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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 historical track record of outperformance in operating metrics.
- Financial flexibility, as demonstrated through above-average stock valuation, successful ILS issuance, and low reinsurance utilization.

Weaknesses:

- Difficult pricing environment in some major lines of business slowing execution of diversification strategy.
- Continued underperformance of ACI (Amlin Corporate Insurance) remains a considerable focus of group's resources and could potentially weaken its 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 reinsurance market, its historically strong operating performance, and strong financial flexibility. However, the ratings are constrained by the difficult rating environment in many major lines of business that could hinder further growth through diversification. In addition, we continue to have concerns about the delayed integration and turnaround of acquired subsidiary Amlin Corporate Insurance N.V. (ACI; A-/Stable/--) and its ability to return to historically strong profitability in the near term.

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). We consider that Amlin has an experienced and stable underwriting team, with strong leadership credentials and expertise in most classes of business. The company's historical track record of outperformance is a competitive advantage, in our view.

Amlin has historically performed at the top of its peer group and, despite record losses in 2011, the group has exceeded its 15% cross-cycle return on equity (ROE) target since 2005. Between 2007 and 2011, the group reported an average combined ratio of 81%, a return on revenue (ROR) of 17%, and adjusted ROE of 16%. We believe Amlin's results in 2011 were uncharacteristically volatile--the company reported a combined ratio of 107%. However, in our opinion, we do not consider the full-year combined ratio to be an outlier in the market, as it falls within our expected range of 110-115% for reinsurers.

We view Amlin's financial flexibility as a strength for the rating. Although investment and catastrophe losses had a material negative impact on our view of the group's capital adequacy, we believe that Amlin's ability to access additional capital through ILS (insurance-linked securitization) issuance and by increasing its reinsurance coverage in 2012 allows the company to take advantage of the current market conditions and rebuild its capital base over the rating horizon. We also believe the company's strong standing with equity investors, as evidenced by its 1.1x price-to-book ratio at year-end (compared with a market average of 0.88x), indicates an ability to recapitalize in the public market if the need arises.

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.

We believe the extent of portfolio cleansing and group resources required within ACI is outside management's expectations and could affect the company's market share in the marine lines. 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. Additionally, underperformance of the book could potentially undermine ACI's ability to meet group return targets and ultimately weaken Amlin's operating performance over the short and medium term.

Outlook

The stable outlook on the Amlin group and its subsidiaries reflects our expectation that the group will restore its operating performance to be more in line with its historical averages for 2012. This should result in a combined ratio in the high 80s, with ROE and ROR recovering to around 15% from 2012 and beyond, assuming normal catastrophe activity. However, we also highlight the potential for some earnings dilution in the short term due to ACI, as well as soft rates in some of the lines written by Amlin. We expect significant improvements in U.S. and international catastrophe prices to offset some of the rate softening.

We expect Amlin's top line to experience some growth in 2012, of around 10%. We anticipate that modest growth in Europe through its reinsurance operation, the U.K.--particularly in the U.K. commercial and household property business--and Bermuda will be mitigated by continued re-trenching at ACI, as portfolio cleansing continues to reduce its marine portfolio.

According to our forecast, capitalization at the group level is expected to remain at least strong over the next 12 months assuming normal catastrophe experience, and return to very strong levels by 2013.

Positive rating movement is unlikely over the next 18 months, and ultimately will be contingent upon the group replenishing its capital adequacy to very strong levels, as measured by our model, supported by continued outperformance of the market and an improvement in the profitability of ACI. In addition, we would need to see successful integration of ACI. Negative movement in the group's rating is unlikely over the rating horizon in the absence of any major events or poorer operating performance causing a material deterioration in capital.

Factors Specific To The Holding Company, Amlin PLC

In our view, Amlin's liquidity is strong and supported by its investment portfolio. As of year-end 2011, the group holds more than £980 million in cash and money market funds (26% of invested assets) and £1.0 billion is invested in 'AAA' rated government and equivalent securities. The group reported operating cash flows of £233 million in 2011 (2010: £127 million). Additional liquidity is provided by various letter-of-credit (LOC) facilities. There is an unsecured £250 million multi-currency revolving facility and a $250 million secured facility available at group level, as well as a $200 million secured facility available to Amlin AG. As of year-end 2011, Amlin AG had drawn about $195 million from its LOC.

The group's financial leverage of 18% was strong as of year-end 2011 and is likely to remain around this level. Fixed-charge coverage is negative following record losses in 2011, however, we anticipate it will recover in 2012 in line with its historical average. 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 £2.3 billion of gross premiums in 2011. 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 £1.175 billion for 2012, a 13% increase on the prior year at a time when many peers are reducing capacity.

Amlin writes over 30 classes of business, with a bias to property risks, which makes up around 40% of premium. 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 less than 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 about 20% of the total book. Reinsurance accounted for around 35% of gross premiums in 2011, down from around 44% pre-acquisition. Amlin ranked as the 35th largest reinsurer in our 2011 Global Reinsurance Highlights survey.

Amlin's operating structure remains unchanged, with 2011 being the first full year of operation for its continental European operations, Amlin Re Europe. Amlin Re Europe builds Amlin's footprint on the continent, helping it to access European reinsurance business not traditionally written through Lloyd's. Amlin France represents the merger of French business previously written out of ACI with Anglo-French Underwriters (AFU).

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, as well as liability and fleet lines written at ACI.

Syndicate 2001 remains the cornerstone of the group. Despite the inclusion of ACI business, the syndicate still contributed about half of premium for 2011.

Amlin London operates through the Syndicate 2001 platform and focuses on reinsurance and property and casualty, marine, and aviation insurance. 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.

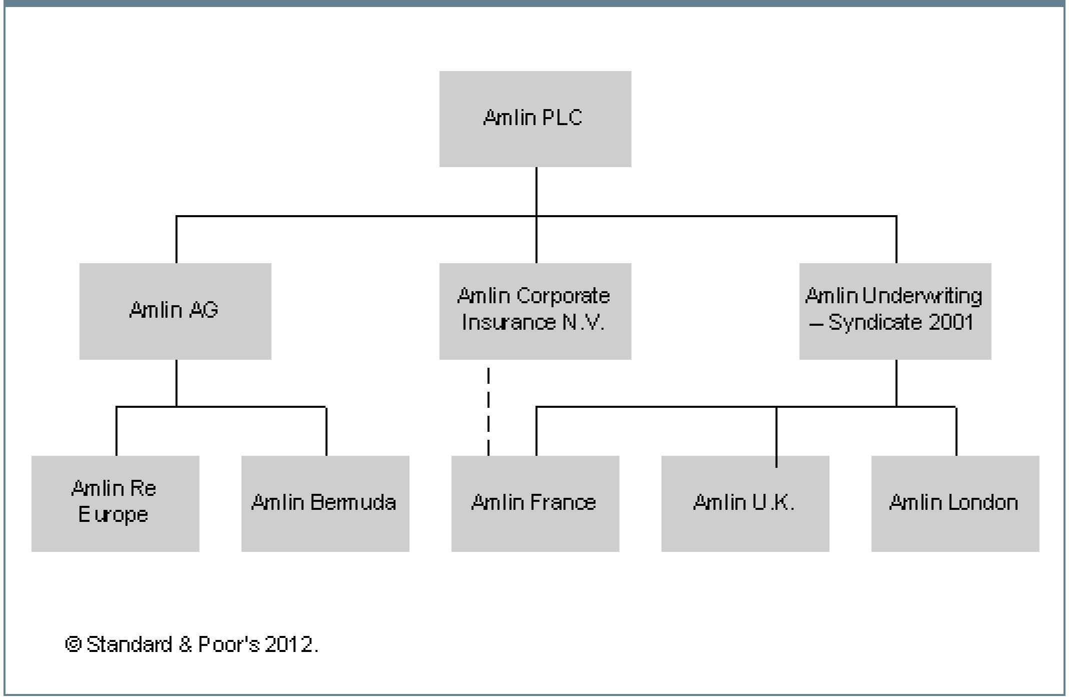
Amlin U.K. focuses on U.K. commercial lines such as motor fleet, liability, financial institutions, professional indemnity, and property and commercial combined. We expect the U.K. property account will likely grow in 2012 following the expansion of the group's high-net-worth property underwriting team and Amlin's acquisition of the managing general agent, J R Clare Underwriting Agencies Limited. Rate increases were a more modest 5% on average in this division during 2011. Motor fleet comprises the majority of premium for this division, and Amlin is a leader in this space.

Amlin France was created in 2010, combining the French branch office of ACI and the former AFU, which was acquired by Amlin during 2008. The French market represents an area of growth for the group.

In October 2010, Amlin Bermuda Ltd. (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 continues to focus on U.S. and international property catastrophe reinsurance and providing quota-share reinsurance to the syndicate.

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 £529 million in 2011, 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.

Chart 1
Amlin PLC Structure



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. £)	**2010**	**2009**	**2008**	**2007**	**2006**
Total revenue	1,808	1,416	1,019	1,088	1,152
Gross premium written	2,173	1,544	1,034	1,045	1,114
Annual change in gross premium written (%)	40.7	49.3	(1.0)	(6.2)	12.1
Net premium earned	1,748	1,317	914	972	1,053
Annual change in net premium earned (%)	32.7	44.2	(6.0)	(7.6)	28.1
Net premium written	1,910	1,323	916	938	1,014
Annual change in net premium written (%)	44.4	44.4	(2.4)	(7.4)	22.2
Total assets under management	4,379	4,026	2,924	2,652	2,384
Growth in assets under management (%)	8.8	37.7	10.2	11.2	11.2

We view Amlin's competitive position as strong, based on the growing diversity of its operating platforms, leveraging its position as one of the largest and most highly respected franchises at Lloyd's against its new, international operations throughout Europe. 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.

As one of the most highly respected franchises at Lloyd's and the second largest in terms of GPW in 2011, syndicate 2001 writes approximately 5% of the entire Lloyd's market. 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, Amlin continues to develop its geographic presence outside the Lloyd's market to capitalize on business placed more locally across Europe and bring balance to the group's overall portfolio. This is exemplified by the establishment of Amlin Bermuda in 2005, the acquisitions of AFU and ACI in the last three 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.

Amlin has a strong franchise at Lloyd's and its highly profitable property catastrophe reinsurance business is the basis of its strong market profile, which accounted for under 20% of group premium in 2011. 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 about 60% of the group's catastrophe risk exposure being in North America, which is broadly consistent with global capacity. In our opinion, Amlin's non-U.S. property catastrophe exposure has been more heavily weighted toward non-peak zones, such as New Zealand, than peers. This propensity to these risks has exposed Amlin to higher losses relative to peers in 2011. The group is taking steps to reign in areas where it feels it has an outsized share of a market, relative to peers, and we do not expect the level of volatility it experienced in 2011 to be repeated.

However, we note catastrophe-exposed business is offset by its non-subscription-based U.K. commercial lines written through Amlin UK, which has shown good growth and prospective pricing improvements. Furthermore, Amlin has demonstrated its effective cycle management capabilities by reducing exposure when pricing is inadequate. Conversely, Amlin has experience and expertise to reallocate capital to areas where it has seen harder pricing, for example, in the international catastrophe and energy businesses where pricing has improved in loss-affected lines.

We expect the competitive position of Amlin AG to improve as Amlin Re Europe grows to compliment the reinsurance business written in Bermuda. The subsidiary 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, though performing ahead of management's expectations, is still in a nascent stage. We expect Amlin Re Europe, the European reinsurance arm of Amlin AG, to contribute between 5%-10% of group premium in coming years.

We consider ACI's competitive position as good owing to its long-standing presence in the Benelux market and good risk diversification relative to its size. However, we note that the company operates in highly competitive markets, which, coupled with actions taken to eliminate poorly performing business, has reduced the company's market share. More positively, we believe that management's active portfolio management could be a rating strength in the future, as it could lead to improved operating performance over the longer term.

Prospective

In our view, Amlin is well-positioned to benefit from turns in the market and subsequent price strengthening given its geographic and product diversity through its three operating platforms. We believe it will retain its strong leadership position, even through the current challenging trading environment and will continue to grow strategically when appropriate.

We expect Amlin's top line to experience growth of around 10% in 2012. We anticipate that modest growth in Europe through its reinsurance operation, the U.K.--particularly in the U.K. commercial and household property business--and Bermuda will be mitigated by continued re-trenching at ACI, as portfolio cleansing continues to reduce its marine portfolio.

We believe that the pricing environment in Amlin's core lines of business will remain flat on average in 2012, and expect some improvements in motor fleet, marine liability, and energy lines. Moreover, property and catastrophe reinsurance rates are increasing as the market hardens in response to recent catastrophe losses and, to some degree, to the release of Risk Management Solutions (RMS) model updates.

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

A strategic planning process exists and we believe it to be comprehensive, considering strategy and definitive targets at a group, entity, and divisional level with senior management involvement. We view Amlin's cycle management as superior, giving it the flexibility to expand the business rapidly when market conditions allow.

Amlin has consistently developed its strategic goals and objectives with a view to good capital management and underwriting discipline in line with its capabilities, evidenced by its historic outperformance of peers. In the face of difficult pricing conditions in many of its major lines, the group does not intend to grow unprofitably and has shown a willingness to reduce exposures when required.

The group is seeking greater diversification by product, geography, and distribution channel to achieve a cross-cycle ROE of 15%, as evidenced by the acquisition of ACI and the creation of Amlin Re Europe in Zurich. These noncorrelating lines provide balance to the group's book and could allow it to write more catastrophe business in the future without excessively increasing its risk profile. Increasing global scale and complexity of Amlin's underwriting platforms has, in our view, benefitted from the robustness of its operating controls.

In our view, management has been able to deliver on most of the major goals defined in its strategic plan. The focus of group management for 2012 is to complete the embedding, integration, and portfolio pruning of ACI. While Amlin still considers this a good strategic acquisition, we believe it has taken significantly greater time, managerial resource, and re-underwriting than was previously anticipated. Nonetheless, Amlin has, in our view, the capability and frameworks to bring ACI in line with the group. We believe Amlin's experience with ACI has not deterred its appetite for further acquisitions, though growth will likely be slow and cautious through smaller, diversifying bolt-on businesses, as opposed to another significant acquisition.

Operational management

The group management team is stable and contributes significant industry expertise in terms of market experience and understanding of the business. This is reflected in Amlin's ability to meet its strategic objectives through a softening cycle. Short- and medium-term succession plans are in place for key underwriters and management, and senior underwriter turnover is low. Key man risk is mitigated following a reorganization of the group's management teams and operating structure to institutionalize many of the underwriting processes.

The board provides oversight of management and creates awareness of key enterprise risks. Day-to-day decision making is primarily the responsibility of local management within each division, resulting in many operational decisions being made closer to ground level.

Amlin has worked to restructure ACI's operations and management team. Many of the practices from the Amlin group have been implemented at ACI, including increasing levels of controls and remuneration practices. ACI's management has also been subject to material change, with the hiring of a new chief executive officer, chief financial officer, chief risk officer, and a chief operations officer.

Financial management

In our view, Amlin has a strong balance sheet and has demonstrated a conservative approach to financial management, notwithstanding its sensitivity to, and large appetite for catastrophe risk relative to peers. The Board is responsible for the risk appetite and receives regular feedback from the risk committee. Risk tolerances and indicators are established in line with their risk appetite to allow for full risk monitoring and reporting. Amlin's conservative asset allocation reflects its relatively low tolerance for investment risk.

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. In our view, the compensation structure is supportive of the group's targets as it rewards senior underwriters and management for long-term outperformance of both internal targets and other Lloyd's insurers over a full insurance cycle.

Assuming a six-year cyclical duration, Amlin has exceeded its target; ROE for 2005-2010 was 24%. If we account for an ROE of -8.6% for 2011, the group's six-year average ROE is still 18%.

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.

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 subordinated debt.

Operating Performance: Historical Outperformance Of The Market

Table 2

Amlin PLC Operating Performance

	--Year ended Dec. 31--				
(Mil. £)	**2010**	**2009**	**2008**	**2007**	**2006**
Earnings before interest and tax (EBIT)	286	532	143	465	366
EBIT adjusted	146	396	213	409	334
Earnings before interest, tax, depreciation and amortization (EBITDA)	286	532	143	465	367
EBITDA adjusted	146	396	213	409	334
Return on revenue (%)	8.1	28.0	20.9	37.6	29.0
Return on equity (%)	13.3	32.4	7.1	35.5	31.1
EBIT adjusted / Total equity adjusted (%)	7.4	23.1	15.0	32.2	32.5
EBITDA adjusted / Capital (%)	6.5	20.5	14.0	31.5	27.9
Net loss ratio (%)	60.6	42.8	54.8	36.4	45.7
Net acquisition expense ratio (%)	21.7	20.3	21.1	20.2	18.6
Administrative expense ratio (%)	5.8	9.1	(0.3)	6.9	10.3
Net combined ratio (%)	88.1	72.2	75.7	63.5	74.6

Table 2

Amlin PLC Operating Performance (cont.)					
Net investment yield (%)	1.3	2.5	3.7	4.5	4.3

Amlin's strong operating performance is demonstrated by its historical ability to report above-average performance against the market. This reflects Amlin's strong underwriting capabilities, astute structuring and use of reinsurance, strong cycle management, and its business mix. Its consistency and low volatility of earnings relative to peers through the cycle 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, which we view favorably. The acquisition of ACI, which was aimed at reducing the group volatility further, in our view has taken longer to yield diversification benefits than management had anticipated and has been a drag on group earnings to date.

Current

2011 has proven to be one of the most costly years on record for the insurance industry. As a result of catastrophe losses from the syndicate and Bermuda, combined with lower than average reserve releases, the group reported a combined ratio of 107% and a pre-tax loss of £194 million. As a result, ROE and ROR were significantly impacted, declining to -9% and -8% respectively (2010: 13% and 8% respectively).

Amlin incurred £501 million in catastrophe losses in 2011, which is the worst year in the company's history for catastrophe losses. The group's net loss estimates for the earthquakes in Japan and Christchurch were $215 million and $335 million, respectively. Combined with additional losses relating to the Thai floods ($125 million), and U.S. tornados ($44 million), the 2011 losses represented about 29% of reported shareholders' equity at the end of 2010, which compares unfavorably to peers.

In comparison to its peers, Amlin is more heavily weighted toward international property-catastrophe related risks, which has provided diversity and reduced volatility of earnings in the last four years. However, an unprecedented level of catastrophe activity outside of the U.S. from late-2010 and into 2011 has hit Amlin harder than peers, especially from New Zealand.

Overall performance at ACI during 2011 has proven to be below our, and management's, expectations. ACI reported a combined ratio of 112% as a result of heavy attritional losses (€51 million in the first half alone) and a rise in the expense ratio to 33%. This underperformance is currently a drag on the overall group rating, following unfavorable results in the ACI's cornerstone marine segment and latterly its property business. We believe this may affect ACI's ability to meet group return targets and ultimately weaken Amlin's operating performance over the medium term.

Historical

Between 2006 and 2010, the group reported an average combined ratio of 75%, a ROR of 25%, and adjusted ROE of 24%. Reserve releases supported the combined ratio on average by 10% over the period. The volatility of earnings was surprisingly low considering the risk profile of the portfolio.

Prospective

We expect to see a return to strong profitability in line with its historic average performance giving a combined ratio in the high 80s, with ROE and ROR recovering to around 15% from 2012 and beyond, assuming normal catastrophe activity.

In our opinion, re-underwriting of ACI's portfolio has taken longer than expected, and the benefits are unlikely to be seen until 2012, at which point we expect the combined ratio to reach a target of 100% or below.

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

We consider Amlin's enterprise risk management (ERM) framework to be adequate with a positive trend overall. We view ERM as highly important to the rating given its significant exposure to catastrophe risks and the increasing complexity of its group operations. 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.

Amlin continues to develop 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 full implementation to be finalized through 2012.

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. Furthermore, 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 has 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. Amlin conducts extensive reviews of model releases, comparing the outputs from any reversioning against its own internal modeling. This is then calibrated to account for unmodelled risks and adjusted to better reflect Amlin's risk profile.

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 center of its 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. In our opinion, delays in implementation result in risk management capabilities in ACI that are below the rest of the group. This relative weakness could expose the group to unexpected losses; therefore, we would expect to see an improvement in the ERM framework at ACI to mitigate risk to the Amlin group, though we note the relative risk profile of ACI compared to the rest of Amlin is lower.

Investments: Strong Overall Asset Quality And Conservative Investment Policy

Table 3

Amlin PLC Investment Statistics

	--Year ended Dec. 31--				
(Mil. £)	**2010**	**2009**	**2008**	**2007**	**2006**
INVESTMENTS					
Invested assets / Total assets (%)	77.2	77.4	77.3	80.8	78.1
Invested assets / Loss & unearned premium reserve (%)	140.9	149.0	158.0	170.6	152.0
General account invested assets	4,379	4,026	2,924	2,652	2,384
Total invested assets adjusted	4,379	4,026	2,924	2,652	2,384
Common equity investments / Capital (%)	17.8	8.8	12.5	18.7	22.3
Real estate investments / Capital (%)	3.0	6.7	5.3	6.1	3.9
PORTFOLIO COMPOSITION					
Cash & cash equivalents (%)	2.1	1.9	1.5	3.4	15.4
Total bonds (%)	88.2	90.6	88.7	85.0	72.4
Common stock (%)	8.1	4.1	6.8	8.8	10.4
Real estate (%)	1.4	3.1	2.9	2.8	1.8
Total mortgages and loans (%)					
Investments in affiliates (%)	0.1	0.0	0.1		
Investments in partnerships, JV and other alternatives investments (%)					
Other investments (%)	0.2	0.2	0.1		
Total portfolio composition (%)	100.0	100.0	100.0	100.0	100.0

We view investments as strong, reflecting a conservative investment policy and strong quality of invested assets. Net investment yield of 1% for 2011 is lower than peers. This reflects the company's asset allocation away from equities and towards cash and short-dated bonds. Investment performance has been affected by current low interest rates on bank deposits, volatile global asset markets, and ongoing sovereign debt concerns throughout Europe.

The overall quality and composition of the portfolio are strong. At year-end 2011, invested assets were defensively held with 66% in bonds, 26% cash and cash equivalents (mostly money market funds), 5% in equities, and 3% in properties. In the second half of the year, Amlin purchased assets to match its Japanese yen, New Zealand dollar, and Australian dollar liabilities. The composition of the bond portfolio has remained broadly consistent, predominantly composing government securities (21%) and pooled investment vehicles (32%). These pooled vehicles are a mixture of government and government agency securities, ABS, MBS, and corporate bonds. In total, 36% was invested in 'AAA' rated debt and 40% in 'AA' rated securities (2010: 37% and 49%, respectively). This includes pooled vehicles, which have a 'AA' average rating. Furthermore, Amlin's exposure to sovereign debt from the peripheral eurozone countries is around 1%.

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. In addition, the group has hedged up to half of its U.S. dollar exposure to the $1.6 billion of capital held in Amlin AG as well as hedging up to half of its euro exposure to manage exchange rate risk.

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

In our view, Amlin's liquidity is strong and supported by its investment portfolio. As of year-end 2011, the group holds more than £980 million in cash and money market funds (26% of invested assets) and £1.0 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 £233 million in 2011 (compared to £127 million the previous year). However, we expect that 2012 cash flow will be negatively impacted as the group starts to pay out on the heavy catastrophe losses incurred in 2011.

Capitalization: Strong Despite Amlin's Large Appetite For Catastrophe Risk

Table 4

Amlin PLC Capitalization Statistics

	--Year ended Dec. 31--				
(Mil. £)	**2010**	**2009**	**2008**	**2007**	**2006**
PC: Net loss reserves / Gross loss reserves (%)	85.4	82.7	78.7	80.0	74.8
PC: Loss reserves / Total adjusted equity (%)	130.0	126.2	109.5	102.6	113.3
Reinsurance utilization (%)	12.1	14.3	11.4	10.2	9.0
PC: Loss & unearned premium reserve / Net premium written (%)	163	204	202	166	155

Capitalization is strong in our view, supported by strong capital adequacy. According to our risk-based capital model, Amlin's capital adequacy shows a deterioration to strong from very strong capital adequacy. This is primarily a result of volatility generated from the group's exposure to catastrophe losses and investment losses marked to market. Despite heavy net losses in 2011, Amlin has maintained its dividend payout policy, which may further strain capital in the short term given a lack of retained earnings in 2011.

In our opinion, Amlin's strong performing business will likely allow capital adequacy to recover to be very strong in the next 24 months, (assuming at least average catastrophe loss experience in these years), as Amlin reduces its over-exposure in some catastrophe-affected lines relative to peers. In addition, given Amlin's historical 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 with 65% of total capital constituting core shareholders' funds, supported by Amlin's material reserving margin, conservative financial leverage of about 18%, and strong asset quality. However, we do expect an increase in intangible assets to roughly 15% of capital (2010: 10%), recognized from strategic acquisitions made through 2010/2011.

Reserves

We believe Amlin's mostly short-tail account reduces the level of reserving risk. 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 £170 million above its actuarial best estimate, equating to roughly 5% of net reserves. The group reported carried reserves of around £4.3 billion at year-end 2011. Historically, Amlin has been able to consistently release surplus from prior year reserves, (£623.2 million of reserves released during 2006-2010) demonstrating the group's inherent prudence in its reserving process.

However, in view of a high level of catastrophe-related losses, reserve releases during 2011 are below historic averages: a modest £113 million was released (2010: £157 million), mostly from releases on closed years for AML and ABL. Net release from AUK was partially offset by reserve strengthening during the year of £3.2 million on motor business from the 2009 year of account and inflated winter freeze claims affecting the property business. A net strengthening of £1.5 million was notes for Amlin France following greater than expected catastrophe losses from French-owned interests abroad.

Reinsurance

Reinsurance utilization is fairly low at about 13% of gross premium income for 2011. Amlin buys extensive protection to manage its peak exposures in the property insurance account. During 2011, the company retained "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 to supplement large line sizes, particularly for marine, energy, and aviation insurance. Additional aggregate cover was purchased for London in 2011, thereby reducing its realistic disaster scenario (RDS) by £50 million. For 2012, cover for Bermuda has been brought more in line with London, and we believe Amlin could benefit from further efficiencies associated with its subsidiaries buying reinsurance as a group: a strategy it began to pursue in 2010. The group also placed a $150 million catastrophe bond in 2011 to provide additional reinsurance protection.

The overall credit quality of reinsurance counterparties is strong. Ceded loss reserves as year-end 2011 were almost entirely recoverable 'A-' or higher rated (90%) companies, with no large single counterparties.

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

Table 5

Amlin PLC Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. £)	2010	2009	2008	2007	2006
EBIT interest coverage (x)	75.2	424.2	65.9	75.2	43.3
EBIT fixed charge cover (x)	5.0	16.5	10.0	20.4	14.0
Debt leverage including additional pension deficit as debt (%)	1.4	1.6	2.7	2.2	3.9
Financial leverage including additional pension deficit as debt (%)	15.2	16.2	17.7	17.2	18.9

Amlin's financial flexibility is strong, and viewed as a strength to the rating. As a FTSE-listed company, Amlin has good and proven access to capital markets, as well as access to an undrawn £250 million unsecured revolving credit facility. As of year-end 2011, the group's shares were trading at about 1.08x book value (2010: 1.38x); this remains higher than peers, with the current market average being slightly under 0.9x, suggesting positive investor sentiment in Amlin. 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.

Though we note a slight deterioration in our assessment of Amlin's capital adequacy during 2011 following record catastrophe-related losses, we believe capital adequacy to be supportive of its needs in the absence of severe catastrophic loss activity. Amlin has historically aimed to increase the level of excess capital returned to shareholders and we believe this dividend strategy will continue through 2012 in the absence of significant capital erosion.

Furthermore, the group is able to utilize reinsurance capacity as well as alternative capital arrangements to provide additional financial support while it rebuilds its excess capital position, evidenced by the placing of a $150 million catastrophe bond into capital markets, covering U.S. hurricane, U.S. earthquake and European windstorm risks and increased reinsurance purchasing in 2012.

Related Criteria And Research

- Interactive Ratings Methodology, April 22, 2009
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Principles Of Credit Ratings, Feb. 16, 2011
- Group Methodology, April 22, 2009
- Holding Company Analysis, June 11, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of March 30, 2012)		
Amlin PLC		
Counterparty Credit Rating		
Local Currency		BBB+/Stable/--
Subordinated (1 Issue)		BBB-
Counterparty Credit Ratings History		
22-Dec-2005	*Local Currency*	BBB+/Stable/--
Related Entities		
Amlin AG		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Local Currency		A/Stable/--
Amlin Corporate Insurance N.V.		
Financial Strength Rating		
Local Currency		A-/Stable/--

Ratings Detail (As Of March 30, 2012) **(cont.)**	
Issuer Credit Rating	
Local Currency	A-/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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