

## Reinsurer Amlin Bermuda Ltd. Rated 'A'; Holding Company Amlin PLC Rated 'BBB+'; Outlook Stable

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### *Rationale*

On Dec. 22, 2005, Standard & Poor's Ratings Services assigned its 'A' long-term counterparty credit and insurer financial strength ratings to newly formed, Bermuda-based reinsurer **Amlin Bermuda Ltd.** (Amlin Bermuda). At the same time, Standard & Poor's assigned its 'BBB+' long-term counterparty credit rating to **Amlin PLC** (Amlin), the U.K.-based holding company of the Amlin group (the group). The outlook on both entities is stable.

Despite being a newly formed legal entity, Standard & Poor's considers Amlin Bermuda to be a core subsidiary of Amlin owing to the extent of its operational, strategic, and financial integration with the rest of the group, and the materiality of its capital base. Consequently, the ratings criteria that Standard & Poor's would ordinarily apply to a start-up are not relevant in this case (for further information, see "Credit FAQ: Rating The Reinsurance Startups," published Dec. 20, 2005, on RatingsDirect, Standard & Poor's Web-based credit analysis system).

The ratings reflect the group's strong and improving competitive position, track record of strong earnings, and superior operational management. The ratings are constrained, however, by the execution risk surrounding the formation of Amlin Bermuda and the anticipated resultant increase in the volatility of the group's earnings going forward. The concentration of the group's notional exposure to a small number of reinsurance counterparties is also a weakness for the ratings.

#### Major rating factors:

- Strong and improving competitive position. The group enjoys a strong competitive position via its franchise in the Lloyd's Market (A/Stable). The formation of Amlin Bermuda should enable the group to gain further leverage from its franchise, primarily

through the reinforcement of its relationships both with its clients and key London Market brokers. More than 90% of Amlin Bermuda's premium income is expected to be underwritten in parallel with **Amlin Underwriting - Syndicate 2001** (Syndicate 2001; LSA 4/Stable) (for further information, see "Amlin Syndicate 2001 Assigned Interactive Lloyd's Syndicate Assessment Of '4'; Outlook Stable," published Dec. 22, 2005, on RatingsDirect, Standard & Poor's Web-based credit analysis system).

- Track record of strong earnings. Over the past three years, the group has reported an average combined ratio of 87.5%. This is considered to be a strong level of performance, particularly in light of the group's conservative approach to the estimation of its loss reserves. Standard & Poor's expects Amlin to report a combined ratio below 90% for the financial year ended Dec. 31, 2005. This includes approximately 13 percentage points in respect of its exposure to hurricanes Katrina, Rita, and Wilma. This will represent a very strong level of performance for the year, particularly relative to its peers'.
- Superior operational management. Amlin's broad-based risk-management framework, which has been in place for a number of years, is embedded within the day-to-day management of its business. This is underpinned by a sophisticated Dynamic Financial Analysis model. Standard & Poor's expects that the operational controls that are currently in place at Amlin will be rolled out to Amlin Bermuda.
- Execution risk surrounding the formation of Amlin Bermuda. As a writer of international property catastrophe reinsurance, Amlin Bermuda will have a high risk profile. This risk is magnified by the fact that Amlin Bermuda will seek to manage the level of its exposure to large loss events just by controlling the aggregation of its gross exposures, rather than by also purchasing outward reinsurance. Furthermore, while Amlin Bermuda's high risk profile will increase the group's earning power in benign loss years, it will also increase its downside risk, particularly if the unusual frequency and severity of natural catastrophes seen in the past two years persists. Standard & Poor's estimates that the group's worst-case net exposure to a single loss event would be in the vicinity of £300 million (before tax and excluding offsetting profits likely to emerge on Amlin's extensive non-catastrophe-affected book), representing about one-half of Amlin Bermuda's and 45% of the group's capital.
- Concentration of the group's notional exposure to a small number of, albeit highly rated, reinsurance counterparties. Amlin estimates its notional exposure to reinsurers, under a worst-case scenario, to be about £1 billion. This represents about 1.5x its capital. Approximately one-quarter of this exposure is in respect of other syndicates at Lloyd's. This exacerbates the group's current operational dependence on the Market.

## Outlook

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

The stable outlook on Amlin reflects Standard & Poor's expectation that the establishment of Amlin Bermuda will further strengthen the group's competitive position, enabling it to maintain its recent strong operating performance. Furthermore, the group's capitalization is expected to remain at a level that is at least supportive of the current ratings.

The outlook could be revised to positive if the group were able to demonstrate that its competitive position had been materially strengthened as a result of the formation of Amlin

Bermuda, enabling it to achieve its across-the-cycle target of a 15% post-tax ROE. However, the emergence of issues surrounding the integrity of the operational controls at Amlin Bermuda, particularly in respect of the efficacy of its monitoring and control of its aggregate exposure to large loss events, would lead to downward pressure on the ratings.

### **Corporate Profile**

Amlin is listed on the London Stock Exchange and is a member of the FTSE 250.

Historically, the vast majority of Amlin's business has been comprised of its interests at Lloyd's. Since 2004, Amlin has been the sole provider of capital to Syndicate 2001, the largest syndicate in the Lloyd's Market with an underwriting capacity of £1 billion for 2006.

In November 2005, Amlin announced the formation of Amlin Bermuda. Amlin Bermuda will have an initial capitalization of \$1 billion. It has been established in the wake of the recent exceptional hurricane season in the U.S. to write international catastrophe reinsurance, leveraging from the expertise that currently resides within Syndicate 2001.

### ***Ratings List***

Amlin PLC

Counterparty credit rating      BBB+/Stable/—

Amlin Bermuda Ltd.

Counterparty credit rating      A/Stable/—

Insurer financial strength rating A/Stable

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