

# Best's Rating Report



# AEGIS®

## Energy Syndicate 1225

LLOYD'S SYNDICATE 1225

London EC3M 5JT, United Kingdom



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Lloyd's  
Ultimate Parent: Assoc Elec & Gas Ins Services (AEGIS)

**LLOYD'S SYNDICATE 1225**  
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### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of both the syndicate's Financial Strength, and that of Lloyd's of London (the Market), the syndicate is assigned a Best's Financial Strength Rating of A (Excellent). The syndicate is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the Market.

### RATING RATIONALE

**Rating Rationale:** The rating of syndicate 1225 reflects the financial strength of Lloyd's of London, which underpins the security of all syndicates. The syndicate benefits from its association with Associated Electric and Gas Insurance Services Limited (AEGIS), which provides part of the assets that back the syndicate's funds at Lloyd's. Volatile prospective earnings due to the syndicate's exposure to catastrophe losses continue to be an offsetting factor.

Volatile prospective earnings — Prospective earnings remain subject to volatility due to exposure to catastrophe losses. However, the syndicate continues to take measures to mitigate this volatility, including diversifying into less catastrophe-exposed lines and reducing exposure to natural catastrophes in peak zones such as the Gulf of Mexico region.

For 2010, the syndicate is likely to return a combined ratio of 95%-100%. This represents a deterioration from the previous year's combined ratio of 92% and reflects the expectation that 2009's favourable loss experience will not be replicated in 2010. The expected combined ratio takes into account the syndicate's estimated loss from the Deepwater Horizon oil rig explosion. In 2009, the syndicate achieved a better than expected pre-tax profit of GBP 52 million, benefitting from benign loss experience and a strong investment return with particularly good performance achieved by the equity and high-yield fixed income portfolios.

Good business profile — Syndicate 1225 has a good business profile in its energy and utility lines, assisted by its association with AEGIS. The syndicate has a strategy to improve the diversification of its account and has reported strong growth in particular in its non-marine property account. New lines added since 2008 include contingency, leisure, A&H and property treaty reinsurance.

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

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/14/10	A s	03/30/07	A s
05/06/09	A s	02/27/07	A s
04/25/08	A s	03/06/06	A s
07/24/07	A s		

### BUSINESS REVIEW

Lloyd's Syndicate 1225 writes a diversified book comprising both casualty and property lines. The syndicate was established to write energy and utility business, but has diversified its portfolio to include a number of other lines. For the 2009 year of account, non-marine property overtook utility property to become the syndicate's largest lines in terms of gross written premium net of brokerage (GWP). The non-marine property account is written partly via coverholders and partly as open market business.

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Utility and energy lines (comprising utility property, energy exploration and production and energy casualty) remain important to the syndicate, accounting for a total of 36% of GWP for the 2009 year of account. The utility property account is focused on power producers and gas and water utility companies. Business is written both internationally and to US members of AEGIS, of which the syndicate's managing agent AEGIS Managing Agency Limited (AEGIS UK) is a subsidiary. For the energy accounts, the syndicate reduced its exposure to Gulf of Mexico windstorm significantly for the 2009 year of account, and is expected to maintain this much reduced exposure for the 2010 year of account. The syndicate has instead increased the amount of energy business written internationally.

The syndicate also writes short tail marine insurance (mainly cargo), marine casualty, war & terrorism, and satellite business (written via participation on the Atrium consortium). New lines have been added since 2008, comprising leisure (property and casualty), contingency, A&H and treaty property reinsurance.

For the 2009 year of account, the syndicate led approximately 35% of GWP. In utility property and energy casualty, where just under 50% of business was written to members of AEGIS in 2009, the syndicate led 67% and 37% of GWP respectively.

Geographically, the syndicate's business is focused on North America, which is expected to account for over 50% of gross premiums written for the 2010 year of account. Other prominent territories include the UK and Western Europe. Large international brokers distribute the majority of business, with Marsh, Jardine Lloyd Thompson and Aon expected to account for just over 30% of gross premiums written for 2010.

## FINANCIAL PERFORMANCE

The syndicate's future earnings remain subject to volatility due to exposure to catastrophe losses. However, the syndicate has taken measures to reduce this volatility including diversifying into less catastrophe exposed lines and reducing its exposure to Gulf of Mexico windstorms.

The syndicate reported a good result for 2009 on an annually accounted basis with a profit of GBP 52 million. Earnings benefitted from benign loss experience and from good investment income. For 2010, a deterioration is likely, assuming that the benign loss experience and strong investment performance of 2009 will not be replicated in 2010.

The 2007 year of account closed with a good return on net premiums (including brokerage) of 14%, benefitting from a low level of catastrophe losses.

**Underwriting Income:** On an annually accounted basis, Syndicate 1225 achieved a better than expected combined ratio in 2009 at 92%, due to favourable loss experience during the year. A combined ratio of 95%-100% (including the estimated loss from the Deepwater Horizon explosion) is likely for 2010, subject to normal catastrophe experience in the remainder of the year.

**Investment Income:** The syndicate achieved a strong return, including realised and unrealised gains, on its investment portfolio in 2009, with particularly good returns on its equity and high yield fixed income portfolios.

## CAPITALIZATION

Syndicate 1225 is supported by the capital strength of the Lloyd's market, which underpins the security of all syndicates.

The syndicate's ECA has been agreed at USD 219 million for the 2010 year of account. Funds at Lloyd's are provided partly by an USD 176 million LOC backed by funds provided by AEGIS. The remainder is accounted for by investments held by the syndicate's corporate member. In 2009, the LOC was converted from a Sterling LOC to a USD LOC with the aim of better matching the syndicate's capital to its premiums in terms of currency.

The syndicate's corporate member is not required to distribute funds to its parent, and retains its earnings to fund potential growth.

**Reserve Quality:** The syndicate's reserves are set at the external actuary's best estimate with an additional margin held for prudence. Reserves are estimated separately for claims where the case estimate is deemed by the syndicate's management to be particularly at risk of being materially misstated.

## LIQUIDITY

The syndicate's investment portfolio is highly liquid with 95% held in cash or fixed income securities at year-end 2009. The fixed income portfolio comprises corporate, agency and treasury bonds and also contains highly rated asset and mortgage backed securities.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2009

US \$ per Local Currency Unit 1.59257 = 1 British Pound (GBP)

## STATEMENT OF INCOME

	12/31/2009 GBP(000)	12/31/2009 USD(000)
<b>Technical account:</b>		
Direct premiums	125,965	200,608
Reinsurance premiums assumed	171,777	273,567
Gross premiums written	297,742	474,175
Reinsurance ceded	50,232	79,998
Net premiums written	247,510	394,177
Increase/(decrease) in gross unearned premiums	2,939	4,681
Reinsurers share unearned premiums	-936	-1,491
Net premiums earned	243,634	388,004
Total underwriting income	243,634	388,004
Net claims incurred	148,253	236,103
Management expenses	22,020	35,068
Acquisition expenses	55,923	89,061
Net operating expenses	77,943	124,130
Total underwriting expenses	226,197	360,235
Balance on technical account	17,438	27,771
<b>Non-technical account:</b>		
Net investment income	12,268	19,538
Realised capital gains/(losses)	1,468	2,338
Unrealised capital gains/(losses)	12,641	20,132
Exchange gains/(losses)	8,235	13,115
Profit/(loss) before tax	52,050	82,893
Profit/(loss) after tax	52,050	82,893
Retained profit/(loss) for the financial year	52,050	82,893
Retained profit/(loss) carried forward	52,050	82,893

## ASSETS

	12/31/2009 GBP(000)	12/31/2009 % of total	12/31/2009 USD(000)
Cash & deposits with credit institutions	84,071	14.5	133,889
Bonds & other fixed interest securities	237,097	40.8	377,594
Shares & other variable interest instruments	17,625	3.0	28,069
Liquid assets	338,792	58.3	539,550
Mortgages & loans	39,601	6.8	63,067
Total investments	378,393	65.1	602,617
Reins. sh. of tech. reserves - unearned premiums	7,871	1.4	12,535
Reinsurers' share of technical reserves - claims	70,425	12.1	112,157
Total reinsurers share of technical reserves	78,295	13.5	124,690
Insurance/reinsurance debtors	84,473	14.5	134,529
Other debtors	8,191	1.4	13,045
Total debtors	92,664	15.9	147,574
Prepayments & accrued income	32,091	5.5	51,107
Total assets	581,444	100.0	925,990

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## LIABILITIES

	12/31/2009 GBP(000)	12/31/2009 % of total	12/31/2009 USD(000)
Distributable reserves	-20,964	-3.6	-33,387
Current year net income	52,050	9.0	82,893
Capital & surplus	31,086	5.3	49,507
Gross provision for unearned premiums	134,612	23.2	214,379
Gross provision for outstanding claims	391,816	67.4	623,994
Total gross technical reserves	526,428	90.5	838,373
Insurance/reinsurance creditors	23,593	4.1	37,574
Total creditors	23,593	4.1	37,574
Accruals & deferred income	337	0.1	537
Total liabilities & surplus	581,444	100.0	925,990

## MANAGEMENT

A.M. Best expects the syndicate's management to continue its strategy of improving the diversification of the underwriting portfolio. Four new teams have been added since late 2008, writing leisure (property and casualty), contingency, A&H and property treaty reinsurance business. The syndicate is likely to continue to add lines of business which have low catastrophe exposure and low loss correlation with current classes.

The syndicate's management continues to develop its enterprise risk management (ERM) framework and to embed it across its operations. Management produces risk metrics, which tie into the syndicate's finance metrics, reporting on investment, currency and underwriting risks. These and other key risks are discussed at regular meetings of the ERM committee, at board meetings and at audit committee meetings. The syndicate continues to develop its internal capital model in preparation for Solvency II and uses this model in its planning process and to formulate the reinsurance programme.

## ANALYSIS OF GROSS PREMIUMS WRITTEN

	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006	GBP (000) 2005
Fire	57,333	82,612	83,494	96,526	71,617
Liability	15,779	17,809	18,138	22,627	24,352
Marine, aviation & trans	52,845	73,398	58,281	59,863	62,108
Other classes	9	132	183	151	57
Reinsurance	171,777	71,874	79,702	89,145	65,140
Total non-life	297,742	245,824	239,799	268,313	223,273

## REINSURANCE

The syndicate's account is protected by risk excess of loss reinsurance programmes by class of business and by catastrophe excess of loss programmes for exposed lines. As was also the case for 2009, no cover has been bought for Gulf of Mexico windstorms for energy risks; instead, the syndicate has reduced its total aggregate exposure to energy windstorm losses significantly.

## BALANCE SHEET ITEMS

	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006	GBP (000) 2005
Liquid assets	338,792	399,256	235,115	212,859	235,964
Total investments	378,393	441,899	290,549	240,577	250,481
Total assets	581,444	709,866	443,182	432,256	498,155
Gross technical reserves	526,428	654,978	459,384	443,722	473,196
Net technical reserves	448,133	497,516	397,829	362,034	322,403
Total liabilities	550,358	686,369	468,797	471,143	499,221
Capital & surplus	31,086	23,497	-25,615	-38,887	-1,066

## INCOME STATEMENT ITEMS

	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006	GBP (000) 2005
Gross premiums written	297,742	245,824	239,799	268,313	223,273
Net premiums written	247,510	182,321	194,701	207,436	176,600
Balance on technical account(s)	17,438	16,045	6,592	-690	-23,538
Profit/(loss) before tax	52,050	20,252	24,160	12,926	-16,661
Profit/(loss) after tax	52,050	20,252	24,160	12,926	-16,661

## LIQUIDITY RATIOS (%)

	2009	2008	2007	2006	2005
Total debtors to total assets	15.9	11.0	15.1	19.0	14.5
Liquid assets to net technical reserves	75.6	80.2	59.1	58.8	73.2
Liquid assets to total liabilities	61.6	58.2	50.2	45.2	47.3
Total investments to total liabilities	68.8	64.4	62.0	51.1	50.2

## LEVERAGE RATIOS (%)

	2009	2008	2007	2006	2005
Net premiums written to capital & surplus	796.2	775.9	-99.9	-99.9	-99.9
Net technical reserves to capital & surplus	999.9	999.9	-99.9	-99.9	-99.9
Gross premiums written to capital & surplus	957.8	999.9	-99.9	-99.9	-99.9
Gross technical reserves to capital & surplus	999.9	999.9	-99.9	-99.9	-99.9
Total debtors to capital & surplus	298.1	331.6	-99.9	-99.9	-99.9
Total liabilities to capital & surplus	999.9	999.9	-99.9	-99.9	-99.9

## PROFITABILITY RATIOS (%)

	2009	2008	2007	2006	2005
Loss ratio	60.9	58.5	64.7	67.0	81.2
Operating expense ratio	31.5	33.8	32.7	31.1	30.7
Combined ratio	92.3	92.3	97.4	98.1	111.9
Net investment income ratio	5.0	7.2	5.9	6.0	5.3
Operating ratio	87.3	85.0	91.5	92.1	106.6
Return on net premiums written	21.0	11.1	12.4	6.2	-9.4
Return on total assets	8.1	3.5	5.5	2.8	-4.1
Return on capital & surplus	190.7	-99.9	-74.9	-64.7	-94.1

# Best's Rating Report

## Why is this *Best's*<sup>®</sup> *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

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