

# Best's Rating Report



**ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED (AEGIS)**

Hamilton HM 11, Bermuda



**A-**

## Non-Life Business

**Ultimate Parent: Assoc Elec & Gas Ins Services (AEGIS)**

## **ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED (AEGIS)**

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## **BEST'S FINANCIAL STRENGTH RATING**

**Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A- (Excellent). The company's Financial Size Category is Class XI.**

## **RATING RATIONALE**

**Rating Rationale:** The rating reflects AEGIS' adequate risk-adjusted capitalization and historically strong long-term financial performance. Reserving practices are adequate for the hazards insured and losses incurred. AEGIS' investment strategy emphasizes diversification and a relatively conservative approach to preservation of capital and yield enhancement. Partially offsetting these favorable factors are the substantial amount of loss activity in the directors and officers (D&O) line of business during the early 2000s that arose as a consequence of economic circumstances, legal activity involving several high-profile members and energy industry-related events, and recent unfavorable claims experience in the company's excess liability line of business. AEGIS' property line of business has been profitable on a life-to-date basis, but increased exposure to property-related losses led to higher overall leverage through the end of 2006 and was particularly impacted by loss experience from 2005 storm activity. In addition, surplus declined in

2008 due to the significance of the Company's investment losses that resulted from the year's financial market turmoil. These factors have led to unfavorable increases in leverage measures and somewhat lower BCAR scores. Operating results from 2003 through 2007 and in 2009, however, have been profitable, allowing AEGIS to grow surplus levels. The measures taken by management throughout 2009 to address its capital position have contributed to its improved operating results and current BCAR score. However, A.M. Best remains concerned that the elevated leverage and slower growth in surplus may affect the company's ability to address further increases in capital stress factors. Nonetheless, AEGIS continues to demonstrate a strong market profile as evidenced by a high member retention ratio, an adaptive and responsive management, and the expansion of programs within its corporate mission.

A.M. Best notes that AEGIS has instituted an enterprise risk management program and a strategic planning process to improve operational decision making. These efforts were evidenced by a strong operating performance in 2009, which resulted in a USD 104 million or 14% increase in surplus. A.M. Best further notes AEGIS' proven track record of developing long-lasting partnerships with its members and brokers. AEGIS is guided by a board of directors and a number of advisory committees whose members come from the industries AEGIS serves and who provide a superior understanding of the risks within those sectors.

**Best's Financial Strength Rating: A-**

**Outlook: Stable**

## **FIVE YEAR RATING HISTORY**

Date	Best's FSR	Date	Best's FSR
05/06/10	A-	03/27/08	A
05/06/09	A-	12/07/06	A
04/03/09	A u	12/07/05	A

## CORPORATE OVERVIEW

Associated Electric & Gas Insurance Services Limited was incorporated in Bermuda in 1971 and commenced underwriting activities in 1975. AEGIS is registered as a non-assessable mutual insurance company in Bermuda, regulated under that country's Insurance Act of 1978, and is a Class 3B Company under the Insurance Amendment Act of 1995.

The principal activity of the Company is to provide, directly and through alliances and affiliates, a full array of liability and property coverages to the utility and other energy-related industries. AEGIS writes excess liability, employers' liability, employment practices liability, professional liability, property and boiler and machinery coverages. AEGIS also writes D&O liability, fiduciary and employee benefits liability, and excess workers' compensation coverages. Through strategic alliance partners, which it reinsures, AEGIS offers general liability, commercial automobile liability, umbrella liability, workers' compensation and energy-related construction primary and excess coverages. During 2007, the Company established a federally licensed Canadian branch operation offering excess liability, D&O liability, property and boiler and machinery coverages.

AEGIS London, the trading name of AEGIS Managing Agency Limited, is the UK-based subsidiary of AEGIS that operates AEGIS Syndicate 1225 at Lloyd's of London. The syndicate provides coverage across a wide range of classes traditionally written in the Lloyd's market including non-marine property, utility property, exploration and production, international casualty, energy casualty, marine cargo, war and terrorism, contingency, leisure and hospitality, accident and health, and property and treaty reinsurance.

The company also provides a full line of integrated financial products including deductible/retention buy-down programs, weather, generation outage, and environmental remediation insurance. A "Side A" facility was introduced in 2006 through Ariel Re on a stand-alone basis for members who prefer Side A coverage from a different carrier than the basic D&O carrier. The focus remains on core general liability and D&O risk coverages.

### CORPORATE STRUCTURE

AMB#	COMPANY NAME	DOMICILE	% OWN
085055	Assoc Elec & Gas Ins Services	Bermuda	
050028	AEGIS Holding Inc	DE	100.00
075451	AEGIS Electric & Gas (SAC) Ltd	Bermuda	100.00
050030	AEGIS Electric & Gas Intl Svc	United Kingdom	100.00
048312	Lloyd's Syndicate 1225	United Kingdom	100.00
051083	ORIGIN Limited	Bermuda	50.00

AEGIS International, wholly owned by AEGIS Holding Inc., is the corporate member to AEGIS Energy Syndicate 1225 at Lloyd's.

ORIGIN Limited is an alliance with Steamship Insurance Management.

### BUSINESS REVIEW

AEGIS writes excess general liability coverage generally with a maximum policy limit of up to USD 35 million on a claims-first-made basis, to which can be added employers' liability coverages. The group also writes directors and officers liability, professional liability and fiduciary and employee benefits liability coverages on a claims-first-made basis and excess workers' compensation coverage on an occurrence basis, each generally up to a maximum of USD 35 million. The company also writes property coverages. In addition, AEGIS assumes reinsurance of general liability, automobile liability, and workers' compensation coverages through its strategic alliance with the Liberty Mutual Group.

AEGIS accepts business from brokers and also writes policies directly for utilities and other energy-related businesses. Its operations as a surplus lines insurer in the United States are supported by its wholly owned managing general agent, AEGIS Insurance Services, Inc., which provides AEGIS and its affiliates with professional staff and services.

In April 1997, AEGIS formed a strategic alliance with various WAUSAU companies, now part of the Liberty Mutual Group. The alliance allows AEGIS to serve the needs for admitted paper and primary coverages of its core membership. It has also allowed the two companies to add small to mid-size accounts in the oil and gas exploration and production sectors. The alliance has been active in pursuing construction accounts across all energy sectors. Through this alliance, AEGIS provides primary commercial general liability; commercial automobile and workers' compensation coverages, excess workers' compensation coverage in certain jurisdictions, and umbrella coverage.

In October 1998, AEGIS received approval to form a Lloyd's syndicate, AEGIS Energy Syndicate 1225 (AES 1225), which is known as AEGIS London. As the traditional AEGIS membership began to establish foreign operations, AEGIS established its wholly owned syndicate to assist this international development. Many of the company's core members have placed a portion of their Lloyd's programs with AEGIS London. The syndicate also writes a significant number of third-party accounts in the Lloyd's market. The variety of risks (both energy and non-energy-related) flowing through the market has enhanced the diversification and balance of the overall AEGIS book. The syndicate commenced underwriting on January 1, 1999. Most of AEGIS' international business is written through this facility. These programs are written on both a primary and an excess basis.

In 2000, AEGIS began underwriting property insurance. This is in addition to the non-marine property programs offered through AEGIS London. The property program provides all-risk property coverage for direct physical loss or damage to real and personal property of operational facilities and, under a builder's risk policy, for the construction of new facilities. Time element coverages are also available for operational facilities, as well as those under construction. AEGIS generally provides property limits up to USD 200 million.

AEGIS introduced Side A coverage in 2006 through Ariel Re, a Bermuda company that offers up to USD 30 million coverage on a stand-alone basis for members that prefer Side A coverage from a different carrier than the basic D&O provider. AEGIS reinsures a portion of this coverage from Ariel.

AEGIS benefits from specialized expertise in providing a variety of liability and property coverages and risk management services to utilities and related energy companies. This strategy has brought significant growth while retaining virtually all of the original core membership with an overall member retention ratio of 85% at year-end 2009. The decline was primarily the result of mergers with other AEGIS members.

Insureds that participate only in the affiliation programs, such as the Liberty Alliance and the Lloyd's syndicate, are provided the full support of AEGIS but are not considered members of the company, do not vote on AEGIS matters, and do not participate in its continuity credit benefits. Certain of the non-traditional programs currently offered are also not eligible for continuity credits and do not provide voting rights. The Company offers separate London and Property credits for those policyholders that participate in these programs.

**Regulatory & Accounting Environment:** Insurance companies in Bermuda are supervised by the Bermuda Monetary Authority, the Supervisor of Insurance, and the Insurance Advisory Committee. Companies may be local companies licensed to conduct business in Bermuda (must be at least 60% owned by Bermudians), or exempted companies incorporated in Bermuda for non-domestic business, where overseas investors may have 100% ownership. AEGIS is an exempted company in Bermuda where it is also exempted from taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 28, 2016. In 1983, the company elected to be taxed as a United States corporation and since has filed U.S. federal income tax returns.

### FINANCIAL PERFORMANCE

**Overall Earnings:** AEGIS typically relies on investment earnings to support overall net income where underwriting results tend toward the break-even level. However, increased loss experience on its excess liability line of business and volatility in the bond and equity marketplace led to decreased profitability in 2008. The company's investment performance rebounded significantly in 2009.

Although underwriting costs over the past five years still exceeded earned premiums, investment income helped to produce a positive net income in four of those years. Since 2001, underwriting results have declined due to issues stemming from the California energy supply concerns, the failure of Enron, and similar accusations of mismanagement against some of AEGIS' other insureds. Significant hurricane losses in the 2004 and 2005 policy years have caused additional declines in underwriting results. In 2006, underwriting results improved from the prior period mostly due to better directors and officers liability loss experience, reflecting the more conservative operating approach of AEGIS' insureds. Since 2006, reserve strengthening in the excess liability line of business and the 2008 California wild fires have resulted in further declines in underwriting results. Earnings have also been offset by

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continuity credits, which have led to decreases in retained profit. However, management anticipates underwriting improvement in the near future with improved operational decision making processes in place and as problem lines of business are re-underwritten. AEGIS has also substantially reduced its member credit distributions.

Underwriting losses have been reported each year due to the fact that the group generally prices its business on a "total return" basis. AEGIS has low-cost operations and its philosophy is to have members share in the investment income generated from their premiums through its member credit programs. A significant component of the company's operating ratio is attributable to the declaration each year of member continuity credits that are applied as offsets to a member's subsequent year premium charge. Directors and officers remains one of AEGIS' largest lines of business in terms of premium volume and it continues to have a strong impact on the company's overall underwriting results. While this line of coverage was its loss leader in the early 2000s, the excess liability coverages have generated the highest loss ratios since 2005.

Premium volume, which has been relatively flat over the past five years through year-end 2009, rose substantially during 2002 through 2006, in large part due to significant premium rate increases, as accounts were re-evaluated on renewal, and new business was appropriately priced. Premium volume surged prior to 2002 due to a combination of new lines of business delivering their first meaningful revenues, substantial growth in membership, and to a lesser degree, premium rate increases. Continued growth in AEGIS' core lines and alliance business, combined with significant writings through AEGIS London and the domestic property program, have contributed positively to AEGIS' overall writings. Despite rate increases, AEGIS has demonstrated its ability to maintain its current base of insureds. It has also attracted some new members through its strong market presence and the offering of additional products through its strategic alliance with Liberty Mutual. However, management has indicated that it has experienced increased competition, particularly within its directors and officers line of business. Nonetheless, management anticipates higher premium volume due to additional growth in the product lines it offers. In addition, AEGIS has taken strong underwriting and rating actions with those members that have generated substantial loss experience.

The company places considerable emphasis on generating an optimum return while preserving capital and maintaining sufficient liquidity to meet ongoing claims and operating expenses. The overall goal is to provide an efficient utilization of funds to generate sufficient additional earnings to stabilize the costs of insurance for its members. As such, AEGIS is a conservative, though highly diversified, total-return-oriented investor. It works closely with the investment committee of the board of directors and its investment advisors to develop asset allocation strategies which are expected to produce superior after-tax returns at an acceptable level of risk.

The portfolio is allocated approximately 70% to fixed-income securities and 21% to cash and cash equivalents, with the remainder of the portfolio primarily allocated to fund-of-fund hedge fund investments. The fixed-income holdings include municipals, mortgage-backed securities, and international instruments. The remainder of the portfolio has historically been placed in domestic and international equity funds, REITs, and hedge funds. The company liquidated all of its REIT holdings in 2004, and in 2008 AEGIS significantly reduced its equity exposures. The maturities of its fixed-income securities are distributed broadly in the ranges of one-to-five, five-to-ten, and over ten years. Net investment results surged 70% during 2005 from a year earlier, while they declined by 19% in 2006 due primarily to capital gains compared to 2005. Investment results increased by 8% in 2007 as interest income rose by USD 21 million from 2006. In 2008, investment results were a negative USD 301 million primarily due to an unfavorable investment market but in 2009 investment results totaled USD 229 million. In response to the financial market turmoil in 2008, AEGIS reduced its equity allocation from 22% to 7%. The current 7% allocation is primarily held in fund-of-fund hedge funds which should help decrease volatility from capital market gyrations and provide a foundation for asset preservation and measured growth.

## CAPITALIZATION

**Capital Generation:** AEGIS remains adequately capitalized to its investment, reinsurance and underwriting risks per its Best Capital Adequacy Ratio (BCAR) score. Nonetheless, risk-adjusted capitalization has generally declined over a five-year period due primarily to the relatively increased level of loss reserves. Capitalization declined in 2005 from the prior year on loss reserve increases. Through December 31, 2006, capitalization increased by

almost 4%, while capitalization remained relatively unchanged at year-end 2007. Capitalization significantly weakened in 2008 largely due to a reported net loss that included significant investment-related realized losses and impairment charges, which produced a USD 323 million or 30% erosion in policyholders' surplus. In 2009, however, surplus began to rebound increasing by USD 104 million. Although the company remains sufficiently capitalized to meet its current obligations, A.M. Best remains concerned that surplus growth over the last several years has not kept pace with reserves and property exposures written. This is partly mitigated as it purchased additional excess of loss adverse development cover from National Indemnity Company. Management has also indicated it can further adjust the level of its member credits or curtail their issuance from year to year to boost capitalization levels, should the need arise.

**Underwriting Leverage:** Both net and gross leverage measures remain elevated given AEGIS' rating level and as compared to its own leverage position in earlier years. However, they reflect an improvement from 2006 results, given a 14% increase in surplus since year-end 2005, while gross and net writings increased modestly. Surplus fell substantially in 2008, below its 2001 level, but through year-end 2007 exceeded its pre-2001 level by approximately 6%. Nonetheless, leverage continued to increase as reserves, premiums and ceded balances far exceed pre-2001 levels. As premium levels grew in 2005 and 2006, leverage continued to grow as surplus did not keep pace with reserves and ceded recoveries increases.

Premium volume declined slightly in 2009 and 2008 and was relatively flat in 2007 compared to 2006 results. These results followed premium volume that grew substantially from 2002 through 2006 primarily due to considerable interest in and support of AEGIS' property initiatives and AEGIS London. Rate increases reflective of current market conditions also had an impact on rising premium levels for 2004 and 2005. In addition, AEGIS has re-underwritten problem accounts and increased premium rates as needed. Additional premium growth over the five-year period is related to its excess liability lines of business and AEGIS London and, to a lesser degree, additional premium increases related to its alliance with Liberty Mutual. In 2009, AEGIS reduced its level of participation in the Liberty Mutual alliance.

## LIQUIDITY

**Overall Liquidity:** A favorable liquidity position is maintained with about 65% of total assets invested as of December 31, 2009. Equity investments have fluctuated over the past several years and due to recent volatile market conditions AEGIS reduced its overall allocation to equity investments from 22% at year end 2007 to less than 7% in 2008. During 2002, AEGIS reduced its exposures to international equities by replacing them with domestic issues in REITs, fund-of-fund hedge accounts, and other domestic placements. In 2004, the company exited its REITs investment allocation and increased its international equity investments. The increase in the equity portfolio allocation contributed to investment performance in 2006. During 2007, the fixed-income component of the portfolio generated 90% of net investment income, while the equity portion contributed the majority of the market gains recorded in the period. During November 2008, amid the financial market turmoil, it reduced its equity allocation to 7% in fund-of-fund hedge funds. The step was taken to help minimize volatility from capital market gyrations. AEGIS' implicit investment risk is partially mitigated by its use of various portfolio managers, careful monitoring of results and exposures by management, and extensive diversification among holdings. Income expectations from foreign-currency-denominated fixed-income securities are generally forward hedged to the U.S. dollar.

**SOURCE OF INFORMATION:** Audited Financial Statement

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## Summarized Accounts as of December 31, 2009

## STATEMENT OF INCOME

ASSETS				12/31/2009 USD(000)	12/31/2009 % of total	12/31/2008 USD(000)		12/31/2009 USD(000)	12/31/2008 USD(000)
Cash and equivalents				686,139	13.6	950,874	Direct premiums written	1,084,410	1,099,399
Long term fixed maturity investments				2,266,829	45.1	2,219,182	Reins assumed	29,809	86,347
Equity investments				28,405	0.6	143,900	Gross premiums written	1,114,219	1,185,746
Other investments				270,489	5.4	265,247	Reins ceded	346,601	311,217
Invested assets				2,565,723	51.0	2,628,329	Net premiums written	767,618	874,529
Receivables				209,162	4.2	241,207	Change in unearned premiums	-79,985	1,286
Reinsurance recoverable				1,003,102	20.0	1,034,909	Net premiums earned	847,603	873,243
Intangibles				52,221	1.0	53,180	Net investment income	95,270	120,813
Other assets				512,876	10.2	511,896	Net realized gains/(losses)	92,510	-366,092
Total assets				5,029,223	100.0	5,420,395	Total revenue	1,089,140	612,811
							Benefits & reserves	746,324	836,286
							Operating expenses	248,993	252,816
							Total benefits & expenses	995,317	1,089,102
							Earnings before interest & taxes (EBIT)	93,823	-476,291
							Pre-tax income/(loss) from continuing operations	93,823	-476,291
							Total taxes	14,449	-137,556
							Net income/(loss) before minority interest	79,374	-338,735
							Net income/(loss) from continuing operations	79,374	-338,735
							Net income/(loss)	79,374	-338,735
							The caption "Benefits & reserves" above refers to this company's net claims incurred for property/casualty business.		

## LIABILITIES & SURPLUS

## STATEMENT OF CHANGES IN EQUITY

	12/31/2009 USD(000)	12/31/2008 USD(000)
AOCI - beginning balance	22,832	59,289
AOCI - change in unrealized gains/losses on investments	24,741	-36,457
AOCI - ending balance	47,573	22,832
Retained earnings, beginning balance	735,141	1,022,113
Retained earnings, net income	79,374	-338,735
Retained earnings, other	...	51,763
Retained earnings, ending balance	814,515	735,141
Total shareholder equity	862,088	757,973

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## STATEMENT OF CASH FLOWS

	12/31/2009 USD(000)	12/31/2008 USD(000)
Net cash provided/(used) in operating activities	-440,673	32,516
Net cash provided/(used) in investment activities	175,938	267,200
Total increase (decrease) in cash	-264,735	299,716
Cash, beginning balance	950,874	651,158
Cash, ending balance	686,139	950,874

## HISTORY

The company was organized under the laws of Bermuda as a non-assessable mutual insurance company in 1971. It commenced operations in March of 1975, under the name of General Assurance Services Limited (GAS) to provide general liability insurance to gas utilities in the United States. In 1978, the company expanded its base of insureds beyond gas utilities to include electric utilities and adopted the name Associated Electric & Gas Insurance Services Limited (AEGIS).

Effective December 31, 1988, the company assumed all of the assets and liabilities of Directors & Officers Liability Insurance, Ltd. (DOLI), under a portfolio transfer agreement. On December 22, 1995, AEGIS acquired the Peninsula Property and Casualty Company from the Peninsula Insurance Company. It was renamed as U.S. AEGIS Energy Insurance Company, domiciled in Delaware and subsequently sold in its entirety on May 1, 2004. In 1998, the company received approval to establish its Lloyd's syndicate, AEGIS Energy Syndicate 1225. It commenced business on January 1, 1999.

At year-end 2009, capitalization of AEGIS consisted of a statutory surplus fund of USD 250,000, policyholders' surplus of USD 814,265,000, and accumulated other comprehensive income of USD 47,573,000.

## MANAGEMENT

The company is owned by approximately 366 utility and related-energy company members headquartered primarily in the United States and Canada, but with operations that now span the globe. The board of directors is comprised mainly of prominent utility executives.

In addition to an executive committee, an audit & finance committee, an investment committee, a claims committee, and a loss control committee, there are several advisory committees and task forces. These provide expertise and counsel in such areas as risk management (domestic and international), loss control, and claims, as well as directors and officers liability, fiduciary liability, excess liability, property, and public power issues. There is close director involvement with each advisory committee. The risk management advisory committee is composed of risk management representatives from member companies.

The Board is chaired by Wesley W. von Schack. The staff is headed by President and Chief Executive Officer Alan J. Maguire. Mr. von Schack is the former Chairman, President & CEO, Energy East Corporation. Prior to assuming the chair of AEGIS, Mr. von Schack held the position of chairman of the Audit & Finance committee and had been a director of AEGIS. Mr. Maguire, who joined AEGIS in 1996, had an existing relationship with the company for several years as outside counsel.

Since July 1, 1983, management of the company's affairs has been under a service agreement with its wholly owned subsidiary, AEGIS Insurance Services, Inc. The management company is headed by Alan J. Maguire, Chairman, President, and CEO.

**Officers:** Chairman, Wesley W. von Schack; Vice Chairman and Vice President, William H. Grigg; Vice Chairman, Donald J. Greene; President and Chief Executive Officer, Alan J. Maguire; Assistant Vice Presidents, William P. Cullen, Gilbert J. Gould; Secretary, Timothy C. Faries; Treasurer and Controller, John J. Denman, Jr.; Actuary, Kirk G. Fleming.

**Directors:** Philip C. Ackerman, Keith E. Bailey, Robert W. Best, Thomas E. Capps, R. D. Cash, W. R. P. Dalton, John W. Ellis, Timothy C. Faries, Stephen E. Frank, Donald J. Greene, William H. Grigg, David D. Hay, Walter M. Higgins, Don D. Jordan, Constance H. Lau, Alan J. Maguire, George L. Mazanec, Eugene R. McGrath, Corbin A. McNeill, Jr., Ann D. Murtlow, Jane L. Peverett, Richard G. Reiten, Wesley W. von Schack (Chairman).

**Territory:** AEGIS is an eligible surplus lines underwriter in 48 jurisdictions, including the Virgin Islands, the District of Columbia, and all of the United States, with the exceptions of Maine, Massachusetts, Michigan, New Hampshire, Guam and Puerto Rico.

## REINSURANCE

The major reinsurance treaties are the Aggregate Excess of Loss, the Casualty Excess of Loss, the Workers' Compensation, and the Property Per Risk Excess of Loss programs.

Commencing January 1, 2010, the Aggregate Excess of Loss treaty covers aggregate retained losses into two layers, each of USD 100 million. The first layer aggregate of USD 100 million excess of USD 450 million is 100% placed. The second layer aggregate of USD 100 million excess of USD 550 million is 100% placed. This treaty covers all casualty lines of business except for property and has certain restrictions and limitations on workers' compensation.

The Casualty Excess of Loss treaty provides coverage of USD 25 million excess of USD 10 million per loss, per policy. For all loss portions in the layer USD 25 million excess of USD 10 million, AEGIS retains two separate aggregate loss corridors of USD 15 million excess of USD 150 million and USD 50 million excess of USD 265 million. The Casualty Excess of Loss Program covers all lines of business insured or reinsured by AEGIS with the exception of property, business assumed from Liberty Mutual, business assumed from AEGIS London, surety, drilling rigs P&I, and workers' compensation. The same is true of the Aggregate Excess of Loss; however, it does cover the assumed Liberty and Workers' Compensation programs, subject to certain restrictions or limitations. Primary participants on these programs are Lloyd's of London, AXIS Re, Harbor Point Re, Everest Re, Renaissance Re, Catlin Re, Endurance Specialty Insurance Limited, Aspen Insurance U.K. Limited, Allied World Assurance Company Limited, Odyssey Re and Transatlantic Re.

The Workers' Compensation per occurrence treaties are placed in three layers with Lloyd's of London, Renaissance Re, AXIS Specialty, Harbor Point Re, DaVinci Re and Endurance Re. The first layer per occurrence coverage has a limit of USD 10 million excess of retention of USD 10 million. The second layer is for USD 25 million excess of USD 25 million while the third layer provides USD 40 million excess of USD 50 million. All layers are placed at 100%. Each of the layers provides one additional reinstatement of limit. There is also a per claimant treaty with limits of USD 5 million excess of USD 5 million with an aggregate limit of USD 15 million.

For the 2010 program, AEGIS purchased a Terrorism Aggregate Excess of Loss treaty covering all lines of business. This treaty's term is 12 months. Coverage applies excess of a USD 25 million aggregate net retention for each calendar year for both certified and non-certified acts of terrorism including nuclear, biological and chemical acts of terrorism. For 2010, the program limit is USD 150 million with a 70% placement.

The AEGIS property reinsurance program, effective May 1, 2010, consists of three treaties: A property per risk excess of loss treaty is placed in four layers (USD 10 million excess of USD 10 million; USD 30 million excess of USD 20 million; USD 50 million excess of USD 50 million; USD 100 million excess of USD 100 million). AEGIS retains an 8% in the first layer, a 10% share in the second layer, a 6% share in the third layer, and a 7% share in the fourth layer. A property catastrophe program is placed in three layers (USD 20 million excess of USD 20 million, USD 30 million excess of USD 40 million and USD 50 million excess of USD 70 million). AEGIS retains 2% of the first catastrophe excess of loss layer and nil on the second and third layers. An aggregate excess of loss treaty is also placed in one layer (USD 114 million excess of 117.5% of net earned premium or USD 114 million in net losses, whichever the greater). The cover is 100% placed. Lloyd's of London assumes the largest share of the property reinsurance program.

At year-end 2008 AEGIS purchased additional excess of loss reinsurance protecting against large adverse development on its reserves in force at December 31, 2008. The coverage is provided by National Indemnity Company.

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## BALANCE SHEET ITEMS

	USD (000) 2009	USD (000) 2008	USD (000) 2007	USD (000) 2006	USD (000) 2005
Invested assets	2,565,723	2,628,329	3,272,612	3,055,038	2,926,382
Total assets	5,029,223	5,420,395	5,389,096	5,322,905	5,308,960
Debt & notes payable	2,711	10,210	8,516	121,951	164,128
Total liabilities	4,167,135	4,662,422	4,307,694	4,297,317	4,358,765
Total equity	862,088	757,973	1,081,402	1,025,588	950,195
Total capital	864,799	768,183	1,089,918	1,147,539	1,114,323

## INCOME STATEMENT ITEMS

	USD (000) 2009	USD (000) 2008	USD (000) 2007	USD (000) 2006	USD (000) 2005
Gross premiums written	1,114,219	1,185,746	1,231,002	1,231,811	1,144,079
Net premiums written	767,618	874,529	980,033	1,018,124	905,193
Net investment income	95,270	120,813	139,096	117,685	96,659
Net realized gains/(losses)	92,510	-366,092	92,743	97,758	160,884
Net income/(loss)	79,374	-338,735	65,797	58,396	70,655

## LIQUIDITY RATIOS (%)

	2009	2008	2007	2006	2005
Total investments to total reserves	91.9	94.9	98.7	94.4	85.9
Liquid assets to total liabilities	71.5	71.1	84.4	80.7	72.1
Total investments to total liabilities	78.0	76.8	91.1	86.8	77.4
Bonds to total reserves	64.0	58.8	59.3	54.4	54.1

## PROFITABILITY RATIOS (%)

	2009	2008	2007	2006	2005
Loss ratio	88.1	95.8	90.1	90.3	95.2
Expense ratio	29.4	29.0	25.2	24.5	25.2
Combined ratio	117.4	124.7	115.3	114.8	120.4
Investment income ratio	11.2	13.8	13.8	12.1	11.8
Return on assets	1.5	-6.3	1.2	1.1	1.3
Return on revenues	9.4	-38.8	6.5	6.0	8.6
Return on equity	9.8	-36.8	6.3	5.9	7.4

## LEVERAGE & DEBT RATIOS (%)

	2009	2008	2007	2006	2005
Net premiums written to equity	89.0	115.4	90.6	99.3	95.3
Debt to equity	0.3	1.4	0.8	11.9	17.3
Debt to total capital	0.3	1.3	0.8	10.6	14.7
Cash and equivalents to total assets	13.6	17.5	12.1	12.7	8.4

## Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative valuation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

### Secure Best's Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

### Vulnerable Best's Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at [www.ambest.com](http://www.ambest.com). You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).