

January 11, 2008

## Amlin Bermuda Ltd.

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# Amlin Bermuda Ltd.

## Major Rating Factors

### Strengths:

- Amlin Bermuda Ltd.'s core status within the Amlin group
- The group's strong and improving competitive position
- The group's track record of strong earnings
- Strong capitalization and financial flexibility

### Weakness:

- The group's substantial, but not excessive, appetite for catastrophe risk

**Operating Company Covered By This Report**

**Financial Strength Rating**

*Local Currency*

A/Stable/--

## Rationale

The ratings on Bermuda-based reinsurer Amlin Bermuda Ltd. (Amlin Bermuda) reflect the core status of the company within the Amlin group (Amlin or the group), as well as the group's strong and improving competitive position, track record of strong earnings, and strong capitalization and financial flexibility. The ratings are constrained, however, by the extent of the group's appetite for catastrophe risk and the potential volatility of its earnings going forward.

Standard & Poor's Ratings Services considers Amlin Bermuda to be a core subsidiary of U.K.-based holding company Amlin PLC (BBB+/Stable/--) owing to the extent of its operational, strategic, and financial integration with the rest of the group, and the size of its capital base.

The group enjoys a strong competitive position primarily via its long-established, and well-regarded, franchise in Lloyd's (Lloyd's or the Market; A+/Stable). The formation of Amlin Bermuda has enabled the group to gain further leverage from its franchise, primarily through the reinforcement of its relationships both with its clients and key London Market brokers. As anticipated, approximately 97% of Amlin Bermuda's premium income has been underwritten in parallel with Amlin Underwriting - Syndicate 2001 (Syndicate 2001 or the syndicate; LSA 4/Stable; see the full analysis published Jan. 11, 2008, on RatingsDirect).

Over the past five years, the group has reported an average combined ratio of 83.3%. This is a very strong level of performance both in absolute terms and relative to Amlin's peers at Lloyd's and in Bermuda. Omitting the 2005 result, where Amlin's below-industry-average losses from the U.S. Atlantic hurricanes clearly distinguished it, performance is broadly in-line with similarly rated peers over the period.

Group capitalization is strong. Unless catastrophe losses are exceptionally high in 2008, Amlin's extremely strong capital adequacy, strong financial flexibility and earnings capacity, coupled with its limited short-term growth opportunities, should allow for the return of additional capital to shareholders following the return of £120 million announced in November 2007.

Amlin Bermuda has a high-risk profile because of its property catastrophe exposure, which could result in a high level of earnings volatility. Amlin's estimated net exposure to a single loss event at a return period of at least 100 years would be in the vicinity of £300 million (before tax and excluding offsetting profits likely to emerge on

non-correlating business). This represents about one-third of the group's net tangible assets at June 30, 2007, and is equivalent to 2007's expected pre-tax profits.

## Outlook

As a core subsidiary of Amlin PLC, the ratings and outlook on Amlin Bermuda will move in lockstep with the group as a whole. A material reduction in the level of Amlin Bermuda's integration with the group could threaten its core status, and consequently place downward pressure on its ratings.

The stable outlook on Amlin PLC reflects Standard & Poor's expectation that the group will maintain its recent strong earnings momentum through considered underwriting discipline into a more challenging market. Furthermore, we expect the group's capitalization to continue to support the current ratings.

The outlook could be revised to positive if the group achieves its cross-cycle target of a 15% post-tax return on equity (ROE), supported by further evidence of Amlin's propensity to be a positive outlier among its peer group in the event of one or a series of major catastrophe losses, and by a strong enterprise risk management (ERM) assessment. The emergence of issues surrounding the integrity of the operational controls, particularly in respect of the efficacy of its monitoring and control of its aggregate exposure to large loss events, would lead to downward pressure on the ratings.

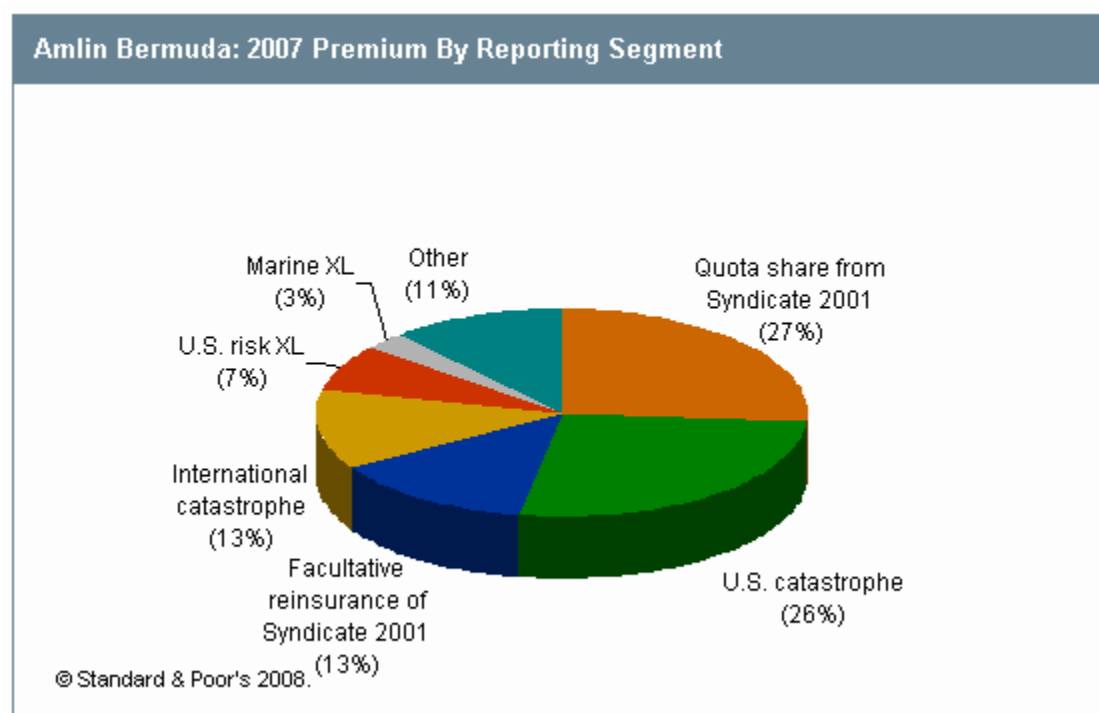
## Corporate Profile: A Very Large And Successful Lloyd's Business Is Still The Cornerstone Of The Amlin Group

Until recently, Amlin's interests at Lloyd's were its sole underwriting platform. Since 2004, Amlin has been the dedicated capital provider to Syndicate 2001, one of the largest syndicates in the Market with an underwriting capacity of £1 billion for 2007, reduced by 17.5% to £825 million in 2008.

However, in November 2005, Amlin announced the formation of Amlin Bermuda in the wake of the exceptional U.S. hurricane season during that year. Amlin Bermuda had an initial capitalization of \$1 billion, and was established to write international catastrophe reinsurance, leveraging the company's existing underwriting expertise at Syndicate 2001.

Amlin Bermuda's focus is on U.S. and international property catastrophe reinsurance (see chart 1). An element of diversity is provided by a 10% (net) whole-account quota share from the syndicate. Syndicate 2001 also places additional variable quota share treaties and facultative risks into Bermuda. In its first year of trading, Amlin Bermuda generated £223.5 million of gross premiums written, which represented about one-fifth of the group's total premium income for the year, approximately one-half of which was new to the group. Through the first nine months of 2007, Amlin Bermuda's gross premiums written (excluding business ceded from Syndicate 2001) was 22% higher at £120.6 million.

Chart 1



## Competitive Position: Amlin Bermuda Further Reinforces One Of The Strongest Franchises At Lloyd's

Table 1

Amlin Group/Business Statistics					
	--Year ended Dec. 31--				
(Mil. £)	2006	2005	2004	2003	2002
Gross premiums written	1,114	994	946	937	717
Annual change (%)	12.1	5.1	0.9	30.7	22.1
Net premiums written	1,014	829	790	788	573
Annual change (%)	22.2	4.9	0.3	37.5	17.8
Net premiums earned	974	822	722	685	494
Unearned premium reserves/net premiums earned (%)	52.1	60.8	68.2	58.5	64.9
Total revenue	1,051	904	777	723	533

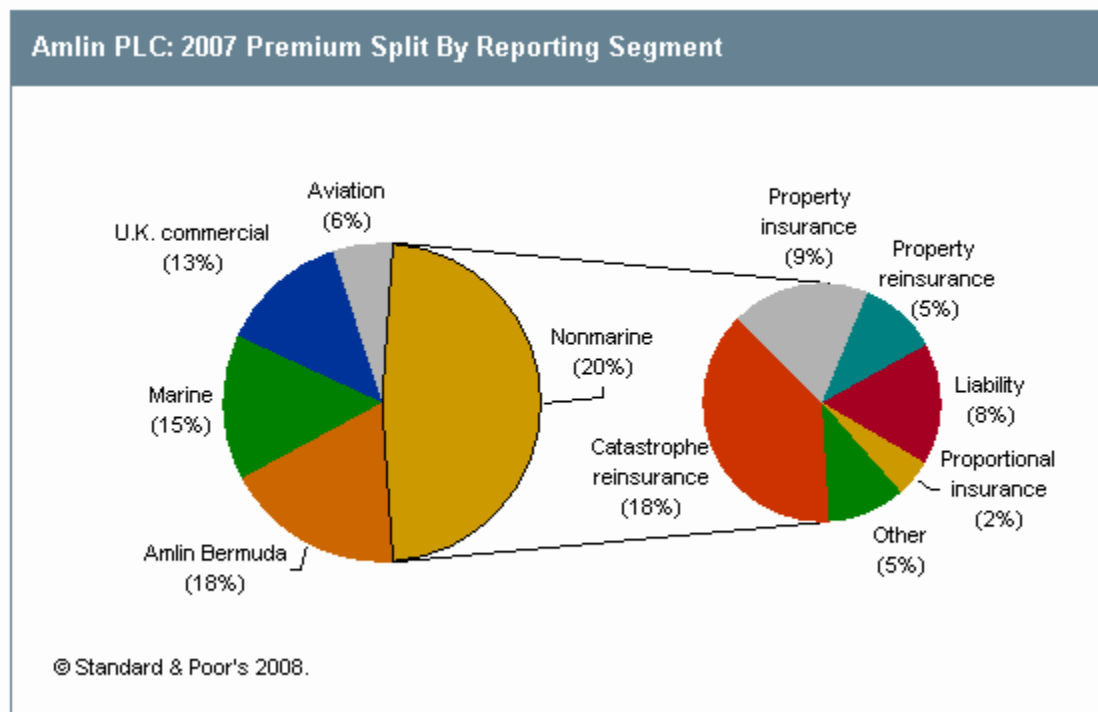
As a derivative of the syndicate, Amlin Bermuda's competitive position is considered strong. While we expect Amlin Bermuda to build a competitive position in its own right in time, over the medium term it will continue to leverage the reputation, relationships, and technical expertise of its affiliate, Syndicate 2001. This relationship provides some risk diversity, but otherwise 96% of premium that is not ceded from Syndicate 2001 is in respect of property reinsurance, which ties much of Amlin Bermuda's development to a narrow and highly cyclical product mix.

## Historical

The Amlin syndicate has grown significantly since 2001 to become one of the largest at Lloyd's. This enhanced scale, further reinforced by the capacity now provided by Amlin Bermuda, adds impetus to the syndicate's already well-established leadership credentials. It also enables the syndicate to seek to optimize the diversity of its business mix from a position of strength, rather than seeking diversity for its own sake, largely as a follower.

Although approximately one-third of its business comprises property-related risks, the Amlin syndicate has one of the most strongly diversified short-tailed accounts within the Lloyd's market, writing more than 30 classes of business (see chart 2). The syndicate's leadership credentials (aside from its U.K. commercial account) are strongest in the nonmarine division, which closely resembles Amlin Bermuda's business mix. More than one-half of the nonmarine portfolio is underwritten from a leadership position. The property catastrophe 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. Amlin's average property reinsurance per risk of £1.7 million and catastrophe program line size of £4.0 million are lower than many of its similarly-sized peers. However, gross and net maximum line sizes for property catastrophe--aviation and marine in particular--are still significant. 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.

Chart 2



Despite the formation of Amlin Bermuda, two key factors will continue to make Lloyd's an attractive operating platform for Amlin. First, the subscription nature of the Lloyd's market enables Syndicate 2001 to leverage its leadership credentials to punch above its weight globally, because it influences more underwriting capacity through the Market than its stand-alone financial position would allow. Second, the variable charging structure at Lloyd's

supports the group's highly proactive approach to capacity management.

### **Prospective**

Although Amlin Bermuda has begun to build its own infrastructure and will look to establish a competitive position in its own right over time, Standard & Poor's expects it to remain inextricably tied to the group's operations at Lloyd's for the foreseeable future. Approximately 97% of premium income continues to be underwritten in parallel with the syndicate. Consequently, almost all of Amlin Bermuda's business has been introduced via London Market brokers. For legal reasons, Amlin Bermuda must be empowered to take its own underwriting decisions. At present, however, it remains heavily reliant on the group's infrastructure. Amlin Bermuda's underwriting review and claims management processes are currently outsourced to London. Furthermore, the company is subjected to the same comprehensive business monitoring processes currently imposed on the syndicate.

As Amlin Bermuda develops, it will continue to enhance the group's overall competitive position, mainly because the group is able to offer its clients increased capacity. This will reinforce Amlin's relationships with its key clients and brokers and further enhance its credentials in the global marketplace.

Amlin Bermuda's 22% growth (excluding business ceded from Syndicate 2001) in the first nine months of 2007 is a sign of increasing acceptance among brokers and clients, but its third-party underwriting capacity is still substantially underused. Non-U.S. property risks were renewed in 2007 at a 5%-10% lower rate and this was repeated (including U.S. risks) at the January 2008 renewals. Pricing still remains adequate, which has enabled Amlin Bermuda to write 22% more premiums at the January 2008 renewals compared to a year earlier, mostly by writing a larger share of existing treaties. Large-scale diversification by Amlin Bermuda into non-property lines of business is unlikely, although some catastrophe-exposed specialty business may be added in future. Group premium income is expected to be flat in 2008.

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

The small but expanding team at Amlin Bermuda is supported by the group's expertise and infrastructure. Consequently, management is a marginally positive factor for the ratings, owing to Amlin's overarching emphasis on consistency, transparency, and conservatism.

### **Strategy**

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 gain more underwriting freedom;
- To further leverage 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.

Standard & Poor's considers 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. Consequently, Amlin Bermuda is expected to remain core to the group's strategy for the foreseeable future.

The syndicate's strategy will look to build on its existing strengths. These include its commitment to underwrite for gross profit, its well-established leadership credentials, and its superior cycle management. At the group level, management is focused on building the portfolio in Bermuda, and positioning the U.K. division for an upturn in market conditions. The latter may include small distribution-related acquisitions, similar to that of the recently acquired Allied Cedar Insurance Group (not rated).

### Operational management

Amlin's senior group management team has been stable since being brought together in 1999/2000 and has established a strong track record in terms of performance and growth. The compensation structure rewards senior underwriters and management for long-term outperformance of both internal targets and other Lloyd's insurers. The internal benchmark target at which point the scheme pays out for underwriters is a demanding 15% return on allocated capital per year over a full insurance cycle. Short and medium-term succession plans are in place for key underwriters and management, and senior underwriter turnover is low at less than 5% per year.

Two new senior underwriters have been appointed in Bermuda during 2007, doubling the small team. Many of Amlin Bermuda's back office functions, including investment management monitoring, actuarial review, and certain IT services, are shared with Syndicate 2001 or are outsourced, limiting its reliance on scarce local resource.

### Financial management

Amlin has demonstrated a conservative approach to financial management, notwithstanding its sensitivity to catastrophe losses. Group appetite for catastrophe exposure and financial leverage is proactively managed in-line with expected margins. Catastrophe risk tolerance is formulated based on zonal limits for the syndicate (£200 million per occurrence) and Bermuda (\$250 million any one zone, and \$300 million for multi-zone events) at a return period of at least one in 100 years. As a percentage of net tangible assets, the group's peak perils have been high, at more than 40% in recent years, but this figure excludes the earnings capacity of the noncorrelating classes of business. No formal risk tolerance has been set for aggregate catastrophe losses as a percentage of capital or earnings in a single year, although in practice Amlin is managing its exposure according to these metrics.

## Operating Performance: Strong Recent Earnings Momentum, But Significant Potential For Future Volatility

**Table 2**

Amlin Group/Operating Statistics					
	--Year ended Dec. 31--				
(%)	2006	2005	2004	2003	2002
Gross combined ratio	69.5	118.8	89.8	74.7	80.9
Gross loss ratio	42.4	92.4	61.4	49.4	55.2
Net combined ratio	71.5	89.5	87.3	82.6	94.5
Three-year average	82.8	86.4	88.1	100.5	111.0
Net loss ratio	41.3	57.9	52.5	51.6	62.4
Net expense ratio	30.2	31.6	34.8	31.0	32.1
Acquisition expense ratio	20.1	20.7	22.4	22.3	23.8
Annual change	14.8	5.3	5.8	30.0	42.6
Administrative expense ratio	10.2	10.9	12.4	8.7	8.3
Annual change	10.7	(0.4)	51.3	44.5	28.0

**Table 2**

<b>Amlin Group/Operating Statistics(cont.)</b>					
Reinsurance result (mil. £)	(54.9)	271.8	1.7	(92.4)	(90.8)
Return on revenue	33.7	18.7	18.8	21.8	12.4
Direct yield on invested assets	4.3	3.9	4.2	4.1	5.8
Yield (incl. realized)	4.6	4.3	4.2	3.7	5.9
Return on reported equity	31.1	22.5	21.6	24.1	19.9
Five-year average	23.9	9.7	3.4	0.2	(3.6)

Amlin's operating performance, driven by the syndicate, has historically been strong. Over the past five years, the group has reported an average combined ratio of 83.3%. This is a very strong level of performance, both in absolute terms and relative to Amlin's peers at Lloyd's and in Bermuda. Omitting the 2005 result, where Amlin's below-industry-average losses from the U.S. Atlantic hurricanes clearly distinguished it, performance is broadly in-line with similarly rated peers over the period. Amlin's prospective operating performance is expected to remain strong, despite an increase in the volatility of its earnings owing to the high-risk profile at Amlin Bermuda.

### Historical

The group's historical operating performance has been driven by the performance of the syndicate.

The syndicate has consistently outperformed the Lloyd's market in each of the six most recent years of account (2001-2006), producing a weighted-average return on capacity of 15% during this time. This is a particularly strong performance given the syndicate's conservatism when setting its reserves and forecasts, and the losses arising from the events of Sept. 11, 2001 and the 2005 Atlantic hurricanes, which occurred during this period. The weighted-average return for 2002-2006 is stronger, at about 18%.

As a recently formed entity, Amlin Bermuda has only a very limited track record in its own right. Our analysis therefore used the syndicate's track record in respect of the relevant business lines as a proxy. We expect Amlin Bermuda's operating performance to be highly volatile but strong overall.

Between 1993 and 2004, the syndicate reported a gross weighted-average ultimate loss ratio (net of brokerage) of 50% for the classes of business that are now also underwritten by Amlin Bermuda. After expenses, this equates to an average combined ratio of 55%-60% (excluding Sept. 11, 2001), which represents a very strong level of historical performance.

Performance to date has been impressive but reflects two benign U.S. hurricane seasons. Amlin Bermuda's combined ratio from November 2005, when it began trading, until June 30, 2007 was 49.6%. Underwriting profit doubled to £48.9 million in the first six months of 2007 due to the growth in earned premium and favorable loss experience.

Consolidated pre-tax profit was 54% higher at £185 million for the first six months of 2007. This translates to an annualized ROE of approximately 32.0% and a 70.5% combined ratio. The full year figures are unlikely to vary much from those stated here.

### Prospective

Although we expect Amlin's recent strong earnings performance to continue, 2006 was the peak of the current pricing cycle for catastrophe risk and rate declines of about 10% were reported at the 2008 renewals. Rates are softening to varying degrees in all of the classes of business underwritten by the Amlin group, but a combined ratio below 90% is still expected for 2008 (unless there are exceptional catastrophe losses). Amlin Bermuda's earnings are

more sensitive to catastrophe loss experience than changes in pricing.

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

Amlin's ERM framework is considered adequate overall. We expect the improvements that it has made to the framework, combined with those planned, to lead to the assessment becoming strong within the ratings horizon. The group operates in a wide range of territories and product areas, and has a high exposure to catastrophe risks, increasing the importance of ERM to the rating. This is partially offset by the group's very strong recent earnings momentum, extremely strong capital adequacy, and strong financial flexibility. Insurance risk, as a category, accounts for 80% of the group's individual capital assessment (that is, underwriting, reserving, and catastrophe risks).

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. In keeping with its peers, pricing risk is also significant for Amlin. Amlin's inherent reserving risk is moderate, reflecting its predominantly short-tail book, and this risk is reduced further because of the historically conservative reserving practices adopted by the group. Amlin's appetite for investment risk is modest both in absolute and relative terms.

The group's risk culture is assessed as strong. The governance processes within the group are focused on its main risks, that is, the management of insurance risks (including pricing, reserving, and catastrophe). However, the financial, reinsurance exposure, and operational risks are considered through separate committees. The group's current risk appetite processes focuses predominately on catastrophe risk limits as these are the main driver of the overall risk profile. Management is reviewing the processes around the setting of risk appetite to include the broader risk profile and other metrics.

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 selecting reinsurers and the group is actively looking to improve the overall efficiency of the purchasing, which will strengthen this process further. The group reduced its use of reinsurance dramatically during 2006 because of the high rates being charged. The expectation for 2008 is that the use of reinsurance will increase but not to historical levels. A high-level review of the reserving process indicates use of best-practice approaches such as 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 reflect that these are predominantly based on a traditional allocation limits structure. Positions are monitored regularly against limits with real-time reporting.

Amlin carries out an individual capital assessment for the U.K. business. The same approach (calculating economic capital requirements using a one-year value-at-risk measure at 99.5% confidence level) is also used for the Bermuda-based company. The models used throughout the group appear to be strong and use advanced tools and

techniques. Amlin uses the model actively in strategic decisionmaking, including deciding on reinsurance strategy and planning. However, many of the uses of the model appear to be relatively recent and require some seasoning before we can assess them as strong. A further weakness of the process is that capital is only allocated to division level and not to product level.

## Investments: Amlin's Appetite For Investment Risk Is Modest

**Table 3**

<b>Amlin Group/Investment Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Portfolio composition</b>					
Total investments (mil. £)	2,384	2,144	1,350	1,075	806
Bonds and other fixed-interest securities	72.4	86.1	76.0	69.8	69.5
Equities and other variable-interest securities	12.2	5.4	6.7	16.6	16.8
Cash and bank deposits	15.4	8.4	17.1	10.0	10.0
Other investments	0.0	0.1	0.2	3.6	3.7
<b>Investment analysis</b>					
Total investment return (incl. unrealized and realized)	5.0	5.1	4.2	3.4	6.3
Investment leverage (incl. policyholder capital)	31.1	14.8	19.6	46.7	44.0

Amlin Bermuda adopts a conservative investment strategy, reflecting the group's philosophy that minimizing the downside risk posed to it by the performance of its investments is more important than maximizing the potential upside.

For the financial year ended Dec. 31, 2006, approximately 67% of the group's invested assets comprised highly rated fixed-interest securities, 16% were held in cash and cash equivalents, 12% were equities and other variable-yield securities, and the remaining 5% were participations in investment pools where the underlying assets are a combination of cash equivalents and highly rated debt instruments.

The credit quality of the group's fixed-interest investments is very high, with 81% being rated 'AAA' and 7% rated 'AA'. The group's subprime bond holdings equate to approximately 1% of total cash and investments. All mortgage-backed securities were rated 'AAA' on June 30, 2007, and there was no subprime exposure in the asset-backed securities portfolio below 'AA'. Market risk is currently mostly confined to a marginal net short-duration position of invested assets relative to the related liabilities, particularly in respect of the euro-denominated portfolio. Almost half of the group's assets are held in U.S. dollars and the group has hedged \$100 million of these assets against further weakness in the U.S. dollar. A put-and-straddle option protecting the £93.1 million equity portfolio has been renewed in 2007.

## Liquidity: Strong, In Line With Group Earnings And Supported By Unused Credit Facilities

**Table 4**

<b>Amlin Group/Liquidity Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
(Insurance + reinsurance receivables)/total assets	13.1	16.5	18.5	21.6	25.0

Amlin's liquidity is considered strong. The group's liquidity strengthened further during 2006, largely as a byproduct of its continued earnings momentum. This follows an improvement during 2005, due, at least in part, to the additional capital raised by Amlin PLC to capitalize Amlin Bermuda. This is reflected in the group's ratio of liquid assets to net technical reserves, which was 1.5x at Dec. 31, 2006, compared with 1.1x at year-end 2004.

On a stand-alone basis, Amlin Bermuda's liquidity is also considered strong. The company has more than \$1 billion of capital at its disposal. Despite being significantly exposed to catastrophes owing to its decision not to purchase outward reinsurance, it should therefore be resilient to a series of large events given the maximum event risk tolerance of \$300 million. Two new three-year credit facilities were also entered into in 2006, which provided £200 million and \$300 million additional liquidity, respectively.

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

**Table 5**

<b>Amlin Bermuda Ltd./Capitalization Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Quality of capital</b>					
Total adjusted equity (mil. £)	1,119	749	442	383	307
Annual change	49.4	69.6	15.3	24.9	123.6
Total capital (mil. £)	1,168	1,047	501	394	318
Reinsurance exposure ratio	31.9	80.7	72.1	69.2	110.0
Investment leverage (incl. all quasi capital)	26.0	15.5	20.4	46.7	44.0
<b>Reinsurance</b>					
Reinsurance utilization ratio	9.0	16.5	16.4	16.0	20.1
<b>Reserves</b>					
Net technical reserves/gross technical reserves	79.9	71.8	78.8	79.4	71.7
Technical reserves/net premiums written	154.7	192.8	161.6	144.0	164.2
(Equity + reserves)/net premiums written	154.7	283.2	217.5	144.0	164.2
Loss reserves/net premiums written	104.6	132.6	99.3	93.2	108.2
Net claims reserves/net claims incurred	263.7	231.2	206.9	207.9	201.0
Loss reserves/claims paid (three-year average)	233.9	261.0	267.6	282.9	252.2

As a recently formed entity with no legacy issues, Amlin Bermuda carries substantial excess capital. Over the medium term, Amlin Bermuda's capitalization will be consistent with that of the group, which is considered to be strong.

## **Capital adequacy**

Amlin's capital adequacy ratio, measured using Standard & Poor's risk-adjusted model, was extremely strong for the financial year ended Dec. 31, 2006. Subject to catastrophe loss experience through 2008, Amlin's balance sheet strength and earnings capacity continues to support additional share repurchases following the return of £120 million capital to investors in 2007. Growth opportunities over the rating horizon are expected to be limited.

## **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 is purchased extensively to protect the insurance accounts, although significant net exposure is retained in marine, energy, and aviation lines. Retrocession is used to manage Amlin's peak exposures. Amlin Bermuda does not purchase retrocession directly, and instead focuses on controlling the aggregation of its gross exposures. Amlin Bermuda's line size is capped at \$75 million for property catastrophe, and its per-event risk tolerance is set at \$300 million. In reality, it focuses on writing much smaller per risk limits. Other line sizes are capped at \$20 million, and Amlin Bermuda's participation in the syndicate's business (via the intragroup reinsurance cessions) benefits from the syndicate's reinsurance program. Standard & Poor's concerns in respect of Amlin Bermuda's concentrated risk profile are partially mitigated by the strength of the control environment at Amlin, its impressive track record, and the group's current very strong capital adequacy.

Since 2000, the syndicate's reinsurance utilization has remained fairly stable, averaging 18% between 2000 and 2005, The cost of the 2006 program increased significantly, however, and the amount of retrocessional protection for the nonmarine account was much reduced. Amlin responded by managing down its gross aggregate exposures accordingly. More affordable reinsurance and retrocessional capacity returned to the market in 2007, enabling the syndicate to place more cover.

The overall credit quality of reinsurance counterparties is strong. Based on its balance for reinsurance debtors at June 30, 2007, 44% of the group's reinsurers were rated 'AA' and only 1% were rated 'BBB' or below. Ceded loss reserves fell by 40.1% in 2006 following the recovery of reinsurance for claims paid related to the 2005 hurricanes.

## **Reserves**

Amlin Bermuda's short-tail focus reduces its reserving risk. Nevertheless, Standard & Poor's derives significant comfort from the historical level of conservatism demonstrated by Amlin when setting its loss reserves in respect of its Lloyd's operation. Syndicate 2001 has reported average surpluses in its held reserves equating to 2.4% of its inward reinsurance-to-close premiums in respect of the past nine closed years of account. On June 30, 2007, Amlin disclosed a net reserve redundancy of more than £150 million above its actuarial best estimate, approximately half of which is held within the short-tailed nonmarine account. The redundancy represented about 14% of the group's opening loss reserves in 2007.

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

Amlin Bermuda's financial flexibility is tied to that of the group, which is considered strong overall.

Amlin's financial flexibility has been demonstrated by its ability to quickly raise more than £400 million of fresh capital following the 2005 U.S. hurricane losses to support its plans for expansion via a rights issue and the issuance of qualifying hybrid. Amlin ranks among the 10 leading non-life insurers for total shareholder returns over the past

five years (source: Amlin's 2007 annual report), which supports Standard & Poor's opinion that the current management team can expect to enjoy the support of the investment community for the foreseeable future.

Over the longer term, Amlin's increased scale may improve its access to the public debt markets, thereby further enhancing its financial flexibility. Going forward, a possible U.S. listing would broaden, deepen, and quicken the group's access to capital markets.

<b>Ratings Detail</b> (As Of January 11, 2008)*	
<b>Operating Company Covered By This Report</b>	
<b>Amlin Bermuda Ltd.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Counterparty Credit Rating	
<i>Local Currency</i>	A/Stable/--
<b>Domicile</b>	Bermuda
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