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Analysis

UNITED KINGDOM
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Amlin PLC

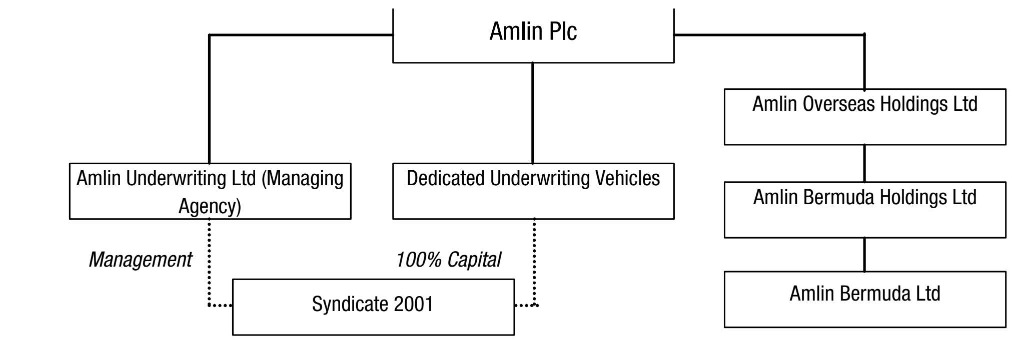
Company Profile

RELATIVELY SMALL, BUT GROWING INSURANCE AND REINSURANCE GROUP, WHICH IS A LEADING LONDON MARKET PLAYER

Amlin plc (Amlin) is a relatively small, but growing London stock exchange listed (market capitalisation of £1,722m as at 18 December 2006) insurance and reinsurance group, which, notwithstanding the recent creation of a $1bn capitalised Bermudan subsidiary, Amlin Bermuda Limited (Amlin Bermuda), currently derives the majority of its revenues via Lloyd's syndicate 2001. Amlin's Baa3 subordinated debt ratings are driven by the respective A1 and A2 insurance financial strength ratings (IFSR) on its two main operating entities, syndicate 2001, which has been 100% backed by Amlin from 2004, and Amlin Bermuda.

Figure 1

Organisational Chart



Source: Amlin

Moody's believes that Amlin has a good franchise, being a leading London market player through syndicate 2001. Syndicate 2001 is the largest Lloyd's syndicate in 2006 with underwriting capacity of £1bn, and it leads over half of the business it writes. Syndicate 2001's A1 IFSR includes the benefit that the syndicate receives from the franchise of Lloyd's, whose overall aggregate financial position has been steadily improving since 2001, notwithstanding the impact of the 2005 Hurricanes[1]. Lloyd's is a marketplace which in 2005 wrote around £15bn of gross written premium (GWP) and reported net assets of around £10.5bn (2004: c.£11.7bn) making it one of the largest global insurance players. This size, together with the name and extensive licensing arrangements attracts business and enables a syndicate like 2001- a relatively small insurance and reinsurance player by global standards- to write larger amounts of certain business lines than it might otherwise be able to do were it to operate outside Lloyd's.

FOLLOWING CREATION OF AMLIN BERMUDA, NO LONGER SOLELY RELIANT ON LLOYD'S FOR REVENUE

The creation of Amlin Bermuda, which began trading as a class 4 Bermudan insurer in December 2005, is not a surprising development as a non-Lloyd's platform had been a long-term strategic goal for Amlin from 2003, and a number of Amlin's London market competitors had already had operating platforms both within and outside Lloyd's. But this development, which is significant for Amlin as it brings earnings diversification beyond Lloyd's, is overall viewed positively by Moody's, notwithstanding inherent operational risk. We believe that Amlin Bermuda, the capital of which currently constitutes around 50% of the Group's, has strong potential to capitalise on the significantly improved market conditions post the 2005 hurricanes, with the advantage of having no legacy reserving issues, and that Amlin's reliance on Lloyd's is likely to reduce over time. However, in the short-to-medium term at least, we expect the diversification benefit to be relatively muted with group revenue continuing to be driven by syndicate 2001, which at 9M 2006 accounted for around 90% of the Group's GWP, and through which Amlin Bermuda currently sources a significant amount of its premium.

RELATIVELY DIVERSE AND BALANCED BOOK OF SPECIALTY BUSINESS, BUT COMMERCIAL ACCOUNT DOMINATED

Figure 2

2005 Gross Written Premium By Business Line (GPW: GBP 994m)

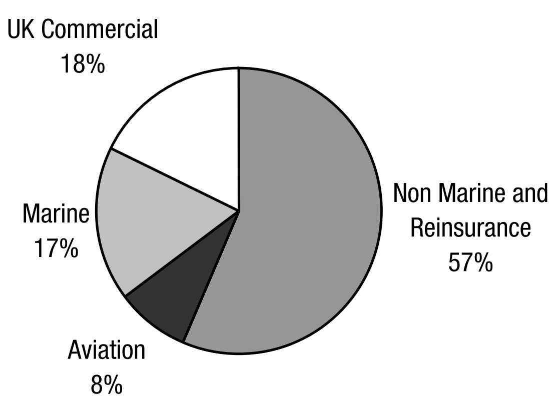
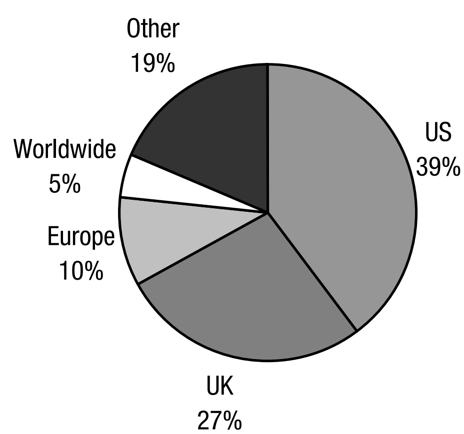


Figure 3

2005 Gross Written Premium by Geographic Segment (GPW: GBP 994m)



Source: Amlin

Almost all of Amlin's business written in 2005 was derived from syndicate 2001 which is divided into four distinct divisions, with around half of the business written being Non-Marine and some 30% accounted for by Reinsurance business. This higher risk reinsurance business is to some extent offset by the lower volatility of the predominantly commercial UK Motor account which represents around 10% of total income. The inclusion of Aviation and Marine business, which together represent around 25% of the whole, means that all four of Lloyd's major categories of business are meaningfully represented. Furthermore, the syndicate's business deliberately remains short-tail orientated, to the extent of around 75%, with the overall amount of Non-Marine liability business relatively small at below 15%.

1. *Please refer to Moody's Special Comment July 2006: "Lloyd's of London: Standing up to the Hurricanes - The Franchise Performance Directorate has brought improvements, but further risk management work required"*

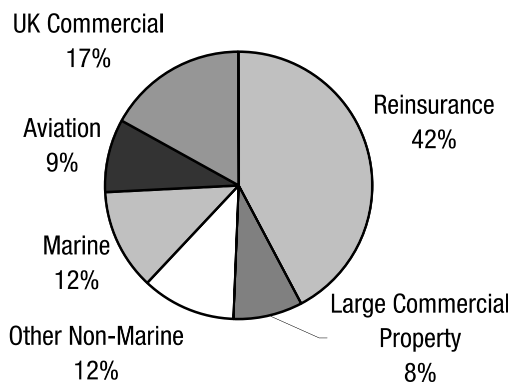
Moody's notes that the long-tail nature of Liability business leads to greater uncertainty with regard to underwriting performance, although to potentially greater investment returns.

However, in common with Lloyd's generally, the portfolio is commercial account dominated, with no Life business, and therefore lacks the spread of certain higher rated companies which write a significant amount of diversified, non-correlated retail lines. Furthermore, notwithstanding its recent strong profitability, we note the inherent volatility of some of the syndicate's lines of business, as evidenced by the 2005 Hurricanes which are currently estimated to cost the Group around 25% of H1 2005 shareholder's equity, and there is a reliance on the US which accounts for around 40% of premium.

- ***Non-Marine and Reinsurance:*** This division represented around 57% of the syndicate's 2005 GWP with its main business categories being: Catastrophe Reinsurance (34%), Property insurance (19%), Property reinsurance (11%), Liability (8%), Auto (8%).
- ***UK Commercial:*** The main components are: Fleet Motor (45%), Employers' Liability (18%) and Professional Indemnity (14%).
- ***Marine (including Bloodstock):*** The main components are: Energy (17%), War (15%), Yacht (15%), Liability (12%), Cargo (12%), Hull (12%) and Bloodstock (11%).
- ***Aviation:*** The main components within Aviation, the only division to witness a reduction in premiums in 2005, are: Airline (34%), Airport Liabilities (21%), General Aviation (20%), Products (15%) and Space (11%).

Figure 4

2006 Estimated Gross Premium Income By Business Line



Source: Amlin

CREATION OF AMLIN BERMUDA HAS INCREASED POTENTIAL VOLATILITY OF GROUP

Moody's believes that the formation of Amlin Bermuda, which focuses on regional US and international catastrophe business and also proportionally reinsures specific classes of business written by syndicate 2001 in addition to underwriting a whole account quota share reinsurance of the syndicate, has increased the potential volatility of the Group. Amlin's reinsurance business is estimated to increase for 2006 from around 30% to around 40% of total premium, and this reinsurance orientation is likely to increase as Amlin Bermuda grows. Around 60% of Amlin Bermuda's book is expected to be reinsurance business with its catastrophe account making up around 40% of the whole, with no reinsurance protection. However, Amlin Bermuda intends to write a regionally balanced catastrophe portfolio with controlled aggregate exposures within zonal areas to limit the maximum loss. Furthermore, Amlin's underwriting controls, which extend to Amlin Bermuda, are seen as strong.

Financial Analysis

STRONG PROFITABILITY REFLECTIVE OF SIGNIFICANT OUT-PERFORMANCE OF SYNDICATE 2001

The profitability of Amlin, which has a cross-cycle return on equity (ROE) target of 15%, has been strong in recent times with an average combined ratio and ROE for 2002-2005 of around 90% and 22% respectively, although these figures move to around 97% and 10% if the WTC impacted 2001 year is included. Amlin produced a very good set of results for 2005, reporting a significantly improved profit before tax (PBT) of £187m (2004: £129m) and net income of £140m (91m), notwithstanding significant net hurricane losses of £130m (£74m re hurricane/typhoon losses).

Figure 5

Amlin Financial Fundamentals, 2001-2006 H1

GBP MM unless stated	2006 IFRS H1	2005 IFRS	2004 IFRS	2003	2002	2001
Gross Premiums Written	846	994	946	937	717	587
Net Premiums Written	766	829	788	788	573	487
Net Premiums Earned	561	901	738	685	494	343
Profit Before Tax	120	187	129	120	55	-82
Net Income	95	140	91	83	44	-67
Combined Ratio [1]	76%	85%	89%	87%	97%	126%
Return on Equity (post tax) [2]	24%	23%	22%	24%	20%	-40%
Shareholders' Funds	817	785	460	383	307	134
Shareholders' Funds as a % of NPW [3]	75%	95%	58%	49%	54%	28%
Gross Underwriting Leverage [3]	3.2 x	3.4 x	4.5 x	5.1 x	5.5 x	11.8 x
Adjusted Financial Leverage [4]	29.7%	37.1%	31.0%	36.3%	39.3%	53.8%
Adjusted Earnings Coverage [4]	10.4 x	17.8 x	23.2 x	16.3 x	8.6 x	Negative

[1] Moody's calculation
[2] Reported figure for 2006 H1
[3] Annualised figures for 2006 H1
[4] Estimated where limited disclosures for 2006 H1
Source: Amlin & Moody's

Amlin's strong earnings are reflective of the significant out-performance of syndicate 2001- Moody's A- (Good), positive outlook, performance rating assigned to the syndicate places it in the top five at Lloyd's in terms of potential performance[2]. Syndicate 2001 reported a 1% profit for the 2001 year of account, despite a very significant WTC loss of 10% of capacity, compared to an overall Lloyd's market loss of around 19%. Furthermore, the syndicate has reported well above-average profits of 22% and 25% for the 2002 and 2003 accounts, benefiting from high pricing levels and low loss frequency and severity, and is forecasting profits of 13.6% and 4% for 2004 and 2005 notwithstanding significant hurricane activity especially in 2005. The extent of syndicate 2001's out-performance from 2001-2005 is demonstrated by an average profit of currently around 13% compared to a market average of around 1.5%. The stable outlook on syndicate 2001's A1 IFSR reflects the expectation that it will deliver above-average profits in excess of 10% of capacity on an average basis for 2002-2005.

RESERVE RELEASES AND FOREX VOLATILITY A RECENT FEATURE, WITH BOTH FEATURING AGAIN IN GOOD H1 2006 RESULT

Amlin's reserving philosophy for syndicate 2001 is that the proposed reinsurance to close (RITC) is set at a level that provides strong reserves which give a better than even chance of a future release. Since its inception, syndicate 2001 has consistently benefited from overall reserve redundancies, and Moody's notes that Amlin's reserve releases at YE2004 and 2005 of £80m and £50m respectively significantly mitigated the natural catastrophe losses of those years.

US dollar revenue for Amlin is significant, and meaningful foreign exchange impacts have also been a P&L feature, with the YE2005 result benefiting from foreign exchange gains on non-monetary assets[3] of £26m. However, at H1 2006, Amlin's result was impacted by foreign exchange losses on non-monetary assets of £20m, although it reported a further prior year release which improved the combined ratio by around 5% points.

2. *Please refer to Moody's Lloyd's Syndicate Rating Guide, and other Moody's publications.*
3. *IFRS reporting requires that foreign currency denominated non-monetary assets, liabilities and transactions (i.e. those without a corresponding cash flow, being principally the unearned premium reserve, the reinsurers' share of the unearned premium reserve and deferred acquisition costs) to be converted to the functional currency using the exchange rate prevailing at the date of the original transaction (or an average rate for the period of the transaction) even when accounted for in subsequent periods.*

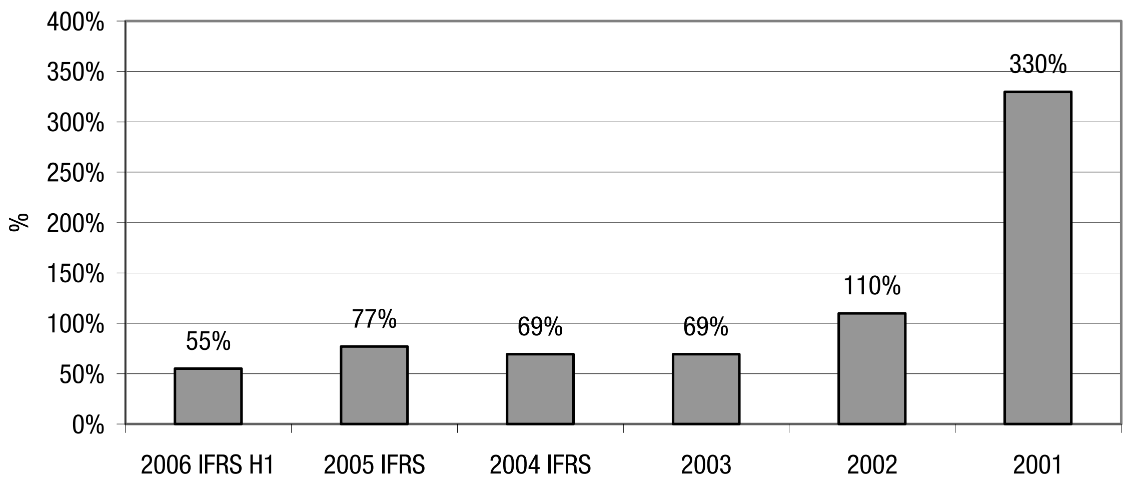
Overall, Amlin's good profitability has continued into 2006, recording at H1 2006, before forex losses, increased PBT of 23%, benefiting from an absence of major natural catastrophes. The H1 result also benefited from an underwriting contribution of £24m from Amlin Bermuda which so far has had negligible claims and which is a contributory factor to the Group's lower effective tax rate at H1 of 21% (H1 2005: 28%). However, the Group's ROE was suppressed by Amlin Bermuda having capital of around £550m in relation to earned premiums of only £46m. Moody's also notes that Amlin, in a trading statement at the end of November 2006, stated that 2006 performance to date has exceeded expectations owing to an exceptionally low level of claims, and that if this continues, they expect the full year result to be well ahead of market forecasts at the end of November.

REDUCING LEVEL OF REINSURANCE RECOVERABLES, AND LESS REINSURANCE COVER FOR 2006

Historically, Amlin has bought significant levels of reinsurance, spending around 15-20% of GPW, to reduce the volatility of its underwriting result. In 2005, such protection reduced a substantial estimated gross incurred loss of around \$861m (around 90% of H1 2005 shareholders' equity) from KRW to around \$237m (25%). Such reliance on reinsurance means that Amlin's level of reinsurance recoverables at YE2005 increased to a relatively high 77% of shareholders' funds, reducing since then to 55% albeit at level similar to H1 2005. However, Amlin's exposure to counterparty risk is mitigated by the credit quality of the reinsurance recoverable asset with around 97% rated category A or higher.

Figure 6

Reinsurance Recoverables as a % of Shareholders' Funds



Source: Amlin and Moody's

Following huge price increases in the wake of KRW, Amlin has bought significantly less retro and umbrella cover for 2006. This has led it to reduce gross catastrophe exposures in Syndicate 2001, and to Amlin Bermuda reducing its risk appetite by \$50m to \$200m for a single zone and \$250m for multi zone perils. Amlin has saved around \$70m in reinsurance costs compared to 2005 which is a mitigant, together with significantly improved pricing for inwards catastrophe business, re the Group's highest modelled event loss, a \$65billion multi-zone US northeast windstorm, of around £330m (40% of H1 2006 shareholders' equity).

SOUND CAPITALISATION AND LOWER FINANCIAL LEVERAGE

Moody's believes that Amlin is soundly capitalised for the business it writes, with its gross underwriting leverage (GWP + gross outstanding claims as a % of shareholders' funds), at a little under 3.5x, being consistent with the IFSRs on its operating entities.

Amlin's financial leverage, including pension liabilities and operating leases, increased at YE2005 to a relatively high 37% (2004: 31%) following increased debt of around £300m to help fund Amlin Bermuda, off-set by £215m of fresh equity. However, at H1 2006 Amlin's financial leverage reduced to around 30%, and following further bank loan repayments in July and August, has improved further, on a pro-forma basis, to around 27% with all financial debt now comprising dated Lower Tier 2 subordinated notes.[4] Going forward, Moody's expects Amlin's financial leverage to drop below 25%. Amlin's earnings coverage has been strong averaging around a high 15x from 2002-H12006, although from 2002-2005 financing costs have been relatively modest because the vast majority of debt has comprised the Lloyd's underwriting Letter of Credit, on which only the commission charges were recognised as finance costs.

Figure 7

Amlin Financial Leverage Profile, 2001-2006 H1

Leverage Profile GBP MM	**2006 H1 IFRS**	**2005 IFRS R**	**2004 IFRS**	**2003**	**2002**	**2001**
Shareholders' funds	816.3	785.1	461.4	385.7	309.6	137.2
Minority Interests in Shareholders' Funds	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Stock	0.8	(0.3)	(1.6)	(2.4)	(2.8)	(2.8)
Reported Shareholders' Funds	**817.1**	**784.8**	**459.8**	**383.3**	**306.8**	**134.4**
Deductions:						
Pensions	0.0	0.0	(1.5)	(7.9)	(12.5)	(0.2)
Total Deductions	**0.0**	**0.0**	**(1.5)**	**(8)**	**(13)**	**(0)**
Additions:						
Basket Credits	0.0	0.0	0.0	0	0	0
Total Additions	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**
Total Adjustments	**0.0**	**0.0**	**(1.5)**	**(8)**	**(13)**	**(0)**
Adjusted Equity	**817.1**	**784.8**	**458.3**	**375**	**294**	**134**
Financial Debt						
Letter of Credit	0.0	150.0	130.0	180.3	150.7	129.6
Subordinated Debt	280.7	57.1	25.6	0.0	0.0	0.0
Loan Stock	0.0	0.0	0.0	6.9	9.8	10.0
Finance Lease	0.2	0.2	0.2	0.2	0.2	0.2
Bank Debt and Overdrafts	49.7	241.0	32.9	3.4	1.1	1.5
Reported Financial Debt	**330.6**	**448.3**	**188.7**	**190.8**	**161.8**	**141.3**
Basket Credit	0.0	0.0	0.0	0.0	0.0	0.0
Pension liability	0.0	0.0	3.7	11.3	17.9	0.3
Operating Lease (6 times annual expense)	13.8	13.8	13.8	11.4	10.8	14.4
Adjusted Financial Debt	**344.4**	**462.1**	**206.2**	**214**	**191**	**156**
Adjusted Financial Leverage	**29.7%**	**37.1%**	**31.0%**	**36.3%**	**39.3%**	**53.8%**
Reported Financial Leverage	**28.8%**	**36.4%**	**29.1%**	**33.2%**	**34.5%**	**51.3%**
Earnings Coverage	**10.4 x**	**17.8 x**	**23.2 x**	**16.3 x**	**8.6 x**	**Negative**

Source: Amlin and Moody's

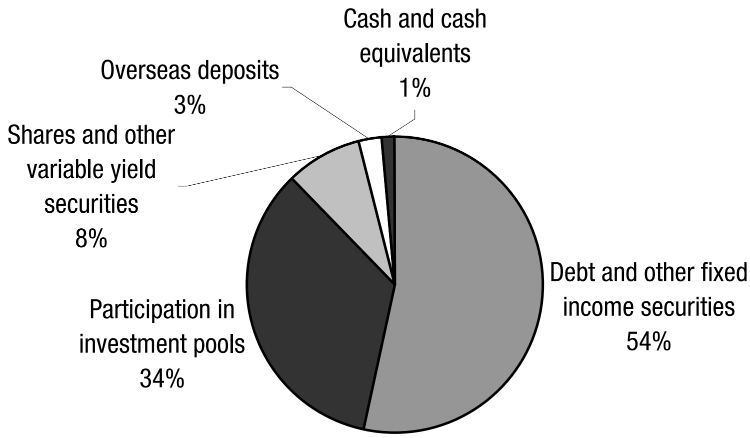
4. *Following $50m subordinated debt issues in 2004 and 2005, Amlin plc issued £230m of lower tier 2 subordinated debt in April 2006 to refinance existing debt including £150m LOC used to support Lloyd's underwriting.*

RELATIVELY CONSERVATIVE INVESTMENT PORTFOLIO

As shown in the graph below, Amlin continues to adopt a cautious investment strategy with approximately 92% of invested assets at H1 2006 held within fixed interest securities, cash and other cash-like asset classes. The credit quality of the debt and other fixed income securities is very high with almost 85% rated AAA/Aaa and only 2% (BBB/Baa) below the A category. A further credit positive is that the amount of intangible assets, almost all related to syndicate participations[5], is low representing only around 8% of shareholders' funds at H1 2006.

Figure 8

Investment Split, 2006 H1 (Invested assets: £ 2,279M)



Source: Amlin

5. *Syndicate participations represent the ongoing rights, acquired in Lloyd's auctions, to trade on syndicate 2001 within Lloyd's.*

Related Research

Industry Outlook:

Global Reinsurance Industry Outlook, September 2006 (98832)

Special Comment:

Lloyd's of London: Standing up to the Hurricanes – The Franchise Performance Directorate has brought improvements, but further risk management work required, July 2006 (98237)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Amlin Plc
GBP MM

	2005 IFRS	2004 IFRS	2003	2002	2001
Company Fundamentals					
Gross Premium Written	994	946	937	717	587
Net Premiums Written	829	790	788	573	487
Net Income as Reported	140	91	83	44	-67
Invested Assets (Including Cash)	2,144	1,350	1,075	806	534
Total Assets	3,607	2,336	1,951	1,767	1,522
Net Technical Reserves (excluding UPR)	1,100	785	734	620	560
Debt as Reported (including LOC)	448	189	191	162	141
Reported Shareholders' Equity	785	460	383	307	134
Investment mix					
Debt and other fixed income securities	53.3%	53.2%	69.8%	69.5%	73.4%
Participation in investment pools	32.8%	22.8%	11.9%	16.7%	15.2%
Shares and other variable yield securities	5.4%	6.7%	4.7%	0.1%	0.1%
Cash	3.1%	3.5%	2.5%	3.9%	4.3%
Deposits with credit institutions	2.9%	10.4%	7.5%	6.1%	0.3%
Other	2.5%	3.4%	3.6%	3.7%	6.6%
Investment return					
Total investment return	5.2%	4.3%	3.4%	6.3%	1.7%
Investment income	4.1%	4.3%	4.1%	5.8%	5.5%
Realised gains/(losses)	0.4%	0.0%	-0.4%	0.0%	-3.4%
Write-ups/downs	0.8%	0.0%	-0.3%	0.5%	-0.4%
Retrocession					
Premium retention	83.5%	83.6%	84.0%	79.9%	82.8%
Net loss reserves as a % of gross	64.5%	71.1%	73.4%	64.8%	55.8%
Profitability					
Retention rate	83.5%	83.6%	84.0%	79.9%	82.8%
Loss ratio, net	57.9%	52.5%	51.6%	62.4%	91.1%
Expense ratio, net	26.8%	36.3%	35.2%	34.2%	35.2%
Combined ratio, net	84.7%	88.8%	86.7%	96.7%	126.2%
Return On Equity	22.5%	21.6%	24.1%	20.0%	-40.2%
Return on NPE	15.6%	12.3%	10.7%	7.4%	-19.5%
Capitalisation					
Shareholders' funds (including MI) as a % of NPW	94.6%	58.2%	48.7%	53.5%	27.6%
Shareholders' funds (including MI) as a % of assets	21.8%	19.7%	19.6%	17.4%	8.8%
Shareholders' funds (including MI) and NTR as a % of NPW	227.2%	157.5%	141.9%	161.7%	142.8%
Reported Financial Leverage	36.4%	29.1%	33.2%	34.5%	51.3%
Adjusted Financial Leverage	37.1%	31.0%	36.3%	39.3%	53.8%
Adjusted Earnings Coverage	17.8 x	23.2 x	16.3 x	8.6 x	Negative
Gross Underwriting Leverage	3.4 x	4.5 x	5.1 x	5.5 x	11.8 x
Asset Quality					
Equity investments as a % of shareholders' funds	14.8%	19.6%	13.2%	0.2%	0.4%
High Risk Assets as a % of Invested Assets	5.5%	6.9%	5.1%	0.6%	2.2%
Reinsurance Recoverables as a % of Shareholders' Equity	77.0%	69.3%	69.2%	110.0%	329.8%
Goodwill and Syndicate Participations as a % of Shareholders' Equity	8.4%	14.4%	14.9%	19.6%	11.2%

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