MOODY'S INVESTORS SERVICE

Credit Opinion: Amlin PLC

Global Credit Research - 25 Feb 2016

United Kingdom

Ratings

Category	Moody's Rating
Rating Outlook	STA
Subordinate	Baa3 (hyb)
Mitsui Sumitomo Insurance Company, Limited	
Rating Outlook	NEG
Insurance Financial Strength	A1
Commercial Paper	P-1
LT Issuer Rating	A1
Subordinate	A3 (hyb)
Amlin AG	
Rating Outlook	STA
Insurance Financial Strength	A2
Lloyd's Syndicate 2001	
Rating Outlook	STA
Insurance Financial Strength	A2

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Key Indicators

Amlin PLC[1][2]

	2014	2013	2012	2011	2010
As Reported (British Pound Millions)					
Total Assets	6,676	6,573	6,515	6,406	6,115
Total Shareholders' Equity	1,786	1,679	1,498	1,420	1,730
Net income (loss) attributable to common shareholders'	237	299	248	(150)	222
Gross Premiums Written	2,564	2,467	2,406	2,304	2,173
Net Premiums Written	2,279	2,107	2,059	2,013	1,910
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	58.7%	47.4%	39.4%	30.9%	28.7%
Reinsurance Recoverable % Shareholders' Equity	19.6%	23.1%	35.1%	47.0%	25.4%
Goodwill & Intangibles % Shareholders' Equity [3]	4.7%	5.8%	6.4%	6.2%	7.9%
Gross Underwriting Leverage	3.3x	3.4x	3.8x	4.1x	2.9x
Return on avg. Capital (1 yr. avg ROC)	10.9%	14.5%	13.3%	-7.7%	11.0%
Sharpe Ratio of ROC (5 yr. avg)	91.7%	93.5%	78.6%	NA	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-3.5%	-5.1%	-3.5%	-5.0%	-7.8%
Financial Leverage [3]	8.8%	11.2%	12.5%	13.3%	15.6%
Total Leverage [3]	10.1%	12.8%	14.1%	15.4%	15.6%

Earnings Coverage (1 yr.) [3]	**28.1x**	**19.2x**	**15.7x**	**-11.7x**	**0.0x**

[1] Information based on IFRS financial statements as of Fiscal YE December 31 [2] Certain items may have been relabeled and/or reclassified for global consistency [3] Information based on Local GAAP financial statements of MS&AD Insurance Group Holdings, Inc. as of Fiscal YE March 31

Opinion

SUMMARY RATING RATIONALE

The A2, stable outlook, insurance financial strength ratings (IFSR) on Amlin's main operating entity, Lloyd's Syndicate 2001 and Amlin AG reflect the Group's strong franchise, good diversification and profitability, prudent reserving, excellent asset quality and good financial flexibility. Offsetting these strengths are the inherent volatility and cyclicality in a number of business lines of the group with high exposure to natural catastrophe perils. Furthermore, notwithstanding recent improved performance, we believe that the European insurance business continues to face some profitability headwinds including reducing its expense ratio and a still competitive pricing environment.

Amlin plc (Amlin) is a London headquartered holding company which underwrites specialty insurance and reinsurance through Syndicate 2001 (54% of 2014 premiums), Amlin AG (35%), and Amlin Insurance S.E (11%). Amlin's 2014 premiums were split 44% reinsurance, 38% property & casualty and 18% marine & aviation, with the majority of this business written in the North America (33%), Europe (29%) and the UK (23%).

On 8 September 2015, MS&AD Insurance Group Holdings, Inc. (MS&AD Group) announced that Mitsui Sumitomo Insurance Co., Ltd. (MSI - rated A1 negative), one of the largest P&C insurers in Japan has reached an agreement to acquire Amlin Group. Amlin's board of directors unanimously announced its recommendation of the acquisition by MSI for 670 pence per Amlin common share or approximately £3.5bn (YPY634.7 billion), with Amlin's shareholders receiving an additional 8.4 pence interim dividend. The acquisition price represented a net tangible book value of 2.4x and an approximate 36% premium to Amlin's closing share price at 7 September 2015. In November, Amlin's shareholders approved the offer and the transaction completed in February 2016.

It is intended that the existing Amlin group will be renamed MS Amlin and will be comprised of the historic Amlin businesses together with MSI's London and Bermuda-based businesses. Amlin and MSI are at advanced stages of planning the integration of these business, which will continue to be run by Amlin's CEO, Charles Philipps.

Credit Strengths

-A leading London market operation and reinsurance group via Lloyd's Syndicate 2001, with good diversity

-Good profitability, benefiting from the historic out-performance of Syndicate 2001

-Prudent reserving

-Conservative investment policy

Credit Challenges

-Rate softening in property catastrophe reinsurance business and increasing pricing pressure in other lines of business

-Underwriting volatility and cyclicality inherent in a number of the Group's specialty insurance and reinsurance lines

-High exposure to natural catastrophe perils

-Profitability headwinds specifically in relation to Amlin's European insurance business

Rating Outlook

The rating outlook is stable. The stable outlook reflects Moody's view that the acquisition by MSI and subsequent merger of MSI's Lloyd's and reinsurance operations into Amlin are broadly credit positive from Amlin's franchise, diversification and profitability perspective. However, these potential benefits are mitigated by the execution risk associated with the integration of such sizable operations and some uncertainty with regard to Amlin's strategy post acquisition.

What to Watch for:

- Completion of the merger of Amlin's existing operations with MSI's London and Bermuda businesses

- Strategy, management and key personnel changes post acquisition

- Natural catastrophe activity and reinsurance renewal pricing, particularly in cat-exposed lines and energy

- Development of further alternative reinsurance offerings and growth in the emerging market segments including the new hubs in Singapore, Miami and Dubai

What Could Change the Rating - Down

- Operational failures associated with the integration of Amlin into the wider MS&AD Group including the loss of key Amlin personnel and / or clients

- A material deterioration in underlying profitability or average return on capital through the cycle below 8%

- A meaningful deterioration in equity capital

- A meaningful increase in catastrophe exposures or the general risk profile of Amlin's underwriting portfolio.

What Could Change the Rating - Up

Given current challenging market conditions, an upgrade of Amlin's standalone ratings is unlikely over the next 12-18 months. However, following the completion of the acquisition, Moody's will monitor the integration process of Amlin into the wider MS&AD Group and evaluate whether it would be appropriate to incorporate Group support from MSI within Amlin's ratings.

Furthermore, the following factors could lead to upward pressure on Amlin's standalone ratings:

1) A significant increase in equity combined with a sustained reduction in catastrophe risk exposure relative to equity capital

2) A meaningful debt deleveraging (adjusted financial leverage consistently below 15%)

3) A sustained return on capital in excess of 12%.

The following could also exert positive pressure on Syndicate 2001's rating:

An improvement in Lloyd's overall financial aggregate position based on:

- 5 year average returns on 'Aggregate Capital and Reserves' of 12% or more

- Net, unencumbered Central Assets for Solvency purposes increasing to greater than 18% of Gross Premium Written

- The effectiveness of Lloyd's Financial Performance Directorate in enhancing the risk management capabilities and profitability of the weaker operating entities at Lloyd's through the insurance down-cycle

DETAILED RATING CONSIDERATIONS

We rate Amlin Lloyd's Syndicate 2001 the main operating entity of the group A2 for insurance financial strength. We also rate Amlin AG A2 for insurance financial strength. The four notch spread between Amlin's Baa3 subordinated debt ratings and the A2 IFSR is consistent with Moody's typical notching practice for European-based insurance holding companies.

Insurance Financial Strength Rating

The key factors currently influencing Amlin's ratings and outlook are:

MARKET POSITION, BRAND AND DISTRIBUTION: A - RELATIVELY SMALL SIZE BUT STRONG FRANCHISE WITH A LEADING POSITION AT LLOYD'S

The market share of Amlin, whose business in 2014 was split around 55% insurance and 45% reinsurance, is relatively small both in the primary insurance and reinsurance markets. However we believe that Amlin has a strong and leading franchise in the London (re)insurance market via Lloyd's Syndicate 2001, which accounted for around 60% of Group GPW written in 2014. With regard to distribution, Amlin is almost exclusively reliant on brokers with little business written directly.

Syndicate 2001 leads over half the business it writes and benefits from the franchise of Lloyd's, one of the world's largest insurance and reinsurance players. Lloyd's size, together with the name and extensive licensing arrangements, attracts business and enables a syndicate like 2001 to write larger amounts of certain business lines than it might otherwise have been able to do were it to operate outside Lloyd's. The expansion of both Amlin Re Europe's reinsurance business and Amlin Insurance S.E's leading market positions in its specialist lines of business in the Netherlands and Belgium is enhancing Amlin's presence in continental Europe.

We view the acquisition of Amlin by MSI as broadly credit positive from Amlin's franchise perspective. In particular, we believe the combined Lloyd's and reinsurance operations are likely to accelerate Amlin's business objectives through enhanced scale, greater diversification and sustainable long term growth opportunities. This in turn should better enable Amlin to maintain its relevance with clients and brokers in the current challenging market cycle; and grow in new markets by utilising MSI's extensive distribution network across Asia. However, these aforementioned potential benefits are mitigated by the inherent execution and integration risk of such a large transaction, including the potential loss of personnel and clients.

PRODUCT FOCUS AND DIVERSIFICATION: A - GOOD DIVERSIFICATION, BUT INHERENT UNDERWRITING VOLATILITY AND CYCLICALITY

Amlin's overall business and geographic diversification is viewed as good. Amlin's new reporting structure includes 3 business units: Reinsurance (44% of 2014 GWP), Property & Casualty (38%) and Marine & Aviation (18%). The majority of the book is specialist in nature and overall there is a strong and deliberate orientation towards short-tail risks.

Within the overall business there is a good spread of specific classes including, property catastrophe reinsurance (18%), marine insurance (16%), property insurance (16%), motor insurance (10%) and casualty insurance (7%). Furthermore, with Amlin AG, which accounts for a sizeable proportion of group net assets, and Amlin Insurance S.E (which merged with Amlin Insurance (UK) in January 2016), the group is not solely reliant on Lloyd's for revenue, although Syndicate 2001 is still a significant contributor to Group premiums and earnings. As the European reinsurance business evolves further, we will continue to evaluate its contribution to the business, geographic, and volatility profile of the Group, although this business is expected to constitute a relatively small part of Amlin's overall book in the short to medium term.

Therefore, we believe the combined MSI and Amlin operations, will further diversify Amlin's portfolio from both a business and geographic perspective, particularly if Amlin is able to grow its operations across Asia by utilising MSI's distribution network.

Amlin's product risk is considered to be relatively high given the underwriting volatility and cyclicality inherent in many of the group's business lines. However, this risk is partially mitigated by the group's good product and geographic diversification, in particular as Amlin Insurance S.E increases the portion of non-catastrophe and lower the volatile lines of business. As a result of these changes and softening rates, catastrophe reinsurance has reduced from representing 29% in 2008 to 18% of total 2014 GPW. As catastrophe reinsurance rates remain under pressure, we expect the proportion of reinsurance premiums to moderate further. Following the acquisition by MSI, we would closely monitor any changes to Amlin's overall risk appetite and catastrophe exposure.

ASSET QUALITY: Aa - RELATIVELY CONSERVATIVE INVESTMENT PORTFOLIO DESPITE UPTICK IN HIGH RISK ASSETS

Amlin's asset quality is viewed as good. We believe Amlin continues to adopt a relatively cautious investment strategy despite increasing high risk assets (HRA includes equities, property, insurance-linked securities, and below investment grade/unrated fixed income securities). HRA increased year-on-year since 2010 to 58.7% at YE14, driven by higher investments in equities and property funds in a low yield environment.

Amlin's fixed income portfolio at 1Q15 was split 21% bonds, 50% zero duration bonds, 5% cash & cash equivalence, 17% equities and 7% property. We note that in 2Q15, Amlin reduced slightly the equity weighting from 17% to 16%, but do not anticipate any material changes in asset allocations for the remainder of 2015.

Amlin's reinsurance recoverables as a % of shareholders' equity improved slightly in 2014 to 20% (YE13: 23% and YE12: 35%). At YE14, goodwill & intangibles (including deferred acquisition costs) as a % of shareholders' equity remain flat at 30% (YE13: 29%) with the increase in deferred acquisition costs and other intangibles offset by the increase in equity.

We do not anticipate any material changes to Amlin's invested asset portfolio or reinsurance recoverables as a result of the acquisition by MSI.

CAPITAL ADEQUACY: A - GOOD CAPITALISATION, BUT EXPECTED TO REMAIN CONSTRAINED BY HIGH EXPOSURE TO NATURAL CATASTROPHE PERILS

Amlin's capital adequacy is considered good, with shareholders' equity now back to pre-2011 levels. However, shareholders' equity reduced by 6% during 1H15 to £1,680m reflecting retained profit for the period of £133m, which was more than offset by the £61m forex loss due to the strengthening of sterling against the dollar and euro, and the payment of Amlin's ordinary dividend of £170m and a special dividend (equivalent to £74.9m). We note that historically Amlin maintained a relatively high dividend policy, therefore we will evaluate any changes to Amlin's capital management strategy post the acquisition by MSI.

Gross underwriting leverage improved again during 2014 to 3.3x (YE13: 3.4x), driven by a lower level of reserves and increased equity, but remains relatively high. Furthermore Amlin's risk appetite remains relatively high despite the group's retrocession protection and the reduction in the group's Realistic Disaster Scenario (RDS) tolerance levels as a % of capital from £350m to £300m for 2015.

Amlin's available capital remained above its capital required for current trading purposes at 1H15, but the ratio decreased to 139% in line with the fall in shareholders' equity (YE14: 149%). Also, at YE14, available capital in relation to the group's modelled 1 in 200 capital requirement was relatively high at over 250%. As Amlin's internal economic capital model becomes more established, we anticipate placing more reliance on this indicator of its capital strength.

PROFITABILITY: A - EXPECTED TO REMAIN HEALTHY, NOTWITHSTANDING SIGNIFICANT HEADWINDS

Amlin's historic profitability has been good, with five year average return on capital (ROC) and reported combined ratio (COR) figures of 8.4% and 92% respectively. However, the Sharpe ratio is a low 92% reflecting the £150m loss of 2011 - driven by significant cat losses, which represented a very high 29% of YE10 equity and were outsized in relation to most of Amlin's peers.

Amlin targets a cross-cycle average return on equity (ROE) of at least 15%. At YE14, Amlin reported net income of £236m and 14.1% ROE (YE13: £299m and 19.8% respectively). The material decline in profitability in 2014 reflected: softening rates across a number of lines of business; higher level of nat cats, albeit still relatively low; lower prior year reserve releases; a reduced investment return and increased capital. For the first 6 months of 2015, Amlin reported a small 4% reduction in profit before tax to £143m, which represents an annualised 14.8% return on equity.

Like its peers, Amlin faces profitability headwinds in the form of a still low investment yield environment and a continued softening of rates. In this regard we note that Amlin reported an overall average rate decline for 4% for 1H15, predominantly reflecting the 6.4% decrease in catastrophe reinsurance rates as Amlin has reduced or come off business where it considered pricing to be below acceptable levels. We therefore believe that greater scale as a result of the acquisition by MSI should partially mitigate the adverse effects on Amlin's underwriting results from the competitive market conditions that currently exist in the specialty insurance and reinsurance market. In particular, for the first half of 2015, Amlin reported a 4ppt increase in the combined ratio to 91% which, in Moody's view, suggests that the compounding impact of two years of falling premium rates is starting to have a negative impact on Amlin's underlying earnings.

RESERVE ADEQUACY: Aa - ADEQUACY REMAINS STRONG BUT RELEASES ARE EXPECTED TO REDUCE

Amlin has a strong history of reserve redundancies, particularly in Syndicate 2001, with group prior year releases for the 2008-2014 calendar years on average representing around 7% of net reserves. Despite the adverse £24.4m movement on New Zealand earthquake claims in 2014, Amlin estimated that it held reserves on an accident year basis of at least £150m (YE13: £160m) in excess of an actuarial best estimate.

Claims reserves for prior years continues to run-off positively in 1Q15, with releases totalling £29m (1Q14: £17m), largely driven by the reinsurance and P&C segments. We believe that the magnitude of releases will reduce in the future.

In terms of reserves risk, although Amlin continues to be short-tail business orientated, we believe there is an inherent reserving challenge in light of the specialty nature of business written.

FINANCIAL FLEXIBILITY: A - CONSIDERED ON A GROUP BASIS, THUS CAPPED BY JGB RATING

Following the completion of the acquisition by MSI, Amlin's financial flexibility is now viewed on a consolidated MS&AD Group basis. Whilst Amlin will no longer have direct access to external capital markets, we believe Amlin benefits from being part of a large, globally diverse group.

Mitsui Sumitomo Insurance can raise capital in the stock market via its listed financial holding company, MS&AD Holdings. Additionally, bank overdrafts for emergencies have been established.

Its adjusted leverage ratio at the consolidated holding company level declined to 10.1% as of end-March 2015 from 12.8% as of end-March 2014, we continue to view its adjusted leverage as low.

Furthermore, interest earnings coverage is adequate, providing flexibility to raise additional capital in a variety of ways without meaningfully adding pressure to its balance sheet. In this respect, its financial flexibility is consistent with the Aa rating level.

We expect the group's leverage will increase to some extent since Mitsui Sumitomo Insurance will finance its planned acquisition of Amlin partially through borrowing. In addition, the debt held by Amlin will be incorporated into the group's leverage after the completion of the transaction. Having said that, its financial flexibility will still be at the Aa rating level considering the group's current leverage is very conservative and hence, there is some room for an additional increase in debt.

However, the final score for this factor is at the high end of the A level, owing to the limitation imposed by the A1 Japanese government bond (JGB) rating.

Other Considerations

Following the completion of the acquisition, Moody's will now monitor the integration process of Amlin into the wider MS&AD Group and evaluate whether it would be appropriate to incorporate Group support from MSI within Amlin's ratings.

Rating Factors

Amlin PLC[1][2]

Financial Strength Rating Scorecard	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Score**	**Adjusted Score**
Business Profile								**Baa**	**A**
Market Position and Brand (20%)								**Baa**	**A**
- Relative Market Share Ratio			**X**						
- Business profile - reinsurance - direct premiums % GPW (rating)				**X**					
Product Focus and Diversification (15%)								**Baa**	**A**
- Business and Geographic Diversification				**X**					
Financial Profile								**A**	**A**
Asset Quality (10%)								**Aa**	**Aa**
- High Risk Assets % Shareholders' Equity			**58.7%**						
- Reinsurance Recoverable % Shareholders' Equity	**19.6%**								

- Goodwill & Intangibles % Shareholders' Equity [3]	**4.7%**								
Capital Adequacy								**A**	**A**
- Gross Underwriting Leverage			**3.3x**						
- Gross Natural Catastrophe Exposure				**X**					
- Net Natural Catastrophe Exposure				**X**					
Profitability (10%)								**Baa**	**A**
- Return on Capital (5 yr. avg)			**8.4%**						
- Sharpe Ratio of ROC (5 yr. avg)					**91.7%**				
Reserve Adequacy (10%)								**Aa**	**Aa**
- Adverse (favorable) development % Beg. Reserves (7 yr. avg)		**-7.0%**							
Financial Flexibility (15%)								**Aa**	**A**
- Financial Leverage [3]	**8.8%**								
- Total Leverage [3]	**10.1%**								
- Earnings Coverage (5 yr. avg) [3]		**10.3x**							
Operating Envrionment								**Aaa - A**	**Aaa - A**
Aggregate Profile								**A2**	**A2**

[1] Information based on IFRS financial statements as of Fiscal YE December 31 [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis [3] Information based on Local GAAP financial statements of MS&AD Insurance Group Holdings, Inc. as of Fiscal YE March 31

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