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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, especially in the Lloyd's market.
- The group's track record of outperformance in operating metrics.
- Strong capitalization supported by extremely strong capital adequacy.

Weaknesses:

- Difficult pricing environment in many major lines of business complicates execution of diversification strategy.
- ACI remains a considerable focus of group's resources and could potentially weaken group's operating performance over the medium-term

Rationale

The ratings on U.K.-based holding company Amlin PLC (BBB+/Stable/--, Amlin or "the group") and its core operations 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 low-rate environment in many major lines of business that could present challenges while executing diversification strategy. In addition, we continue to have concerns about newly acquired subsidiary Amlin Corporate Insurance N.V.'s (ACI; A-/Stable/--) ability to return to historically strong profitability in the near-term. Failure to do so could weigh on overall group earnings

Standard & Poor's Ratings Services considers Switzerland-based reinsurer Amlin AG (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. We also believe that the operations of Amlin Underwriting - Syndicate 2001 (LSA 4/Stable) are core to the group.

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 by writing targeted lines. We view its risk selection as careful and better than peers.

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 2005 and 2009, the group reported an average combined ratio of 74%, a return on revenue (ROR) of 28%, and adjusted ROE of 26%. The first half of 2010 saw a combined ratio of 88% and we expect the group to maintain a similar result for the full year. The volatility of earnings is surprisingly low considering the risk profile of the portfolio, but indicative of its level of diversification.

Capitalization is strong, supported by extremely strong capital adequacy. Capital adequacy was redundant at the 'AAA' level at year-end 2009 and we expect it to improve by year-end 2010. We view quality of capital as strong, supported by Amlin's reserving strategy, conservative financial leverage, and strong asset quality. On June 30, 2010, invested assets were defensively held with 86% in bonds, 4% in cash and cash equivalents (mostly money market funds), 7% in equities, and 3% in properties. In our view, liquidity is strong.

These strengths are partially offset by difficult rate environments in many of Amlin's major lines of business. A prolonged continuation of soft prices as the group continues to implement its strategy for international expansion, and diversification away from catastrophe-exposed business, could impair its ability to meet its return targets for those segments through the cycle.

In our view, management's self-imposed re-underwriting of ACI's underperforming marine portfolio has shown some improvement and is a positive for the rating in the long term. However, we believe that at the time of acquisition, management had not anticipated that such a material reduction in this key line of business would be needed. This reduction has affected the company's market share in the marine lines, and has proven to consume a considerable amount of resources at group level. Additionally, any underperformance of the book could potentially threaten ACI's ability to meet group return targets and ultimately weaken Amlin's operating performance over the medium term.

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 due to ACI, as well as softening rates in many of the lines written by Amlin.

We expect Amlin's top line to remain fairly flat in 2011, and to experience some growth in 2012, in the neighborhood of 1%-2%. We expect modest growth in Europe, the U.K., and Bermuda to be mitigated by continued re-trenching at ACI as the company continues to prune its marine portfolio.

Standard & Poor's expects rates in Amlin's core lines in 2011 to be down 5%-10%, which will affect profitability. However, we expect to see Amlin achieve combined ratios in the mid- to high-eighties in 2011 and 2012, assuming normalized catastrophe levels. We also expect ROR and ROE to be in line with historical averages, i.e. above 20%.

According to our forecast, capitalization will remain at least very strong as the company continues to generate strong retained earnings and anticipates refraining from returning material capital to shareholders. We also expect leverage ratios and the group's fixed charge coverage to remain within expectations for the rating level in the coming year.

Negative movement in the group's rating is unlikely over the rating horizon in the absence of any major events. We believe that the pricing environment in Amlin's core lines of business will remain challenging in 2011 and possibly 2012, with average rate decreases of 5%-10% across lines. Positive rating movement will likely be contingent upon improved pricing conditions in Amlin's major lines. In addition, we would expect to see further successful integration of ACI, and more importantly, a continued progression toward returning to ACI's historically strong levels of operating performance and market position through successful rewriting of the subsidiary's marine portfolio. 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 operating cash flows of £79 million in the first half of 2010 (£280 million for full-year 2009), and holds more than £500 million in cash and money market funds and has about £1 billion invested in 'AAA' rated government and equivalent securities. Additional liquidity is provided by various letter-of-credit (LOC) facilities.There is an unsecured £250 million multi-currency revolving facility and a $200 million secured facility available at group level, as well as a $200 million secured facility available to Amlin AG. As of year-end 2009, Amlin Bermuda (ABL) had drawn about $125 million from its LOC.

The group holds almost $1.6 billion of capital in support of its newly created Swiss subsidiary, Amlin AG.

In our view, 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, 2010. Debt to total capital was 4.4% and interest coverage was very strong at 9x.

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

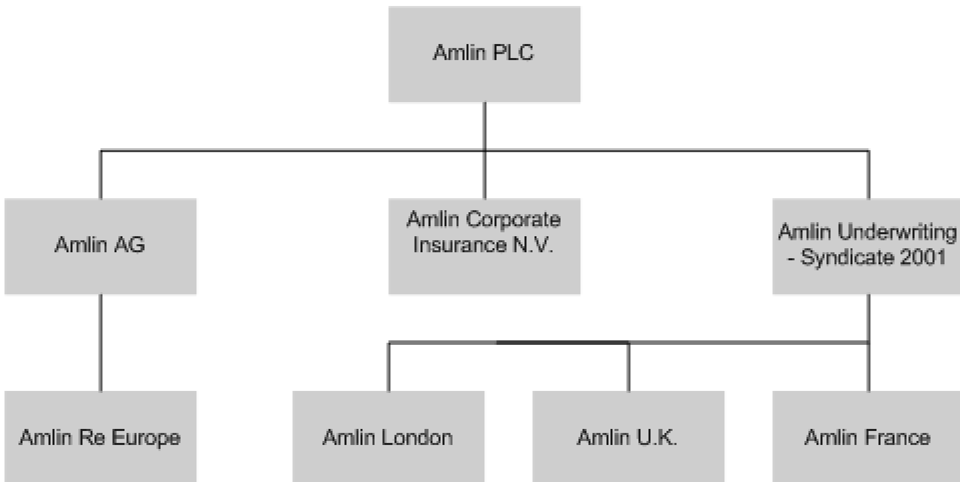
Corporate Profile: A Very Large And Successful Lloyd's Business Is Still The Cornerstone Of The Amlin Group

Amlin is a large specialist commercial insurance and reinsurance group that wrote £1.5 billion of gross premiums in 2009, and is expected to report written premiums of over £2.0 billion for full-year 2010. The group 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 £1.03 billion for 2011, basically flat from the previous year.

Amlin writes over 30 classes of business, with a bias to property risks, which made up over 40% of premium in 2010. The group is also well diversified in other short-tailed risks. Following the inclusion of ACI for the full year 2010, the group's exposure mix has changed. Catastrophe risk, while still the leading line of business, has been reduced to 20% of the total portfolio. This is down from historical levels of above 30%. The other major line of business for the group is marine, which represents 19% of total book. Reinsurance accounted for 30% of gross premiums in 2010, down from around 44% pre-acquisition. Amlin ranked as the 34th largest reinsurer in our 2010 Global Reinsurance Highlights survey.

Amlin's operating structure remains mostly in line with last year's. However, one major change is due to the re-domicile of ABL to Switzerland (now called Amlin AG). This entity will continue to write the business previously written in Bermuda through a branch structure, and also includes a new subsidiary, Amlin Re Europe, to access European reinsurance business. In addition, the French business previously written out of ACI has been moved to Amlin France (see chart 1).

Chart 1
Amlin PLC Structure



Amlin's underwriting strategy is weighted to high-severity risks. It typically 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).

Syndicate 2001 remains the cornerstone of the group. Following the inclusion of ACI's business, the syndicate will still contribute about 60% of premium for 2010.

Amlin London operates through the Syndicate 2001 platform and focuses on reinsurance and property and casualty, marine, and aviation insurance. The division wrote £856 million of gross premiums in 2009, compared with £690 million in 2008, benefitting from average rate increases of around 5%. 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)insurers.

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 £190 million of gross premiums in 2009, compared with £153 million in 2008. Rate increases were a more modest 2% on average in this division. Motor fleet comprises the majority 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 French market represents an area of growth for the group. The entity wrote almost £30 million of gross premiums in 2009, and should write slightly more in 2010. Amlin France provides coverage in professional and general liability, fire, marine, transport, leisure, and jewelers. Fire forms the main source of premium.

In October 2010, ABL was re-domiciled to Switzerland and became Amlin AG. The change in domicile was intended to provide the group with access to the continental European market, while still maintaining its presence in the international catastrophe reinsurance business through a branch in Bermuda. The Bermuda branch will continue to focus on U.S. and international property catastrophe reinsurance and providing quota-share reinsurance to the syndicate. The branch wrote $628.3 million of gross premiums in 2009, up 14% over 2008 on the back of average rate increases of 5% and a continued increase in market acceptance. Amlin Re Europe will focus on small lines of specialist risks that are in line with what the group writes out of London. We do not expect this contribution to be material to group writings in the near term given the strength of Amlin's competitors on the continent.

ACI is a midsize commercial lines insurer that mainly operates in the Benelux region. It has offices in the Netherlands, Belgium, and France. The company wrote gross premiums of €708.4 million in 2009, and should contribute about 25% of group premiums going forward. ACI focuses 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 PLC Competitive Position					
	--Year-ended Dec. 31--				
(Mil. £)	**2009**	**2008**	**2007**	**2006**	**2005**
Total revenue	1,416.0	1,019.0	1,087.5	1,151.9	892.4
Gross premiums written	1,543.9	1,034.0	1,044.7	1,113.8	993.5
Annual change in gross premiums written (%)	49.3	(1.0)	(6.2)	12.1	5.1
Net premium earned	1,317.3	913.5	972.3	1,052.7	822.1
Annual change in net premium earned (%)	44.2	(6.0)	(7.6)	28.1	13.8
Net premiums written	1,322.6	915.7	938.3	1,013.5	829.3
Annual change in net premiums written (%)	44.4	(2.4)	(7.4)	22.2	4.9
Total assets under management	4,025.5	2,923.7	2,651.9	2,384.2	2,143.8
Growth in assets under management (%)	37.7	10.2	11.2	11.2	58.8

We view Amlin's competitive position 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.

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.

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 if it were operating on a stand-alone basis. However, in response to recent trends of reinsurers being more broadly diversified and entrenched across markets, and thus more business being placed locally, Amlin has made efforts to expand its geographic scope. This is exemplified by the establishment of Amlin Bermuda in 2005, the acquisitions of AFU and ACI in the last two years, and the move to Switzerland to access continental European business. 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.

The group's highly profitable property catastrophe reinsurance business is the basis of Amlin's strong market profile. The account is focused on local and regional accounts and low program layers because Amlin believes it 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.

As a core derivative of the syndicate, Amlin AG's competitive position continues to improve. It enables the group to access two of the world's most important markets, Bermuda and continental Europe. However, Amlin does not have the scale or market influence of its peers in Bermuda, and the European subsidiary is still in a nascent stage. We expect Amlin Re Europe, the European reinsurance arm of Amlin AG, to contribute less than 5% of group premium in coming years.

ACI's competitive position is good thanks to its long-standing presence in the Benelux market and good risk diversification relative to its size. However, management has undertaken a portfolio pruning process that has had an adverse impact on the company's market position in the short term. This portfolio cleaning, especially in the Belgian marine book, together with intense competitive landscape in the various businesses ACI operates in, will shrink the company's market share. However, we believe this to be a positive for the rating over the longer term as it should result in an ability to produce better operating performance going forward.

Prospective

We expect Amlin's top line to remain fairly flat in 2011, and to experience some growth in 2012, in the neighborhood of 1%-2%. We anticipate that modest growth in Europe, the U.K., and Bermuda will mitigated by continued re-trenching at ACI, as they continue to prune their marine portfolio.

We believe that the pricing environment in Amlin's core lines of business will remain challenging in 2011, with average rate decreases of 5%-10% across lines, and potentially more of the same in 2012. The difficult investment environment will also affect returns, putting further emphasis on disciplined underwriting. While some growth will occur in various segments, it will be as a result of starting from a small base (namely Amlin Re Europe), new U.K. property initiatives, and continued market acceptance in Bermuda.

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 superior cycle management to expand the business rapidly when market conditions allow. The recent addition of ACI and establishment of Amlin Re Europe will help the company to increase its specialty business on the European continent. These noncorrelating lines should help balance the group's book and allow it to write more catastrophe business in the future without excessively increasing its risk profile.

Currently, management's main priority is to complete the embedding, integration, and portfolio pruning of ACI. This has proven to be a considerable investment in time and resource at the group level, and we believe this will be the focus of the group's attention, at least until the targeted completion date of June 2011. Thus, we believe that additional significant acquisitions are unlikely in the near future. However, we expect international expansion to continue slowly, and cautiously. The group may look to perform bolt-on acquisitions to further diversify its book away from catastrophe business.

The group's recent move to re-domicile Amlin Bermuda (ABL) to Switzerland is in line with management's stated strategy for international expansion. The move provides the group with a more-efficient use of capital while continuing to provide fiscal and diversification benefits. Amlin AG now provides a footprint for directly accessing European reinsurance business. The branch in Bermuda continues to offer intragroup reinsurance and to complement the group's reinsurance business at Lloyd's (A+/Stable). There have only been minor changes to ABL's strategy since its inception.

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. Any concerns about potential key-man risk were largely addressed following the departure of the head underwriter in 2008, as the group reorganized its management teams and operating structure to institutionalize many of the underwriting processes.

Much of the responsibility for the day-to-day individual decisions has been pushed down to local management, resulting in many operational decisions being made closer to ground level. Since these changes, Amlin has shown that its underwriting strategy, and technical and modeling skills, are well-established and consistently applied across the business. The long-standing team otherwise remains.

Amlin has worked to restructure ACI's operations and management team. Many of the underwriting practices from the Amlin group have been implemented at ACI, including increasing levels of controls, stronger accountability, and the implementation of peer reviews and remuneration practices. ACI's management has also been subject to material change, with the group creating a chief risk officer and a chief operations officer to replace the lead underwriters on the troublesome marine book. In addition, the group is currently in the process of recruiting a new chief financial officer.

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Financial management

In our view, 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" section).

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 actively adjusting its catastrophe exposure and financial leverage in line with expected margins.

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. Management has indicated that they prefer to provide stable--as opposed to volatile--returns for shareholders. Assuming a six-year cyclical duration, Amlin has exceeded its target; ROE for 2004-2009 was 25%.

In our view, the compensation structure is strong 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 £318 million of subordinated debt.

Operating Performance: Market Leading Performance

Table 2

Amlin PLC Operating Performance					
	--Year-ended Dec. 31--				
(Mil. £)	**2009**	**2008**	**2007**	**2006**	**2005**
Return on revenue (%)	29.6	22.7	39.0	30.4	19.9
Return on equity (%)	32.4	7.1	35.5	31.1	22.5
EBIT adjusted to Total equity adjusted (%)	24.5	16.3	33.3	34.0	27.3
EBITDA adjusted to Capital (%)	21.5	15.2	32.6	29.2	22.4
EBIT	533.0	143.0	465.3	366.2	197.1
EBIT adjusted	418.8	231.2	423.7	349.8	177.4
EBITDA	533.0	143.0	465.3	366.5	199.5
EBITDA adjusted	418.8	231.2	423.7	350.1	179.8
Net loss ratio (%)	42.8	54.8	36.4	45.7	57.9
Net acquisition expense ratio (%)	20.3	21.1	20.2	18.6	20.7
Administrative expense ratio (%)	9.1	(0.3)	6.9	10.3	4.8
Net combined ratio (%)	72.2	75.7	63.5	74.6	83.3
Net investment yield (%)	2.5	3.7	4.5	4.3	3.9

Amlin's strong operating performance is driven by its historical outperformance of the market. Its consistent cross-cycle operating performance has placed the company at the top of its peer group over the last five years. Amlin's management places importance on the stability of operating results, and the volatility is low for the group, which we view favorably. The acquisition of ACI is aimed at reducing the group volatility further, in management's view.

Amlin has demonstrated strong performance during periods of both benign and severe loss activity. 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 the business written in the Bermuda branch. Other divisions, with the exception of ACI, remain profitable despite pricing weakness. We expect all divisions to strongly enhance Amlin's earnings profile as market conditions improve.

Consolidated pre-tax profit for 2009 was a record £509.1 million, compared with £121.6 in 2008 and a five-year average of £321.3 million since 2005. 2009 saw rates improving across all lines, and net premiums earned grew by 44% year over year. In the first half of 2010, profit before tax was £107.6 million with a combined ratio of 88%, adversely impacted by the Chilean earthquake and Deepwater Horizon. The rebound of the investment markets during 2009 helped investment income improve to £207.5 million from £18.0 million in 2008, erasing many of the unrealized losses from 2008. Investment returns in the first half of 2010 were more modest at 1.7%, reflecting a difficult investment environment.

Operating performance for each of the Amlin divisions was very strong during the first half of 2010 (see table 3).

ACI continued to produce disappointing operating results in 2010, with a combined ratio of 102% for the full year. This underperformance is currently a drag on the overall group rating. Recent underperformance has been triggered by unfavorable results in the company's cornerstone marine segment, prompting a reunderwriting of the whole book. This reduction, in addition to continued underperformance of the book, may affect ACI's ability to meet group return targets and ultimately weaken Amlin's operating performance over the medium-term.

Historical

Between 2005 and 2009, the group reported an average combined ratio of 75%, a ROR of 31%, and adjusted ROE of 26%. The volatility of earnings is surprisingly low considering the risk profile of the portfolio and the fact 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. The investment yield over the period has averaged about 3.6%.

Amlin reported record pre-tax profits for 2009 of £509.1 million. This translates to an adjusted ROE of approximately 37% and includes a strong combined ratio of 72%.

Prospective

Despite a difficult pricing environment and catastrophe activity, we expect Amlin to report strong operating performance in 2010. We expect a group combined ratio of less than 88%, ROE above 12%, and ROR above 15%.

Standard & Poor's expects rates across the industry in 2011 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. Combined ratios for the group in 2011 and 2012 are expected to be in the mid- to high-eighties, assuming normalized catastrophe levels.

We expect ACI's current portfolio review to lead to improving underlying profitability starting from 2011 and to produce a combined ratio of less than 100%.

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

Amlin's enterprise risk management (ERM) 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 material risk areas. Currently there is not a formal framework to consider risk against reward throughout the company 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 significantly developing its risk management framework by creating a more structured, consistent, and formalized approach to controlling, monitoring, and reporting risks throughout the group. Many parts of the new framework are already in place and we expect implementation to be finalized over the coming year or so.

We assess the group's risk management culture as strong. The governance processes are focused on the group's main risks, i.e. the management of insurance risks (including pricing, reserving, and catastrophe). The group's current risk appetite framework is based around four dimensions and includes tolerances for all the material risk areas. Some areas of the framework have only recently been formalized or are still in development. Therefore, a period of embedding will be necessary for the group to experience the benefits of these enhancements. There is also development of a more transparent internal capital requirement which will provide clarity for all stakeholders regarding the desired amount of capital within the group. In addition, this will provide an additional metric against which the group will be able to measure the effect of strategic decisions.

We assess the controls for the underwriting risks as strong. There is strong governance and both internal and external peer review processes. The group uses technical pricing tools to monitor the rates achieved and have recently developed a reporting system to monitor these rates in a formalized manner.

We assess the controls for catastrophe risk as strong. Effective aggregate monitoring is of critical importance to Amlin in light of its risk appetite, limited reliance on reinsurance, and heavy exposure to short-tail catastrophe-affected business lines. Decisions regarding the level of catastrophe risk taken by the company are based on modeled aggregate annual/single losses and modeled realistic disaster scenario amounts against tolerances.

We assess risk controls for reserving risk as strong. There is a dual reserving process where the underwriters and actuarial teams create independent reserve estimates which are then compared and used to set the final reserve amounts. There is a clear tolerance regarding the reserve sufficiency and, by Amlin's estimate, the probability of sufficiency is above this tolerance.

In addition, we view investment risk controls and the group's models as strong. Amlin monitors both regularly, and incorporates them into group strategic decision making.

Amlin is implementing its 'target operating model' (TOM). It will outline how risk is assessed and considered within the group's decision making framework and detail how the company will be managed and run in the medium term. It will include the strategic objectives, describe how it will achieve these, and ultimately put risk and capital management at the centre of decision making. As part of this, Amlin is developing its capital allocation methodology and processes for assessing capital on risk-based principles.

Integration with ACI is still progressing and the Amlin risk framework is continually being integrated into ACI. However, the integration of the risk framework is taking longer than expected and as such, the risk management capabilities in ACI are below that of the rest of the group. This relative weakness is consuming a disproportionate amount of group resources and potentially exposing the group to unexpected losses. However, the risk profile of ACI compared with the rest of the group reduces this problem.

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

Table 3

Amlin PLC Liquidity And Investments

	--Year-ended Dec. 31--				
(Mil. £)	**2009**	**2008**	**2007**	**2006**	**2005**
Invested assets to total assets (%)	77.4	77.3	80.8	78.1	72.0
Invested assets to loss and unearned premium reserve (%)	149.0	158.0	170.6	152.0	134.0
Common equity investments to capital (%)	9.1	13.5	20.2	24.6	15.9
Real estate investments to capital (%)	7.0	5.7	6.6	4.3	0.0
Total invested assets adjusted	4,025.5	2,923.7	2,651.9	2,384.2	2,143.8
General account invested assets	4,025.5	2,923.7	2,651.9	2,384.2	2,143.8
Separate accounts/unit linked assets	0.0	0.0	0.0	0.0	0.0
Investment portfolio composition					
Cash and cash equivalents (%)	1.9	1.5	3.4	15.4	8.4
Total bonds (%)	90.6	88.7	85.0	72.4	86.1

Table 3

Amlin PLC Liquidity And Investments (cont.)					
Common stock (%)	4.1	6.8	8.8	10.4	5.4
Real estate (%)	3.1	2.9	2.8	1.8	0.0
Total mortgages and loans (%)	0.0	0.0	0.0	0.0	0.0
Investments in affiliates (%)	0.0	0.1	0.0	0.0	0.0
Investments in partnerships, joint ventures, and other alternative investments (%)	0.0	0.0	0.0	0.0	0.0
Other investments (%)	0.2	0.1	0.0	0.0	0.1
Total portfolio composition (%)	100.0	100.0	100.0	100.0	100.0

We regard investments as strong, reflecting a conservative investment policy, strong quality of invested assets, and investment performance in line with overall expectations. Investment results in 2009 reflect a record contribution from the investment portfolio totaling £207.5 million (2008: £18.0 million), buoyed by a recovery in the investment markets. This represents a 5.9% return yield (2008: 0.6%). In the first half of 2010, return of 1.7% was limited by volatile investment markets and a low interest rate environment. We expect the overall 2010 investment yield to remain broadly in line with the first half of 2010.

The overall quality and composition of the portfolio are strong. On June 30, 2010, invested assets were defensively held with 86% in bonds, 4% cash and cash equivalents (mostly money market funds), 7% in equities, and 3% in properties (see chart 2). The composition of the bond portfolio has remained broadly consistent, save for a material shift away from corporate bonds (4.8% in 2010 versus 13.4% at year-end) into pooled vehicles (46.2%% versus 33.4%). These pooled vehicles are a mixture of government and government agency securities, ABS, MBS, and corporate bonds. In total, 27% was invested in 'AAA' rated debt and 58% in 'AA' rated securities. This excludes pooled vehicles, which have a 'AA' average 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 AG.

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

In our view, Amlin's liquidity is strong. As of June 30, 2010, the group holds more than £500 million in cash and money market funds and £1.4 billion 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 the credit facilities mentioned above. 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 £279.5 million in 2009 (compared to £174.8 million the previous year) and £78.9 million for the first six months of 2010.

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

Table 4

Amlin PLC Capitalization

	--Year-ended Dec. 31--				
(Mil. £)	**2009**	**2008**	**2007**	**2006**	**2005**
Reinsurance utilization (%)	14.3	11.4	10.2	9.0	16.5
P/C: Net loss reserves to gross loss reserves (%)	82.7	78.7	80.0	74.8	64.5
P/C: Loss reserves to total adjusted equity (%)	126.2	109.5	102.6	113.3	140.1
P/C: Loss and unearned premium reserve/net premium written (%)	204.3	202.1	165.7	154.7	192.8

P/C--Property and casualty.

Capitalization is strong, supported by extremely strong capital adequacy. The company's capital adequacy shows a redundancy at the 'AAA' level as of Sept. 30, 2010. As we expected, capitalization has continued to improve as the company rebuilt its capital position following the ACI acquisition. This cushion enables Amlin to maintain an excess capital position for any potential strategic initiatives. In addition, given Amlin's track record of excellent catastrophe management, the group is less likely to have a need to raise capital after a major loss event, which is in contrast to its peers.

We consider quality of capital to be strong, supported by Amlin's significant reserving margin, conservative financial leverage of below 15% (measured against economic capital available at the end of June 2010), and strong asset quality. We expect fixed-charge coverage of above 15x in 2011.

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 2009. The group reported carried reserves of around £2.4 billion for 2009. Amlin has released £546.4 million of reserves during 2003-2009, and a further £70 million in the first half of 2010. Amlin's mostly short-tail account reduces the level of reserving risk.

Reinsurance

Reinsurance utilization is fairly low at about 15% of gross premium income for 2009. We would expect this to increase for 2010 as ACI will be included for the full year. Amlin 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. Amlin could benefit from efficiencies associated with its subsidiaries buying reinsurance as a group, a strategy it has begun to pursue in 2010.

The overall credit quality of reinsurance counterparties is strong. Ceded loss reserves as of June 30, 2010, were almost entirely recoverable from 'AA' (29%) and 'A' rated (54%) companies, with no large single counterparties.

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

Table 5

Amlin PLC Financial Flexibility

	--Year-ended Dec. 31--				
(Mil. £)	**2009**	**2008**	**2007**	**2006**	**2005**
EBIT interest coverage (x)	448.9	68.1	78.0	45.4	443.5
EBIT fixed-charge coverage (x)	17.5	10.8	21.1	14.7	17.1
Debt leverage including additional pension deficit as debt (%)	1.7	2.8	2.2	4.0	21.8
Financial leverage including additional pension deficit as debt (%)	16.0	17.8	17.2	19.0	26.7

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 2009 annual report). At year-end 2010, Amlin continued to trade at about 1.38x book value, which compares very favorably to peers. This suggests that investor sentiment remains 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, and has cancelled its share buyback program. Finally, the group aims to continue increasing the dividend payout amount.

Ratings Detail (As Of February 7, 2011)*		
Amlin PLC		
Counterparty Credit Rating		
Local Currency		BBB+/Stable/--
Subordinated (1 Issue)		BBB-
Counterparty Credit Ratings History		
22-Dec-2005	*Local Currency*	BBB+/Stable/--

*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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