. 31--				
(%)	2008	2007	2006	2005	2004
Gross combined ratio	79.9	63.4	69.5	118.8	89.8
Gross loss ratio	61.1	34.9	42.4	92.4	61.4
Net combined ratio	75.9	68.2	71.5	89.5	87.3
Adjusted combined ratio (excl. reserve releases)	88.0	79.4	78.6	99.2	94.3
Three-year average	71.9	76.4	82.8	86.4	88.1
Net loss ratio	54.8	36.4	41.3	57.9	52.5
Net expense ratio	21.1	31.8	30.2	31.6	34.8
Acquisition expense ratio	20.2	20.2	20.1	20.7	22.4
Administrative expense ratio	11.6	11.6	10.2	10.9	12.4
Reinsurance result (mil. £)	12.8	(89.8)	(54.9)	271.8	1.7
Return on revenue	12.5	38.0	33.7	18.7	18.8
Direct yield on invested assets	3.1	4.5	4.3	3.9	4.2
Yield (incl. realized)	1.8	5.3	4.6	4.3	4.2
Return on reported equity	7.1	35.5	31.1	22.5	21.6
Five-year average	23.6	27.0	23.9	9.7	3.4

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Amlin's strong operating performance is driven by its historical outperformance of the market. Amlin's cross-cycle operating performance has placed the company at the top of its peer group over the last five years. It has demonstrated strong performance during periods of both benign and severe loss activity, with the exception of 2001, when the attacks on the World Trade Center occurred. This reflects Amlin's strong underwriting capabilities, astute structuring and use of reinsurance, strong cycle management, and its business mix. Earnings are dominated by the catastrophe-exposed nonmarine division and Amlin Bermuda. Other divisions remain profitable despite pricing weakness and are expected to strongly enhance Amlin's earnings profile as market conditions improve. We also have some concerns surrounding ACI's ability to turn its operating performance around in the near term, which is currently a drag on the overall group rating.

Consolidated pre-tax profit for 2009 was a record £509.1 million, compared to £121.6 in 2008 and a five-year average of £321.3 million since 2005. 2009 saw rates improving across all lines, and net premium earned grew by 44% year over year. The rebound of the investment markets during 2009 helped investment income rebound to £207.5 million from £18.0 million in 2008, and helped to erase many of the unrealized losses experienced in 2008 as well.

Operating performance for each of the four original Amlin divisions was very strong during the first half of 2009 (see table 3).

Table 3

Amlin PLC: Divisional Operating Performance Through June 30, 2009

Division	Gross premium written (Mil. £)	Combined ratio (%)
Amlin London	643.5	68
Amlin U.K.	91.7	80
Amlin Bermuda	305.3	53
Amlin France	20.9	83

ACI continued to produce disappointing operating results in 2009, with a combined ratio of 102% for the full year. This underperformance is currently a drag on the overall group rating. ACI contributed £249 million in gross premiums written to the group following the acquisition, but wrote a total of £627 million in 2009. Recent underperformance has been triggered by unfavorable results in the company's cornerstone marine segment, prompting a reunderwriting of the whole book. While the short-tail nature of the marine book mitigates some of our concern about this book's ability to weaken Amlin's operating performance over the medium to long term, ACI could miss the group's expectations again in 2010. This, if it came in conjunction with a heavy catastrophe year, could result in Amlin failing to outperform as has been its custom.

Historical

Between 2004 and mid-2009, the group reported an average combined ratio of 78%, a ROR of 29%, and adjusted ROE of 23%. The volatility of earnings is surprisingly low considering the risk profile of the portfolio and that the period includes 2005's Hurricane Katrina. Reserve releases during this period boosted the combined ratio by about 10 percentage points and contributed about 45% of annual underwriting profits on average. This has not weakened Amlin's reserve adequacy, which remains very strong in our view. The investment yield over the period has averaged about 3.6%.

Amlin reported record pre-tax profits for 2008 of £142.8 million. This translates to an adjusted ROE of approximately 6.4% and includes a strong combined ratio of 76%.

Prospective

We would expect Amlin to report strong operating performance in 2010, and to continue that trend in 2011. For 2010, provided that catastrophe activity remains relatively normal, we would expect a group combined ratio of less than 85%, ROE above 12%, and ROR above 15%.

Standard & Poor's expects rates across the industry in 2010 to be flat or to fall slightly, which will affect profitability. However, we would expect to see Amlin once again obtain favorable pricing levels in difficult markets because of its targeted book of business and careful risk selection.

We would expect ACI to produce a combined ratio of 100% for 2010, placing some pressure on Amlin's performance. An inability by management to continue to successfully rewrite the ACI marine book and thus improve its operating results could hinder any positive movement in the group rating.

Enterprise Risk Management: Enhancements Should Lead To Strong Assessment Over The Rating Horizon

Amlin's enterprise risk management framework is considered adequate with a positive trend overall. Standard & Poor's believes that it is unlikely that Amlin will experience losses outside its risk tolerances. The main factors supporting the score are a strong risk management culture and strong risk controls for the main risk areas. Currently, there is no formal framework to consider risk against reward throughout the company. In particular, there is no consistent view of technical pricing across the business, and as such strategic risk management is considered to be adequate. The group operates in a wide range of territories and product areas, including a large exposure to catastrophe risks and so the importance of ERM to the rating is high.

Amlin is making a lot of changes to formalize its risk management framework. This will create a more structured and consistent approach to risk controls, monitoring, and reporting and will expand strategic risk management across risks and throughout the group. Many parts of the new framework are already in place and we expect it to finalize the implementation over the coming year or so.

Insurance risk (i.e., underwriting, reserving and catastrophe risks) accounts for 70% of the group's individual capital assessment. Catastrophe risk is the most significant risk category faced by the group in light of the aggressive stance it has adopted to risk retention in recent years. Amlin's inherent reserving risk is moderate, reflecting its predominantly short-tail book, and the group's historically conservative reserving practices reduce this risk further. In keeping with its peers, pricing risk is also significant for Amlin. Amlin's appetite for investment risk is modest both in absolute and relative terms.

The group's risk management culture is assessed as strong. Governance processes within the group are focused on the main risks of the group, i.e., the management of insurance risks. However, financial, reinsurance exposure, and operational risks are considered through separate committees. The group's current risk appetite framework includes tolerances for catastrophe, credit, reserving, and market risks.

Controls over the group's main risks (underwriting and catastrophe) are assessed as strong. There is strong governance and both internal and external peer review processes surrounding these exposures. The group uses technical pricing tools for setting the rates for the risks written. However, capital allocation within the technical pricing process is only to divisional level and therefore does not fully allow for product-level risks.

The group has a robust process for both using and choosing reinsurers and the group is actively looking to improve the overall efficiency of the purchasing, which will strengthen this process further. A high-level review of the reserving process indicates use of best practice approaches, e.g., independent internal and external reviews of reserves. The reserves held are prudent and recently the group has publicly disclosed its reserve prudence margin.

The group has a low tolerance for accepting market and investment credit risk and the controls in place are based predominately on allocation limits. Positions are monitored regularly against limits with real-time reporting.

The models used throughout the group appear to be strong and use advanced tools and techniques. Amlin uses the model actively in strategic decision making, including deciding the reinsurance purchasing strategy and strategic planning. A weakness of the process is that capital is only allocated to division level and not to product level.

Amlin's "target operating model" (TOM) will outline how risk is assessed and considered within the firm's decision making and will detail how the company will be managed and run in the medium term. It will include strategic objectives, describe how the firm will achieve these, and ultimately put risk and capital management at the centre of decision making.

Integration with ACI is still progressing and the Amlin risk framework is continually being integrated into ACI. Amlin are implementing the updated risk management framework in ACI and we expect that the systems and controls will be aligned with the group by 2011.

Investments: Strong Overall Asset Quality, But Increased Credit And Market Risk

Table 4

Amlin Group/Investment And Liquidity Statistics

	--Year ended Dec. 31--				
(%)	**2008**	**2007**	**2006**	**2005**	**2004**
Portfolio composition					
Total investments (mil. £)	2,882	2,651	2,384	2,144	1,350
Bonds and other fixed-interest securities	63.2	56.8	72.4	86.1	76.0
Equities and other variable-interest securities	6.6	8.8	12.2	5.4	6.7
Cash and bank deposits	1.5	3.4	15.4	8.4	17.1
Money market funds	28.7	28.2	0.0	0.1	0.2
Investment analysis					
Total investment return (incl. unrealized and realized)	(2.2)	6.1	5.0	5.1	4.2
Investment leverage	15.6	29.2	31.1	14.8	19.6

Market and credit risk has increased at a macro level and following tactical positions taken by Amlin, but the overall quality and composition of the portfolio remains strong.

On June 30, 2009, invested assets were defensively held with 69% in bonds, 21% cash and cash equivalents (mostly money market funds), 7% in equities, and 3% in properties (see chart 2).

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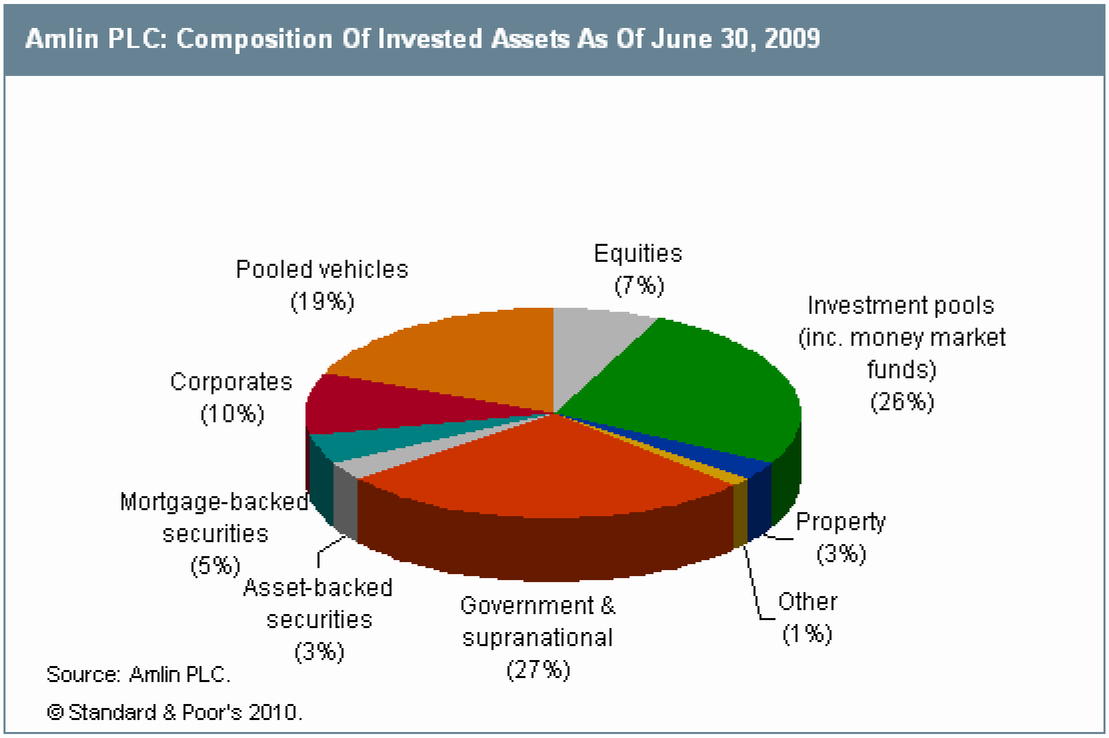
Chart 2



During the year to June 30, 2009, the composition of the bond portfolio has moved away from government securities (29% in 2009 versus 46% in 2008) and asset-backed or mortgage-backed securities (11.6% versus 17.1%) into government agencies and guaranteed debt (9.7% versus 1.3%) and pooled vehicles of cash and bonds (29.0% versus 115.0%). In total, 73% was invested in 'AAA' rated debt and 11% in 'AA' rated securities. This excludes pooled debt, which had a 'AA' average rating.

The £278.6 million corporate bond portfolio at the half year 2009 is more exposed (£137.3 million) to 'A' and 'BBB' rated issuers. Concentrations are not a concern for the rating.

Following the expiry of Amlin's equity hedging program in March 2008, the group is now more exposed to pricing volatility in respect of its equity portfolio. The group has hedged up to half of its U.S. dollar exposure to the $1.6 billion of capital held in Amlin Bermuda.

Liquidity: Very Strong, Strong Cash Flow, In Line With Group Earnings And Supported By Credit Facilities

Amlin's liquidity is strong. It holds more than £700 million in cash and money market funds and a similar amount is invested in 'AAA' rated government and equivalent securities. This represents a significant margin above expected gross losses from a peak catastrophe event.

Additional liquidity is provided by an unsecured £250 million multicurrency revolving credit facility available to Amlin PLC, a $200 million secured letter of credit (LOC) facility to collateralize Syndicate 2001's U.S. trust fund requirements and a $200 million LOC facility available to Amlin Bermuda Ltd. As of June 30, 2009, Amlin

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Bermuda had drawn about $94 million from its LOC. The first call date (and step-up) on the group's subordinated debt is in 2014.

Amlin reported strong positive net operating cash flow of £174.8 million in 2008 but negative £52.8 million for the first six months of 2009, mainly caused by foreign exchange losses on nonoperating assets.

Capitalization: Strong In Spite Of Amlin's Large Appetite For Catastrophe Risk

Table 5

Amlin Group/Capitalization Statistics					
	--Year ended Dec. 31--				
(%)	2008	2007	2006	2005	2004
Quality of capital					
Total adjusted equity (mil. £)	1,446	1,235	1,119	749	442
Annual change	17.1	10.3	49.4	69.6	15.3
Total capital (mil. £)	1,446	1,282	1,168	1,047	501
Economic capital (assessed by Amlin)	1,893	1,534	--	--	--
Reinsurance exposure ratio	25	22	32	81	72
Fixed-charge coverage (x)	7	23	15	19	29
Debt (including excess hybrid)	73	102	124	298	59
Debt: capital (excluding letters of credit)	5	8	12	26	13
Reinsurance					
Reinsurance utilization ratio	11	10	9	17	16
Reserves					
Net technical reserves/gross technical reserves	82.5	83.9	79.9	71.8	78.8
Technical reserves/net premiums written	202.1	165.7	154.7	192.8	161.6
Loss reserves/net premiums written	145.5	115.1	104.6	132.6	99.3
Net claims reserves/net claims incurred	266.0	304.9	263.7	231.2	206.9
Loss reserves/claims paid (three-year average)	278.2	266.6	233.9	261.0	267.6

Capitalization is strong. Amlin's excess capital (for the rating) was largely exhausted by the acquisition of ACI, however, the company's capital still shows a redundancy at the 'AAA' level. Its track record of catastrophe management is best in class, however, reducing the likelihood that it would need to raise capital after a major loss event when its peers did not. We would expect capitalization to continue to improve as the company rebuilds its retained earnings following the ACI acquisition. Amlin will likely look to rebuild its excess capital position for any potential strategic initiatives.

Quality of capital is considered strong, supported by Amlin's significant reserving margin, conservative financial leverage of below 10% (measured against economic capital available at the end of June 2009), and strong asset quality. We expect fixed-charge coverage of above 15x in 2009.

Reserves

According to our analysis, Amlin has a significant reserve surplus across many lines of business and underwriting years. This compares with Amlin's disclosure of a total net reserve surplus of more than £200 million above its actuarial best estimate at year-end 2008. The company booked carried reserves at around £1.7 billion for 2008.

Amlin has released £446.5 million of reserves during 2003-2008, and a further £71.9 million in the half of 2009. Amlin's mostly short-tail account reduces the level of reserving risk. We do not think Amlin is materially exposed to a possible increase in claims linked to subprime or the wider financial crisis, since it is not a large underwriter of directors' and officers' liability or errors and omissions coverage for financial institutions. Amlin's U.S. casualty and U.K. professional indemnity accounts each represent about £20 million premium income, with a £6 million maximum line.

Reinsurance

A key part of the group's underwriting philosophy is that it should strive to make a gross profit on every piece of business it writes. Reinsurance utilization is fairly low at about 11% of gross premium income for 2008. After hurricane Katrina, Amlin managed down its gross aggregate exposures due to limited available reinsurance capacity. Amlin still buys extensive protection to manage its peak exposures in the property insurance account. During 2009, the company started buying "sideways" cover--an aggregate catastrophe cover to protect against frequency risks across the book. Separate, but limited protections are bought for the property and marine reinsurance accounts. Net lines for marine, energy, and aviation insurance are significant. Bermuda does not currently buy retrocession for its own account.

The overall credit quality of reinsurance counterparties is strong. Ceded loss reserves as of June 30, 2009, were almost entirely recoverable from 'AA' (35%) and 'A' rated (58%) companies, with no large single counterparties.

Financial Flexibility: Demonstrably Strong, And Bolstered By The Group's Continuing Earnings Momentum

Amlin's financial flexibility is strong. Amlin ranked among the 10 leading global non-life insurers for total shareholder returns over the past five years (source: Amlin's 2008 annual report). At year-end 2009, Amlin continued to trade at about 1.39x book value as of June 30, 2009, which would incorporate the equity raised to facilitate the ACI acquisition. This suggests that investor sentiment is still positive. We think that Amlin would be well-positioned relative to its peers if it needed to go to the capital markets again in the near future.

Capital needs are otherwise limited unless there is severe catastrophic loss activity. Amlin has extremely strong capital adequacy, but has halted its £100 million authorized share buyback program following the ACI acquisition.

Ratings Detail (As Of March 9, 2010)*		
Amlin PLC		
Counterparty Credit Rating		
Local Currency		BBB+/Stable/--
Subordinated (1 Issue)		BBB-
Counterparty Credit Ratings History		
22-Dec-2005	*Local Currency*	BBB+/Stable/--
Related Entities		
Amlin Bermuda Ltd.		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Local Currency		A/Stable/--

Ratings Detail (As Of March 9, 2010)***(cont.)**

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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