# *Continuity is... at the heart of our business*

amlin

**Amlin plc**
**2014 Annual Report**

*We are a leading independent insurer specialising in providing insurance cover to commercial enterprises and reinsurance protection to other insurance companies around the world.*

*Continuity is... at the heart of our business*

## Contents



**Cautionary statement regarding forward-looking statements**
A cautionary statement regarding forward-looking statements and other essential information relating to this Annual Report can be found on the inside back cover.

# Overview of our business

## We underwrite through three well-capitalised and strongly-rated entities

**Syndicate 2001**
Capital support at Lloyd's £584.2m

**GWP:** £1,537.9m
**Ratings:**

| | |
|---|---|
| A.M. Best | A+ (Superior) |
| Moody's | A2 (Stable) |
| Standard & Poor's | Lloyd's Syndicate Assessment 4+ (Stable) |

**Amlin AG**
Net assets £1,005.8m

**GWP:** £838.3m
**Ratings:**

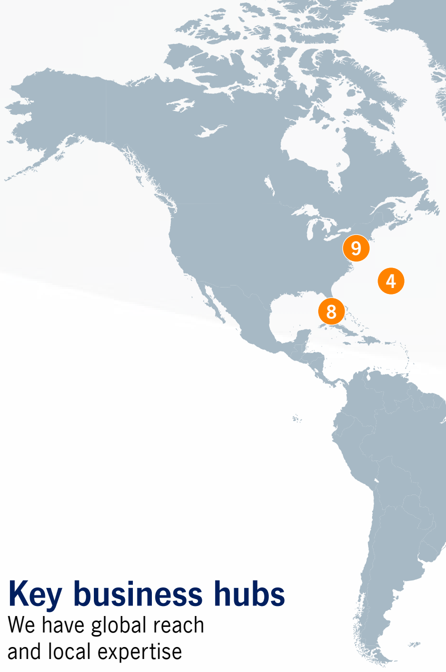
| | |
|---|---|
| A.M. Best | A (Excellent) |
| Moody's | A2 (Stable) |
| Standard & Poor's | A (Stable) |
| Fitch | A+ (Stable) |

**Amlin Europe N.V.**
Net assets £310.2m

**GWP:** £431.5m
**Ratings:**

| | |
|---|---|
| Fitch | A+ (Stable) |
| Standard & Poor's | A- (Positive) |

## Our main offices




## Key business hubs

We have global reach and local expertise

**1. London**
Global reinsurance and specialty insurance lines, UK commercial insurance

**2. Chelmsford**
UK commercial insurance

**3. Zurich**
Reinsurance for European clients

**4. Bermuda**
Global reinsurance

**5. Amstelveen**
Property and casualty insurance

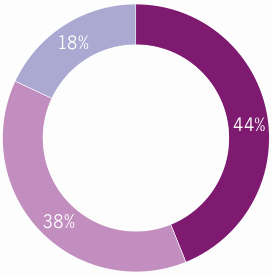
## Our key strengths

- **A diverse portfolio with scope for long-term growth**
- **Profit-focused cross-cycle underwriting, based on market-leading expertise**
- **A strong franchise supported by first-class client service**
- **Effective risk management which optimises returns for the risks we take**
- **A dynamic approach to capital management**
- **A global team with a wealth of industry experience**

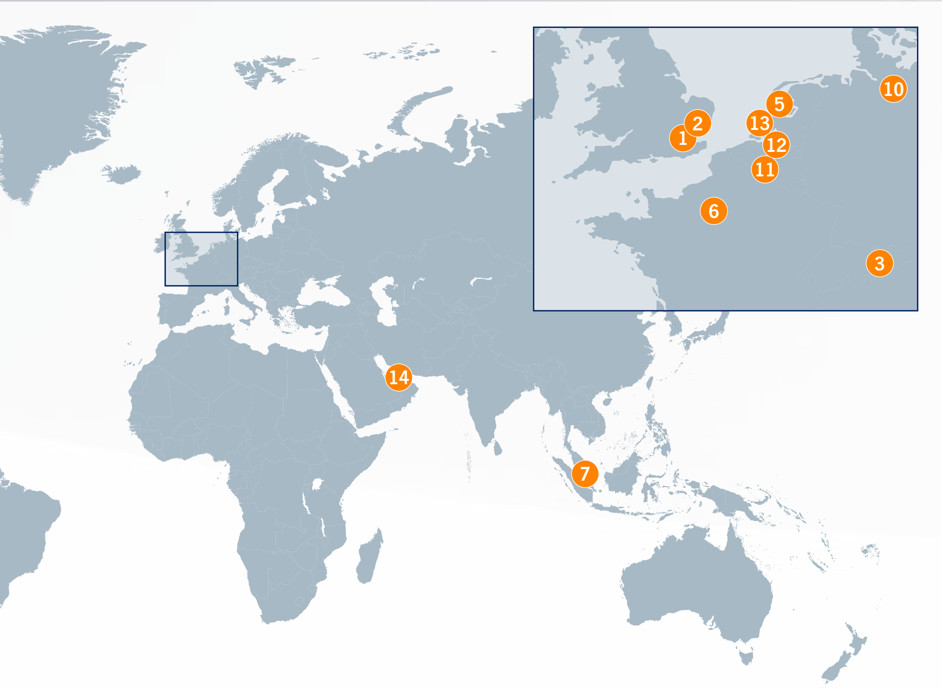
## Gross written premium

*£2,564m*

### Gross written premium by Strategic Business Unit




- Reinsurance
- Property & Casualty
- Marine & Aviation




**6. Paris**
Marine, property and casualty insurance

**7. Singapore**
Reinsurance, marine, property and casualty insurance

**8. Miami**
Reinsurance for Latin American clients

**9. New Jersey**
Casualty reinsurance

**10. Hamburg**
Property and casualty insurance

**11. Brussels**
Property and casualty insurance

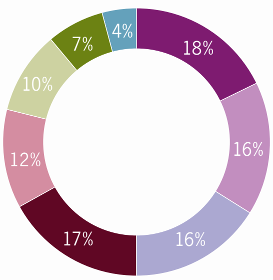
**12. Antwerp**
Marine insurance

**13. Rotterdam**
Marine insurance

**14. Dubai**
Marine reinsurance and insurance

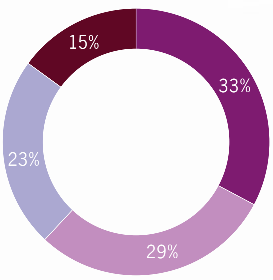
## We are organised through three global Strategic Business Units for Reinsurance, Marine & Aviation and Property & Casualty

### Gross written premium by class




- Property catastrophe reinsurance
- Marine insurance
- Property insurance
- Classes <4%
- Other property reinsurance
- Motor insurance
- Casualty insurance
- Special risks reinsurance

### Gross written premium by geography




- North America
- Europe
- UK
- Other

# 2014 highlights[1]

| | 2014 £m | 2013 £m | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|---|---|
| Gross written premium | **2,564.0** | 2,467.4 | 2,405.6 | 2,304.1 | 2,172.5 |
| Net written premium | **2,278.9** | 2,107.4 | 2,058.6 | 2,013.2 | 1,910.3 |
| Net earned premium | **2,183.4** | 2,077.4 | 1,970.5 | 1,927.4 | 1,748.1 |
| Result attributable to underwriting | **246.0** | 283.1 | 207.1 | (146.0) | 185.6 |
| Investment return | **118.5** | 160.4 | 165.3 | 40.5 | 175.0 |
| Other costs[2] | **(105.8)** | (117.8) | (108.2) | (88.3) | (101.4) |
| Profit/(loss) before tax | **258.7** | 325.7 | 264.2 | (193.8) | 259.2 |
| Return on equity | **14.1%** | 19.8% | 17.4% | (8.6)% | 13.9% |
| Net assets[3] | **1,782.8** | 1,678.6 | 1,497.7 | 1,420.4 | 1,729.9 |
| Net tangible assets[3] | **1,519.2** | 1,439.5 | 1,286.3 | 1,201.5 | 1,545.4 |
| **Per-share amounts (in pence)** | | | | | |
| Earnings | **47.4** | 60.0 | 50.1 | (30.3) | 45.0 |
| Net assets[3] | **356.8** | 336.7 | 302.5 | 287.2 | 350.6 |
| Net tangible assets[3] | **304.1** | 288.7 | 259.8 | 243.0 | 313.2 |
| Ordinary dividend under IFRS[4] | **26.3** | 24.3 | 23.3 | 23.0 | 20.7 |
| Ordinary dividends declared for the calendar year[4] | **27.0** | 26.0 | 24.0 | 23.0 | 23.0 |
| Special dividend | **15.0** | – | – | – | – |
| **Operating ratios[5]** | | | | | |
| Claims ratio | **56%** | 52% | 57% | 78% | 60% |
| Expense ratio | **33%** | 34% | 32% | 30% | 29% |
| Combined ratio | **89%** | 86% | 89% | 108% | 89% |

- Profit before tax of £258.7 million (2013: £325.7 million)
- Return on equity of 14.1% (2013: 19.8%); return on net tangible assets of 16.4% (2013: 23.2%)
- Combined ratio of 89% (2013: 86%)
- Investment return of £118.5 million, equivalent to 2.7% on average investments (2013: £160.4 million, 3.6%)
- Ordinary dividend declared increased by 3.8% to 27.0 pence per share (2013: 26.0 pence per share) and further special dividend of 15.0 pence per share
- Net tangible assets per share of 304.1 pence per share (2013: 288.7 pence per share)

**Note:**
1. The financial highlights are presented on the basis of management information provided to the Amlin Management Committee. The reconciliation between this information and the International Financial Reporting Standards (IFRSs) consolidated statement of profit or loss is included in note 4(c) to the consolidated financial statements.
2. Other costs comprise other non-underwriting expenses, finance costs, other operating income, share of profit or loss after tax of associates and gain on revaluation of existing investment.
3. Following the increase in the Group's interest in Leadenhall Capital Partners to 75% in the year, net assets, net tangible assets and related per share amounts from 2014 exclude non-controlling interests.
4. All per-share dividends are the actual dividends for each share in issue at the time.
5. Claims ratio is net claims incurred divided by net earned premium for the year. Expense ratio is underwriting expense incurred, including expenses for the acquisition of insurance contracts, divided by net earned premium for the year. The expense ratio does not include expenses that have not been attributed to underwriting, including employee incentive costs and finance costs. Combined ratio is the total of the claims and expense ratios.

# *For our investors, continuity is... sustainable long-term returns.*

*For more information go to 2014 financial review, page 56*

## Delivering results

Our strategy is centred on delivering long-term value to our shareholders, through profitable cross-cycle underwriting, proactively managing our investments, effective risk management and a focus on capital efficiency.

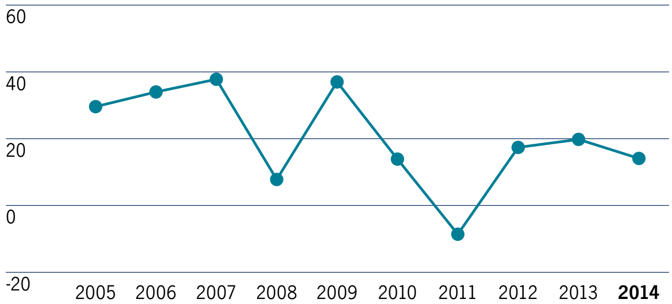
Our Vision, to be the global reference point for quality in each of our markets, gives strategic focus and drives operational performance.
To read more on our strategy go to page 26.

## Cross-cycle record of performance

### Return on equity (%)

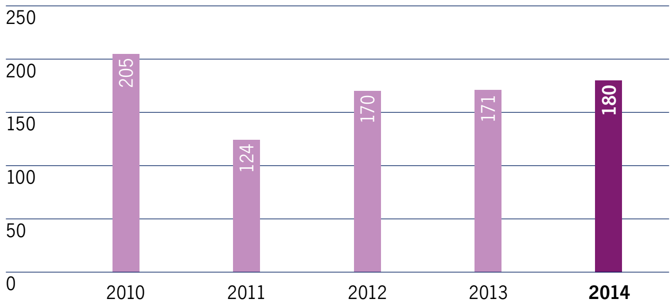
*14.1%*

Ten year weighted average 17.4%




### Total shareholder return (%)

*180% over five years*



# *For our clients, continuity is… delivering on our promises.*

*For more information go to resources and relationships, page 38*

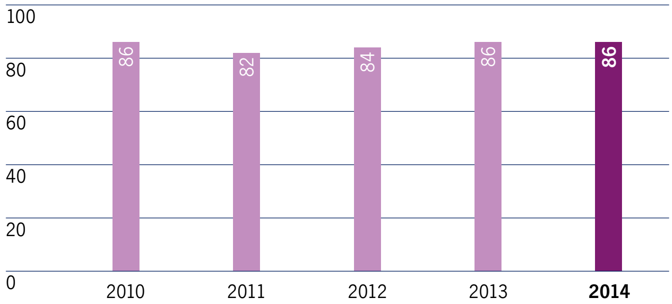
## Client focus

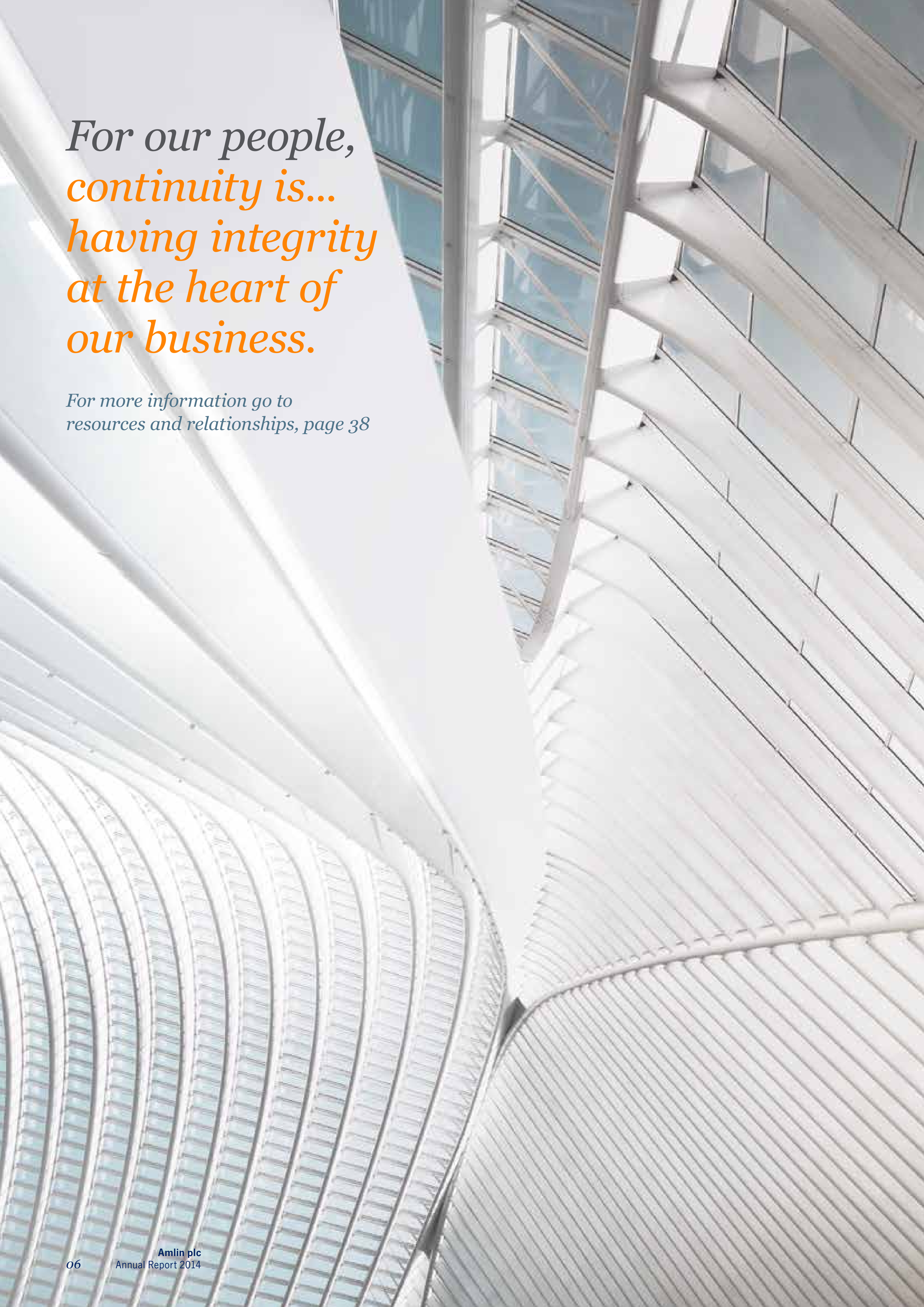
Working in partnership with our clients to understand their business is central to our underwriting philosophy. We offer tailored coverage that meets clients' needs, while supporting their businesses with prompt claims payments. Our new structure and strategic objectives will help us enhance client service further. To read more on strategy go to page 26 and on underwriting management go to page 48.

## Strong franchise

### Group renewal retention ratio (%)

86%





# *For our people, continuity is... having integrity at the heart of our business.*

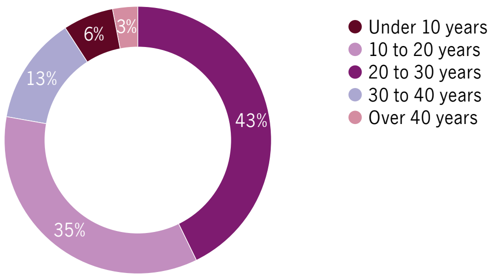
*For more information go to resources and relationships, page 38*

## A winning team

We believe the experience and expertise of our people is a key competitive differentiator. While underwriting is our core discipline, employee skills in many other areas, for example risk modelling and investment management, are also crucial to our performance and longer-term growth. During 2014 we continued to invest in building an even stronger global team. To read more on our resources and relationships go to page 38.

### Senior underwriter industry experience

**22 years** *(on average)*



## Market overview

*The global (re)insurance market is evolving rapidly and, in some areas, changing more quickly than at any time in Amlin's history.*

### Overview

In our industry risks, capital, demand and distribution are all undergoing significant transformation, and regulatory scrutiny is becoming more onerous. At the same time, overall industry returns are subdued by low investment returns and excess capacity. In this challenging environment, balance sheet strength, underwriting expertise and a strong franchise, such as Amlin enjoys, characterise the (re)insurers best placed to take advantage of the opportunities created by the rapid pace of change.

### The challenge of new risks and greater uncertainty

Climate change, political instability and new challenges such as cyber risk are increasing the uncertainties confronting (re)insurers and their clients. This is creating increased demand for insurance and opportunities for growth, but greater uncertainty makes insurance more difficult to price correctly and increases the risk of unforeseen aggregation or correlation of exposures. Risk modelling is helping underwriters assess and manage these uncertainties, but its increasing use across the industry is creating the potential for systemic risk. The limitations of modelling are also highlighted by changing weather patterns. While the industry has benefited from relatively few extreme catastrophe events in recent years, climate change appears to be increasing the frequency and severity of weather events such as tornadoes in the US and flooding in Europe, for example. These changing patterns are different to the major, infrequent, events widely modelled by (re)insurers and therefore present increased modelling challenges.

### Emerging markets taking greater share of premium growth and demand

In developed markets, insurance premium growth remains depressed by the weak economic environment at 1.7% (2013: 1.9%)[1] and surplus capacity in many market segments is fuelling competition. The high degree of insurance penetration in developed markets gives less scope for growth, although there is potential for significant risk transfer from the public to the private sector if governments choose to transfer more catastrophe exposures such as flood and earthquake risk to the private sector.

Emerging markets continued to show stronger non-life premium growth of 5.5% in 2014, albeit slower than the 8.2% seen in 2013[1]. This reflects relatively low insurance penetration and increasing demand driven by rapid economic expansion. Swiss Re suggests that this rate of growth will continue in the medium term, compared to growth of around 1.5%[1] for developed markets. Aligned to this growth is the increasing capacity of emerging markets to retain risks locally, rather than utilise the more developed (re)insurance markets. In addition, insurance companies from the emerging markets are setting up overseas offices in markets where Lloyd's already operates. Amlin is targeting some of the strongest growth prospects through our new offices in Miami and Dubai, and continued investment in Singapore.

## Key market trends: Amlin's position

| | |
|---|---|
| **Tiering of the reinsurance market** | Amlin and Leadenhall Capital Partners can offer clients greater flexibility and scope of reinsurance cover by deploying capacity jointly. This is an important differentiator, which has strengthened the client proposition of both businesses and further enhanced Amlin's market positioning as a 'top tier' reinsurer. |
| **Focus on strategic partners** | Amlin's ability to price and lead business, supported by an excellent claims service, adds value to brokers and clients. Combined with our strong relationships with major brokers, this ensures that Amlin is given access to broker schemes and facilities.<br><br>Amlin's financial strength is also an advantage as brokers and clients focus more on counterparty risk and continuity. |
| **Greater use of data analytics** | Amlin's internal modelling allows us to recognise areas of under-utilised risk appetite, and our access to broker data allows us to target opportunities which align with our portfolios. Our investment in client relationship management (CRM) systems and net promoter methodology will further strengthen our ability to understand and deliver our clients' needs. |
| **Softening pricing environment** | Amlin's underwriting discipline and ability to price risk across the cycle is reflected in our cross-cycle five-year average combined ratio of 92%. The quality and stability of our core underwriting portfolios, which have been built and refined over many years, also mitigate competitive pressures. |
| **Growth in developing markets** | Amlin is targeting developing (re)insurance demand in Latin America and opportunities in the Middle East through new offices in Miami and Dubai respectively. In addition we continue to invest in extending our capability to access and serve the Asian markets through our Singapore office. All of these operations use the Lloyd's platform to provide our clients with high-quality security while keeping our measured expansion cost and capital efficient. |

1. Swiss Re, Global Insurance Review 2014 and Outlook 2015/16, November 2014.

### Fundamental inefficiencies in distribution are forcing change

The global networks of the brokers are a key element in the value chain for reinsurance and specialty insurance carriers, facilitating access to clients worldwide and providing a range of administrative services. In the current market, brokers strive to improve operational efficiency, and therefore placement methods are constantly under review. With accelerating consolidation, greater data analytics, improvements in technology and increased bundling of risk placements, the changes within brokers and (re)insurers have never been so acute.

Investment in capturing and analysing data has given the major brokers far greater understanding of the portfolios that they place with insurers, and enabled them to identify the most- and least-profitable business streams. As a result, the three largest brokers, Aon, Marsh and Willis, have sought to reduce the increasingly onerous costs of providing global distribution. They have done this by reducing the number of carriers with whom they deal, culminating in an increasing volume of premium into selected insurers through panel agreements, facilities and schemes. To access brokers' data and these panel business streams, brokers are seeking additional revenue streams. A parallel trend has been the ongoing consolidation among brokers, with the number of independent specialty and reinsurance brokers dwindling as the larger brokers continue to grow by acquisition.

Brokers and insurers recognise that the ability to use data effectively offers competitive advantage. For insurers, access to better data facilitates client understanding and product development, enables efficient capital allocation and supports risk management. However, better data may also heighten competition where it reduces barriers to entry as evidenced by the influx of Insurance Linked Securities (ILS) capital into the reinsurance market.

### Increased regulation

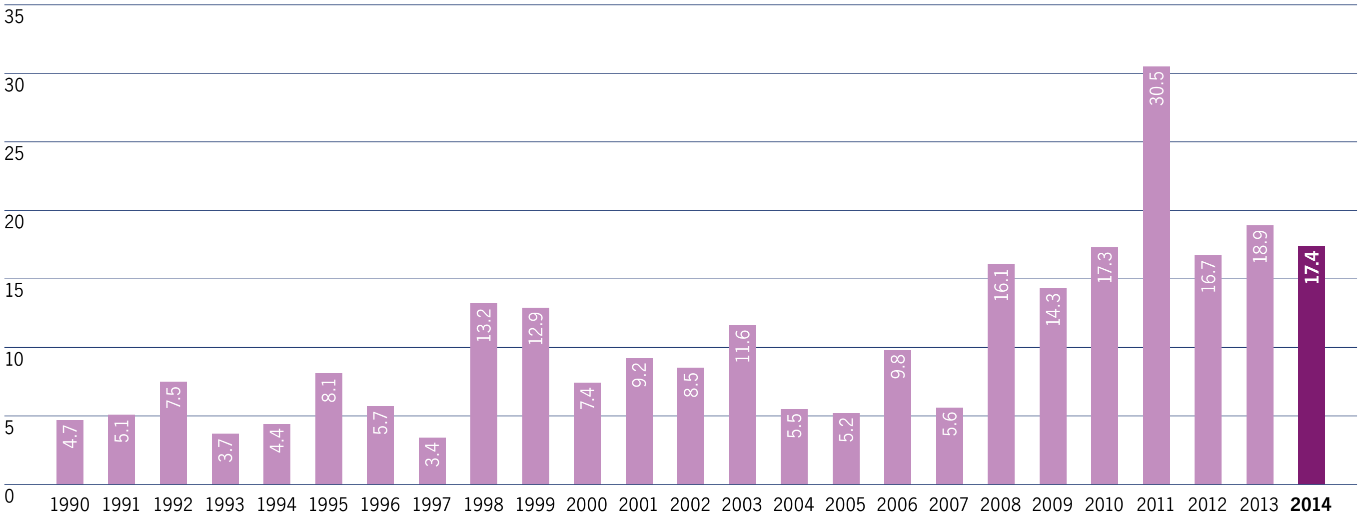
Regulatory oversight continues to increase in the (re)insurance market and whilst there are many benefits, the impact upon resource requirements and expenses for the industry is significant. Beyond this, the potential effects on corporate structures, the need for economies of scale and potential for mergers and acquisitions are yet to be seen fully. The effect of more sophisticated regulation in emerging markets may reduce the ability of overseas (re)insurers to compete.

### Changing loss patterns

One of the factors contributing to the growth in reinsurer capital in recent years has been the relatively benign catastrophe claims environment as shown below right. Global insured catastrophe losses estimated at $39 billion[2] were 38% below the 10-year average of $63 billion[2], and at their lowest level since 2009. However, as shown below, severe weather events, which accounted for nearly 50% of 2014 losses, seem to be increasing in frequency and severity. For the second consecutive year, severe thunderstorms (including tornado, hail and wind) were the costliest peril for the (re)insurance industry.

2. Swiss Re sigma and Aon Benfield.

## Global severe weather losses 1990-2014 (US$ bn)




Source: Aon Benfield Analytics
Notes: Losses adjusted for inflation to 2014 US dollars, using the US consumer price index.
Global severe weather losses represent tornado, connective storm, hail and straight-line winds. Numbers represent insured losses.

## Reinsurance

The structure of the catastrophe reinsurance market has changed significantly over the past three years, largely due to the influx of capital from pension funds and other investors seeking the attractive yields available in the ILS market. As shown on the right, at quarter three 2014 ILS capital participating in non-life reinsurance was approximately $62 billion, an increase of approximately 25% over nine months[3].

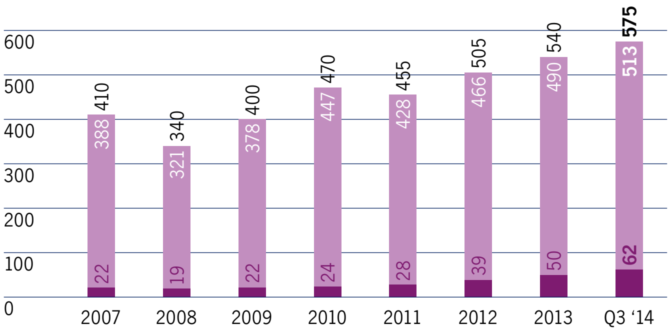
Appetite for reinsurance risk has been driven by the low interest rate environment and supported by the low correlation of catastrophe risk with other asset classes. While the appetite of some investors may change when interest rates rise, or following an extreme catastrophe event, Amlin believes that ILS capital will remain a permanent and meaningful segment of the reinsurance market in the future. Most of this capital has been deployed against US catastrophe risks, concentrated in Florida, where the risk-reward equation is most attractive, and well-developed catastrophe models make transactions easier to price.

As more ILS capital has entered the market, it has also been deployed against other catastrophe exposures such as mortality reinsurance for life insurers and high-level terrorism exposures. However the limitations imposed by the requirement to collateralise, and the reliance on adequate modelling for pricing, have so far restricted the ability of this form of capital to compete significantly beyond the US catastrophe market.

The below-average incidence of US catastrophe losses in 2013 and 2014, as shown in the chart below, has generated continued growth in conventional reinsurance capital, and reinsurer capital is at an all-time high of $575 billion[3], an increase of 6% compared to year-end 2013. This, combined with growth in ILS capital, contributed to a decline of 11% in US catastrophe pricing for the market as a whole during 2014[4].

3. Aon Benfield Reinsurance Market Outlook, January 2015.
4. Guy Carpenter.

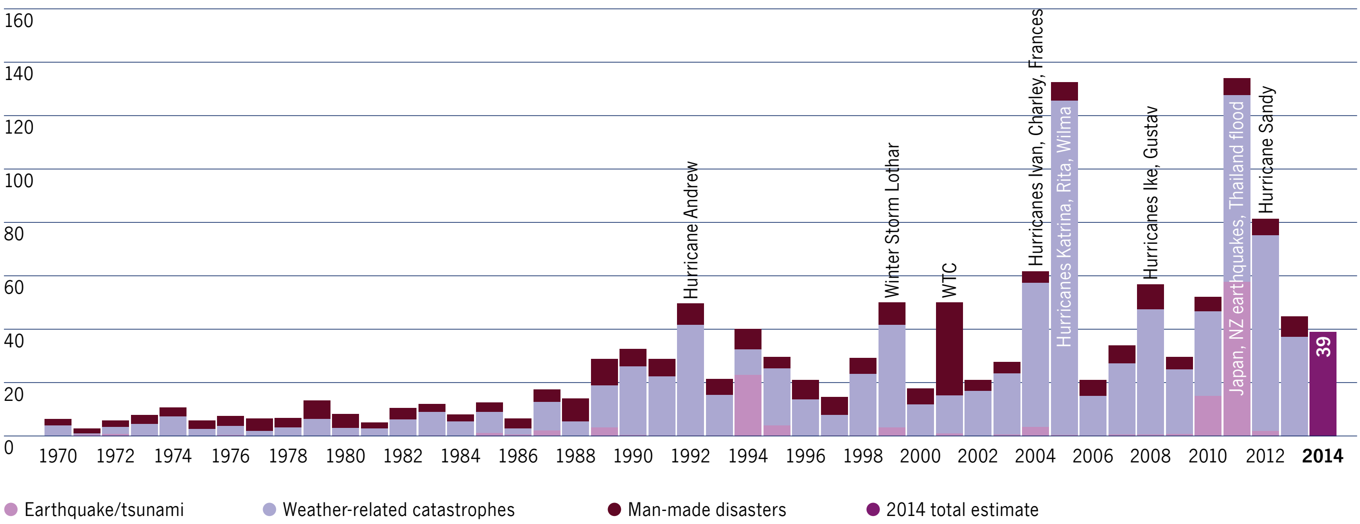
### Global reinsurer capital (US$ bn)




Source: Aon Benfield Reinsurance Market Outlook January 2015

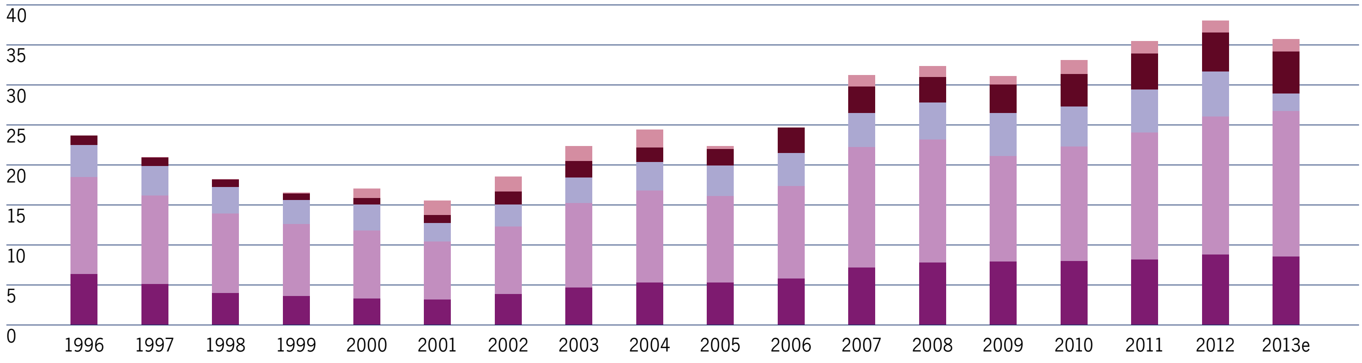
Demand for reinsurance has weakened in some developed markets, as large insurers benefit from relatively benign claims experience, strong balance sheets and increased modelling capabilities, all of which increase their propensity to retain more risk. A further trend in the reinsurance market is for major reinsurance buyers and brokers to become more selective in their choice of reinsurers, focusing on a smaller panel of larger reinsurers which can offer superior financial strength, expertise and service. This reflects an increased focus on counterparty risk, as well as the desire of large insurers to form longer-term partnerships with their selected reinsurers. These have created a two-tier market in which those in the top tier, including Amlin, have greater access to attractive business, in some cases through private placements and layers not available to the wider market. The demand for greater size and financial strength is one of the drivers of recent consolidation in the reinsurance market. Competition from the weaker reinsurers in the second tier struggling to protect their market share has been one of the factors driving down catastrophe pricing.

### Insured catastrophe losses 1970-2014 (US$ bn)




Source: Swiss Re sigma, Aon Benfield
Note: Adjustment for inflation, changes to published data, information sigma converts all losses for the occurrence year not given in US dollars into US dollars using the end-of-year exchange rate. To adjust for inflation, these US dollar values are extrapolated using the US consumer price index to give current 2014 values.

## **Global marine insurance premiums 1996-2013** (US$ bn)




e = estimated

Sources: IUMI, Ascend Worldwide Limited, Aon Risk Solutions and Swiss Re Economic Research & Consulting calculations

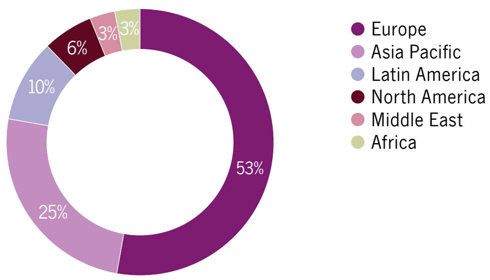
### Marine & Aviation

The market continues to be characterised by overcapacity and although there has been growth in developing markets like China, overall global marine premium has shown limited growth in recent years, despite growth in tonnage and the recovery in world trade since 2008[5]. Pricing is therefore under pressure across most classes, particularly energy, where rates peaked following the Deepwater Horizon loss in 2010. Pricing has been more resilient in classes affected by the Costa Concordia loss, which is now expected to exceed $2 billion[6].

The London market remains an important hub for marine (re)insurance, with approximately 33% of global premium[7]. Rotterdam is also a significant European market for both local and international marine risks. Growth in demand from emerging markets, together with continued development of local insurance capacity and expertise, is reflected in a shift of some marine business from London to local hubs such as Singapore and Dubai. We expect this trend to accelerate as these markets develop. Having the ability, therefore, to access marine business in these local hubs is becoming more important.

Demand for marine classes of insurance is increasing in developing markets, driven by economic growth. Government infrastructure investment, population growth, new business and wealth creation are driving growth in construction, land development, energy and transportation. The current overcapacity in the global marine market suggests that, in the absence of depletion of capital through major losses this increasing demand can readily be absorbed without any upward pressure on pricing.

## Emerging markets account for 41% of global marine premium




Note: Based on premium for 2013 of US$34.2bn.
London Market includes Lloyd's proportional and facultative reinsurance.
Source: IUMI Global Marine Market Insurance Report 2014.

Having experienced a consistent downward trend in pricing for more than 10 years, in 2014 the aviation market suffered its worst year for insurance losses since 2001. As well as the Malaysian Airlines claims, there were further substantial claims from the destruction of aircraft by terrorists at Karachi and Tripoli airports. Much of these claims, likely to exceed $600 million, will fall on the aviation war market which has global premiums of approximately $65 million[8].

The wider aviation market has substantial overcapacity, partly reflecting the ease of entry into this market for new players afforded by the limited number of brokers which control its placement and its unusual vertical pricing structure, in which different carriers can participate on the same risk at different rates, rather than following a lead price as in most subscription market placements.

5. IUMI Global Marine Insurance Report, 2014.
6. Insurance Day, 14 August 2014.
7. London Matters – The competitive position of the London Insurance Market, November 2014.
8. Lloyd's of London.

### Property & Casualty

The global property and casualty insurance market is generally over-capitalised and most developed markets are exhibiting downward pricing pressure, with international and large commercial risks experiencing the most competition. However, this market has much greater diversity in terms of carriers, risks and buyers than the specialist reinsurance, marine and aviation markets, and consequently there are segments which have more robust pricing, such as motor, where demand is driven by population growth in emerging markets and increasing wealth in developed countries. Insurance for small- and medium-sized commercial risks is also an area of the market where there are growth opportunities, in both developed and emerging markets.

Increasingly sophisticated use of data and technology is a key trend in this market, with brokers' data capture and analysis enabling them to identify and bundle similar risks, rather than placing them in the subscription market or with individual carriers. Pressure on broker revenues from a generally weak pricing environment, low interest rates and high expenses is a strong incentive for brokers to look to reduce costs through simplifying the distribution chain or placing business in local markets rather than in London. Binders and other schemes for small risks are long-standing features of the London market, but brokers are increasingly bundling larger property and casualty risks into schemes where underwriting participation is limited to a small number of insurers or just one, and charging carriers more to access the business.

## Chairman's statement

*With our diversified portfolio, strong franchise, a proven ability to perform across the insurance cycle and good strategic positioning, I believe Amlin is well placed to deliver healthy long-term returns to shareholders.*

**Richard Davey**
Chairman

## Results and dividend

Amlin's result for 2014 was satisfactory. Profit was lower through a combination of reduced reserve releases after high levels in 2013, and a fall in investment return reflecting weak economic growth in the world economy and low interest rates.

Markets became more competitive during 2014. This was particularly true for reinsurance. The combination of an influx of new capital from Insurance Linked Securities (ILS) markets and profitability of traditional participants led to an inevitable drop in prices. However, the strength of the Amlin franchise allowed catastrophe business to be held at stable levels reflecting the belief that rates remained adequate and non-catastrophe reinsurance business grew.

Viewed from the perspective of our new global Strategic Business Units, performance was solid across each segment. The Reinsurance business benefited from limited major catastrophe losses, although the year was not benign, with activity characterised by a significant number of smaller international and US regional events. Marine continued to trade with good margins and the Lloyd's and European Property & Casualty operations delivered profitable growth. The only disappointment was the domestic UK Property & Casualty business which had a combined ratio of 105%, after winter flooding and other large risk losses.

With competitive markets in many of our core business lines, it is unlikely that we will see significant growth in the short term. We aim to provide long-term continuity to our clients and our profit-focused underwriting philosophy may lead to contraction if rating levels do not provide acceptable returns for the risk that we bear. In addition, competitive reinsurance markets have allowed more effective purchasing for our own risk management. Consequently, we do not see significant capital pressure from organic growth in the short term.

We remain committed to steadily growing our dividend over time and the Board has declared an increase for the year of 3.8% to 27.0 pence per share (2013: 26.0 pence per share). The final dividend will be paid on 28 May 2015 (subject to shareholder approval) to shareholders on the register on 17 April 2015.

Our confidence in the business has also allowed us to declare a special dividend of £75 million, or 15.0 pence per share, which will be paid on 28 May 2015. The Group's capital position remains strong.

## Progress on goals

During 2014 we made good progress in respect of the goals and objectives that the Board established following the strategic review in 2013.

The reorganisation of our underwriting into three global Strategic Business Units is described further on pages 48 to 55. This structure reflects our determination to enhance further our ability to deliver superior service. Our goal is to make client intimacy a key differentiator from competitors, and good progress has been made towards increasing our understanding of clients' needs and enhancing our client proposition. We also consolidated our claims and support functions, which will result in increased efficiency and scalability.

A further objective is to increase our access to attractive underwriting opportunities in both established and new markets, whether through organic or acquisition-led growth. With this in mind, during the year we established an office in Miami to underwrite Latin American reinsurance, with an office in Dubai scheduled to begin underwriting in the first half of 2015.

We continued to invest in our people, with further development of our global Talent Management Programme and closer alignment of our remuneration structure with Amlin's strategic objectives. It was pleasing to see that a number of people from our talent programme were promoted into new roles in our reorganisation.

Preparation for Solvency II remains a priority. I believe that the effort and commitment shown by the teams involved over several years has positioned Amlin well for the expected finalisation of this regulatory regime in 2016.

In October 2014, we agreed to increase our interest in Leadenhall Capital Partners (LCP) from 40% to 75%. This increases our exposure to the growth of ILS and is already increasing the synergies between LCP and our reinsurance business. There is no doubt that Amlin's reinsurance franchise is benefiting from having a foot in both camps and I believe it was prescient of Amlin to have established LCP in 2008.

We remain focused on identifying similar opportunities to strengthen our market position and generate long-term returns for shareholders, whether through organic growth, start-ups such as LCP, or selected acquisitions in our target markets.

## Outlook

The pace of change in traditional insurance markets, particularly London, combined with weaker pricing in market segments where surplus capacity is driving competition, present a more challenging trading environment in 2015. The changes we made in 2014 have enhanced Amlin's ability to meet these challenges and to pursue the opportunities for profitable growth that continue to present themselves. Amlin's financial strength, established franchise and first-rate underwriting and risk management capabilities place us in a strong position.

## Governance and the Board

During 2014, Amlin undertook a review of its remuneration arrangements which culminated in the adoption of a revised Directors' Remuneration Policy and a new five-year, long-term incentive share plan being adopted at an EGM in November. Sir Mark Wrightson oversaw both shareholder consultations and led the discussions concerning the revised Policy. The Board would like to extend our thanks to Sir Mark for his efforts in this area and, as Sir Mark will be retiring at the May AGM, for all his sage advice throughout his tenure as a director.

Brian Carpenter retired from the Board in September after 14 years of service. His extensive market knowledge and underwriting experience were instrumental in establishing our UK business as a significant part of our underwriting portfolio.

Oliver Peterken joined us as an independent non-executive director in September, following the retirement of Sir Alan Collins. He has joined the Risk & Solvency, Nomination and Audit Committees, and has been appointed to the Remuneration Committee with effect from 1 March 2015. Oliver brings with him over 20 years of risk, insurance and reinsurance expertise. We look forward to his input in this fast evolving market.

Richard Davey

**Richard Davey**
Chairman

## Chief Executive's strategic review

*Amlin's new structure will enhance organic growth potential, enable greater efficiency and scalability, and move us closer to our Vision, to be the global reference point for quality in each of our markets.*

**Charles Philipps**
Chief Executive

### Positioning for success in an evolving market

As announced in August 2014, following a review of our medium-term strategy, we decided to organise our client-facing operations into three global Strategic Business Units: Reinsurance, Marine & Aviation and Property & Casualty. This is in line with our goal to make client intimacy a key competitive differentiator, and the logical next step of the Practice Board strategy which we started to develop in 2012. While we have retained our regulated underwriting entities in Lloyd's, Zurich, Bermuda and the Netherlands, the objective is to organise our business around clients' needs rather than capital structure, thereby enabling us to make optimum use of our capacity and expertise through a globally coordinated approach.

This reorganisation will improve our global presence and client focus, as well as making more efficient use of the investment required to drive superior levels of service consistently across Amlin. Attaining our Vision – of being the global reference point for quality in each of our markets – requires continued effort to clearly differentiate Amlin from our competitors. Currently, this is being realised most fully in our reinsurance business.

2014's financial result, whilst benefiting from a low level of major catastrophes, was impacted by a higher frequency of smaller catastrophes and large risk losses. Prior-year reserve releases were also lower, in part resulting from a material increase in cedents' estimates of claims from the 2010/11 New Zealand earthquakes to which we have again chosen to add margins of prudence. The result benefited from the changes made to our outwards reinsurance programme at the beginning of the year and continued improvement in the profitability of Amlin Europe.

Our achievements are the result of the dedication and hard work of our people. Significant demands were made of them during 2014, and huge thanks are due to them.

### Reinsurance

Reinsurance capital is at an all-time high at $575 billion[1], an increase of 6% compared to year-end 2013. On top of this, there is now significant capital markets capacity which is mainly directed at reinsurance. The inevitable consequence is increased competition and lower pricing. To date this has been most evident in reinsurance but it is spreading to other lines of business.

Our position as a preferred partner to many reinsurance clients has meant that in 2014 we have been able to retain and grow our business in areas where technical pricing has remained adequate. While many insurers are retaining more risk, resulting in reduced demand, they are also directing more of their programmes towards strategic partners such as Amlin.

Amlin has reinsurance expertise across a wide range of products, not just catastrophe reinsurance. Non-catastrophe classes have grown from 40% of our reinsurance gross written premium in 2009 to 56% in 2014, driven mainly by the growth of our Zurich business. Our reorganisation provides further scope to offer a wider range of products to clients for whom we have historically provided only catastrophe reinsurance. This increases our longer-term growth potential. As well as providing greater balance within Amlin's overall reinsurance portfolio, the different risk profile of non-catastrophe reinsurance makes it less vulnerable to direct competition from the capital markets, as demonstrated by the greater stability of rating in these areas of the market.

### Capital markets development

The growth of Insurance Linked Securities (ILS) in reinsurance is having a profound effect on the market. It is estimated that up to 11% of global catastrophe reinsurance capacity is now provided by ILS funding, and that pension and hedge funds and other capital market ILS investors have introduced an estimated $62 billion[1] of capacity worldwide. Five years ago their involvement was minimal.

For these new investors, the ILS market represents a new asset class with low correlation to other asset classes, providing a portfolio diversification that also offers attractive returns in the current interest rate environment. Much of this capital is directed either at the high layers of reinsurance programmes, where the risk of loss is more remote, and the risk-adjusted returns unattractive for Amlin; or at providing retrocessional reinsurance which allows reinsurers, such as Amlin, to protect their own catastrophe exposures.

However, the risk appetite of capital market investors has increased and broadened with the growth in the quantity of capital deployed. We believe that, having entered the market, most of these investors will be there for the long term, continuing to provide an alternative source of reinsurance capital even when interest rates rise.

Some of this capital is competing with Amlin and other traditional reinsurers. Yet we believe that the combination of Amlin's recognised franchise and our ILS fund manager, Leadenhall Capital Partners (LCP), means we are better placed than many of our competitors to continue to succeed in the face of continued expansion of ILS capacity.

Synergies between Amlin and LCP have enabled us to expand our reinsurance client offering in a way which differentiates Amlin from most of our competitors. At the same time Amlin provides LCP with access to transactions that are not available to other ILS providers. This has enhanced their business proposition and ability to attract new investments.

Seeing good prospects for long-term growth in LCP's funds under management and realising further synergies between our two businesses, we increased our ownership of the partnership in October 2014 from 40% to 75%.

1. Aon Benfield Reinsurance Market Outlook, January 2015

*A single brand*

*Following our strategic review, we took the decision that Amlin should operate under a single global brand. As part of our strategy to increase our global brand recognition, we are sponsoring a team in the inaugural FIA Formula E motor racing championship.*

*Formula E is for electric vehicles only – and they are capable of travelling at over 225kph. Formula E, like our insurance business, combines innovation, informed risk taking and accurate analysis of data. Most important, our sponsorship is helping to develop new technology which will advance the capabilities of sustainable electric transport for wider applications.*

*For more information go to page 43*

### Insurance

In our London market insurance classes, the major brokers are seeking efficiency gains in the placement of their business. Increased use of data and analytics has given them better insight into the economics of placing risks of differing scale and complexity. This is resulting in an increasing number of broker facilities, which funnel multiple risks into pre-arranged schemes, particularly for smaller and less complex business.

The major brokers are also seeking to reduce the number of carriers with whom they deal, with an increasing focus on business with those they consider to be strategic partners. Brokers, who might once have placed risk with thousands of insurers around the world, are now looking to reduce this significantly.

We believe business will gravitate to those carriers who are most relevant to their brokers and clients and as such are able to write meaningful lines, are willing and able to participate in broker facilities and have the skills and ability to lead and service business.

While Amlin already has strong leadership and service capabilities in many lines, we intend to reinforce these and to respond to the brokers' need to improve their efficiency in placing business. In 2014, we increased our participation in broker facilities and, in so doing, have ensured that our ability to influence the selection and pricing of risk is sufficient to both safeguard Amlin and generate an acceptable return.

Furthermore, to enhance our attractiveness to brokers as a strategic partner, and thereby help drive long-term growth, we have started to invest more meaningfully in our marketing capability. This has resulted in increased engagement with brokers, a more informed understanding of how they are planning to change their business models, and new business leads which we may not have previously seen.

In 2015 we plan to invest further in this area by implementing a client relationship management system, and enhance our understanding of our distribution relationships by introducing net promoter scoring.

### Reorganisation

The new structure enables each underwriting unit to formulate and drive a global strategy specific to its particular lines of business, with an increased focus on the needs of its client segments. It will also enable each global Strategic Business Unit and the Amlin brand to have greater impact in the market. Amlin is now one of the world's top 30 non-life reinsurers[2], and ranked higher for property lines alone. It is also a leading global marine insurer. We believe that we have the capability to rise up the global league table in both categories.

In addition to the reorganisation of the underwriting businesses into the three global Strategic Business Units described above, our claims and all support functions are now centrally managed, with resources allocated according to the needs of the underwriting units.

The reorganisation will make our decision making quicker and better, and our operations more scalable. Increased efficiencies, both through investing in technology in support of the business, and the streamlining of processes, should improve the expense ratio as we grow.

### Emerging markets

We expect growth in emerging economies to continue to outpace those of the more mature economies and that, over the next 10 years, the (re)insurance needs of many emerging economies will become significant. While the London market has maintained or grown its market share in its more established markets, it has weak penetration in emerging markets. Our key trading partners, such as Aon, Marsh, Willis and JLT, however, are building their networks in these markets and this provides Amlin with the opportunity to leverage our relationships internationally.

Our expertise in reinsurance and specialty insurance, such as marine, will become increasingly relevant in Asia, Latin America and the Middle East. We have been taking steps to position Amlin for the long term through the establishment of local offices in countries in which our trading partners are focusing activities, and which we expect to become regional hubs serving these markets.

In October, we opened an office in Miami to access reinsurance business in Latin America, another developing market with growing demand.

Elsewhere, we believe that Dubai will become a hub for the Middle East in the way that Singapore has for Asia – and we plan to begin operating there in the first half of 2015.

We are also reinforcing our position in Asia by participating in the Lloyd's platform in Shanghai from the first quarter of 2015, having made good progress in Singapore since 2008.

We recognise that entering new markets carries risk and that it is important to gain a thorough understanding of local dynamics before seeking significant growth. We therefore do not expect significant profit contributions from these new offices in the short term, but will seek opportunities to use our skills profitably while laying the foundations for longer term success as these markets' needs increase.

### 2014 performance

We delivered a satisfactory result in 2014 with a return on equity of 14.1%, close to our cross-cycle target of 15%. Most parts of the business performed well with the result below 2013 largely due to lower reserve releases, after a very strong performance in 2013, and a reduced investment return.

The combined ratio was three percentage points higher than it was in 2013 at 89%. There were limited major catastrophe losses in the period but 2014 was similar to last year, characterised by frequency of small- to medium-sized catastrophe losses around the world and a number of large risk events, notably in the aviation sector. Performance of our UK Property & Casualty business was disappointing and management are actively taking steps to address particular lines where pricing has proved inadequate. The performance of Amlin Europe, however, was excellent and its new office in Hamburg made a good start.

More detail on the financial results is provided in the Financial review on pages 56 to 61.

2. Standard & Poor's Global Reinsurance Highlights 2013, May 2014.

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### Outlook

The combination of increasing price competition and the continued low interest rate environment makes the outlook more challenging. We nevertheless expect to continue to deliver attractive returns on equity.

Amlin is well positioned for this environment. We have highly experienced underwriting teams and pricing discipline is in our DNA. Our market positions, together with an increased marketing capability, mean we are better able to seek out and grow in areas which offer more favourable return potential.

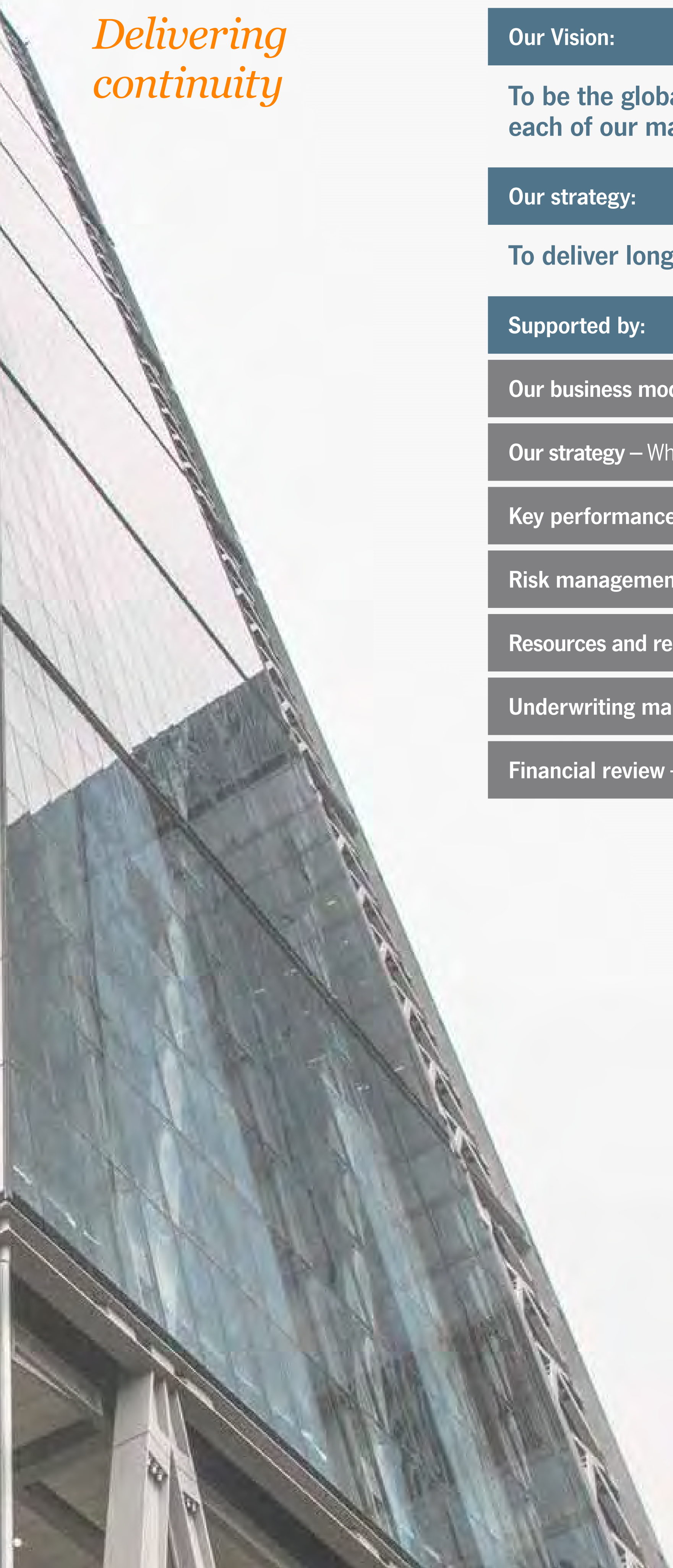
Where necessary, we will temper our growth ambitions and, in some areas, will even retract if pricing falls below levels we consider to be technically sound. With the lower pricing in catastrophe reinsurance we have reduced our catastrophe risk appetite as shown on page 33.

Insurance markets are undergoing fundamental changes and Amlin is in a good position to gain from these changes.

For further comment on our outlook, see page 62.

**Charles Philipps**
Chief Executive

# *Delivering continuity*



**Our Vision:**

## To be the global reference point for quality in each of our markets

**Our strategy:**

## To deliver long-term returns for our shareholders

**Supported by:**

**Our business model** – How the business creates value

**Our strategy** – What we are focused on to achieve our Vision

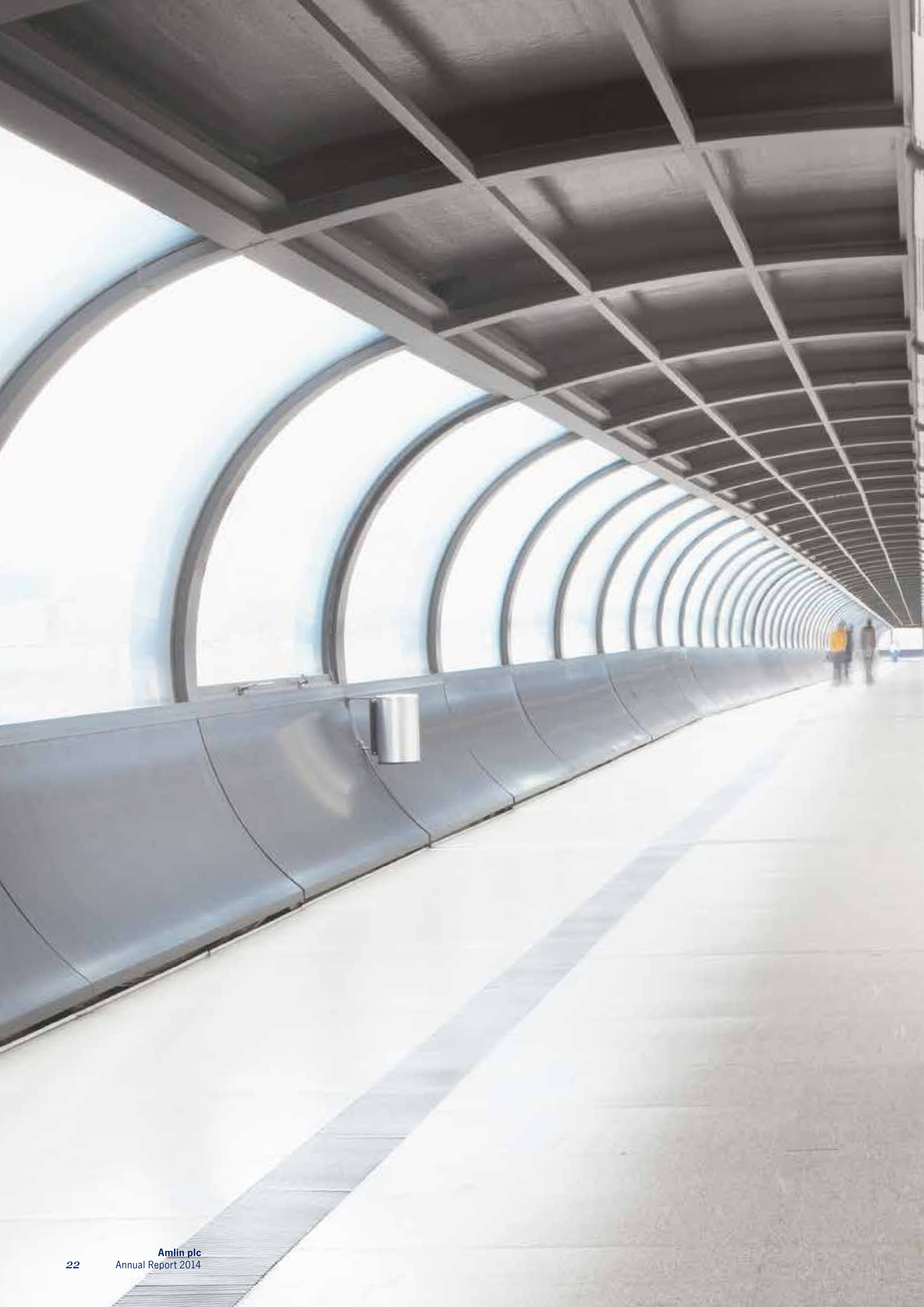
**Key performance indicators** – How we measure performance

**Risk management** – How we manage risk

**Resources and relationships** – What we need to achieve our Vision

**Underwriting management** – How we turn risk into profit

**Financial review** – How we deliver value



# Strategy and performance

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# Our business model

## Our business model

**Amlin's business model is designed to generate good returns while using shareholders' capital efficiently.**

**Our strategy** – p.26

**Key performance indicators** – p.28

**Risk management** – p.30

**Resources and relationships** – p.38

**Underwriting management** – p.48

**Financial review** – p.56

We underwrite a wide range of risks, from catastrophe reinsurance, which protects other insurance companies from extreme natural perils, to liability insurance, which protects businesses from unintended liability to third parties.

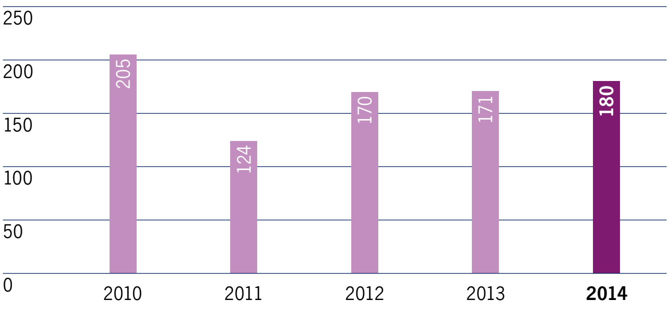
Our business model is adapting to reflect the rapidly changing nature of the market. Important relationships are becoming more collaborative – fewer, closer and deeper. Data analysis is becoming ever more prevalent, being utilised more effectively in the broker distribution chain and by clients, as well as by underwriters. Scale is increasingly important because it enables us to help our client partners across the spectrum of their risk exposures and means that we can continue to lead business and set terms rather than follow other underwriters.

All of this is underpinned by a clear and consistently applied enterprise risk management framework and by performance metrics. Together these are intended to aid decision making, deliver our strategy and returns to shareholders, and to provide high levels of service to clients.

We provide value to shareholders through investing in the business to drive growth and this is reflected in a progressive dividend policy.

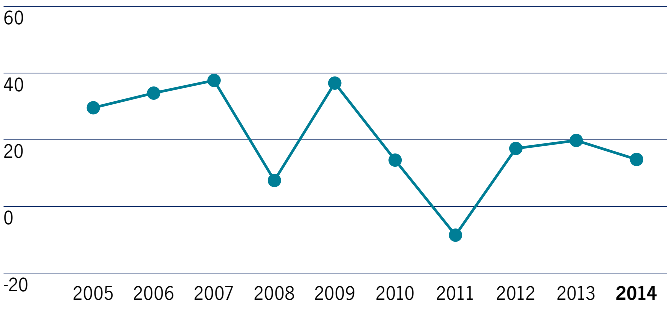
## Enabling strong performance

### Total shareholder return (% over five years)




### Return on equity (%)

Ten year weighted average 17.4%



## Proactive cycle management to deliver profitable cross-cycle underwriting, combined with effective risk management and active capital management to optimise return for risk taken

Amlin's business model is focused on delivering gross underwriting profit (excluding investment income) across the cycle. This is supported by profit-focused incentives for underwriters and a robust underwriting control framework.

Over the past five years Amlin has delivered an average combined ratio of 92% and an average claims ratio of 61%, which demonstrates quality and resilience.

The strength of Amlin's enterprise risk management (ERM) framework is a competitive advantage. It enables us to manage risk within agreed tolerances and aids the effective allocation and use of capital. In 2014, Standard & Poor's raised Amlin's ERM rating to "very strong".

Our approach to capital management aims to ensure that Amlin maintains sufficient capital for regulatory and rating agency purposes, can withstand major catastrophe claims, can attract good quality business and be in a position to exploit opportunities for profitable growth, and can deliver dividend growth to shareholders.

We are prepared to return excess capital to shareholders and will use debt to support growth at appropriate points in the underwriting cycle.

## A diverse portfolio which reduces volatility and enhances capital efficiency

Amlin's spread of underwriting risk balances high-margin but volatile catastrophe exposure with lower margin and less volatile business. Amlin underwrites more than 30 principal classes of business with geographical spread of exposure among classes.

This diversity helps reduce earnings volatility, enhance earnings quality and increase capital efficiency. In essence, the profitability from non-catastrophe exposed classes, where earnings are more predictable, helps offset the volatility of catastrophe risk. Also, within catastrophe risk, geographic diversity helps reduce volatility. This is because the probability of multiple major catastrophes in different geographic zones in the same period is remote.

Diversity also provides options for the allocation of capital and growth over the (re)insurance pricing cycle. Our diverse range of classes of business exhibit different pricing dynamics at different points in time, dependent on claims experience and the economic and competitive environments. We seek to grow in well-priced classes and markets whilst retracting in underpriced classes and markets.

## A focus on underwriting specialty (re)insurance, which requires specific expertise, has higher barriers to entry and carries higher margins

Amlin has a focus on specialty (re)insurance classes which require significant underwriting knowledge and experience to succeed. Maintaining and growing underwriting talent, so that we can properly assess the risk of each prospective policy, is important for Amlin's continued success and growth. It also confers competitive advantage. Amlin has 136 senior underwriters with an average industry experience of 22 years and we invest in developing talent in underwriting through our Underwriting Faculty and other initiatives.

Historic data and claims experience informs underwriting pricing and exposure management so companies with this data and the ability to use it effectively are better equipped than new entrants. We have underwriting data for most of our business classes going back many years. When and where Amlin enters new markets or classes of business, we take a cautious approach so that we understand the risk before seeking material growth.

The expertise conferred by good underwriting talent and historical data provides an ability to lead subscription market risks which is important for accessing and retaining good business, especially as brokers seek to concentrate the placement of risk amongst fewer carriers. Amlin leads or is the sole underwriter for 64% and 45% of our Lloyd's reinsurance and insurance business respectively.

Expertise in specialty classes is also relevant to the emerging economies as their insurance requirements grow. We have demonstrated the ability to use specialty expertise in emerging markets such as Singapore which has become a hub for Asian business.

## Establishing deep and long-term client relationships based on the expertise and service we offer and the strength of our brand

Amlin has many long-term relationships with brokers and clients. We seek to build on these relationships and grow our business through a deep understanding of clients' business and risk management requirements and an ability to deliver tailored solutions based on our expertise. Our retention ratio, which has averaged 85% over the last five years reflects the continuity of our relationships.

Amlin seeks to excel in client service, in particular so that clients have the confidence that claims will be dealt with quickly and fairly. We believe that many clients are served poorly by the insurance industry and that our client service will confer long-term advantage in building and maintaining strong client relationships.

The reorganisation of our business into three global Strategic Business Units, as described on page 49, is expected to enhance our ability to deepen client relationships and achieve growth through broadening our product offering to clients. Leadenhall Capital Partners also increases our offering in reinsurance.

Leveraging broker relationships contributes to our long-term growth. A focus on understanding their strategies, including increasing efficiency and reducing the number of markets with whom they place business, can increase our business flows if we adapt to meet their needs. They are also relevant to the emerging markets where we believe that our specialist knowledge will offer long-term growth opportunities and where we are increasing our coverage.

Increasing brand awareness associated with our values and expertise helps ensure that brokers and clients recognise Amlin's client proposition and support our business development plans, particularly in new and emerging markets where Amlin is less well known.

# Our strategy

**Our business model** – p.24

## Our strategy

**Our Vision, to be the global reference point for quality in each of our markets, provides a strategic focus and drives our operational performance. Our strategic priorities reflect the disciplines necessary to execute our strategy effectively.**

**Our objective is to deliver long-term value to shareholders, with an average cross-cycle return on equity of at least 15%, a growing dividend and long-term growth in earnings and net assets.**

*14.1%*
Return on equity

*27.0p*
Ordinary dividend per share

*180%*
Total shareholder return over five years

**Key performance indicators** – p.28

**Risk management** – p.30

**Resources and relationships** – p.38

**Underwriting management** – p.48

**Financial review** – p.56

*For further information on our key performance indicators go to page 28*

## Our five strategic priorities

**1. First-class client service, based on a thorough understanding of customer needs**

**2. Profit-focused underwriting excellence**

### How we pursued these goals in 2014:

**We enhanced our ability to deliver market-leading client service by:**

- Creating three global Strategic Business Units for Reinsurance, Marine & Aviation and Property & Casualty
- Improving claims management by creating a centrally managed claims team with a consistent claims philosophy
- Further developing synergies between Leadenhall Capital Partners and Amlin's reinsurance business to provide greater depth of cover to clients
- Developing an internal service management framework to provide high-quality services in areas such as finance, change management and communications
- Investment in a marketing function to further enhance our clients' understanding
- Increasing our focus on strategic partnerships with brokers and major clients.

**We took action to address weaknesses and invested in future capability by:**

- Enhancing our management of binding authorities
- Re-underwriting and cutting back poor-performing segments in our UK commercial business
- Creating an Amlin Underwriting Faculty for training and development of future underwriting leaders
- Further investment in catastrophe risk modelling and pricing tools
- Further development of our technical pricing framework.

### Our strategic principles:

Amlin's 2014 reorganisation reflects our commitment to delivering exceptional service by being close to our clients and working in partnership with the brokers who serve them.

Our business is built on a strong underwriting culture and robust controls, with profitable cross-cycle underwriting at its heart. We seek to maintain a balance between catastrophe and non-catastrophe exposures, as well as a broad spread of risk by geography and class. The focus on underwriting profit, without reliance on investment returns, has underpinned Amlin's performance and is even more important in the current low interest rate environment.

*86%*
Retention ratio

*89%*
Combined ratio

### 3. Effective risk management which optimises return for the risks we take

**We used our Internal Model to create value by:**

- Analysing options for our outwards reinsurance programme which generated significant savings with minimal increase in retained risk
- Purchasing increased retrocession reinsurance and a new catastrophe bond at competitive terms.

**We positioned Amlin for the future by:**

- Continuing to prepare for the implementation of Solvency II
- Investing in a new and improved investment risk management system.

The delivery of shareholder value comes from actively seeking and accepting risk while managing that risk within acceptable bounds. Amlin's Internal Model, strong risk-management framework, informed use of catastrophe risk models and culture of continuous improvement all contribute to achieving this goal. Our high standards of risk management were recognised by Standard & Poor's when it upgraded Amlin's ERM rating to "very strong" in 2014.

*56%*
Claims ratio

### 4. Measured expansion of our core businesses and geographic footprint

**We built upon our strong franchises to access opportunities by:**

- Further strengthening our "top-tier" reinsurance proposition by acquiring an increased stake in Leadenhall Capital Partners
- Increasing geographical diversity with offices opened in Miami, Hamburg and Dubai
- Consolidating partnerships with key brokers and using their data more effectively to target opportunities and access preferred business lines.

**We created a single global brand by:**

- Merging local and regional Amlin identities into a single brand
- Investing in developing global Amlin brand awareness through Formula E team sponsorship and related marketing activities.

We believe that we can add significant value, over the insurance cycle, through a combination of organic growth and carefully selected acquisitions. Our goal is to maintain a diverse and balanced portfolio, which reduces volatility and enhances capital efficiency. As new markets evolve, we need to be positioned to share in their growth. The reorganisation of our underwriting into global business units will improve our ability to identify and access profitable growth opportunities in both established and developing markets.

*5.5%*
Growth in net tangible assets

### 5. A culture and employment practices that make Amlin "the place to work" in our industry

**We developed our resources to support and grow a global business by:**

- Upgrading change management and internal audit skills, and developing new capabilities in business partnering and marketing
- Recruiting a new Head of Talent Management and further developing our Talent Management Programme
- Updating Amlin's remuneration structure, employee incentives and performance management to align more closely with strategic growth objectives
- Enabling and incentivising greater mobility of talent within the business
- Recruiting more graduates and creating a structured international training programme
- Increasing focus on employee engagement and internal communications.

Our ability to attract, develop and retain talent is vital to the long-term sustainability of the Group. The retention of senior underwriters underpins our culture and provides the foundation for the extension of our underwriting business model into new markets and acquisitions. We are investing more in talent management and developing our people because we recognise that to deliver unrivalled service requires exceptional skills across all areas of the business.

*8.1%*
Senior underwriter turnover

# Key performance indicators

Our business model – p.24

Our strategy – p.26

**Key performance indicators**

**Our strategy is centred on delivering long-term value to our shareholders. We measure this against a set of key performance indicators.**

**We believe that high performance in a cyclical market requires a long-term perspective, discipline, and a commitment to providing the highest levels of service to our clients.**

Risk management – p.30

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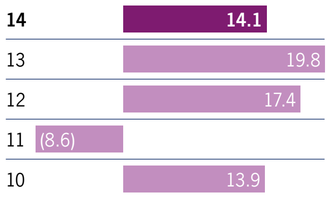
*For further information on our performance go to the financial review on pages 56 to 61*

## Shareholder returns

### Return on equity
(%)

*14.1%*

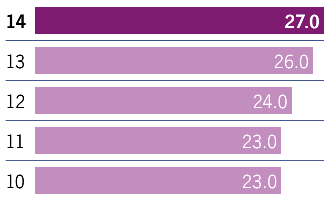



**Why is it important?**
We believe ROE is a key driver of share valuation. We target a cross-cycle average return on equity of at least 15%. This target ensures that we remain focused on underwriting discipline, effective capital management and optimising return for the risks that we take.

**How we performed**
The lower ROE in 2014 reflects softening rates in certain business lines, higher frequency of small- and medium-sized events, lower reserve releases, a lower investment return, and increased capital. Amlin's 10-year weighted average ROE of 17.4% remains above our cross-cycle target and estimated cost of equity of 8.5%.

### Dividend per share
(p)

*27.0p*

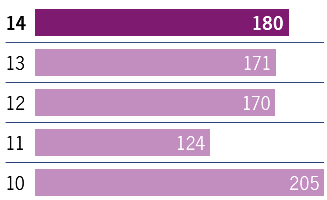



**Why is it important?**
We believe that a commitment to a steadily growing dividend imposes a healthy discipline on management and is one of the most effective ways of delivering value to shareholders. Dividends also play a key role in capital management as a mechanism for enhancing returns on equity.

**How we performed**
We increased our ordinary dividend by 3.8% to 27.0 pence per share and also declared a special dividend of 15.0 pence per share whilst retaining a strong capital position.

### Total shareholder return
Five year (%)

*180%*



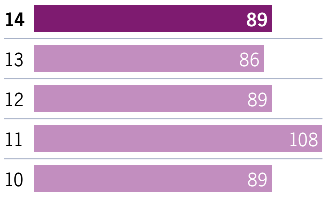

**Why is it important?**
Total shareholder return reflects the wealth we create for shareholders. Our purpose is to deliver good total shareholder return over the long term.

**How we performed**
Amlin's five-year total shareholder return remained strong at 180%. Over the past 10 years (2005 – 2014) Amlin has generated cumulative profit after tax of £2,151.2 million.

# Business performance

## Combined ratio
(%)

*89%*

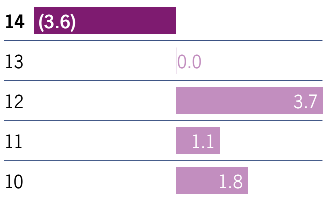



### Why is it important?
The combined ratio is a key metric for underwriting performance. The overall combined ratio reflects the diversity of our global business mix.

### How we performed
The increase in the combined ratio from 86% to 89% reflects softening rates in certain business lines, lower reserve releases and poorer performance in UK commercial business.

## Renewal rate movement
(%)

*(3.6)%*

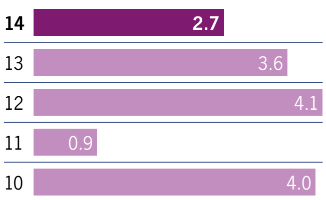



### Why is it important?
Renewal rate movement is a leading indicator for the level of attritional claims ratios. The diversity of our portfolio provides exposure to different pricing cycles, enabling us to reduce exposures where pricing is inadequate and to take advantage of profitable growth opportunities elsewhere.

### How we performed
The decline in pricing of Amlin's portfolio reflects weaker rates in some key business lines, notably catastrophe reinsurance, mitigated by more stable rates in other classes of business.

## Investment return
(%)

*2.7%*




### Why is it important?
Insurance companies' total assets are a multiple of shareholder equity and investment return is an important contributor to net profit. Our investment management approach is driven by investment risk appetite and not target return.

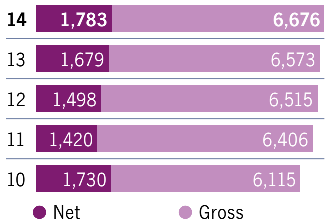
### How we performed
Our investment return was less than 2013's strong performance, as equity markets performed less well in 2014.

# Sustainability and continuity

## Gross and net assets
(£m)

*£6,676m*
Gross

*£1,783m*
Net




### Why is it important?
Amlin's strong capital position underpins our ability to attract and retain quality business, support organic growth and fund longer term strategic development. Growth in net tangible assets per share adds value for shareholders.

### How we performed
Net tangible assets were boosted by solid business performance which comfortably covered the dividends paid in the year.

## Retention ratio
(%)

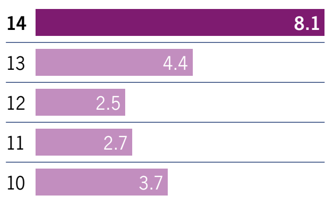
*86%*


### Why is it important?
Our consistently high retention ratio reflects the strength of our relationships with clients and the stability and quality of our core underwriting portfolios. These attributes make Amlin less vulnerable to competitive pressures in soft market conditions and support our cross-cycle combined ratio.

### How we performed
The consistent retention ratio illustrates Amlin's ability to retain desirable business in a more competitive trading environment.

## Senior underwriter turnover (%)

*8.1%*




### Why is it important?
The experience and expertise of our underwriters is crucial to Amlin's underwriting culture and business model, with its proven ability to deliver superior cross-cycle returns. Developing and retaining talent within the business is a strategic priority, reflected in our goal of making Amlin "the place to work" in our industry.

### How we performed
The increase in turnover is mainly due to the departure of two teams from Amlin's UK commercial business during the year.

# Risk management

*Our risk management framework and risk analysis capabilities support our ability to select and manage risk in pursuit of Amlin's strategic objectives.*

**James Illingworth**
Chief Risk Officer

## Risk management

**Amlin's risk management framework is a core element of our operating model. It recognises that, as an insurer, we actively seek and accept risk while managing risks within acceptable limits and providing clarity surrounding risk to our stakeholders. It provides a framework for analysing risks, assessing them in terms of likelihood and magnitude of impact, determining our strategy for responding to each risk, establishing clear governance and ownership and monitoring progress and new developments. Risk categories are clearly identified, risk management standards are documented and risk tolerances are set for each category.**



### Risk governance

Amlin's business is focused on the selection, pricing and management of insurable risk in order to provide effective risk transfer for our clients. Alongside the rigorous risk management associated with our core business, as described below, we also exercise careful risk governance to address the other risks and uncertainties we face as a company. Our risk function oversees a framework for identifying potential events or circumstances which may be relevant to the achievement of the Group's objectives. By proactively addressing risks and opportunities, we are better able to create value for our stakeholders.

### Attitude to strategic risk

The Amlin Board recognises that risk management is a complex process and should reflect both the need to take risk and to avoid unacceptable risk. Our risk governance processes focus on all critical risk areas including underwriting risk, the management of which is necessary to achieve our strategic goals. We have illustrated our attitude to risk for these areas, as well as those directly associated with underwriting risk, in the Principal Risks & Uncertainties table on pages 34 to 37 using three categories:

Positive: Willing to consider opportunities offering acceptable business rewards, based on a comprehensive understanding of the inherent risks. For example, we actively seek underwriting risk as our core business activity. In addition, we also see market risk as offering opportunities to enhance returns through a dynamic approach to asset management.

Balanced: Preference for a low or moderate degree of residual risk, with an acceptable level of reward for the risk taken. For example, credit risk is inherent in our transactions with brokers and our reinsurers, but this is necessary to obtain the benefits to the business of broker distribution and risk transfer respectively.

Negative: Avoidance or minimisation of risk and uncertainty through control and mitigation is the key objective. For example, operational and regulatory risk are undesirable but cannot be wholly avoided.

The Group's risk appetites and attitude to key strategic risks are set by the Amlin Board. The risk appetites articulate the risk-bearing desires and capacity of the Group, and are supported by risk tolerance limits, which are measures put in place to ensure risk appetites are limited. These tolerances are then allocated among the Group's operating entities, with each entity reporting its status against tolerance on a quarterly basis.

### Risk management framework

Amlin's risk management framework is a core element of our operating model. It recognises that, as an insurer, we actively seek and accept risk while managing it within acceptable limits and providing clarity to our stakeholders. It provides a framework for analysing risks, assessing them in terms of likelihood and magnitude of impact, determining our strategy for responding to each risk, establishing clear governance and ownership and monitoring progress and new developments. Risk categories are clearly identified, risk management standards are documented and risk tolerances are set for each category.

Amlin operates risk management controls through the "three lines of defence" model. In the first line all staff are expected to be risk aware and exercise controls over their activities so that levels of risk are understood and managed appropriately. The second line of defence is Amlin's dedicated risk function which is responsible for the design and co-ordination of risk framework activity. The compliance function is responsible for a similar second line role in relation to regulatory risk. The third line of defence is Amlin's internal audit function. This is responsible for the review of both the first and second lines of defence and specifically for the review and validation of the risk evaluation and effectiveness of controls set out in Amlin's risk register.

A core element of our framework is the review and reporting cycle, which requires that risk owners in the business confirm that risks are being managed within agreed tolerances and that appropriate actions are being taken to address control deficiencies. These assessments are reviewed by the risk function and supported by periodic "health checks" on the Group-wide operation of the risk management framework, after which any areas of concern are reported to Executive Management and, as appropriate, to the Board through its Risk & Solvency Committee.

This risk assessment process is combined with output from Amlin's Internal Model in the Own Risk & Solvency Assessment (ORSA).

The ORSA report contains information covering:

- Forward-looking solvency and modelled performance expectations, including earnings volatility
- Status of key risks for all categories against tolerances set by the Board
- Status of key controls used to manage risk
- Emerging risks which may impact the business over a longer period.

The ORSA is a key business process required under Solvency II, creating a coordinated view of risk and solvency for management and the Board. Quarterly risk reports consolidate analytical data on risk exposures for each regulated entity and the Group as a whole. The status of each key risk is analysed relative to approved tolerances using both deterministic and stochastic modelling techniques.

The Amlin Board and Risk & Solvency Committee, together with the regulated entity boards and their risk committees, all receive quarterly risk reports.

The information provided ensures that risk and capital implications are recognised in the decision-making process and that appropriate control plans are developed to support the successful delivery of business strategies and priorities.

### Development of the Internal Model and model use

Under the requirements of Solvency II, insurers can calculate solvency requirements using an Internal Model. Amlin has been developing an Internal Model of the business, which uses dynamic financial analysis, for more than 10 years. This model aims to capture all of the potential income and risks of the business for each operating unit and for Amlin as a whole. Each class of business is modelled using exposure information and historical data on premiums and claims combined with external modelling to take account of attritional, large and catastrophe claims potential. From this work a large number of simulated results can be produced giving a distribution of possible outcomes for underwriting.

The classes of business are combined to provide a whole account result distribution which is adjusted for reinsurance costs and recoveries.

## The Risk Management Framework


This underwriting risk module is combined with similar modules built for the other key categories of risk, such as reserving, market (including investment risk), credit and operational risk so that a complete picture of Amlin's potential economic performance is available on a probabilistic basis.

Over the years the model has been the subject of considerable internal and external scrutiny and validation, which has served to develop and improve its representation of the business. This model is proving to be of significant assistance in many areas of our business, as explained below.

#### Capital requirements

Our Internal Model has a range of important uses for capital setting. Under the current Prudential Regulation Authority (PRA) Individual Capital Assessment requirements and, going forward under Solvency II, the model informs capital adequacy figures through the production of a 1:200 year Value at Risk (VaR) measure.

#### Risk management

The model is used to formulate tolerances and measure the risk levels for a number of key risk control areas including reserving risk, catastrophe risk and reinsurance credit risk.

#### Business planning

Output includes class "dashboards" which provide an assessment of forecast mean gross and net loss ratios and a full distribution of possible outcomes, enabling a view of volatility around the mean expected result. This assists in business planning validation on a class of business and whole account basis.

#### Pricing

Using Amlin's view of steady state capital requirements, and the class and reserving analysis from the model, target loss ratios are produced for underwriters to use as a benchmark for the achievement of a 15% return on equity.

### Reserving

The Internal Model produces probabilistic outcomes of levels of claims reserves, which enable the measurement of reserve margins required to meet the Group tolerance for reserve risk.

### Reinsurance purchasing

The impact of different proposed reinsurance structures and costs are modelled to consider the effect on potential profit and tail risk. This assists in the optimisation of the reinsurance programme to achieve the most effective balance of expenditure and potential recovery.

## Risk commentary and analysis

As described above, Amlin considers and models its risks in the key categories of underwriting, reserving, market or investment, liquidity, credit and operational. The underlying risks within these categories are all captured and assessed with their associated controls in our risk system, ARM. We also consider strategic risk and longer-term emerging risk, which may not impact the business for several years.

The Internal Model has been constructed to model these principal risks and their impact on capital requirements. As market conditions and our exposures change, we are able to monitor the impact on capital and total risk profile. During 2014, market conditions for some of our underwriting risk classes became more competitive. This can be partially offset by more favourable reinsurance terms, but we expect underwriters to respond to changing conditions, either by declining inadequately rated business or moving exposure from one risk area or class to another. Amlin's principal aim is to manage the business so that there is a balance of risk categories and exposures. This diversification can serve the business well if one class of business suffers from a series of losses, as losses will be offset by profit arising from other, non-correlated classes of business. However, as competition increases and margins reduce across a whole range of classes, this becomes more difficult to achieve. Furthermore, levels of investment return are not always sufficient to offset both expenses and underwriting losses. In the current climate of growing competition for some areas of business and ongoing lower investment returns compared to historical norms, the management of the whole portfolio of risk becomes more important. Our risk strategy remains focused on producing underwriting profits and a sustainable investment return, while controlling credit, liquidity and operational risk to as low a level as possible without incurring unacceptable levels of expense.

## Catastrophe risk

As described in the Principal Risk & Uncertainties table on pages 34 to 37, Amlin has a long-standing and defined appetite for catastrophe risk, which is an important component of the group's profit and its risk capital requirements.

Appetite for catastrophe risk is determined by the following key elements:

- Acceptability of prevailing pricing of catastrophe business in order to achieve target cross-cycle returns on risk adjusted capital
- Ability to diversify exposure across catastrophe territories and with profit generated from non-catastrophe business lines
- Availability and cost of outwards reinsurance
- Control and management activities, including accurate modelling of perils.

While pricing has been in decline since mid-2013, our underwriters maintained an appetite for this exposure during 2014, as rating levels remained sufficiently attractive to achieve target returns.

In all circumstances, catastrophe appetite and exposure is limited by maximum tolerances approved by the Board. These tolerances are calculated and maintained on a deterministic basis (maximum modelled losses for a given event or realistic disaster scenario (RDS)) and on a stochastic or probabilistic basis. The stochastic measurements are carried out on a single occurrence and on an annual aggregate basis, using external proprietary models blended with our own modelling. This enables review of exposure to a single event or a modelled collection of events based on differing return periods. The tolerances are set taking consideration of the forecast profit of the business and a maximum acceptable loss as a percentage of net assets. These tolerances are allocated to underwriting units and legal entities as maximum loss limits, after retaining a safety margin at the Group level.

The current level of modelled losses for significant RDS events is set out in the table below. The maximum tolerances increased for 2014 to take account of higher net asset values and an increase in expected profit. Most of the increase in risk tolerance and the accompanying profit increase was utilised and derived from the retention of exposure previously reinsured into Amlin's Lloyd's Special Purpose Syndicate 6106, which had underwritten a 10% quota share of Amlin's excess of loss reinsurance account until the end of 2013. This increase in exposure was included in the broader coverage provided by the retrocession programme in 2014. In addition, it was also significantly offset by additional retained premium and modelled profit arising from the internalisation of certain low-level non-catastrophe reinsurance coverage and a significant reduction in the overall reinsurance expenditure. These changes were supported by the Internal Model analysis as discussed above, ensuring that the equation between retained loss, coverage and cost was optimised as fully as possible.

One of the factors considered in setting tolerances is the expected profitability of our catastrophe excess of loss business and the Group as a whole. With the lower inwards pricing of catastrophe risk and reduced expected gross margins in this business class we have taken the decision to lower catastrophe tolerances for the time being as shown below. Our ability to purchase an increased level of catastrophe retrocessional reinsurance at a similar cost to 2014 has enabled this reduction whilst reducing the effect of lower gross margins on expected net profit. Underwriting action is also being taken on renewals to reduce exposure on accounts where the pricing is becoming inadequate.

We have also adopted a model change for 2015 which has increased the modelled loss for some scenarios, particularly for California earthquake.

| | **1 January 2015** | | | 1 January 2014 | | |
|---|---|---|---|---|---|---|
| **Selected realistic disaster scenarios** | **Gross loss £m** | **Net loss £m** | **Tolerance £m** | Gross loss £m | Net loss £m | Tolerance £m |
| North-East US Windstorm | **726** | **264** | **300** | 671 | 279 | 350 |
| Florida Windstorm Tampa | **698** | **209** | **300** | 676 | 273 | 350 |
| California Earthquake San Francisco* | **650** | **271** | **300** | 444 | 163 | 350 |
| California Earthquake Los Angeles* | **482** | **189** | **300** | 439 | 184 | 350 |
| European Windstorm | **844** | **139** | **300** | 747 | 266 | 350 |
| Japan Earthquake | **372** | **171** | **300** | 360 | 191 | 350 |
| New Zealand Earthquake | **262** | **158** | **300** | 322 | 175 | 350 |

**Note:**

These are selected scenarios. There could be events leading to insured losses which exceed these figures. 2015 figures are not directly comparable to 2014 due to a change in use of stochastic model for the catastrophe reinsurance portfolio

* The US earthquake 2014 figures have been revised to reflect an updated view of the catastrophe bond contribution and are therefore not comparable with 2015.

## Solvency II

During 2015 we anticipate finalising our preparation for the implementation of Solvency II. This will include adoption of a fully compliant and accepted Internal Model for calculation of capital for Syndicate 2001 and for the Group as a whole, under the Group supervisory requirements of the PRA.

The programme of work associated with model application is significant, involving model build, governance, validation and testing. During 2014 we received a formal response from the PRA regarding their review of our Lloyd's syndicate model and we intend to complete our work in good time to meet the application timetable for Group model approval starting in May 2015. Accompanying this aspect of Solvency II compliance are detailed requirements for the risk management and governance of the business and significant changes to regulatory reporting. All of these will be adopted by the Solvency II implementation deadline of 1 January 2016.

# **Risk management** continued
## Principal Risks & Uncertainties

The principal risks and uncertainties facing the Group are the subject of the risk management framework and are regularly tracked through review of the Own Risk & Solvency Assessment.

| Principal risks and description | Attitude/appetite | Amlin's analysis of impact and exposure |
|---|---|---|
| **Enterprise-level risk:** Risks associated with one or more of a portfolio of principal risks occurring and providing an aggregated impact on the organisation as a whole. | **Attitude: Balanced** Amlin recognises that a balanced approach to underlying risk is important to manage the risk profile for the enterprise as a whole. The governance of risk seeks to ensure that profit targets can be achieved without unacceptable levels of potential loss which could ultimately impact the solvency of the Group. | Amlin is exposed to a domino-type event, whereby, for example a major natural catastrophe event not only affects Amlin's insurance underwriting portfolio but also impacts stock markets, causing significant market and currency movements and a material impact to investments. The combined effect of these risk events could trigger reinsurance counterparty default events and hence a secondary impact on liquidity. |
| **Strategic risk:** Risks associated with the appropriateness of business strategy in the face of the external environment. | **Attitude: Positive** Amlin has a positive attitude to strategic risk as it actively pursues ways of developing the business. The Group also faces a number of external factors which may impact demand for or supply of our products. These risks are analysed and actions agreed to adapt the strategic approach to cater for them. | It is critically important to Amlin's reputation that the organisation responds effectively to changes in the external environment and seeks to secure opportunities for growth through organic expansion and acquisition where market conditions allow. Once acquisition targets are secured, project teams need to successfully implement integration programmes. |
| **Underwriting – catastrophe risk:** The risk of claims arising from inherent uncertainties in the occurrence of insurance losses associated with natural or man-made catastrophic events. | **Attitude: Positive** Amlin has a positive attitude to catastrophe risk, which remains a core product offering to our reinsurance and commercial clients. Amlin has invested in people and infrastructure to price, manage and model catastrophe exposures. Tolerance limits are applied to specific loss scenarios, and the Group and its subsidiary businesses operate to modelled annual loss limits. Appetite for these risks is also influenced by our ability to achieve an acceptable balance of exposures across territories. | Amlin has an extensive portfolio of property and marine insurance and reinsurance business that has significant exposure to weather and earthquake exposures as well as non-elemental perils such as industrial accidents.<br><br>Catastrophe exposures have reduced through non-renewal of business and improved reinsurance protection. |
| **Underwriting – attritional risk:** The risks of unexpected or unbudgeted increase in cost of small or large insurance claims. | **Attitude: Positive** Amlin has a positive attitude to underwriting risk and accepts that there will be claims arising from all areas of its (re)insurance risk profile. The appetite for attritional risk is governed by the amount of business that meets our pricing requirements but also by the capacity determined by our capital base and reinsurance arrangements. Amlin aims to achieve a diversified balance of exposures across lines of business and territories. | Amlin is exposed to attritional losses caused by inadequate pricing and/or unexpected claims frequency as well as systemic change in the nature of claims. As the downward trend in the pricing cycle leads to lower margins, the risk increases, although underwriters are expected to take action to decline business if pricing is unacceptable. |
| **Underwriting – reserving risk:** The risk of unexpected or unbudgeted increase in claims emanating from business written where profit has been declared. | **Attitude: Balanced** Amlin adopts a balanced approach to reserving risk, which is an unavoidable consequence of underwriting a portfolio of business where claims may develop after the policy period has elapsed. Our appetite is governed by a policy which ensures that reserves are carried above the actuarial best estimate of future outcomes. Classes of business which have a higher level of uncertainty of potential development will naturally carry a higher level of reserve provision. Amlin does not discount reserves to take account of the investment return generated by premium or reserves held for future claims payments and takes consideration of likely cash flow requirements when investing carried reserves. | Due to the short-tail nature of many of its business lines underwriting outcomes are determined relatively quickly after a loss is notified. |

| Risk trend and measure | Mitigation strategies and key controls for each underlying risk exposure are outlined below | Executive responsibility | Link to strategic priorities |
|---|---|---|---|
| | • The risk management framework developed ensures that potential risk exposures are considered individually and in aggregation<br>• The risk function produces an aggregated group risk profile providing an enterprise-wide view of risk exposures for the Group Executive and the Board<br>• Stress testing of a combination of material risks is conducted to determine impact on capital<br>• Reverse stress testing of the ultimate impact of combinations of material risks on business model viability and reputation is also conducted<br>• The Internal Model produces 100,000 simulated results and combined scenarios which are then measured to ascertain the appropriate level of capital for Amlin. | Chief Risk Officer responsible for framework-wide view of risk exposures | |
| | • Long-term strategies are developed addressing diversification of underwriting platforms<br>• Due diligence and risk assessment processes are conducted for acquisitions<br>• Risk event and near-miss reporting processes capture loss circumstances and actions to prevent recurrence<br>• Emerging risks are identified and monitored. | Chief Executive | |
| | • Underlying strategy and diversity of exposure<br>• Modelling and pricing takes account of hazards<br>• Maximum line size and programme limits contain potential losses from one risk event<br>• Aggregate exposure limits are used to control exposures in any one zone<br>• Probable maximum loss limits are used to limit potential single event losses<br>• Modelling of loss scenarios and stochastic modelling measure single and annual aggregate loss events so they can be compared against agreed tolerances<br>• The reinsurance programme protects the Group against severe single or multiple catastrophes. | Chief Underwriting Officer | |
| | • Underwriting authority limits per contract control single risk losses and peer review is carried out to monitor risk selection<br>• Underwriting strategy is agreed to determine the approach to each line of business and this is regularly reviewed<br>• Group business planning processes include challenge of potential levels of income and expected loss ratios<br>• The technical pricing assessment provides underwriters with a risk-based comparative benchmark price<br>• The reinsurance programme limits the cost of single claims<br>• Underwriting monitoring and performance review is used to address poor-performing parts of the portfolio<br>• Underwriting pricing is expected to cover cost of expected claims. | Chief Underwriting Officer | |
| | • Amlin operates a consistent, actuarially driven process quarterly to assess that appropriate level of reserves are carried, taking account of the characteristics and risks of each class of business, to arrive at a best estimate. The best estimates are subject to challenge and review by management and the Audit Committee on behalf of the Amlin Board<br>• The reserving risk tolerance requires a minimum probability of carried reserves being in excess of liabilities of at least 65%. This is tracked as a key metric<br>• The reinsurance programme responds to large loss developments from prior years<br>• Consistent claims processes and accurate case reserve setting aims to ensure that adequate provision is established for advised claims. | Chief Underwriting Officer | |

| Principal risks and description | Attitude/appetite | Amlin's analysis of impact and exposure |
|---|---|---|
| **Market risk – investment market volatility:** The risk arising from fluctuations in values of investments. | **Attitude: Positive** Amlin has a positive attitude to market risk, constrained by a desire to limit the potential downside risk to the value of carried assets to within a maximum Value at Risk (VaR) tolerance. Premium and reserve investments are limited by the liquidity requirements of meeting claims as they become payable. | Amlin seeks to optimise its investment income whilst focusing on ensuring it maintains sufficient capital to meet solvency requirements and sufficient liquid funds are available to meet liabilities when they fall due. Exposure to market risk is therefore limited to the extent that investment strategies are balanced by these primary objectives. |
| **Market risk – currency fluctuation:** Impact on the value of balance sheet or earnings arising from the movement in value of sterling against key non-functional currencies. | **Attitude: Balanced** Amlin has a balanced attitude to currency risk, which is an unavoidable consequence of holding balance sheet assets, premiums and liabilities in currencies other than sterling. This risk is managed by hedging balance sheet exposure and by matching liabilities to the appropriate currency where possible. | Amlin has an international business with subsidiaries operating in US dollar and euro currencies as well as significant underwriting activity conducted in US dollars and Japanese yen. |
| **Credit risk – reinsurance counterparty:** The risk of loss if a counterparty fails to perform its obligations or fails to perform them in a timely fashion. | **Attitude: Balanced** Amlin has a balanced attitude to reinsurance counterparty credit risk, which emanates from use of reinsurance to increase Amlin's risk capacity and to protect the company against severe catastrophe events. Counterparty exposure is controlled by maximum exposure limits applicable to each reinsurer, linked to their ability and willingness to pay claims. | Amlin has increased use of reinsurance capacity through the purchase of additional retrocession protection for the catastrophe account. While most of this coverage is fully collateralised, there has been an increase in the level of exposure to certain reinsurers. Reinsurance protection is a key aspect of how we manage underwriting risk exposures and the use of accredited reinsurers is an important control. |
| **Credit risk – intermediary counterparty:** The risk of loss if an insurance or treasury intermediary fails to meet credit obligations in a timely fashion. | **Attitude: Balanced** Amlin has a balanced attitude to intermediary credit risk. We recognise that brokers need to collect both premiums and claims as part of their service, and we set limits according to broker financial strength to control exposure for each counterparty. | Amlin has exposure to insurance and reinsurance brokers as well as treasury intermediaries. |
| **Liquidity risk – (including asset/liability matching):** The risk arising from insufficient financial resources being available to meet liabilities as they fall due. | **Attitude: Negative** Amlin seeks to avoid any situation where funds are not available to meet claims as required because this would have significant regulatory and reputational impact. Bank facilities are used to manage cash flow and ensure that liquidity constraints do not impact our claims service to policyholders. | The strength and liquidity of the balance sheet is fundamental to our proposition as an insurer of choice, providing us with the ability to respond quickly to claims, particularly relevant in the event of a large catastrophic loss such as a hurricane or earthquake. |
| **Operational risk – systems and processes:** Risks resulting from inadequate or failed internal processes, people and systems, or from external events, including regulatory control failures. | **Attitude: Negative** Amlin does not wish to have any operational failures which may hinder trading or result in financial loss, or any regulatory sanction for inadequate compliance. It is recognised, however, that achieving complete certainty that such failures could not occur would entail an unacceptable cost. | Amlin operates a diverse business across a number of offices and jurisdictions and is expected to comply with legal, regulatory and best-practice standards. The potential exists for a failure of critical business processes, people or systems resulting in an interruption to normal operations. Dependency on sophisticated stochastic models may introduce operational risk. Additionally, natural or man-made disasters could impact Amlin's operating platform in one or more location. |
| **Operational risk – people:** Loss of key staff. | **Attitude: Negative** Amlin's ability to service the renewal of existing business portfolios and the underwriting of new business relies on the experience and expertise of its senior underwriters.<br><br>Continuity of senior management is also important for the development and execution of Group strategy and relationships with key stakeholders. | The experience and expertise of Amlin's underwriters is an important aspect of Amlin's business model and contributes to the strength of our market franchise and our ability to underwrite profitably.<br><br>Relationships with investors, regulators and other external parties are also of equal benefit. |

| Risk trend and measure | Mitigation strategies and key controls for each underlying risk exposure are outlined below | Executive responsibility | Link to strategic priorities |
| --- | --- | --- | --- |
| | • Investment policy and strategic asset allocation aims to maximise long-term investment returns in relation to an agreed risk budget<br>• Tactical asset allocation responds to expectations for short-term market prospects or volatility<br>• A diversified portfolio limits exposure to any one security or asset class<br>• The investment team conducts modelling and monitoring of investment risk against agreed tolerance using an economic scenario generator model. | Chief Finance & Operations Officer | |
| | • We aim to match assets and liabilities by major currency, which includes actively selling underwriting profits earned in non-base currencies as they crystallise<br>• Foreign currency forwards and options are used to reduce Group balance sheet foreign exchange volatility arising from non-sterling net assets. | Chief Finance & Operations Officer | |
| | • The reinsurance security team conduct accreditation selection and rating of all reinsurers<br>• There are limits over exposure placed with any one reinsurer<br>• Reinsurance debt credit control is carried out to limit outstanding balances owed by reinsurers<br>• Credit risk is reduced through the purchase of collateralised reinsurance. | Chief Finance & Operations Officer | |
| | • The finance team credit control procedures limit exposure to brokers<br>• Active broker debt credit control is carried out to limit levels of unpaid premium held by intermediaries. | Chief Finance & Operations Officer | |
| | • Stress testing of liquidity needs relative to major catastrophe events ensures that liquidity requirements are fully understood<br>• The investment team maintains sufficient liquidity in the investment portfolio to address claims needs so that claims are paid as they fall due. | Chief Finance & Operations Officer | |
| | • The implementation of the risk management framework for the identification, evaluation and control of operational risks ensures that operational risks are understood and managed<br>• Procedural controls, including workflow management, help maintains discipline over the control of key processes<br>• Monitoring of compliance with established procedures and processes is carried out to identify shortcomings<br>• Employee manual and Human Resource policies ensure that staff are aware of key policy requirements<br>• Risk events and near misses are reported to raise awareness and identify areas for improvement<br>• Internal Model validation and data quality controls aim to ensure that data is captured and processed with accuracy<br>• Business continuity management planning ensures that key operations will be restored in an acceptable time frame should there be disruption. | Chief Finance & Operations Officer | |
| | • Senior employee contracts have notice periods to ensure that people resigning can be replaced by successors in an orderly way<br>• Succession planning and talent management ensures there is a depth of talent<br>• Remuneration policies aim towards staff retention as well as incentivisation. | Chief Executive | |

## Resources and relationships

*Strategic management of our resources and relationships is vital to ensure the sustainability of our business and its ability to adapt to changing market conditions.*

**Mark Farrow**
Global HR Director

**Our business model** – p.24

**Our strategy** – p.26

**Key performance indicators** – p.28

**Risk management** – p.30

## Resources and relationships

**We believe that the best way to achieve sustainable success is to act in the long-term interests of our shareholders, our clients and our business partners, while making a positive contribution to the markets and communities in which we operate.**

**Underwriting management** – p.48

**Financial review** – p.56

## Resources

**People**

Our employees are a key asset and our ability to attract, develop and retain talent is important to the long-term sustainability of the Group. This is reflected in Amlin's strategic objective to become "the place to work" in our markets. The high level of retention of our senior underwriters, in particular, underpins our unique underwriting culture, providing a foundation for the extension of our underwriting business model into new markets and through the integration of acquisitions.

We also recognise the importance of ensuring that this culture is sustainable through recruitment and training, as reflected in our focus and investment in talent management.


| Employee turnover and experience at 31 December 2014 | Headcount | Turnover | Voluntary turnover | Mean age of employees (years) | Mean service of employees (years) |
|---|---|---|---|---|---|
| Senior underwriters | 136 | 8.1% | 8.1% | 45.6 | 9.6 |
| Other underwriters | 278 | 7.9% | 6.5% | 38.8 | 8.0 |
| Underwriting support | 390 | 13.3% | 9.0% | 37.7 | 7.3 |
| Claims staff | 107 | 6.5% | 2.8% | 46.4 | 11.0 |
| Claims support | 263 | 12.9% | 8.0% | 38.0 | 7.5 |
| Operational | 333 | 12.6% | 6.9% | 42.2 | 6.4 |
| Operational support | 366 | 25.7% | 12.6% | 37.9 | 6.1 |
| **Total** | **1,873** | **14.0%** | **8.4%** | **39.8** | **7.4** |

During 2014, as part of the reorganisation of the Group into three global Strategic Business Units (SBUs) supported by centralised service functions, some roles were changed or became redundant. The impact of this is reflected in the overall turnover figures for 2014.

| Amlin employees at 31 December | 2014 | Senior Underwriters 2014 | 2013 | Senior Underwriters 2013 |
|---|---|---|---|---|
| Amlin Group (including shared services) | 303 | – | 284 | – |
| Amlin London | 386 | 56 | 385 | 50 |
| Amlin UK | 441 | 28 | 474 | 29 |
| Amlin Singapore | 20 | 2 | 15 | – |
| Amlin France | 86 | 5 | 81 | 7 |
| Amlin Bermuda | 59 | 8 | 55 | 7 |
| Amlin Europe | 404 | 15 | 414 | 14 |
| Amlin Re Europe | 49 | 15 | 52 | 17 |
| Amlin Reinsurance Managers | 4 | 2 | 4 | 2 |
| RaetsMarine | 121 | 5 | 122 | 6 |
| **Total** | **1,873** | **136** | 1,886 | 132 |

| Amlin employees by Strategic Business Unit at 31 December 2014 | 2014 | Senior Underwriters 2014 |
|---|---|---|
| Reinsurance | 114 | 44 |
| Marine & Aviation | 199 | 32 |
| Property & Casualty | 483 | 60 |
| Claims | 367 | – |
| Other functions | 710 | – |
| **Total** | **1,873** | **136** |

## **Resources and relationships** continued

### Employee engagement
The restructuring of the business represents a major organisational change, as well as a considerable cultural shift for Amlin and its employees. During 2014 this change process was supported by a variety of training programmes, for example on how to manage international teams and how to use technology to support global teamworking.

Employees are most engaged when there is a clear line of sight between what they do and the company's strategy. Providing this clarity was one of our key objectives during the year, supported by a programme of employee engagement activity.

We rolled out a single global intranet so that every employee, wherever they are, has access to information about Amlin as we know that information is key to engagement. We also established an online leadership community, which is beginning the process of managing intellectual capital across the business. In addition, presentations have been held throughout the Group explaining the restructuring of the business, the creation of a single brand for Amlin, and how these two actions fit together.

Separate portals have been created for each of the global SBUs and for different functions, as a way of sharing knowledge for an increasingly international business.

### Talent management
The restructure provides new opportunities for employees and creates new requirements to support Amlin's future development. Therefore we are investing in the selection and development of talent with increased rigour, and in 2014 laid out ground rules that will be implemented in 2015.

We are already operating three talent pools to service the new organisation. These cover:

- Executive development – which is linked particularly to senior leadership succession
- Emerging leaders – taking individuals who are currently good managers and helping them to become great leaders
- General management development – which is designed to facilitate the lateral movement of managers across a broader international business

We have also created the Amlin Underwriting Faculty to help train junior underwriters so that they can become future underwriting leaders.

We are enhancing our performance management processes, and clarifying a competency framework that will formalise performance criteria and enable more objective assessments. In 2015, for the first time, all staff will be assessed according to the same performance management process.

### Our people – strategic objectives
- Ensuring exceptional skills to deliver unrivalled service
- Securing strong leadership and performance management
- Enabling employees to move to different locations and business areas
- Engaging and communicating effectively
- Supporting our performance, brand and strategy through a fair reward system

## Talent management in action

### Tom Oostra
**Head of Strategy & Underwriting Management Marine & Aviation**

"I'm really pleased with the opportunities Amlin has offered me. I believe that any Amlin employee with clear potential and ambition will be able to pursue career development opportunities at Amlin."

Tom, 36, joined Amlin through the acquisition of Fortis Corporate insurance in 2009, having previously worked within the ABN Amro group as an auditor. After working in the Netherlands on the initial acquisition of Fortis, Tom became an underwriting manager with the European marine team, helping to develop and implement the turnaround strategy which contributed to its improved profitability. In 2012, Tom moved to London as Practice Manager for the newly created Marine & Aviation Practice Board. When this became a global Strategic Business Unit in 2014, Tom was appointed Head of Strategy & Underwriting Management, and has been closely involved in its organisation and the formulation of an integrated global growth strategy. "I have been lucky that I have been able to rely on strong teams of talent around me in all my roles at Amlin and worked for some excellent managers and business leaders, who have all taught me a lot, whether it has been technical skills, my cultural understanding or views on leadership."

### Piyush Patel
**Chief Operations Officer**

"The opportunity to see a company grow and change, while being part of the executive management team 'in the thick of it' has brought a level of learning and personal challenge which is what I enjoy the most."

Piyush, 46, joined Amlin in 2009 from a management consulting background, with extensive experience of the insurance industry and a degree in Computer Science. Initially Piyush was involved in the integration of the Fortis business, and then was appointed Chief Information Officer with responsibility for the Group's overall IT strategy. In 2014 he was promoted to Chief Operations Officer, responsible for IT, Business Change, Operational strategy and Facilities. "Through the Talent Management Programme I have developed my leadership skills and this included attending a course on leadership development at the INSEAD business school in Paris."

## Tom Clementi
**Head of Operations**
**Miami**

"Working for a company that is growing and changing within an industry that is doing likewise, and helping to keep the business moving in the right direction, is a challenging but interesting, and ultimately rewarding experience."

Tom, 35, joined Amlin in 2007 having previously worked as a corporate lawyer including acting for Amlin on its 2005 rights issue. "I was attracted by the industry's direct and immediate link to major real life events, often with a global impact." Tom was initially part of Amlin's strategy team based in London, researching opportunities for the Group and working on a number of acquisitions. In 2012 he joined the underwriting management team for the Marine & Aviation Practice Board before becoming Head of Business Development in London. In 2014 Tom moved to Miami to set up a new Amlin office, as Head of Operations, to develop the company's Latin America reinsurance business. "Opening an office provides a fantastic opportunity to work with others and learn about the numerous ingredients required to get a successful business off the ground."

## Razia P.K.M. Abdul
**Communications Business Partner Property & Casualty**

"The most valuable thing I've learned from my experience in Amlin is the importance of management support. I have been fortunate to meet people who have always been supportive and encouraging and they have made a substantial contribution to my success."

Razia, 38, came into the insurance industry as a marketing adviser, having graduated in Paris in International Trade. She joined Anglo-French Underwriters (AFU) as Marketing & Communications Manager in 2004. AFU was acquired by Amlin in 2008 and became Amlin France in 2010.

In October 2014, Razia moved to London and joined the Amlin global communications team as Communications Business Partner for the Property & Casualty Strategic Business Unit, a new role created to ensure that the central communications team works in partnership with the strategic business unit. "I had the chance to benefit from the first of the Amlin talent management programmes. I've learnt a lot from the programme and it has enhanced both my competence and my confidence to progress within the organisation."

## Will Ho
**Market Unit Head for Asia Reinsurance**

"Amlin's management have been fully supportive of my strategy for growth in the Asia region, giving me the flexibility and support to work towards achieving our goals here."

Will, 34, was recruited in 2012 to help Amlin develop reinsurance business in Asia, having previously spent seven years as a reinsurance underwriter focused on the region. On joining Amlin, Will was initially based in London as part of the International Reinsurance team. In 2014 he was promoted to Market Unit Head for Asia and relocated to the Singapore office, responsible for managing the Asian treaty portfolio across all lines and continuing to build Amlin's presence in the region.

"During my initial stint in London I was able to integrate myself into the team culture and understand the company fully. With the relocation to Singapore, I was then able to bring that education with me and pass it on to my fellow team members to ensure the regional team understands and embraces the Amlin culture."

## Stephen Price
**Lead Underwriter**
**Reinsurance**

"The underwriting culture and atmosphere at Amlin is superb and has the correct balance between support and individual empowerment to give you the confidence to take decisive action and a lead role in the London market. Gaining this confidence and belief has been the most significant benefit of being part of the Amlin team."

Stephen, 33, joined Amlin from a major broker where he gained experience as a catastrophe reinsurance broker in London and the US. Starting as a junior underwriter at Amlin, he was invited to join the Talent Management Programme and has progressed to become Lead Underwriter in the North America Catastrophe and Risk team.

"As I have gained increased experience and familiarity with our clients and business this has been rewarded with increased authority levels and autonomy within the division and I have enjoyed the responsibility of taking decisions on significant client accounts."

### Aligning remuneration with our strategy
As part of the 2013 strategic review, we recognised that Amlin's remuneration arrangements were no longer aligned with the needs of the business and could inhibit the achievement of the Group's longer-term strategic goals. Subsequently, we commissioned a further review by Deloitte and undertook consultation with our key stakeholders and employees. As a result, we implemented changes to employee remuneration, which took effect from 1 January 2015, to align it more closely with our strategic objectives.

For example, whereas underwriters were previously rewarded on the performance of their underwriting portfolio, class of business or local entity, the new arrangements mean that the majority of an individual's bonus will be derived from the performance of their SBU as a whole.

The principal objective of the changes is to promote greater collaboration across the Group in line with the new structure. In addition, the new remuneration structure is designed to reward profitable growth as well as good underwriting profitability. The changes also have the benefit of creating a simpler and more consistent reward structure across the business, enabling greater mobility of individuals between countries and business units, and making the reward structure more scalable for the future. Managing the risk of losing senior underwriters, with effective communication and consultation, was an important part of the process.

### Diversity
Our people are instrumental to our success and we respect and value the individuality and diversity that every employee brings to the business. As at 31 December 2014 we employed 1,873 people in 14 different locations across the globe. The table below shows the gender split at different levels within the organisation. Amlin's diversity statistics reflect the legacy of the insurance industry, being historically male dominated.

We are committed to encouraging and supporting gender and other forms of diversity. As at 31 December 2014, 47% of our workforce across the Group was female. At a senior leadership level 22% of the plc Board are women, however at executive committee level and senior management level the figures are lower, 10% and 17% respectively. The proportion of senior management comprised of women has almost doubled in the year.

Amlin has a long standing policy of equal opportunities in employment and this applies to the appointment and development of all staff. The Group is committed to employing people solely on their ability to do the job and we do not operate a policy of positive discrimination. Therefore, while the profile of newly recruited staff is more diverse at a junior level, the Group has very low turnover in its senior management population and the diversity mix at this level will take longer to change. Nevertheless, our focus on developing talent at all levels in the organisation is enabling us to improve on the current situation. For example, in the second half of 2014 a number of senior positions – including the Heads of Internal Audit, Oversight, and Service Management, were filled by women.

The importance of diversity, equality and non-discrimination is highlighted in our Equal Opportunities Policy and underpinned by our core values which provide clear guidelines on how we behave towards each other.

### Human Rights
The Group supports and operates its business in accordance with the Universal Declaration of Human Rights (UDHR) and takes account of other internationally recognised and accepted human rights standards, including but not limited to, the International Covenant on Civil and Political Rights (ICCPR), the International Covenant on Economic, Social and Cultural Rights (ICESCR) and the International Labour Organisation (ILO) Core Conventions.

This support is expressed through our Human Rights Policy as well as a number of Group policies, including our Health & Safety Policy, Equal Opportunities Policy, Non-Employed Workers Policy and Harassment Policy.

### Capital
Capital is a key resource. The strength and liquidity of the balance sheet underpins our client proposition, allowing us to respond quickly to claims in the event of a large catastrophe event. Clients and brokers are increasingly focused on counterparty risk, and as they become more selective, this strength is an important competitive advantage. We aim to manage our capital proactively with a focus on maintaining sufficient capital strength, while delivering our KPI of an average cross-cycle return on equity of at least 15%. For further discussion of capital, go to page 61.

| Employee diversity by gender | Male 2014 | Female 2014 | Total 2014 | % Male 2014 | % Female 2014 | % Male 2013 | % Female 2013 |
|---|---|---|---|---|---|---|---|
| Amlin plc Board | 7 | 2 | 9 | 78% | 22% | 80% | 20% |
| Amlin Management Committee[1] | 9 | 1 | 10 | 90% | 10% | 88% | 12% |
| Senior Management | 55 | 11 | 66 | 83% | 17% | 91% | 9% |
| All Employees | 994 | 879 | 1,873 | 53% | 47% | 53% | 47% |

1. AMC figures exclude plc Directors

## Our brand

In order to grow the business and achieve our strategic objectives, Amlin adopted a single global brand in 2014, and has put in place a team capable of managing that brand worldwide.

The future of the Group requires the development of brand awareness of Amlin as a global company, and our sponsorship of a team in the launch series of Formula E is helping us to develop this awareness in markets in which we want to grow.

Formula E is a high-profile motor racing series, parallel to Formula 1 but for high-performance electric vehicles. The current series comprises street races in 10 major cities around the world from Beijing to Buenos Aires. Marketing around this sponsorship is particularly targeted at the underwriters, brokers, employees and end-customers of the future – and the series itself actively promotes technical innovation.

At the same time we are also sponsoring a research programme in partnership with the Future of Humanity Institute at the Oxford Martin School into the topic of systemic risk in relation to modelling, demonstrating thought leadership in an area of significant interest and importance to the industry as a whole.

In line with our goal of involving the wider insurance market in this project, in 2014 we created an Industry Working Party on the Systemic Risk of Modelling. This collaborative forum includes several (re)insurers and other insurance industry practitioners working alongside our academic partners.



### Technology and data analysis

Our ability to optimise return for the risks we take is supported by substantial investment in risk analysis and modelling technology, another key resource for Amlin.

For example, a pricing and portfolio management tool, developed by Amlin, was implemented in late 2013. This enables the reinsurance underwriters to analyse the marginal impact and profitability of the property catastrophe business they write against loss scenarios generated from multiple catastrophe models, within a controlled tolerance framework, on a real time basis. It also provides a seamless transfer of all modelled catastrophe business into our Internal Model, enhancing the timeliness and control of this key input. During 2015 this tool will be enhanced to be used by Amlin's direct and marine classes, to further our philosophy of underwriter empowerment and robust risk management across all catastrophe exposed business.

We regard investment management as a core competence which can enhance shareholder returns. We have invested in a dedicated investment risk model, which is used by Amlin's investment management team for setting strategic asset allocations and daily monitoring of tactical asset allocation, as well as running an Economic Scenario Generator for use within Amlin's internal capital model. This investment risk tool uses principal component factor analysis to quantify key risk measures such as volatility and Value-at-Risk, risk attribution, scenario analysis and pre- and post-trade simulation. The tool is fully embedded into Amlin's investment process and portfolio management tools, enabling Amlin's investment team to make timely and proactive investment decisions.

Formula E relies on real-time analysis of large amounts of data to optimise performance during a race. Using the same skills that we apply to risk analysis, members of our data modelling team in London help the Amlin support team to process and analyse data during races.

### Creating an environment for sustainable performance

In 2015, Amlin's UK employees will move into new offices in Chelmsford and London.

The Chelmsford building is being built specifically for Amlin, while in London, Amlin will be one of the lead tenants in The Leadenhall Building, a major new development next to our existing London offices.

The move into these new buildings is giving us the opportunity to create an environment that reflects the changes to our structure and our strategic goals, as well as reinforcing our global brand and values. Our vision for our new offices is to encourage greater collaboration and knowledge sharing within teams and across the organisation. In line with our goal of being recognised as "the place to work", we are creating a space that energises, engages and inspires existing and potential employees.

The new office space will also be designed to provide a dynamic and creative environment for brokers and clients, supporting our ability to work closely with them and provide first-class client services while reflecting Amlin's brand.

In both London and Chelmsford our goal is to create a flexible and robust environment to not only meet Amlin's business requirements today, but enable continuity as the business develops.





**Photos:**
1. Artist's impression of the client lounge in The Leadenhall Building
2. Artist's impression of the reception in The Leadenhall Building
3. Artist's impression of the reception in the new Chelmsford office
4. Artist's impression of the new Chelmsford office

## Relationships

### Clients and brokers

Our relationships with our clients, many of which stretch back decades, are fundamental to our business model. Detailed knowledge of our clients and their risks enables us to structure and price cover which generates an appropriate return while meeting their needs. The importance of these relationships is also reflected in our strategic priority of first-class client service, which underpins our consistently high renewal retentions, helping us to maintain profitable underwriting portfolios across the cycle. We are further strengthening these relationships through a focus on client intimacy and even closer alignment of our products and services with client needs.

The majority of Amlin's business is distributed via brokers, and we have a long-standing focus on maintaining productive relationships with a wide range of intermediaries, in line with our strategy of diversity in distribution as well as underwriting. As described on page 10, our relationships with the four largest brokers are becoming ever more important, given the changing market dynamics, and we are determined to be proactive in developing mutually beneficial responses to these changes. Amlin is also working with these brokers and other market participants to develop a market-wide solution to the cost disadvantages imposed on the London market by outdated processing and administration practices. Amlin is a major participant in the subscription markets of Lloyd's of London and the Dutch Beurs.

Syndicate 2001 is one of the largest by premium in the Lloyd's market and Amlin underwriters and executives have a long history of contributing to the governance of the market. For example, Simon Beale, Chief Underwriting Officer, is currently serving on the Council of Lloyd's, its ruling body. Amlin underwriters play an important role in the London market through their leadership of subscription business, setting prices and terms for others to follow. Amlin underwriters and senior managers also make an important contribution to the Dutch Beurs, where Amlin is one of the longest serving members of the market with broker and client relationships which go back many years.

Amlin also supports local insurance markets in Bermuda and Singapore through investment in training individual employees and providing work experience for insurance students.

In addition, as participants in a highly regulated and scrutinised industry, we seek to have open and productive dialogue with the various regulators and ratings agencies that monitor our business.

### Relationship with shareholders

We strive to be open, transparent and accessible in our communications with investors and analysts so that they can make informed judgements about the company. We value the support from a high-quality register of long-term institutional investors as well as private investors, many of whom are current and former employees.

A programme of meetings following results announcements and throughout the year ensures that we maintain a positive dialogue with our existing investors, taking into account their views and concerns. During 2014, we met with more than 120 current and prospective investors in the UK, continental Europe, Scandinavia and the US. These meetings included group meetings hosted at our London offices and presentation of Amlin's investment proposition to international investors at external conferences. We seek to maintain an open and productive dialogue with equity and credit analysts, to ensure they understand Amlin's business model and investment proposition. As well as formal analyst meetings following results announcements, we also engage with analysts on an individual basis and obtain specific feedback through regular surveys of analyst opinion.

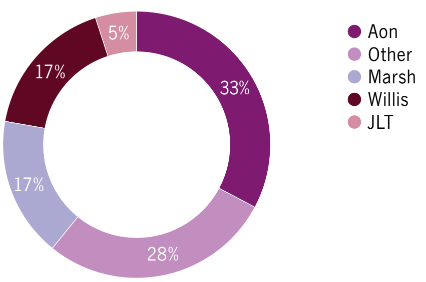
### Marketing

We recognise that our relationships with clients and brokers will be even more crucial in a marketplace increasingly dominated by strategic and electronic placements.

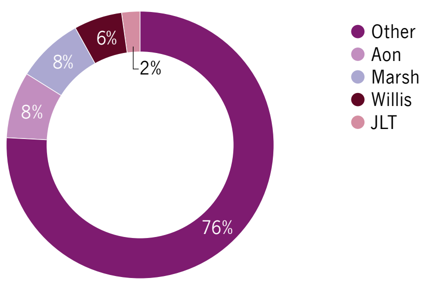
We see our strategic focus on client intimacy as aligning Amlin's resources to the needs of our clients, while building mutually profitable relationships. It means orienting the business even more closely to the needs of customers rather than to internal drivers. In particular, we are focused on the expectations and requirements of current and potential clients, including the need for greater responsiveness, more commercial flexibility and tailored solutions.

During 2014 we decided to invest in a single Amlin Client Relationship Management system (CRM). This will enable us to make better use of the considerable amount of data we have to develop a unified view of each client, and enable us to strengthen our position as a strategic partner with key clients and brokers. We aim to deploy CRM strategies in 2015, initially across our UK property & casualty business and global reinsurance clients. We will also be introducing net promoter methodology as the headline metric for Amlin's progress in client intimacy. These investments will further our objective of increasing our relevance to both clients and brokers by aligning Amlin's products and services even more closely with their needs.

### Reinsurance gross written premium by broker (%)




### Insurance gross written premium by broker (%)



### Community
We believe that there is benefit in supporting the communities in which we do business, the education and development of young people, and charities which are relevant for employees. For example, in Chelmsford, where Amlin is one of the largest employers with 314 staff, Amlin supports several charities including a children's hospice. In London, Amlin is a member of the Lloyd's Community Programme, supporting local community action projects alongside other Lloyd's businesses.

In the UK, charitable giving is co-ordinated through a Community & Charities Panel chaired by a senior underwriter. In addition to supporting a number of UK charity partners, including Macmillan Cancer Support and The Outward Bound Trust, Amlin also encourages individual employees to raise funds for charity and in many cases, Amlin supports these efforts with a further donation to the charity concerned. In 2014, Amlin supported more than 40 UK charities.

Amlin also contributes to the communities in which it operates outside the UK, where community and charities budgets are managed under the direction of local boards. For example, Amlin Bermuda supports local youth, education and sport-based organisations and offers grants through the Association of Bermuda International Companies Education Awards. Amlin Singapore supports the General Insurance Association's Global Internship Programme, providing speakers for their Talent Outreach Project.

### Environment
Amlin is directly engaged with environmental issues, particularly climate change, through our catastrophe underwriting, which includes protecting clients against weather-related events. Since 2007, Amlin has been a signatory to the ClimateWise principles, a joint initiative of the Association of British Insurers, HRH The Prince of Wales' Business & the Environment Programme and other insurance market participants.

In 2015, Amlin's UK employees will move into new offices in Chelmsford and London. Both office buildings have attained a high rating under the Building Research Establishment's Environmental Assessment Method (BREEAM)[1], which is the world's foremost environmental assessment method and rating system for buildings, setting the standard for best practice in sustainable building design, construction and operation.

1. BREEAM has become one of the most comprehensive and widely recognised measures of a building's environmental performance. Since its launch, 200,000 buildings have been assessed and over a million registered for assessment. A BREEAM assessment uses recognised measures of performance, which are set against established benchmarks, to evaluate a building's specification, design, construction and use. The BREEAM addresses wide-ranging environmental and sustainability issues and enables developers, designers and building managers to demonstrate the environmental credentials of their building.

## Our carbon footprint 2014

Amlin measures its annual carbon footprint and we employ Deloitte to carry out limited assurance in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) on the compilation of our carbon footprint data as provided below. An assurance statement, description of our in-scope operations and methodology is available on our website www.amlin.com.

### Summary of calculation:

| GHG Protocol Scope | Emissions source | Total $CO_2$e (Tonnes) 2014 | 2013 |
|---|---|---|---|
| 1 | Gas | **774.3** | 932.1 |
| 1 | Direct fleet emissions | **75.2** | 72.1 |
| 2 | Electricity | **2,552.6** | 2,451.5 |
| 3 | Water* | **9.2** | 8.4 |
| 3 | Waste* | **23.1** | 44.0 |
| 3 | Business travel air | **4,106.2** | 2,188.9 |
| 3 | Business travel other | **251.6** | 234.4 |
| 3 | Employee commuting* | **2,487.1** | 2,548.5 |
| | Additional 2014 offices** | **790.3** | – |
| | Total carbon footprint~ | **11,069.4** | 8,479.8 |
| | Employees (as of 31 December)^^ | **1,933** | 1,886 |
| | $CO_2$e per employee | **5.7** | 4.5 |
| | * Total $CO_2$e per employee excluding commuting, waste and water (these are generally included in the majority of FTSE company environmental audits but not in $CO_2$e). Excluding additional offices. | **4.3** | 3.5 |

**Note:**
** Amlin has six additional offices. Data has been estimated for these based on our average $CO_2$e per employee.
~ Indicates 2014 figures reviewed by Deloitte LLP as part of their carbon footprint assurance work. Their full assurance statement is available at www.amlin.com.
^^ The 2014 employee figures include contractors as these staff are engaged in long-term contracts and therefore contribute to our corporate footprint.

The increased carbon footprint in 2014 is largely attributable to air travel, partly a result of the development of six additional offices – four of which are RaetsMarine offices (London, Paris, Singapore, Rotterdam) plus the two new Amlin offices in Hamburg and Miami, and our increased focus on marketing.

### Giving something back
Amlin's employees are nothing if not adventurous. In 2014, seven of them took part in a fund-raising climb of Mount Kilimanjaro in Africa, while others took part in a "Surf Challenge" for disabled people.


## Underwriting management

*During 2014 we started to see the benefits of our global approach to key business lines, which is enhancing our ability to target opportunities in both new and established markets.*

**Simon Beale**
Chief Underwriting Officer

**Our business model** – p.24

**Our strategy** – p.26

**Key performance indicators** – p.28

**Risk management** – p.30

**Resources and relationships** – p.38

## Underwriting management

## Profitable cross-cycle underwriting is at the core of our business model.

**Financial review** – p.56

### Building on our franchise

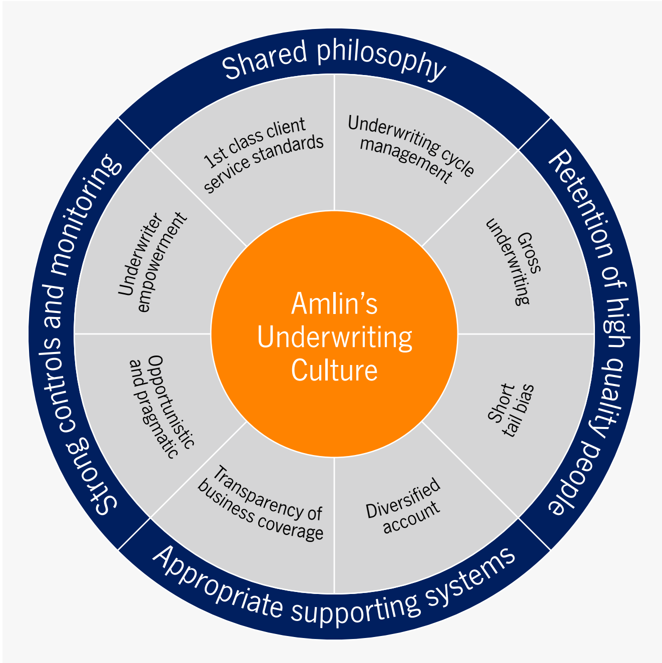
Our business is built on a strong culture, diversified product offering, robust controls and a focus on profitable cross-cycle underwriting. This model is based on the development of Amlin's original Lloyd's businesses and underpins the integration of the newer businesses added in recent years.

The expertise of our senior underwriters has allowed Amlin to build quality portfolios in line with our strategy of diversifying by class and within portfolios. We empower underwriters to develop their accounts and be opportunistic when market conditions are favourable, while strong controls and monitoring combined with profit-focused remuneration ensure we remain disciplined. This is particularly important in the increasingly competitive markets which many parts of our business are facing.

Our focus on service and continuity has created long-standing relationships with brokers and clients, and has made Amlin a highly ranked London market (re)insurer. We have an excellent reputation, high retention rates and the ability to attract quality new business. As Amlin has expanded, we have aimed to establish our underwriting culture and controls, as well as our service levels in start-ups or acquired businesses. This is reflected in the ratings and high standing with local clients and brokers enjoyed by our businesses in Bermuda, Singapore and continental Europe.

The reorganisation of Amlin's underwriting businesses into three global Strategic Business Units (SBUs), implemented in September 2014, is a development of the Practice Boards initiated in 2012. The global business units will broaden our offering to clients, enhance our ability to identify and pursue new business opportunities, and enable greater consistency of underwriting approach and service to clients and brokers across Amlin. We are investing in marketing and client research to ensure we can tailor our underwriting proposition ever more closely to the needs of both long-standing and new clients. We are also working with key brokers to make optimum use of their data in order to identify and capture the best fit between their portfolios of risk and Amlin's underwriting strategies. This combination will enable us to approach the market with a single, strong global brand and facilitate our goal of outstanding client service. In addition the new structure will allow us to operate with greater efficiency and to integrate acquisitions more effectively, as and when we identify further opportunities to grow through this route.

## Forces impacting on market conditions




### Establishing exceptional standards

The SBUs work alongside a central underwriting performance management team, reviewing underwriting competence and business performance, and assisting in the improvement of underperforming areas. Reporting to the Chief Underwriting Officer, the oversight provided by this team ensures that our underwriting standards are observed consistently across Amlin. These standards set guidelines for monitoring underwriting in such areas as calculating rate movements, pricing, exception reports and exposure management. The standards also include risk and performance reviews, conducted by Amlin underwriters and managers and by independent reviewers.

We reorganised our underwriting modelling function to provide a central service to the SBUs as well as to the underwriting management and risk management teams. Underwriting modelling provides quantitative inputs and technical pricing tools that support underwriting, SBU strategy, portfolio management and outwards reinsurance programme design. The underwriting modelling team also provides direct analytical support to SBUs throughout the client quoting process and for key decisions over major renewals and business planning. In addition, this function leads catastrophe modelling, technical pricing and exposure management within Amlin.

During 2014 we further improved our central management information to offer a more comprehensive Amlin-wide view of underwriting performance. This included producing a wider range of performance, client and broker data for each SBU, to assist them in monitoring performance and developing strategy. We also enhanced our ability to gather and leverage market data to support business planning and marketing initiatives, including partnering with key brokers where appropriate.

The SBUs in turn coordinate underwriting and provide review and oversight of underwriting strategy and performance across common classes of business. This involves:

- Agreeing underwriting direction in the context of long-term underwriting strategy, such as classes targeted for growth or retraction
- Coordinating consistent underwriting management and agreeing where we will write business within Amlin
- Facilitating a common underwriting approach through sharing expertise and best practice
- Encouraging effective communication and teamwork, including identifying opportunities for cross-selling.

# *Reinsurance*

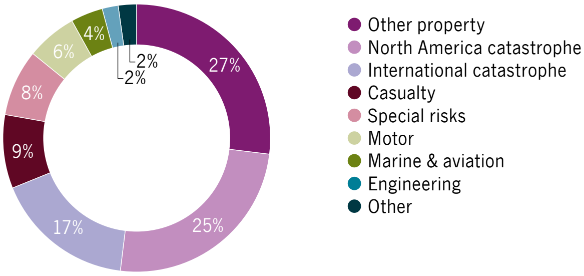
## Our market position

Amlin's global reinsurance business comprises Amlin London, Amlin Bermuda, Amlin Re Europe, Amlin Reinsurance Managers and Leadenhall Capital Partners. We offer cedents a market-leading reinsurance franchise, supported by strong financial strength ratings and capitalisation; underwriting expertise built on local market knowledge; risk transfer utilising both conventional reinsurance and Insurance Linked Securities (ILS) capacity and exceptional service.

## Combined ratio

*84%*

## Gross written premium by class (%)




### Pro-forma key performance financials (unaudited)

| | 2014[1] £m |
|---|---|
| Gross written premium | 1,136.2 |
| Net earned premium | 919.4 |
| Result attributable to underwriting | 154.2 |
| Claims ratio | 55% |
| Expense ratio[2] | 29% |
| Combined ratio | 84% |
| Retention ratio | 86% |
| Rate movement | (7.0%) |

**Note:**

1. The unaudited financials above are presented for comparative purposes only. These reflect the key financial information expected to be used by the Amlin Management Committee from 2015 to manage the reorganised underwriting businesses. These exclude certain intra-group and corporate items.
2. The expense ratio is currently calculated based on an allocation that reflects underwriting activity. Work is ongoing to refine this process and enable the accurate reporting of expenses across each business unit. Consequently, these disclosures may be subject to change during the further development of management information.

Our global reinsurance portfolio is diversified by class of business (as shown above) and by geography. This reflects our strategy to diversify profitably within individual business classes and across the whole of Amlin's underwriting portfolio.

Catastrophe reinsurance is mainly underwritten in London and Bermuda, with some also included in the reinsurance packages written in Zurich for continental European clients. Amlin's catastrophe business is mainly underwritten on a treaty excess of loss basis. The US accounts for the largest proportion of catastrophe premium by geography. However, our overall catastrophe portfolio is global, with a significant spread of international business outside the US. This is being supplemented by growth in Zurich, Singapore and Miami and is an important differentiator, giving Amlin a greater geographical spread of catastrophe risk with less overall dependence on the US market.

Other property reinsurance, including risk excess of loss and proportional, is underwritten to provide clients with alternative protections and gives Amlin greater diversity.

Marine, aviation and satellite exposures are underwritten both by way of proportional and non-proportional reinsurance. These classes often provide additional protection for key clients and further diversify our reinsurance portfolio.

### Strategic initiatives and developments

During 2014 the principal focus was the development of a vision and strategy for the global reinsurance business, building on the work already undertaken by the Practice Board. This has led to a desire within the Reinsurance SBU to grow our business over the longer term, in order that we remain relevant to brokers and clients. It is accepted, however, that of prime importance is the protection of our balance sheet and that profitable growth is dependent on prevailing market conditions. This strategy work will continue in 2015.

Key aspects of this vision include:

- To be highly relevant in terms of scale, scope, product reach, capacity and quality of underwriting expertise
- To lead the industry in long-term broker and client loyalty and in world-class client service.

In addition, Amlin made some significant strategic investments for the reinsurance business, notably the increase in our holding in Leadenhall Capital Partners (LCP) from 40% to 75%. The strengthened link with LCP gives Amlin an exceptionally strong client proposition. LCP enables Amlin to offer clients access to non-traditional risk transfer through Insurance Linked Securities. It enhances Amlin's position as an upper-tier reinsurer with the ability to offer significant combined capacity and a broader product offering, thus enhancing Amlin's competitive position. Access to Amlin's underwriting expertise and client relationships, in turn, enables LCP to offer much greater portfolio diversity than most of its competitors, thus enhancing returns and its ability to attract funds.

In addition, our leading reinsurance underwriter for Asia moved from London to our Singapore office to continue to build our increasingly strong brand in the region. During the year we put in place plans for an office in Shanghai, which is expected to commence underwriting from the Lloyd's platform in Shanghai in 2015.

In October 2014 we opened an office in Miami, a location which has become the hub for South American reinsurance business, with significant broker and reinsurer presence. This positions us favourably to develop our presence in the region, taking advantage of both its growth potential and the trend for emerging markets to retain more risk in their local market.

We believe our focus on analytical expertise is a core source of competitive advantage. During the last three years we have been investing in the development of our proprietary Pricing Portfolio Model (see page 44) which is now fully embedded across our reinsurance business. This allows underwriters real-time point of sale impact analysis on our portfolio enabling the fast, efficient and flexible delivery of tailored solutions to our brokers and clients.

Our new organisational structure has enabled us to offer the full spectrum of our underwriting and analytical expertise at the point of contact with client or broker.

In addition to our geographic expansion, we continue to review our resources in our current product lines as well as exploring new areas for development. During 2014 we recruited a number of senior underwriters to join our underwriting teams across our Bermuda, London and Zurich platforms with expertise across the property and casualty treaty classes.

### Renewal ratings indices

| Rating indices in key Group classes | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| US catastrophe reinsurance | 100 | 115 | 146 | 150 | 143 | 144 | 185 | 188 | 167 | 185 | 175 | 176 | **190** | 182 | 160 |
| International catastrophe reinsurance | 100 | 120 | 157 | **161** | 145 | 131 | 138 | 131 | 119 | 124 | 123 | 131 | 149 | 147 | 133 |
| Other property reinsurance | 100 | 122 | 189 | **191** | 170 | 146 | 170 | 144 | 126 | 127 | 115 | 109 | 110 | 104 | 99 |

**Note:**
Bold figures represent peak ratings.

# *Marine & Aviation*

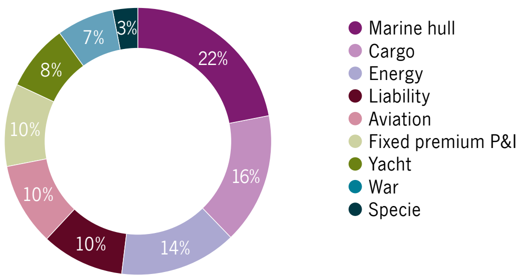
## Our market position

Amlin underwrites one of the largest and most diverse global Marine and Aviation portfolios. We specialise in complex, challenging risks that often require bespoke solutions. As well as cargo, hull, liability and aviation books with their many sub sectors, our portfolio also includes specie and fine art, upstream energy, yacht and war, terrorism and political risks.

## Combined ratio

*89%*

## Gross written premium by class (%)




### Pro-forma key performance financials (unaudited)

| | 2014[1] £m |
|---|---|
| Gross written premium | **497.2** |
| Net earned premium | **413.7** |
| Result attributable to underwriting | **45.9** |
| Claims ratio | **51%** |
| Expense ratio | **38%** |
| Combined ratio[2] | **89%** |
| Retention ratio | **82%** |
| Rate movement | **(3.3%)** |

**Note:**
1. The unaudited financials above are presented for comparative purposes only. These reflect the key financial information expected to be used by the Amlin Management Committee from 2015 to manage the reorganised underwriting businesses. These exclude certain intra-group and corporate items.
2. The expense ratio is currently calculated based on an allocation that reflects underwriting activity. Work is ongoing to refine this process and enable the accurate reporting of expenses across each business unit. Consequently, these disclosures may be subject to change during the further development of management information.

Amlin is a major insurer in the marine and aviation market, with combined gross written premium of £497.2 million in 2014.

We write a diverse marine portfolio in London, Rotterdam, Antwerp, Paris and Singapore. The London marine team specialises in leading large, complex and capacity-driven risks. Our offices in the Benelux region, France and Singapore offer local knowledge and expertise to brokers in their markets, as well as access to underwriting knowledge and specialist products in other parts of Amlin.

Amlin is a leading hull insurer in London and the Benelux market, with a portfolio balanced between larger "bluewater" accounts and specialist risks, including dredging, lifting, salvage, and inland craft. In addition, we insure yachts ranging from small pleasure boats to super-yachts over 30 metres long and up to $200 million in value.

We have a strong position as a global underwriter of shipbuilders' risk business. We also write substantial global cargo and energy portfolios and provide war and political risks insurance for marine, non-marine and aviation assets.

Our marine liability account includes a wide range of risks, including shipowners, shipyards port and terminal owners and offshore energy liability. The liability portfolio also includes RaetsMarine, acquired in 2013, a top-three provider of fixed premium marine liability protection and indemnity cover to a global client base.

Amlin is a well-respected aviation underwriter, offering expertise across the aviation and aerospace sectors.

### Strategic initiatives and developments

During 2014 the focus of the Marine & Aviation Strategic Business Unit was on developing a vision and strategy as well as co-ordinating the client proposition and product offering more effectively across the global client base. This strategy work will continue in 2015.

We have created a global product group network, led by our most senior practitioners, to enable us to distribute our products consistently across the regions in which we operate. We believe that both our clients and brokers will benefit from our local service proposition which can call upon the expertise found in the global product groups, to ensure that we deliver solutions to match our client needs.

Various initiatives were undertaken during the year to leverage our global expertise throughout our distribution network, including:

- Broadening our specialist client proposition in shipyard-based construction underwriting to leverage local expertise more widely across our network
- Further developing capabilities in fixed premium P&I with a proposition for the local Singapore and Malaysian markets
- Enhanced aerospace consortium cover in Singapore
- Increasing capacity and/or aggregate risk appetite in various classes, including offshore energy, marine liability, hull, cargo, war and terrorism.

In addition, in December 2014 Amlin opened a new office as part of the Lloyd's platform in Dubai with a focus on the Middle East region. This office will underwrite, among other classes, a broad range of marine business and we plan to begin operating there in the first half of 2015.

### Renewal ratings indices

| Rating indices in key Group classes | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Marine hull | 100 | 115 | 148 | 171 | 183 | 189 | 191 | 192 | 192 | 205 | 208 | 209 | 209 | **209** | 201 |
| Cargo | 100 | 108 | 127 | **136** | 135 | 133 | 131 | 124 | 118 | 119 | 116 | 112 | 112 | 111 | 109 |
| Europe marine | | | | | | | | | | 100 | 104 | 104 | 104 | **104** | 102 |
| Offshore energy | 100 | 140 | 172 | 189 | 170 | 175 | 262 | 243 | 209 | 256 | 247 | **262** | 262 | 254 | 229 |
| War | 100 | 250 | **288** | 244 | 220 | 206 | 191 | 175 | 160 | 156 | 153 | 153 | 149 | 146 | 140 |
| Airline hull and liabilities | 100 | **301** | 283 | 235 | 216 | 201 | 158 | 122 | 127 | 141 | 132 | 124 | 107 | 96 | 92 |

**Note:**
Bold figures represent peak ratings.

# *Property & Casualty*

## Our market position

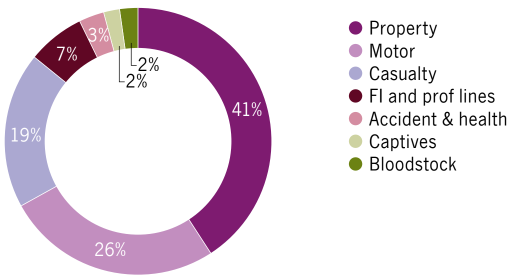
The Property & Casualty business unit includes a wide range of business lines. We provide commercial property and liability insurance to local clients in the UK, France, Germany, the Netherlands and Belgium. Amlin is a leading underwriter of commercial motor insurance in the UK and also underwrites this class in the Benelux market.

In London, Amlin underwrites property and casualty insurance lines through Syndicate 2001, focusing on five main areas: property, casualty, accident and health, motor and bloodstock.

## Combined ratio

*94%*

## Gross written premium by class (%)




### Pro-forma key performance financials (unaudited)

| | 2014[1] £m |
|---|---|
| Gross written premium | 999.5 |
| Net earned premium | 857.0 |
| Result attributable to underwriting | 51.6 |
| Claims ratio | 60% |
| Expense ratio[2] | 34% |
| Combined ratio | 94% |
| Retention ratio | 87% |
| Rate movement | 0.4% |

**Note:**
1. The unaudited financials above are presented for comparative purposes only. These reflect the key financial information expected to be used by the Amlin Management Committee from 2015 to manage the reorganised underwriting businesses. These exclude certain intra-group and corporate items.
2. The expense ratio is currently calculated based on an allocation that reflects underwriting activity. Work is ongoing to refine this process and enable the accurate reporting of expenses across each business unit. Consequently, these disclosures may be subject to change during the further development of management information.

Amlin offers property and casualty products in two major sectors; through local underwriting in Europe (incorporating the UK) and the international specialist business underwritten in Lloyd's.

The European underwriting provides commercial property, motor and liability insurance to domestic clients in the UK, France, Germany, the Netherlands and Belgium. The Lloyd's business is underwritten in London and Singapore.

The Lloyd's business underwrites property and casualty insurance lines through Syndicate 2001, focusing on five main areas: property, casualty, accident and health, motor and bloodstock.

US risks account for most of this portfolio, although we write business all over the world with the objective of achieving territorial diversification. Our London property account comprises a wide range of risks, from small to very large commercial property and industrial plants, including power generation, utilities, mining, and petrochemical facilities.

Casualty lines include medical malpractice, errors and omissions, workmen's compensation, automobile liability, and directors' and officers' liability. In professional lines, Amlin provides cover for mid-size to large law firms, architects and engineers, consultants, and other professions.

Our personal accident account comprises direct business written on a facultative and a delegated authority basis, and a treaty account, written on a pro-rata and an excess of loss basis.

In the international auto class, Amlin offers a wide range of specialist products, including automobile physical damage, dealers open lot, motor truck cargo, logging/forestry, construction, and comprehensive cover.

Our bloodstock team offers thoroughbred racing and breeding insurance, and is a specialist in high value sport horse insurance. Separately we also provide specialist and individually tailored insurance solutions to meet the livestock industry's diverse needs, focusing particularly on animal welfare.

### Strategic initiatives and developments

During 2014, good progress was made in defining a strategic vision and long-term direction for the global Property & Casualty business and this will be continued in 2015. Key elements of the strategic vision include:

- Broadening and deepening our distribution by tailoring our propositions to our different client segments
- Delivering a superior client experience by truly understanding our clients' needs
- Investing in enhancing our infrastructure, underwriting and claims expertise to support our client proposition and market relevance.

During 2014 the SBU focused on developing Amlin's client proposition in various market segments. In Europe a streamlined solutions team was created in the Benelux to facilitate small and medium sized enterprise business through a more efficient and client-centric approach. A regional market proposition targeting local and regional brokers was launched in the Netherlands. During the year we focused on further developing the close working relationships Amlin has with many managing general agents, to enable growth in existing business through increased participations, as well as underwriting more business for existing clients. In addition Amlin's well-established binder proposition was successfully introduced in Belgium.

The performance of the UK commercial portfolio has been under much scrutiny during 2014. The poor combined ratio of 105% predominantly reflects an increase in claims activity as a result of the UK flooding in the early part of the year and some unusually large coach and haulage fleet claims. A substantial level of re-underwriting was carried out during the year which has negatively impacted the planned premium levels for 2014, but is expected to result in better performance in 2015.

During 2014, we established a new office in Hamburg, which was well received by brokers and clients and had a promising first year.

### Renewal ratings indices

| Rating indices in key Group classes | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property insurance | 100 | 125 | **171** | 163 | 143 | 136 | 165 | 143 | 133 | 142 | 141 | 144 | 153 | 156 | 151 |
| Casualty | 100 | 123 | 172 | 217 | 234 | **239** | 237 | 223 | 203 | 199 | 197 | 197 | 201 | 201 | 198 |
| UK fleet motor | 100 | 121 | 136 | 143 | 141 | 137 | 135 | 134 | 137 | 144 | 148 | 159 | 175 | 192 | **202** |
| UK employers' liability | 100 | 115 | 144 | 158 | **159** | 144 | 135 | 123 | 115 | 114 | 115 | 114 | 119 | 126 | 131 |
| UK professional indemnity | 100 | 110 | 149 | 178 | **181** | 165 | 154 | 140 | 129 | 128 | 127 | 127 | 128 | 130 | 131 |
| UK property and commercial combined | 100 | 100 | 100 | **127** | 126 | 126 | 117 | 110 | 109 | 107 | 106 | 112 | 113 | 114 | 115 |
| Europe property | | | | | | | | | | **100** | 97 | 95 | 95 | 95 | 95 |
| Europe liability | | | | | | | | | | **100** | 95 | 95 | 95 | 95 | 95 |
| Europe fleet motor | | | | | | | | | | **100** | 99 | 99 | 99 | 99 | 99 |

**Note:**
Bold figures represent peak ratings. Price rating indices exclude the impact of claims inflation.

*In 2014 we achieved a solid result in a less-favourable trading environment and returned £131.2 million of capital to shareholders.*

**Richard Hextall**
Chief Finance & Operations Officer

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## Financial review

**We aim to create good returns for shareholders by growing earnings over the longer term, while delivering a cross-cycle return on equity of at least 15%.**

| Financial performance | 2014 £m | 2013 £m | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|---|---|
| Gross written premium | **2,564.0** | 2,467.4 | 2,405.6 | 2,304.1 | 2,172.5 |
| Net written premium | **2,278.9** | 2,107.4 | 2,058.6 | 2,013.2 | 1,910.3 |
| Net earned premium | **2,183.4** | 2,077.4 | 1,970.5 | 1,927.4 | 1,748.1 |
| Result attributable to underwriting | **246.0** | 283.1 | 207.1 | (146.0) | 185.6 |
| Investment return | **118.5** | 160.4 | 165.3 | 40.5 | 175.0 |
| Other costs | **(105.8)** | (117.8) | (108.2) | (88.3) | (101.4) |
| Profit/(loss) before tax | **258.7** | 325.7 | 264.2 | (193.8) | 259.2 |
| Return on equity | **14.1%** | 19.8% | 17.4% | (8.6)% | 13.9% |
| Claims ratio | **56%** | 52% | 57% | 78% | 60% |
| Expense ratio | **33%** | 34% | 32% | 30% | 29% |
| Combined ratio | **89%** | 86% | 89% | 108% | 89% |

### Overview

Amlin delivered a return on equity of 14.1% for 2014, just short of our cross-cycle target of 15%. Ten year return on equity stands at 17.4%, compared to an estimated cost of equity of 8.5%. Profit before tax was £258.7 million (2013: £325.7 million). Strong profits in the Bermudian business pushed the effective tax rate to 8.6 %, with profit after tax at £236.4 million (2013: £298.7 million). This supports an increase in the ordinary dividend per share of 3.8% to 27.0 pence per share. In addition, the Board has agreed to return £74.9 million to shareholders by way of special dividend of 15.0 pence per share.

Underwriting returns were solid at £246.0 million (2013: £283.1 million). Gross written premium was up by 3.9%, claims from larger catastrophes were higher and large loss activity across a number of our business lines was above normal. Reserves releases, at £89.6 million, were £43.9 million lower than 2013, but remained healthy. The overall combined ratio was 89% (2013: 86%) with strong performance from Amlin Bermuda, Amlin London and Amlin Europe. Claims from European hail storms reduced Amlin Re Europe to a marginal loss. However, Amlin UK disappointed, impacted by UK floods and the third-highest large loss incidence in its history.

A creditable investment return of 2.7% (2013: 3.6%) was achieved against a backdrop of low interest rates and slow global economic recovery.

### Underwriting performance

Gross written premium rose by 3.9% in 2014 to £2,564.0 million. The combined ratio was a satisfactory 89% (2013: 86%).

Renewal rates reduced by 3.6% on average, with the trend across different parts of the business mixed; average rate reductions of 7.0% were experienced for Reinsurance lines, reductions of 3.3% for Marine & Aviation and small rises were recorded across the Property & Casualty business. Within Property & Casualty, the strongest rate increases continued to be achieved for UK domestic business, particularly our commercial motor business. With rating adequacy satisfactory for most classes of business, our retention ratios were high at 86% (2013: 86%).

The softening trend in reinsurance markets led to some clients seeking multi-year policies. Gross written premium includes £86.3 million of premium on that basis, an increase of £68.8 million on the previous year.

Underlying premium growth was 7.1% when measured at constant exchange rates and after removing the effect of multi-year contracts.

Growth in net written premium was 8.1% (2013: 2.4%), coming from the increase in gross written premium explained above and a more efficient reinsurance programme purchased for 2014. Outwards reinsurance expenditure was £285.1 million (2013: £360.0 million) representing 11.1% of gross written premium (2013: 14.6%). The improvement was achieved through a combination of lower pricing and more efficient structuring. This was particularly the case for our retrocessional programme. Notably, Special Purpose Syndicate 6106, a Lloyd's Names sidecar, was closed saving £35.9 million of premium with the exposures covered under our core excess of loss protections.

The Group claims ratio was 56% (2013: 52%). Large catastrophe activity increased to £60.9 million (2013: £18.5 million). The largest events impacting Amlin were the European hail storms in June 2014, which cost £26.9 million, and a large US tornado in June 2014, amounting to £34.0 million. Similar to last year, there was a notable incidence of smaller catastrophes characterised by a frequency of international events, and large risk losses which totalled £34.6 million (2013: £62.0 million) and £57.0 million (2013: £76.0 million) respectively.

Claims development did not match the excellent performance of 2013, but continued to be healthy, with releases from reserves of £89.6 million (2013: £133.5 million). The nature of Amlin's business, being large commercial insurance and reinsurance, means claims development can be volatile, creating some uncertainty over the required level of claims reserves required. Given this uncertainty, we adopt a prudent approach to assessment of liabilities, trying to deliver a consistent level of relative reserving strength. During the year an actuarial-led reserving approach was adopted for the first time for Amlin London, Amlin Bermuda and Amlin UK. All reserving assessment is now carried out on a consistent basis of estimation and is believed to be more robust. The changes led to an acceleration of earned premium recognition, due to seasonality being explicitly considered for US hurricane reinsurance contracts, and also larger losses were analysed at lower levels, which is believed to have accelerated claims recognition. We estimate that the Group as a whole holds reserves on an accident year basis of approximately £150 million in excess of an actuarial best estimate (2013: approximately £160 million). The relative strength of claims reserves, measured by percentile of a distribution of outcomes, remained broadly unchanged.

The only significant reserve deterioration during the year was £24.4 million in respect of the three New Zealand earthquakes in 2010/11. The losses have continued to be challenging for our cedents to provide reliable estimates. However, given the scale of the deterioration in the year, much of our exposure to these events has been exhausted. In addition, where exposures remain material, loadings are carried to client estimates. Taken together, these factors significantly reduce the risk of any future deterioration for these events.

The underlying claims ratio increased to 53% (2013: 51%) in line with the rate movement experienced on the renewal business.

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## Segmental highlights

### Amlin London

| | 2014 Total £m | 2014 Pre WAQS[1] £m | 2013 Total £m | 2013 Pre WAQS[1] £m |
|---|---|---|---|---|
| Gross written premium | **1,212.1** | **1,212.1** | 1,134.8 | 1,134.8 |
| Net written premium | **888.5** | **1,003.7** | 775.1 | 883.1 |
| Net earned premium | **841.5** | **952.7** | 734.8 | 839.0 |
| Reserve releases | **7.5** | **8.3** | 43.7 | 46.6 |
| Result attributable to underwriting | **121.8** | **149.8** | 118.2 | 148.6 |
| Renewal rate movement | **(5.2)%** | **(5.2)%** | (1.0)% | (1.0)% |
| Retention ratio | **84%** | **84%** | 86% | 86% |
| Claims ratio | **47%** | **50%** | 44% | 47% |
| Expense ratio | **38%** | **34%** | 40% | 35% |
| Combined ratio | **85%** | **84%** | 84% | 82% |

**Note:**
1. Whole account quota share (WAQS). Segmental commentary is provided on this basis.

Gross written premium for Amlin London grew by 6.8% in the year. Markets were competitive and rates fell by 5.2% on average. Notably, catastrophe reinsurance rates fell by 10.8% but our market position was maintained due to continued adequacy of achieved rating. Growth of £36.4 million was achieved in the Property & Casualty insurance lines, with initiatives to broaden US property facility and international casualty classes.

The largest catastrophe events for the year were the Nebraskan tornado in June 2014 and European hailstorms in June 2014, amounting to £23.9 million and £4.3 million, respectively. Other smaller catastrophe events amounted to £8.7 million with the frequency of small tornado occurrence notable. Large risk losses amounted to £20.6 million. The aviation war account was heavily impacted by claims in the year with involvement in the two Malaysian airline hull losses and the terrorist attacks on Tripoli airport. In aggregate these events led to net claims of £12.8 million.

Reserve releases were lower at £8.3 million (2013: £46.6 million) with deterioration on the New Zealand earthquake claims amounting to £8.5 million for the year.

### Amlin Bermuda

| | 2014 Total £m | 2014 Pre WAQS[1] £m | 2013 Total £m | 2013 Pre WAQS[1] £m |
|---|---|---|---|---|
| Gross written premium | **601.3** | **424.7** | 552.0 | 396.9 |
| Net written premium | **558.9** | **382.3** | 500.4 | 345.3 |
| Net earned premium | **534.1** | **368.0** | 506.5 | 353.4 |
| Reserve releases | **8.5** | **7.1** | 22.0 | 19.7 |
| Result attributable to underwriting | **110.1** | **83.5** | 149.7 | 115.2 |
| Renewal rate movement | **(8.4)%** | **(8.4)%** | (3.0)% | (3.0)% |
| Retention ratio | **84%** | **84%** | 83% | 83% |
| Claims ratio | **56%** | **49%** | 49% | 40% |
| Expense ratio | **23%** | **29%** | 21% | 28% |
| Combined ratio | **79%** | **78%** | 70% | 68% |

**Note:**
1. Whole account quota share (WAQS). Segmental commentary is provided on this basis.

Gross written premium, grew by £27.8 million during the year. Underlying growth, after taking account of the boost from multi-year contracts was achieved in proportional property reinsurance, casualty and trade credit.

The major loss event for Bermuda in 2014 was the Nebraskan tornado amounting to £10.1 million. Smaller catastrophe events amounted to £15.9 million and large risk losses amounted to £12.7 million. In addition attritional losses increased by £18.0 million, including £12.0 million from 10 smaller tornado events in the season.

Reserves releases were also lower at £7.1 million (2013: £19.7 million) with £15.9 million deterioration on the New Zealand earthquake exposures.

### Amlin UK

| | 2014 Total £m | 2014 Pre WAQS[1] £m | 2013 Total £m | 2013 Pre WAQS[1] £m |
|---|---|---|---|---|
| Gross written premium | **325.5** | **325.5** | 334.0 | 334.0 |
| Net written premium | **270.4** | **310.8** | 279.4 | 320.4 |
| Net earned premium | **277.7** | **320.6** | 274.6 | 314.8 |
| Reserve releases | **(0.4)** | **0.2** | 10.0 | 9.4 |
| Result attributable to underwriting | **(16.3)** | **(17.7)** | 0.0 | 4.1 |
| Renewal rate movement | **3.3%** | **3.3%** | 4.9% | 4.9% |
| Retention ratio | **89%** | **89%** | 85% | 85% |
| Claims ratio | **70%** | **74%** | 62% | 65% |
| Expense ratio | **35%** | **30%** | 38% | 33% |
| Combined ratio | **105%** | **104%** | 100% | 98% |

**Note:**
1. Whole account quota share (WAQS). Segmental commentary is provided on this basis.

During 2014 the London market financial institutions and professional indemnity business that was historically written in Amlin UK was transferred to Amlin London. In 2013 this amounted to £35.3 million. On an underlying basis, gross written premium increased by 9.0%. Overall rates increased across the division by 3.3%, with growth in commercial motor of 5.4% and retention remained high at 89%.

The overall result for the business was disappointing, with a combined ratio of 105% for the year (2013: 100%). The claims ratio increased to 70% from 62%, driven by claims from winter floods of £10.0 million which added 3%, and a higher than normal frequency of large losses on the commercial motor account, particularly the haulage sub sector. 2014 was the third worst year for large loss activity for the motor account over the last 30 years.

In addition reserves releases were modest at £0.2 million (2013: release of £9.4 million).

### Amlin Re Europe

| | 2014 £m | 2013 £m |
|---|---|---|
| Gross written premium | **257.0** | 210.8 |
| Net written premium | **213.0** | 173.8 |
| Net earned premium | **188.2** | 166.2 |
| Reserve releases | **6.3** | 4.5 |
| Result attributable to underwriting | **(1.5)** | (7.0) |
| Renewal rate movement | **(1.0)%** | 2.3% |
| Retention ratio | **92%** | 90% |
| Claims ratio | **76%** | 74% |
| Expense ratio | **24%** | 30% |
| Combined ratio | **100%** | 104% |

Amlin Re Europe continued to grow, with a 21.9% increase in premium to £257.0 million. Rate reductions, at 1.0%, were more subdued in the European reinsurance segment. The business was written at a consistent technical rate to 2013, with growth coming from the core markets of France, Germany and the UK.

The business delivered a combined ratio of 100%. The overall performance was heavily impacted by the European hail storm event in June with claims totalling £15.8 million. This added 8% to the overall ratio. Claims were incurred on both the motor and catastrophe accounts, not helped by the skew of the business mix towards France.

The underlying combined ratio was helped by an improvement in the expense ratio to 24% as the business continued to mature.

## Amlin Europe

| | 2014 £m | 2013 £m |
|---|---|---|
| Gross written premium | **433.2** | 454.5 |
| Net written premium | **370.7** | 385.4 |
| Net earned premium | **360.4** | 404.6 |
| Reserve releases | **67.7** | 53.3 |
| Result attributable to underwriting | **35.5** | 16.2 |
| Renewal rate movement | **(0.2)%** | 0.0 |
| Retention ratio | **87%** | 88% |
| Claims ratio | **50%** | 56% |
| Expense ratio | **40%** | 40% |
| Combined ratio | **90%** | 96% |

The Amlin Europe portfolio contracted by 4.7% in 2014 with market conditions remaining competitive. Overall rates were stable and retention rates remained high. Importantly growth initiatives started to pay off with 5.2% growth achieved in the Netherlands property & casualty business through re-engagement with regional brokers.

The lower growth in net earned premium is principally due to slower recognition of business from RaetsMarine following its acquisition and a reappraisal of the patterns of Belgian engineering business.

The combined ratio was excellent at 90% despite £6.8 million of claims arising from the hail storms in June 2014. Reserve releases were again material at £67.7 million (2013: £53.3 million) with healthy claims settlement patterns and continued reduction in volatility of the business.

The expense ratio remains high at 40% (2013: 40%) with savings made in operating costs during the year offset by reduced net earned premium.

## Investment management and performance

The Group's investment management approach is led by investment risk appetite. This appetite takes into account perceived risk and returns of the asset classes which can be invested in, the underwriting trading environment and strength of the financial position of the Group. Importantly, an absolute investment return is not targeted; rather, return is maximised for a level of risk that is accepted. Once the risk appetite is decided on:

- Strategic asset allocations are set using quantitative and qualitative analysis
- Short-term tactical positions are taken if short-term opportunities are identified
- Skilled external managers are used to manage the underlying assets.

As with all insurance companies there is a distinction between underwriting assets, or premiums held before claims are settled, and capital assets. For underwriting assets, risk appetite is low, with assets held in government bonds and funds which hold a mix of bonds, bond derivatives and currencies. Duration of liabilities is referenced for consideration of the duration of assets, but if yields are expected to rise duration is likely to be shortened, which is currently the case.

Capital assets are with a longer term time horizon which allows investment in more volatile assets such as equities or property.

The current asset allocation is shown in the table below.

| | At 31 December 2014 | | | | At 31 December 2013 | |
|---|---|---|---|---|---|---|
| **Asset allocation** | **Underwriting assets £m** | **Capital assets £m** | **Total assets £m** | **%** | Total assets £m | % |
| **Type of asset** | | | | | | |
| Bonds | **2,139.8** | **618.3** | **2,758.1** | **61.7** | 2,953.8 | 66.2 |
| Other liquid investments | **592.4** | **201.0** | **793.4** | **17.8** | 802.5 | 18.0 |
| Equities | **4.0** | **654.7** | **658.7** | **14.8** | 522.4 | 11.7 |
| Property | **–** | **255.5** | **255.5** | **5.7** | 181.0 | 4.1 |
| **Total** | **2,736.2** | **1,729.5** | **4,465.7** | **100.0** | 4,459.7 | 100.0 |
| **Assets by region** | | | | | | |
| United Kingdom | **212.3** | **220.3** | **432.6** | **16.6** | 335.6 | 12.7 |
| US and Canada | **366.8** | **502.6** | **869.4** | **33.5** | 1,265.4 | 47.9 |
| Europe (ex UK) | **770.4** | **199.0** | **969.4** | **37.4** | 751.2 | 28.5 |
| Far East | **107.8** | **187.3** | **295.1** | **11.4** | 235.2 | 8.9 |
| Emerging markets | **5.2** | **22.6** | **27.8** | **1.1** | 51.5 | 2.0 |
| **Total** | **1,462.5** | **1,131.8** | **2,594.3** | **100.0** | 2,638.9 | 100.0 |

**Note:**
The regional table excludes pooled vehicles

The investment return for 2014 was 2.7% (2013: 3.6%), with average funds under management of £4.4 billion (2013: £4.5 billion). The income statement contribution amounted to £118.5 million (2013: £160.4 million). The returns by asset class and average asset allocations for the year are shown in the table below.

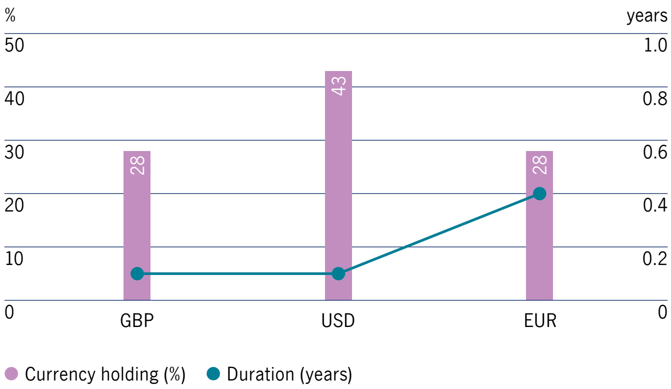
Again, in 2014, economic growth undershot forecasters' initial expectations. This was partly due to factors such as extreme cold weather in the US and Russia's annexing of Crimea in the first quarter. Policy also played its part, such as the ongoing rebalancing of the Chinese economy towards consumption and the impact of sales tax in Japan. The Eurozone economy grew in 2014 but austerity and deleveraging remain headwinds to growth and are deflationary. The fall in the oil price in the second half of the year, pushing headline inflation down, also led to speculation that global demand was weakening further. However, we believe that the oil price move is predominantly due to unwinding of speculative positions, which had pushed the oil price up since 2011, and the subsequent increased supply in response to this elevated price. This supply shock is effectively a tax cut for net oil importing countries.

With this backdrop the global property and equity portfolios performed satisfactorily during the year. However, the defensive stance was maintained towards interest risk throughout 2014, which meant that the full benefit of the drop in bond yields to new historical lows was not captured. During the year the allocation in the bond portfolio towards non-government bonds was reduced due to concerns over both valuations and liquidity.

The Insurance Linked Securities portfolio continues to be managed by Leadenhall Capital Partners (LCP) in the form of two standalone investment funds. The return on £63.1 million of average funds under management was £3.9 million or 6.2% (2013: £65.7 million, £4.1 million and 6.2%).

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Average asset allocation** | | **Return** | Average asset allocation | | Return |
| **Investment performance** | **£m** | **%** | **%** | £m | % | % |
| Bonds | **3,258** | **73.9** | **1.8** | 3,332 | 74.5 | 1.8 |
| Other liquid investments | **320** | **7.3** | **0.5** | 572 | 12.8 | 0.1 |
| Equities | **604** | **13.7** | **4.7** | 377 | 8.5 | 21.5 |
| Property | **224** | **5.1** | **8.4** | 190 | 4.2 | 9.7 |
| **Total** | **4,406** | **100.0** | **2.7** | 4,471 | 100.0 | 3.6 |

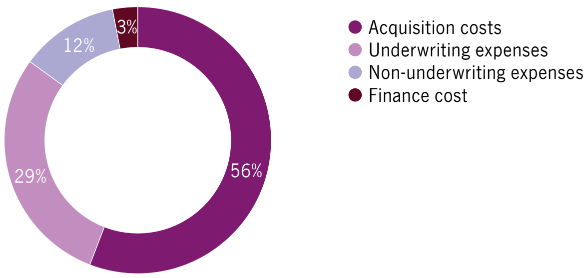
## Currency and durations




### Expenses

Total expenses increased to £843.1 million (2013: £827.2 million).

## Expenses by type (%)




| | **2014 £m** | 2013 £m |
|---|---|---|
| Acquisition costs | **473.0** | 450.9 |
| Underwriting expenses | **241.2** | 250.3 |
| Non-underwriting expenses | **101.9** | 97.0 |
| Finance costs | **27.0** | 29.0 |
| **Total expenses** | **843.1** | 827.2 |

Acquisition expenses are largely driven by levels of income and represent 19.1% of gross earned premium (2013: 18.5%). The increase in the ratio was due to a change in mix of business, for example, with relative growth in proportional treaty business in Zurich and Bermuda which incurs higher commissions.

Expenses relating to underwriting, excluding acquisition costs, relate to the administration of insurance business and claims payments. Excluding the impact of foreign exchange, these expenses improved by £2.2 million during the year.

Non-underwriting expenses decreased by £7.2 million, excluding foreign exchange differences, largely due to a reduction in employee incentives.

### Taxation

The effective rate of tax for the period is 8.6% (2013: 8.3%). This is below the UK rate of corporation tax primarily due to Amlin AG's Bermuda branch, which operates with no local corporation tax in Bermuda. Sources of profit and taxation by geography are shown in the following table.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Profit source** | **Profit/(loss) before tax £m** | **Effective tax rate %** | Profit/(loss) before tax £m | Effective tax rate % |
| UK & other | **19.5** | **26.1** | 83.2 | 19.8 |
| Bermuda | **131.0** | **0.4** | 196.4 | 0.2 |
| Continental Europe | **108.2** | **15.4** | 46.1 | 21.9 |
| **Group** | **258.7** | **8.6** | 325.7 | 8.3 |

### Capital position and dividend

The Group's net assets increased by 6.2% to £1,782.8 million (2013: £1,678.1 million). In addition to profit after tax through the statement of profit or loss, net assets were adjusted by items including:

- Dividends totalling £131.2 million (2013: £121.3 million)
- £3.4 million of currency gains (2013: £16.0 million losses) from net translation of foreign operations, translation of intangibles arising from investments in foreign operations and instruments that hedge investments in foreign operations. Gains reflect US dollar strengthening and euro weakening against the pound respectively
- An increase in net pension liability of £7.4 million (2013: £7.1 million decrease).

Net tangible assets increased to £1,519.2 million at 31 December 2014 (2013: £1,439.5 million).

Long-term, regulatory-compliant subordinated debt is also deployed in the Group's capital structure. It is unsecured and contains no financial covenants. At 31 December 2014, subordinated debt amounted to £261.5 million (2013: £289.5 million). During November 2014, US$50.0 million of debt was repaid to bond holders after the Group exercised an option to redeem. A further US$50.0 million will be redeemed in March 2015.

Additionally, a £300 million unsecured revolving credit facility is available, and was undrawn at the end of the year. The facility expires in August 2017 and is expected to be deployed to provide short-term organic growth capital or to support small acquisitions.

The table below shows the capital position at 31 December 2014 against our management's view of assessed capital requirement. The capital requirement reflects regulatory requirements for Syndicate 2001, Amlin Europe N.V. and also includes US$1 billion for Amlin AG. The latter is believed to be the minimum amount of capital required by Amlin AG to trade with its preferred client base. This is in excess of FINMA requirements.

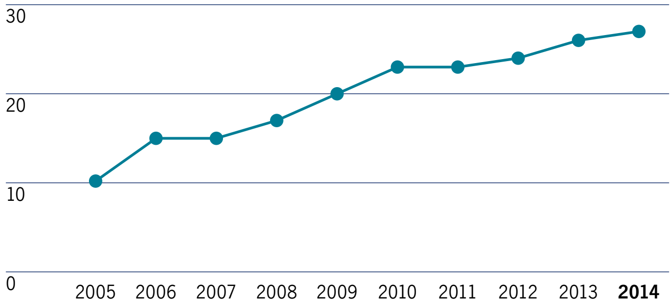
| | **2014 £m** | 2013 £m |
|---|---|---|
| Net tangible assets | 1,519.2 | 1,439.5 |
| Subordinated debt | 261.5 | 289.5 |
| Undrawn bank facilities | 300.0 | 198.6 |
| **Available capital** | **2,080.7** | 1,927.6 |
| Core regulatory requirement (plus economic uplift) for S2001 and Amlin Europe | 754.7 | 750.0 |
| Amlin AG (US$1bn) | 641.4 | 603.7 |
| **Assessed capital** | **1,396.1** | 1,353.7 |
| | **684.6** | 573.9 |

Over the long term, we aim to deploy this capital in order to deliver our target cross-cycle return on equity of at least 15% and to grow earnings per share. We manage our capital to:

- Provide robust levels of equity and debt capital to support our current business
- Retain sufficient levels to support long-term profitable growth
- Support payment of our ordinary dividend per share.

Our focus has been on providing shareholders with an increasing ordinary dividend stream over time. This is a committed policy and manages the level of capital effectively. Consideration is also given to the need to supplement this with further capital returns.

### Ordinary dividend per share (p)




With solid earnings in 2014, the ordinary dividend per share has been increased by 3.8% to 27.0 pence per share.

The capital position of the Group has improved during the year and consideration has been given to whether there should be an additional return to shareholders. The main drivers of capital need for the business are overall growth and the level of net catastrophe exposure. In a more competitive market, Amlin's underwriting philosophy is to curb growth and to focus on the bottom line. In the current environment more growth is expected to come from non-catastrophe classes, where markets are currently seeing less pricing pressure. This growth provides diversification benefits and more effective reinsurance is also controlling, and reducing, our catastrophe exposures. Therefore in the short term little capital pressure is evident from organic growth. Consequently, the Board has decided to return £74.9 million by way of a special dividend of 15.0 pence per share.

### Financial strength ratings

| | Syndicate 2001 | Amlin AG | Amlin Europe N.V. |
|---|---|---|---|
| A.M. Best | A+ (superior) | A (excellent) | Not rated |
| Standard & Poor's | 4+ (stable)[1] | A (stable) | A- (positive) |
| Moody's | A2 (stable) | A2 (stable) | Not rated |
| Fitch | Not rated | A+ (stable) | A+ (stable) |

**Note:**
1. Lloyd's Syndicate assessment

# Outlook

*The strength of our franchise, diversity of our portfolio and the benefits we are already seeing from our new structure, position Amlin well to continue to generate good returns for shareholders.*

### Outlook

The competitive markets in which Amlin operates are going through a period of significant change. The factors behind this are numerous: capital is abundant and in open markets it will seek out opportunities where relatively strong returns can be delivered, regulatory attention is heightened following the financial crisis and technology continues to dramatically impact the manner in which data can be analysed and products distributed. These factors will continue to have an impact on the business in 2015.

The strength of Amlin's franchise, the diversity of its business model and the skill of its people are essential for success in this environment. Amlin has a track record of being disciplined in difficult markets: a core focus on profitability and ability to adapt are essential.

The reorganisation of the business into three Strategic Business Units facing core markets is a clear demonstration that the business has the ability to adapt and make effective use of the Group skill base to pursue the Group's goals.

### Reinsurance

In Reinsurance, rating pressure has been intense but profitability has remained good. Underlying rating adequacy was acceptable in 2014 but during 2015 is expected to see continued downward pressure. During the 2015 January renewals, rates fell across the reinsurance account by an average of 6.1%. Parts of the portfolio are now reaching levels where return expectations are barely adequate for the risk taken. Our broad-based reinsurance offering, and our ability to lead terms and handle claims professionally continues to be attractive to brokers and clients. However, underwriting discipline and skill remain key to success: reducing lines or coming off layers where rating is inadequate. Consequently, less business has been renewed with the retention rate falling to 83% (2014: 86%).

After taking account of the distorting impact of multi-year contracts and foreign exchange, written income was down modestly by 3.6%, with the strong dollar helping to hold premium levels.

There are parts of the portfolio where rating pressure is less severe and growth has been possible, such as in continental European non-catastrophe classes.

Importantly, the influx of capital into the industry and increased competitiveness have also helped to make the purchase of retrocessional reinsurance more efficient. The same amount of reinsurance premium was spent for 2015 but cover was purchased across the business unit as a whole and deeper levels of cover were available at acceptable prices. This is clear through the reduction in realistic disaster scenarios, as shown on page 33.

### Marine & Aviation

The Marine & Aviation business unit delivered good performance in 2014 with a pro-forma combined ratio of 89%. Rating pressure increased but was not as intense as for reinsurance, with pressure evident where sharp increases have been achieved in recent years, such as energy and marine liability classes. For January 2015, rates fell by 2.6% with pressure most pronounced in energy. However, retention rates remained high at 89% and the renewals were a little ahead of plan. It is expected that this pattern will continue through 2015.

The marine reinsurance programme for the business unit was combined for the first time to cover the London and European business. This was placed with a small reduction in premium but significantly broader coverage.

### Property & Casualty

The Property & Casualty business is diverse, covering the Lloyd's operation and domestic UK and continental European insurance. The pro-forma combined ratio for 2014 was 94%. Both the Lloyd's and European businesses produced good results, with poor performance in the year for the UK business, due to flooding and heightened large loss activity.

At 1 January 2015, rating was flat across the business unit, with modest reductions in Lloyd's, stability in continental Europe and continued improvement in the UK with commercial motor renewals achieving rate improvements of around 4.2%. Retention rates were high at 91%.

Good growth was again possible in Europe, with a 7.8% increase on the previous year building on the success of 2014 and the new office in Germany. 70% of planned business was written at 1 January due to the skew of continental renewals to 1 January inception dates.

In the UK, action continued to be taken to correct poor performing parts of the business, particularly the haulage subsector of the motor account where volatility was evident in 2014. This led to modest contraction at 1 January but with improvement in expected profitability of the balance of the account.

### Investments

Investment markets are expected to remain challenging for 2015. Global growth remains weak with significant variance across the global economy. Falling inflation expectations led the European Central Bank to embark on a quantitative easing programme in January 2015. In addition, while the fall in the oil price has generated debate about whether this is supply or demand led, the result is effectively a tax cut for net oil importing countries and in particular their consumers. This boost to the world economy is expected to be marginally offset by the negative impact on oil producers, including the US shale oil industry.

Even without these additional stimuli, global economic growth is expected to have a stronger bias this year than last. Notably, in the US unemployment is back to levels last seen in 2008 and is rapidly approaching the point below which the Federal Reserve believes the slack in the labour market has been used up and wage pressure will cause inflation to accelerate; when it reaches that point the current emergency level of interest rates may no longer be appropriate.

There also appears to be sufficient scope for policy moves to keep Chinese growth around the authorities' target of 7%, as they rebalance the economy away from investment and towards consumption.

Consequently, equities and property are expected to outperform bonds in the short- to medium-term. However, care is needed as valuations across asset classes are at the higher end of the scale and higher market volatility is expected. In this environment, a well-diversified portfolio will be retained.

Historically, Amlin's outperformance of its competitors has increased in tougher market conditions and by maintaining strong underwriting discipline among our highly experienced underwriting teams, this is our aim over the coming period. While reinsurance and insurance rates are under pressure in a broadening number of classes, for the most part rates remain at acceptable levels with opportunities for growth, helped by our increased marketing and focus on client intimacy. While returns on equity will be affected by a lower margin environment, we continue to believe that we can deliver attractive returns on equity.

# Governance

# Corporate governance report
## Chairman's Letter


Good governance is an important element of the Board's stewardship of Amlin and as such, I am pleased to present our corporate governance report for the year ended 31 December 2014.

2014 was a busy year for Amlin with significant changes made to the Group's management structure and incentive arrangements. The Board believes that these provide a stronger foundation for the development of the Group in the long term, with incentive arrangements better aligned to the Group's strategy. We also paid particular attention to ensuring that the plans for these changes were sufficiently robust to minimise the risk arising from the changes and closely monitored their implementation. The Board was pleased with the improved quality and clarity of Board reporting achieved in 2014, following the review conducted in 2013. This has helped increase our focus on the salient matters associated with Amlin's strategy, performance and governance.

Yours sincerely,

Richard Davey

**Richard Davey**
Chairman

**Comply with the Code**
Amlin is subject to the principles and provisions of the UK Corporate Governance Code (the Code) which can be found on the Financial Reporting Council's (FRC) website, www.frc.org.uk.

The Board considers that Amlin has complied with the provisions of the Code through the last financial year. The required regulatory and governance assurances are included throughout this corporate governance report and each Committee report. Disclosures against the main principles of the Code as required by the Listing Rules can be found on our website in the governance section at www.amlin.com.

## Relations with shareholders

The Chief Executive and the Chief Finance & Operations Officer are responsible for maintaining regular communications with shareholders. They are assisted by the Global Head of Investor & Media Relations.

The Board receives regular reports from the Global Head of Investor & Media Relations which include an overview of the sector and peer group news, share price performance and market commentary, the composition of the shareholder register, investor relations activity and feedback from investors and analysts. In addition, an update on recent analyst presentations and investor days is included in the quarterly CEO report which is presented to the Board and both the Chief Executive and Chief Finance & Operations Officer comment upon the views of our investors when the Board reviews this report.

Effective communication with shareholders is important and as such the following investor relations activity took place in 2014:

- telephone briefings for investors and analysts around key financial announcements
- analyst presentations of full- and half-year results. Investor road-shows following the preliminary and half-year results
- attendance and presentations at investor days organised by major securities firms
- a special briefing on the acquisition of Leadenhall Capital Partners LLP.

During the year Amlin also consulted with its 30 largest investors (who hold approximately 70% of the issued share capital), over proposed new executive incentive arrangements. The Chairman of the Remuneration Committee met with key shareholders, where requested, to discuss the proposals and any concerns they had and, where appropriate, the Remuneration Policy was amended accordingly. Further details can be found in the Directors' remuneration report on pages 84 to 101. An additional General Meeting to approve the new arrangements was held on 24 November 2014.

In line with the Code, the Board uses the Annual General Meeting (AGM) to communicate with, and encourage the participation of, investors. All holders of ordinary shares are invited to attend the AGM and to ask questions. The Chairmen of the Audit, Risk & Solvency, Remuneration and Nomination Committees are available to answer questions.

For the 2015 AGM, Amlin will send the Notice of Meeting and relevant documentation to shareholders at least 20 working days before the date of the meeting. For shareholders who have chosen to receive communications electronically, notice will be given of the availability of the documents in the investors section of www.amlin.com.

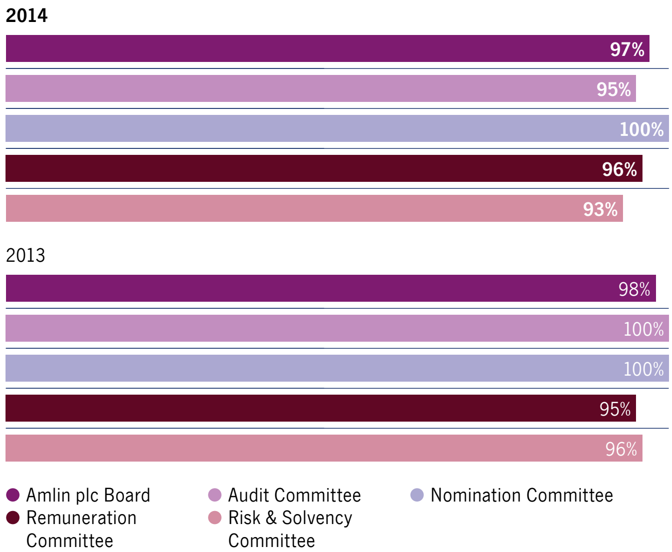
The Annual Report, investor presentations, AGM documentation, key financial information, regulatory news, financial calendar and share and dividend information are all available through the investors section of www.amlin.com.

## Leadership

| Directors | Number of Board meetings attended (attended/maximum) |
|---|---|
| Richard Davey | 7/7 |
| Simon Beale | 7/7 |
| Julie Chakraverty | 7/7 |
| Marty Feinstein[1] | 5/7 |
| Richard Hextall | 7/7 |
| Shonaid Jemmett-Page | 7/7 |
| Oliver Peterken[2] | 2/2 |
| Charles Philipps | 7/7 |
| Sir Mark Wrightson | 7/7 |
| **Former members** | |
| Brian Carpenter[3] | 4/4 |
| Sir Alan Collins[4] | 3/3 |

**Notes:**
1. Marty Feinstein was absent from the April and October Board meetings due to illness.
2. Oliver Peterken was appointed to the Board on 1 September 2014 and attended every meeting he was eligible to attend.
3. Brian Carpenter stepped down from the Board on 30 September 2014.
4. Sir Alan Collins retired from the Board on 22 May 2014.

### Board and Board Committee attendance (%)




**Functions of the Board**

The Board has a number of key objectives and responsibilities in respect of its stewardship of the Group:

- setting and overseeing the implementation of the Group's strategy to ensure it delivers value to shareholders, clients and employees
- ensuring high standards of corporate governance are maintained across the Group
- ensuring an effective control framework is in place to assess and manage risks, including monitoring executive management in this area
- providing constructive challenge to the executive management in order to ensure the Group's success
- managing succession planning for the Board and the Group's executive management.

### Reserved and delegated decisions
The Board has a formal Schedule of Matters Reserved which is reviewed annually and is available in the governance section at www.amlin.com. It was last reviewed in May 2014. Key decisions and matters reserved to the Board include those relating to the Group's strategy and business plan, approval of major acquisitions, disposals, capital expenditure, financial results and the agreement and monitoring of the Group's systems of internal control and risk management.

The Board has delegated certain responsibilities to the following committees:
- Audit Committee
- Nomination Committee
- Risk & Solvency Committee
- Remuneration Committee

Further details of the work each Committee carried out in 2014 is on pages 73 to 74 and 77 to 101.

### Meetings of the Board
The Board meets at least four times a year and met seven times during 2014. At each meeting it receives a written report from the Chief Executive, a separate report on investor relations and an update on strategic initiatives. Other key areas of focus include Group financial performance, underwriting performance, investments, employee and organisational matters and a regular update on the external business environment.

Key non-standard issues considered in the past year included:
- a review of management's plans for the reorganisation of the Group including the creation of three client-facing global Strategic Business Units (SBUs) and the consolidation of all non-underwriting functions
- the acquisition of an additional 35% of Leadenhall Capital Partners LLP
- the Company's new remuneration policy

### Executive Committees
From 1 September 2014, Amlin had five key executive committees which are responsible for the day-to-day management of the organisation.

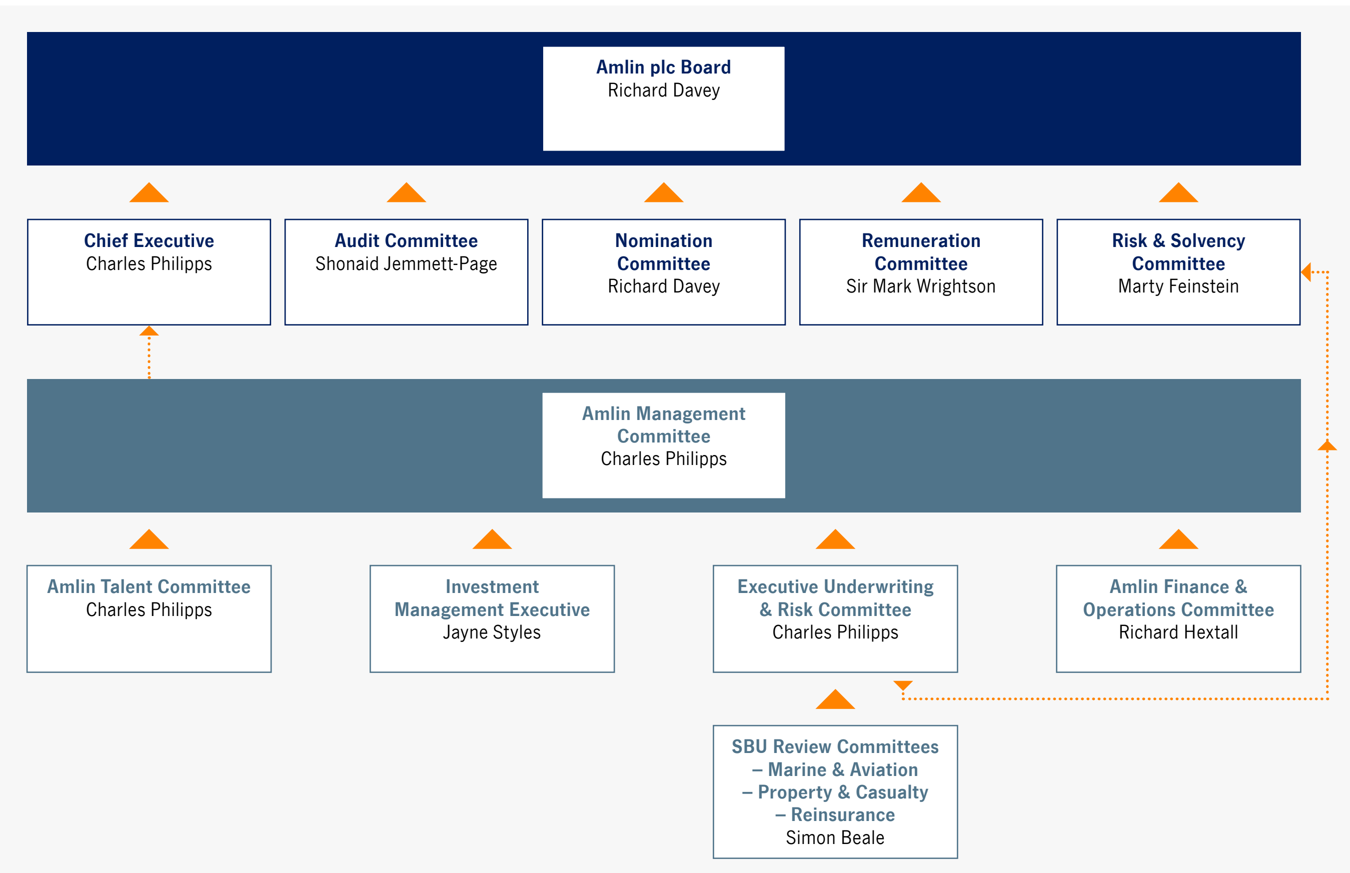
The Amlin Management Committee provides oversight of the Group's performance and capabilities with a view to the Group achieving its strategic objectives.

The Amlin Talent Committee is responsible for the oversight and development of talent within Amlin from graduate employees through to senior management. It is also responsible for developing succession planning for senior management up to but not including Board level.

The Investment Management Executive sets the strategic asset allocation and tactical asset allocation ranges for Amlin's investment portfolios. It also monitors investment performance and levels of investment risk.

The Executive Underwriting & Risk Committee provides a comprehensive review of the Group's aggregated risk profile and the applicability of the risk management framework, paying particular consideration to underwriting areas of concern, and internal control adequacy ensuring that appropriate mitigating action is taken.

## Board and Committee reporting structure



The Amlin Finance & Operations Committee oversees the effectiveness of both the Finance and IT & Operations functions and promotes joined-up business support and value-enhancing improvements.

### Strategy

The Board is responsible for setting and overseeing the implementation of Amlin's strategy.

In addition to the regular update on strategic initiatives which is presented at every meeting, the Board holds two strategy days each year in April and October. These sessions are used to review important trends which may affect Amlin, review our long-term strategy and aspirations and consider any new actions or activity which may be required to ensure that Amlin can deliver its strategy.

### Culture and tone from the top

The Board is responsible for setting the "tone from the top" in respect of the Group's governance, culture and values. It holds management to account for reinforcing Amlin's values throughout the Group.

Amlin's desire to differentiate itself from competitors by becoming increasingly client-centric is a cultural shift for Amlin. The Board is conscious of wanting to achieve this shift without losing the other attributes of Amlin's culture which have contributed to its success. The Board has reviewed plans for implementing a customer relationship management system and introducing net promoter scoring, as well as a new service management framework which has been designed to help reinforce the theme of client centricity and manage high levels of client service, both to external clients and internally within Amlin.

Regulators are placing greater emphasis on customer outcomes and the conduct of insurers and the Board recognises the importance of the relationship between culture and compliance. During the year the Audit Committee reviewed the progress that had been made as a result of an internal audit on culture and behaviours which took place in 2012-3. It has also been decided to incorporate consideration of risk control and culture in all future internal audit reports. Further information can be found in the Audit Committee report on pages 77 to 81.

# Board of directors


### 1. Simon Beale
**Chief Underwriting Officer**
Appointed a Director in 2011.

Background and relevant experience
Simon Beale is the Chief Underwriting Officer (CUO) of Amlin plc. He is a non-executive director of Amlin Underwriting Limited having been a director since 2000.

Simon Beale's background is as a specialist marine hull underwriter since joining the Lloyd's market in 1984, becoming a recognised international leader in this field. He joined Amlin in 1994 and headed Amlin's marine business from 2001 to 2009. From 2008 he was responsible for the London business until appointed to the role of CUO in 2012.

He has worked in the Lloyd's market since 1984 with a specialism in marine underwriting. He has served on various Lloyd's underwriting committees. He is currently a member of the Lloyd's Market Association Board and in 2015 he was elected to serve a second three-year term on the Council of Lloyd's.

### 2. Julie Chakraverty
**Independent Non-Executive (A, N, R, R&S)**
Appointed a Director in 2013.

Background and relevant experience
Julie Chakraverty is non-executive director and chair of the Innovation Committee of Aberdeen Asset Management PLC and a non-executive director of Spirit Pub Company plc. She is a former non-executive director of the insurance company Paternoster. Her previous executive career was at UBS where she was a board member of the investment bank, holding global roles within capital markets and digital platforms. She started in financial services over 20 years ago at J.P. Morgan. She is also a Trustee of the Girls' Day School Trust.

### 3. Richard Davey
**Non-Executive Chairman (N, R&S)**
Appointed a Director in 2005 and Amlin plc Chairman in 2012.

Background and relevant experience
Chairman of the Nomination Committee. He retired as a senior independent director of Severn Trent Plc in January 2015 and was non-executive vice chairman of the Yorkshire Building Society until April 2012 and non-executive chairman of London Capital Group Holdings plc until August 2012. The majority of his executive career was spent in investment banking at N M Rothschild & Sons Limited, in roles including Head of Investment Banking and chairman of the Executive Committee. He retired in 1999. A financial services sector specialist, he advised Lloyd's of London, and then Equitas, on the Reconstruction and Renewal proposals of the early 1990s.

### 4. Marty Feinstein
**Independent Non-Executive (A, N, R&S)**
Appointed a Director in 2007.

Background and relevant experience
Chairman of the Risk & Solvency Committee and Senior Independent Director. Marty Feinstein is a member of the National Association of Corporate Directors. He is a non-executive director and chairman of the Audit and Finance Committee of Reynolds American Inc. He was non-executive director of GeoVera Insurance Holdings Limited until August 2012 and was chairman and chief executive officer of Farmers Group Inc. from 1997 to 2005, when he retired after 35 years' service. By 2005 Farmers was the third-largest property and casualty group in the US. Marty Feinstein is a US citizen.

### 5. Richard Hextall
**Chief Finance & Operations Officer**
Appointed Group Finance Director in 1999 and became Chief Finance & Operations Officer in 2012.

Background and relevant experience
Chartered Accountant. Richard Hextall was a director of the Lloyd's Market Association from 2007 to 2010 and a member of its Finance Committee from 2002 to 2009 (chairman from 2005 to 2007). He was also a member of the Lloyd's Investment Committee from 2003 to 2007. He joined Amlin from Deloitte & Touche, where he was a director specialising in the insurance and financial services sector. Richard Hextall has been an independent non-executive director of The City of London Investment Trust plc since 2007 where he is the Audit Committee chairman and senior independent director.

### 6. Shonaid Jemmett-Page
**Independent Non-Executive (A, N, R, R&S)**
Appointed a Director in 2012.

Background and relevant experience
Chairman of the Audit Committee. Shonaid Jemmett-Page is a former chief operating officer for CDC Group plc and a former non-executive director and chairman of the Audit Committee of both Havelock Europa plc and Close Brothers Group plc. She is a non-executive director and chairman of the Audit Committee of GKN plc, APR Energy plc and Greencoat UK Wind plc. In addition she is a non-executive director of Origo Partners plc, which is based in the Isle of Man. Until recently she was chairman of the Sustainability Committee for the Institute of Chartered Accountants in England & Wales and is the examiner of an Indian children's cancer charity based in Mumbai. She was formerly an audit partner at KPMG, specialising in financial institutions, including insurance.

### 7. Oliver Peterken
**Independent Non-Executive (A, N, R&S)**
Appointed a Director in 2014.
Appointed to the Remuneration Committee effective 1 March 2015.

Background and relevant experience
Oliver Peterken is deputy chairman and chairman of the Finance and Audit Committee of the Willow Foundation. He is a former non-executive director of Torus Insurance Holdings Limited and the former Group Chief Risk Officer of Aspen Insurance Holdings Limited. He was previously Managing Director of Willis Consulting Limited, where he had a global remit spanning the UK, Europe, Asia Pacific, Latin America and Australia and held a number of senior management positions during his 10 years with Willis. He graduated from UMIST and started his career with the National Audit Office where he qualified as an accountant before moving to Prudential Corporation plc.

### 8. Charles Philipps
**Chief Executive (N)**
Appointed Chief Executive in 1999, having joined the Board as Group Finance Director in 1997.

Background and relevant experience
Chartered Accountant. Charles Philipps represented Amlin Corporate Member Limited on the Council of Lloyd's from 2001 to 2007, was a vice chairman of the Lloyd's Market Association from 2004 to 2007 and president of The Insurance Institute of London 2008 to 2009, having previously served on its Council. He was a director of NatWest Markets Corporate Finance Limited until 1997, having been employed there from 1983. Whilst at NatWest Markets he was responsible for the formation and flotation on the London Stock Exchange of Angerstein Underwriting Trust PLC, which became Amlin plc. Charles Philipps is a non-executive director of Great Portland Estates from 1 April 2014 and has been a trustee (unpaid) of The Outward Bound Trust since December 2010.

### 9. Sir Mark Wrightson, Bt.
**Independent Non-Executive (N, R)**
Appointed a Director in 2006.

Background and relevant experience
Chairman of the Remuneration Committee. Sir Mark retired as co-chairman of Close Brothers Corporate Finance Limited in 2006. He was formerly chairman of the London Investment Banking Association Corporate Finance Committee and a member of the Panel on Takeovers and Mergers. Sir Mark is a non-executive director of Domino Printing Sciences plc and was a non-executive director of Tees Valley Regeneration Limited until July 2008 and of British Vita plc from 2004 to 2005.

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**Current Committee memberships are denoted by the following letters:**
A Audit Committee
N Nomination Committee
R Remuneration Committee
R&S Risk & Solvency Committee

Directors are British citizens unless stated otherwise.

## Effectiveness

### Independent Non-Executive Directors

The Board is made up of a Non-Executive Chairman, five independent Non-Executive Directors and three Executive Directors. The Chairman was independent on his appointment as a Non-Executive Director in 2005. However, following his appointment as Chairman on 17 May 2012 he is no longer classed as independent. The Board considers that the skills and experience of its members, particularly in the areas of insurance, reinsurance, finance and risk are fundamental to the pursuit of Amlin's strategic objectives. All Directors will offer themselves for re-election at the next AGM, with the exception of Sir Mark Wrightson who will retire, and Oliver Peterken who will be proposed for election. The Board has authorised a number of potential conflicts of interest relating to the Directors' independence in accordance with the Companies Act 2006 and the Articles of Association (Articles).

The Chairman leads the Board and ensures its effectiveness. The Chairman sets the agenda, ensures the Directors receive accurate, timely and clear information, and sets the tone for Board discussions.

The Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors as necessary. He is also available to shareholders should they have concerns not yet resolved through other channels.

### Changes in commitments of Chairman

The Chairman's commitments have not changed during 2014. As well as leading the Board and setting the "tone from the top" he is a member of the Risk & Solvency Committee and the Chairman of the Nomination Committee. He is also an attendee at the Audit Committee and the Remuneration Committee.

### Performance Evaluation

The performance of the Board and its Committees is evaluated each year. The most recent external evaluation was carried out by Independent Board Evaluation in 2012 and was reported in the 2013 Report and Accounts. In 2014, an internal online questionnaire and individual interviews with the Group Company Secretary were used to evaluate the Board's effectiveness.

The results were presented to the Board and its Committees in November 2014 and plans to address any issues that arose as a result of the evaluation were presented at the February 2015 meetings.

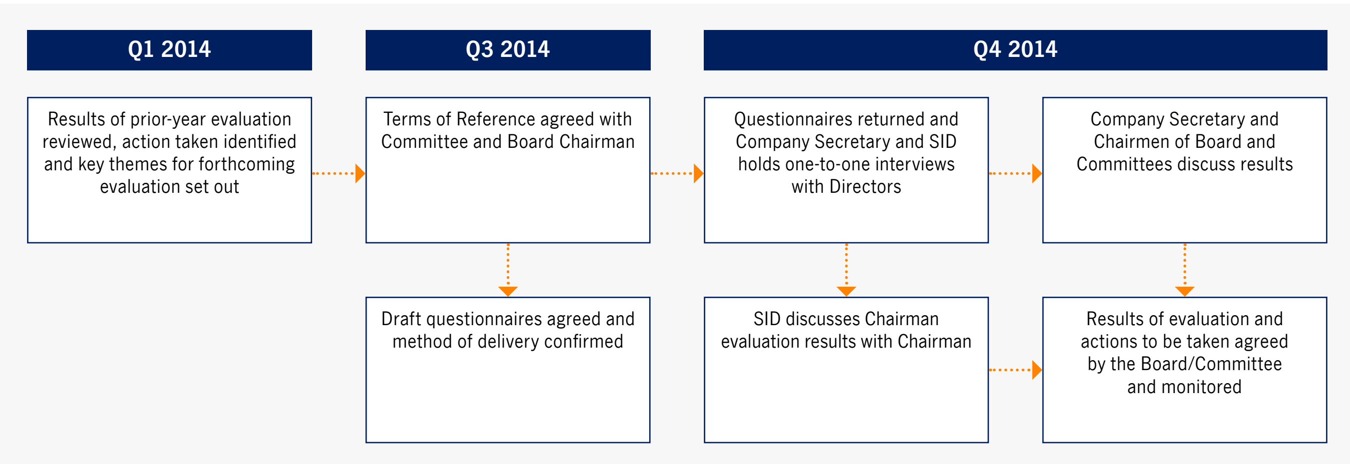
The Board concluded that it and the Committees were effective and had an appropriate balance of skills and experience to discharge their responsibilities appropriately. Furthermore, the Board concluded that there was an appropriate level of challenge and discussion to enable the Board and its Committees to work effectively as a unit.

### Succession Planning

Executive succession planning is reviewed annually by the Board. During the year the Board also reviewed Amlin's Talent Management Programme, which was re-designed in 2014 to increase its alignment with the succession planning process.

During the year the Nomination Committee discussed non-executive succession planning. The Committee identified the need for an additional non-executive director with knowledge of the insurance market to address the Board's views regarding its desired balance of skills and experience in the medium term. An external recruitment consultant was used to assist in finding an individual with the right skills and experience and the process culminated in the recruitment of Oliver Peterken to the Board in September 2014. His biographical details can be found on page 71.

## Internal Board Evaluation



# Nomination Committee report


## Committee membership

| | Meetings attended |
|---|---|
| Richard Davey (Chairman) | 4/4 |
| Julie Chakraverty | 4/4 |
| Marty Feinstein | 4/4 |
| Shonaid Jemmett-Page | 4/4 |
| Charles Philipps | 4/4 |
| Sir Mark Wrightson | 4/4 |
| Oliver Peterken[1] | 1/1 |
| **Former member** | |
| Sir Alan Collins[2] | 2/2 |

**Notes:**
1. Oliver Peterken joined the Committee from 1 September 2014
2. Sir Alan Collins retired from the Committee on 22 May 2014

### Key items in terms of reference

- Regularly review the Board's structure, size, composition, balance of skills, knowledge, experience and diversity
- Review the leadership needs of the organisation
- Lead the process for appointments to the Board
- Consider succession planning, taking into account the Group's requirements and the skills and expertise needed on the Board

The Board reviewed the terms of reference of the Committee on 26 February 2015, and these can be found in the governance section at www.amlin.com.

The Committee was considered to be effective in fulfilling its role throughout 2014.

### Introduction

Our purpose is to ensure that the Board, its Committees and the individuals who fill leadership positions, have the right balance of experience and qualities to deliver the strategic leadership, values, management and controls required for the Group's success. We also oversee succession planning for key executives and the identification and nomination of all candidates for Board appointment.

The biographies of the members of the Committee are set out on pages 70 to 71.

### Succession planning

Sir Mark Wrightson's nine-year tenure as an independent Non-Executive Director completes in 2015. As indicated in the 2013 Annual Report, Sir Alan Collins did not seek re-election at the 2014 AGM and retired from the Board at that time. We took these factors into account when, in 2013 we decided to recruit an additional Non-Executive Director with specialist insurance experience. A search was undertaken in 2014 which culminated in the recruitment of Oliver Peterken.

We continue to support the objective of developing the Group's general management capability at senior level through the development of talented individuals identified to participate in the Group's Talent Management Programme. In light of the Group's strategy, the Amlin Talent Committee reviewed its remit to ensure the approach to talent management and the programme of associated activities continue to meet the immediate and long-term needs of the Company. Chaired by the Chief Executive, the Amlin Talent Committee is an executive committee which provides governance and active sponsorship of all issues relating to the development and management of talent. The Nomination Committee believes this is critical to the Group's ability to realise its long-term ambitions and a major differentiator that also drives operational performance.

See Resources and Relationships section on pages 38 to 47 for more details.

### Appointment process

We lead the process for appointing both Executive and Non-Executive Directors and during the year led the process for recruiting a new Non-Executive Director.

Having taken account of the skills and expertise required, a detailed brief of the role was prepared, including the criteria against which candidates would be assessed. Ridgeway Partners LLP, an external consultancy with no other connection to the Company, was appointed to assist with the process which began by drawing up a long list of candidates and holding preliminary interviews. Ridgeway Partners is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms. CVs of six prospective appointees were subsequently circulated to the Committee. Having interviewed these candidates and having considered potential Non-Executive Directors serving on Group subsidiary company boards, the Committee recommended the appointment of a preferred candidate to the Board.

Oliver Peterken was appointed with effect from 1 September 2014. A member of the Institute of Risk Management with extensive insurance industry experience, he met the criteria for enhancing specialist insurance expertise on the Board. His biographical details can be found on page 71. At his appointment, and on the recommendation of the Committee, Oliver joined the Audit and Risk & Solvency Committees. Subsequently, Oliver has been appointed to the Remuneration Committee with effect from 1 March 2015.

**Skills and experiences**

We recognise the importance of having a balance of Executive and Non-Executive Directors with an appropriate mix of business skills, industry knowledge and experience. Given the complex nature of our industry we seek to appoint Non-Executive Directors who have recent and relevant insurance, financial, commercial and risk experience. We have recommended to the Board that each of the current Non-Executive Directors should be proposed for re-election at the 2015 AGM for a further full year, with the exception of Sir Mark Wrightson, who will retire, and Mr Peterken, who will be proposed for election.

Following Brian Carpenter stepping down as an Executive Director in September 2014 and a review of the Board's executive membership, the Committee concluded that the Executive Directors bring skills and experience to the Board that are complementary to each other and those of the Non-Executive Directors. We have recommended to the Board that each Executive Director should also be proposed for re-election at the 2015 AGM for a further full year.

No member of the Committee or Director participated in any decision regarding his or her own future.

Biographical details of all Directors can be found on pages 70 to 71.

The Directors received training throughout 2014 from internal and third-party providers on matters relevant to their Board and Committee responsibilities. Matters covered included competition law, remuneration, the use and development of the Internal Model, reserving risk and updates on Solvency II.

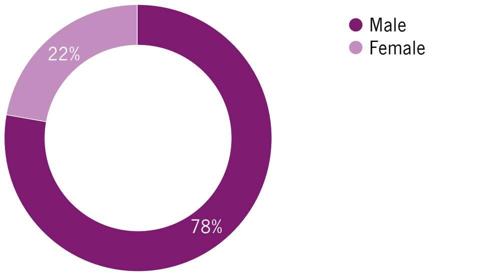
**Diversity**

The Board believes that diversity is an important driver of both Board effectiveness and business success. Amlin remains committed to its policy of diversity, including diverse skills, experience, nationality and gender in its appointments to the Board and within the Executive. The diversity policy sets out the criteria for recruitment; recruiting individuals on merit and their suitability for the role, while remaining aware of the skills and experience of the other Directors and senior management.

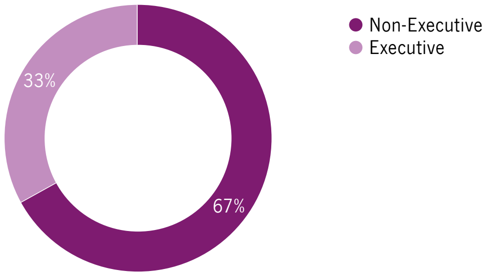
On behalf of the Nomination Committee

**Richard Davey**
Chairman of the Nomination Committee
27 February 2015

## Board Diversity (%)




## Executive/Non-Executive split (%)




# Accountability

**Overview**

Subsidiary management (including main subsidiary boards) and our Control Framework

The Group's organisational and governance arrangements continue to evolve and we implemented a number of changes in 2014, including reorganising our businesses into three SBUs: Reinsurance, Marine & Aviation, and Property & Casualty, with claims and support functions becoming centrally managed.

In conjunction with the change in organisational structure, we undertook a review of existing legal entity governance in order to ensure that the Boards and their respective CEOs of regulated entities can demonstrably exercise control over the affairs of their company by exercising control over the business written on their behalf by the SBUs and the services provided to them by centrally managed functions.

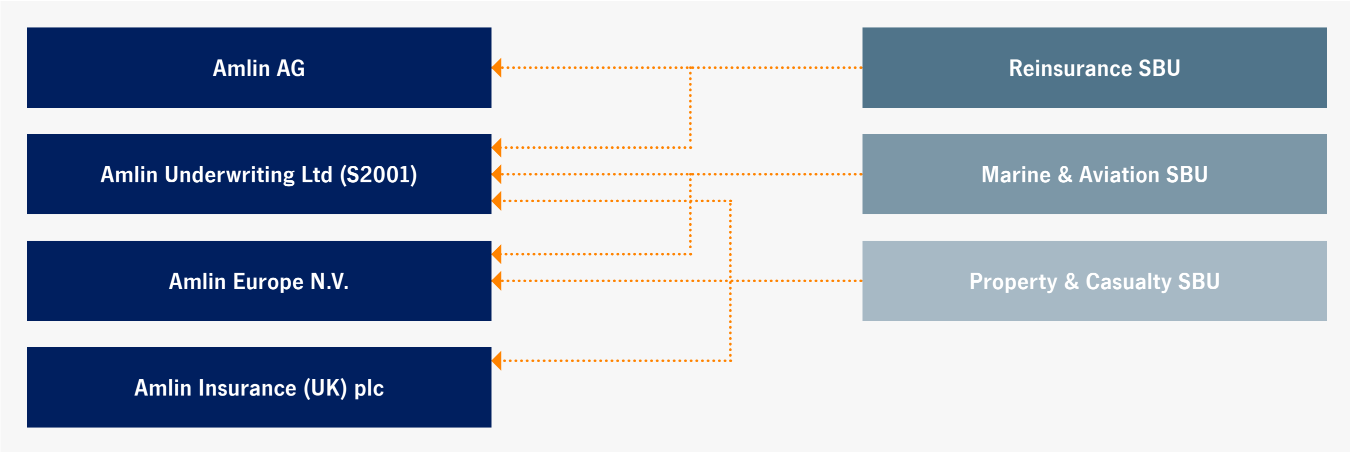
In addition, each regulated subsidiary continues to have its own executive management and has clear delegation of authority, with Group executives sitting alongside the relevant business's executive management on the boards of each entity.

We have established a framework of Group policies and standards, and key internal controls and expect each SBU and centrally managed function to comply with them.

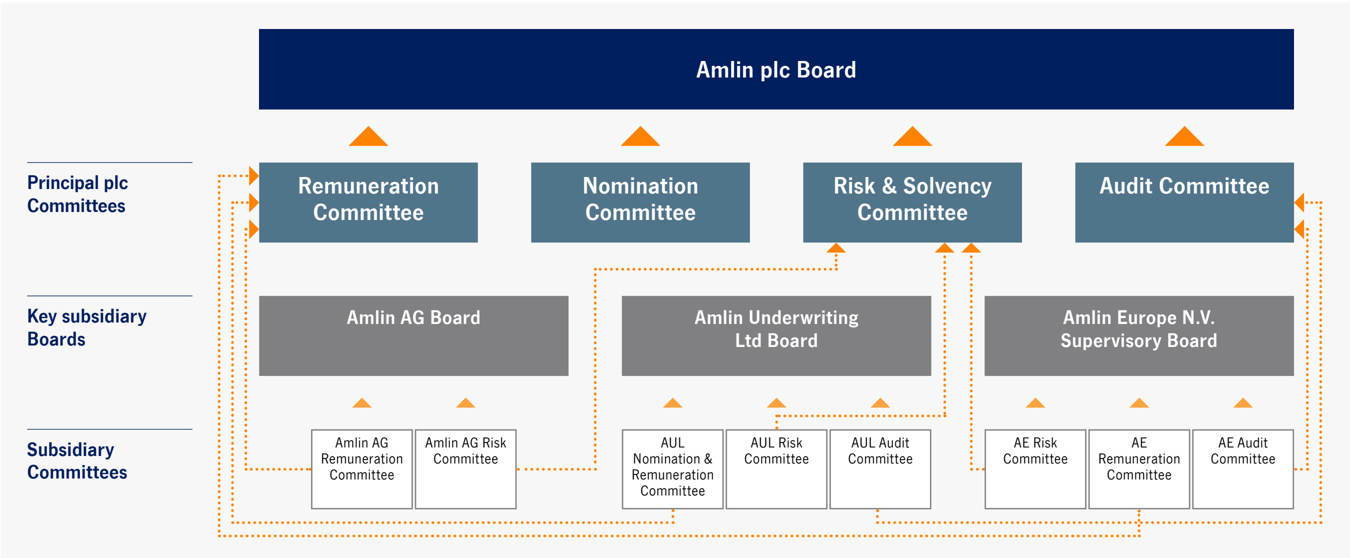
Plans have been drawn up to ensure each SBU and central function has clear responsibilities for ensuring they have appropriate controls at an operational level. Accountability for management oversight of each SBU and function has been clearly apportioned between relevant executives. The risk and compliance functions operate as second lines of defence to ensure that the SBUs and functions comply with Amlin's risk management framework and legal and compliance requirements. The various executive governance bodies discussed earlier in this statement are key elements of the overall control environment. These bodies receive oral and written reports from Amlin's businesses and support departments.

The relationship between the main Board, its Committees and the main subsidiary boards and their committees is set out in the diagram opposite.

## Interaction between legal entities and SBUs




## Board and Board Committee structure




### Board review of effectiveness of risk management and internal control systems

#### Board internal control statement

The Board is responsible for Amlin's risk management and internal control systems. It has complied with principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the significant risks facing the Group. This process has been in place from the start of 2014 to the approval date of this report and includes risks arising from social, environmental and ethical matters, in accordance with the Turnbull Report.

Directors are aware that any internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They know that the systems can only provide reasonable and not absolute assurance against material misstatement or financial loss. In the Strategic Report on strategy and principal risks on pages 26 to 27 and 34 to 37, is further information on how the Company has maintained a sound system of internal controls to safeguard shareholders' investment and the Company's assets.

The Risk & Solvency Committee regularly reviews the effectiveness of the Group's risk management system on the Board's behalf while the Audit Committee considers the Group's financial reports, financial reporting process, regulatory and compliance matters. If significant control failings or weaknesses are identified, they are reported by management, the risk or compliance functions or by internal audit to the relevant committee. The relevant committee also receives regular reports on remediation work and discussions with other interested parties, such as regulators.

#### Risk management

Managed by the Chief Risk Officer (CRO), our centrally managed risk function oversees the management of risk, ensuring each operating entity manages its risk in accordance with Group policies and allocated risk tolerances. The Amlin Executive Underwriting & Risk Committee reviews reports from the risk function and considers appropriate executive actions. Additionally, each regulated subsidiary's board is responsible for overseeing its risk, supported by risk committees for each principal subsidiary.

#### Risk assessment

Amlin's risk assessment process includes using an enterprise risk management system called ARM. The ARM system reports on every significant identified risk to achieving Group objectives, the nature and effectiveness of controls and other management processes to manage these risks. Risk tolerances or limits are set for key risk categories, for example, catastrophe, reserving, investment and operational risk.

The risk management framework encompasses self-assessment of controls by risk owners throughout the business, and the risk function independently challenges their assertions. The internal audit function regularly reviews the risks identified by risk owners and the effectiveness of their controls and operation.

The Own Risk & Solvency Assessment (ORSA) brings together key metrics on Amlin's risk and solvency position. Amlin operates an Internal Model that captures the key economic and risk factors that could impact Amlin's performance and this is a key source of data for the ORSA. The ORSA is produced quarterly and used to escalate significant risks, their potential impact on the Group's financial position, any variations from the agreed risk appetites, and the actions to manage those risks. The Executive Underwriting & Risk Committee and the Risk & Solvency Committee review the ORSA. ORSAs are also produced for each regulated subsidiary Risk Committee, specifically relating to the key risk metrics for that entity.

### Compliance

The Group Head of Compliance reports directly to the CRO. The Group Head of Compliance provides regular updates to the Audit Committee on compliance issues, including, but not limited to, significant exceptions arising from the compliance monitoring programme, routine and non-routine interactions with the Group's regulators, changes in the regulatory environment, and regulatory responses to corporate developments. The compliance monitoring programme is approved by the Audit Committee as part of the annual compliance plan.

In addition, the audit committees and/or boards of the Group's major regulated subsidiaries receive more locally-focused compliance reports which are specific to those companies.

### Internal audit

Amlin's internal audit team provides our independent assurance over the control environment of the Group on a global basis. The Head of Internal Audit reports directly to the Audit Committee Chairman, aligning with the guidance issued in the CIIA Code (July 2013), and also reports to the Chief Executive. Internal audit has established a risk-based rolling audit programme for reviewing and evaluating the effectiveness of the internal controls and procedures in place to manage risk. Further details regarding the work of internal audit during 2014 can be found in the Audit Committee report on page 77.

### Assessing our processes

The Board receives regular reports from the Audit Committee and the Risk & Solvency Committee. The reports review Amlin's main processes, including matters that are the regulatory responsibility of the regulated subsidiary boards. Both Committees performed a specific assessment for this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report, including the work of internal audit. The findings are used to help the Board discharge its review responsibilities.

The Audit Committee continues to review the Group whistleblowing process and endorses any changes and enhancements which encourage the Group's wider grievance process to continue working effectively. Further work on the Group's whistleblowing process is planned for 2015 to ensure it remains fit for purpose and effective.

## Financial reporting process

### Business planning

Amlin has developed a formal structured business planning process for all SBUs and legal entities. Proposed plans are presented to and agreed by the Amlin Management Committee and relevant subsidiary boards, consolidated and then considered and approved by the Board. Board and SBU reporting of performance against plan operates on a quarterly basis, with monthly monitoring at management level.

### Reserving for insurance liabilities

Responsibility for reserving rests with the boards of regulated subsidiaries and, at Group consolidated level, the Board. The Board recognises that it is important that the processes executive management use in reaching their reserving decisions are objective and robust. The process involves quarterly reserving meetings attended by senior executives from the SBUs, Group Risk, Finance and Actuarial departments, which review and propose required reserving levels for each SBU, subsidiary and for Amlin as a whole. Subsequently, there is a Group Executive meeting to consider the overall position. The reserving process is now led by the actuaries across the Group, an alignment of process completed in 2014. Reserving is agreed at subsidiary board level each quarter and reviewed twice yearly as a whole by the Audit Committee.

### Investments

The setting and execution of Amlin's investment strategy has its own hierarchy of responsibilities. The relevant boards are responsible for setting their investment frameworks that control the practices and procedures governing the management of their investments. Within this framework, the Board sets an overall investment risk appetite and the subsidiary boards agree their allocation of this risk appetite. The Investment Management Executive approves the strategic asset allocations and tactical ranges with day-to-day management responsibility delegated to Amlin Investments or the subsidiary Designated Officers. The aim is to optimise the returns for the risk being taken by adopting a multi-asset, multi-manager approach.

## Consolidated accounting process

Amlin has mature internal processes in place with regards to producing its consolidated accounts. In addition to scheduled internal reviews of the draft financial statements, a formal process is in place to ensure the Group executive reviews the Report and Accounts and confirms that it believes them to be fair, balanced and understandable. This process has been discussed and approved by the Audit Committee which then advises the Board on its robustness.

# Audit Committee report

**Shonaid Jemmett-Page**
Committee Chairman



## Committee membership

| | Meetings attended |
|---|---|
| Shonaid Jemmett-Page (Chairman) | 6/6 |
| Julie Chakraverty[1] | 5/6 |
| Marty Feinstein[2] | 5/6 |
| Oliver Peterken[3] | 2/2 |
| **Former Member** | |
| Sir Alan Collins[4] | 3/3 |

**Notes:**
1. Julie Chakraverty joined the Committee from 1 March 2014.
2. Marty Feinstein was unable to attend the April meeting due to illness.
3. Oliver Peterken joined the Committee from 1 September 2014.
4. Sir Alan Collins retired from the Committee on 22 May 2014.

### Key items in terms of reference

- Monitor the integrity of the Company's financial statements and any formal announcements relating to the Company's financial performance. This includes advising on whether the process behind the production of the Annual Report and Accounts leads to a document that is fair, balanced and understandable
- Monitor and review the effectiveness of the Group's Internal Audit function and agree an effective Group internal audit programme with the Head of Internal Audit
- Monitor and review the Group Compliance function's effectiveness, and agree an effective Group Compliance programme with the Group Head of Compliance
- Review the effectiveness of the system of internal control
- Lead the review of and make recommendations to the Board regarding the appointment of external auditors
- Approve the external auditors' remuneration
- Review and receive reports on the Group's whistleblowing and grievance procedures and incidents.

The Board last reviewed the terms of reference on 26 February 2015, and these can be found in the governance section at www.amlin.com.

## Introduction

The Audit Committee plays an integral role in the monitoring, testing and review of internal controls and the conduct of management and the auditors. This includes reviewing and challenging the significant accounting judgements made in drawing up the financial statements, assessing the independence and effectiveness of the external auditor, oversight of all aspects of the internal audit function and providing independent challenge and review of Amlin's internal control and risk management systems.

### Membership and qualifications

The biographies of the Audit Committee members are set out on pages 70 to 71.

All Committee members are independent Non-Executive Directors and, the Board believes, have recent and relevant financial experience as required by the Code. In order to ensure our credentials are kept up to date, we all undertake regular relevant training. I am a Fellow of the Institute of Chartered Accountants in England & Wales, a former financial sector audit partner at KPMG and held a number of senior financial roles at Unilever. In addition, I am a member of the Financial Reporting Council's (FRC) Audit Committee Chair Advisory Group. Julie Chakraverty started her career in financial services at J.P. Morgan, is a former board member of the investment bank at UBS and is currently a non-executive director of Aberdeen Asset Management PLC. Marty Feinstein is a non-executive director and chairman of the Audit and Finance Committee of Reynolds American Inc. He has significant industry experience having previously been chairman and chief executive of Farmers Group Inc. which, by 2005, was the third-largest property and casualty group in the US, and a non-executive director of two US insurance companies.

In 2014 we appointed Oliver Peterken to the Committee. He is a member of the Institute of Risk Management and has significant insurance industry and risk experience.

### How we work

We meet at least four times a year and in 2014 met six times. In February this year we met to consider the "Statement on Internal Controls" and "Principal Risks & Uncertainties" for the Group, which are contained within this Annual Report.

The Chairman of the Company, Chief Executive, Chief Finance & Operations Officer, Chief Risk Officer and Head of Internal Audit usually attend all meetings and the Group Head of Compliance attends to present the compliance report. In addition, I meet with these executives (and individually with the Head of Internal Audit and Group Head of Compliance) several weeks before each meeting to discuss the agenda and receive updates on any matters of concern to them. PwC, the Company's external auditor, is invited to every meeting. In addition, during the year, we meet separately with PwC, the Head of Internal Audit and Group Head of Compliance without executive management being present.

We receive feedback from the audit committees of the Group's main subsidiaries (Amlin Europe N.V. and Amlin Underwriting Limited) and the board of Amlin AG at each meeting which ensures any relevant issues are highlighted to the Committee. In addition, I attend a meeting of the audit committee of Amlin Europe N.V. and Amlin Underwriting Limited and a board meeting of Amlin AG which ensures we have appropriate interaction with the independent non-executive directors of those subsidiaries.

We have the authority to engage our own independent external advice at the Company's expense. During 2014, no external advice was requested.

### Significant issues

In 2014 our activities focused on financial reporting, compliance and changes within the internal audit function. In parallel with the changes to the internal audit function, and in order to ensure that appropriate assurance is in place to oversee Amlin's risks, we continued to drive the development of an integrated risk and assurance map of the business, detailing the three lines of defence, which is discussed later in this report. In addition, we reviewed the Group's cyber threat plan and a pilot culture review that was undertaken by the internal audit function. We requested that a further update on the improvements being made to the Group's cyber security profile should be presented in 2015. The Committee also reviewed the FRC changes to the UK Corporate Governance Code which will be implemented in 2015.

#### Financial Reporting

| Area of focus | Action |
|---|---|
| **Reserving risk**<br>Insurance business is inherently uncertain and much of Amlin's business is large commercial insurance or reinsurance which can be volatile and for which it is difficult to estimate claims. Therefore there is a risk that the reserves carried are not sufficient, both in relation to case reserves on individual large losses and in respect of claims which have been incurred but are not yet reported.<br><br>The reserving risk has been heightened this year as the Group transitioned to a reserving process for Amlin London, Amlin UK and Amlin Bermuda led by the actuaries rather than a process led by the underwriting and claims teams. This process produces an actuarial best estimate to which an explicit management margin is added. As with any new process there is a risk that weaknesses in the processes could lead to unreliable reserve estimates which are inconsistent with prior years.<br><br>The overriding aim of the Group's reserving process is to establish reserves which are expected to be at least adequate and that there is consistency year on year. | Throughout the year we have monitored the transition to an actuarial-led reserving process.<br><br>The Group Actuary attended the May Committee meeting to provide detail of the roll out plan and discuss the associated initial issues and challenges and how they would be managed. At the half year an early close and roll forward actuarially-led reserving process was piloted for estimating the reserves at 30 June 2014. PwC scrutinised this process and provided feedback and recommendations which were adopted for the year end.<br><br>In the February 2015 Committee meeting the Chief Actuary presented his actuarial best estimate reserve recommendations and we challenged him and management on all aspects of the process. We discussed and challenged the validity of data and the interaction with and challenge from claims managers, underwriters and other management.<br><br>We also examined changes from the previous process in relation to various estimations and judgements which could give rise to inconsistency with prior year reserves. In particular an adjustment was made to the estimate of earned premium to reflect better the seasonal nature of certain classes of business for example, US Windstorm, which enhanced earned premium by £19.1 million. We challenged this adjustment and were satisfied that it had been properly calculated and matched the changes in claims recognition profile that the new process has introduced.<br><br>We are satisfied that the actuarial-led reserving process is an enhancement to the previous process which will produce more consistent, analytical and transparent reserving across the Group.<br><br>In relation to the Group's reserves as at 31 December 2014 proposed by management, the Committee reviewed and challenged all key reserving judgements including the development of large losses such as the New Zealand earthquake, cases subject to litigation, the quantum of prior-year reserve releases and the reserve margin applied by management.<br><br>We also gained comfort from the fact that PwC's independent reprojections of a significant proportion of the reserves produced very consistent results. Following this review and challenge we accepted management's proposals in relation to the reserves. |

| Area of focus | Action |
|---|---|
| **Revenue Recognition**<br>Premium income is recognised at the inception of a contract and is earned over the life of the contract. On a significant proportion of contracts, for example on those written through binders, the premium income has to be estimated. A significant amount of judgement goes into determining estimated premium income (EPI) and therefore there is a risk of misstatement of gross written premium and earned premium.<br><br>In addition, 2014 has seen a significant increase in the number of multi-year contracts, which have cancellation clauses which can be enforced by the client in future years. There is therefore a risk that gross written premium is overstated. | We understand, from management, the processes and controls over the contracts written through binding authorities and other third parties including the estimation of premium income in relation to such contracts. We reviewed the historic accuracy of EPI against actual premium income and found this to be satisfactory. In relation to multi-year contracts, we ascertained that gross premium written has been recognised appropriately. We agreed with management's position that no provision be made for loss of income on multi-year contracts which might be cancelled in the future and we will keep this area under review. |
| **Key accounting judgements relating to the acquisition of Leadenhall Capital Partners LLP (LCP)**<br>The Group increased its interest in LCP from 40% to 75% on 23 October 2014. Significant judgement was exercised in determining whether the Group has "control" of LCP and should be consolidated. It followed that acquisition accounting was appropriate which gave rise to significant judgements to determine the fair value of the deferred contingent consideration, the original investment and the identified intangible asset. | Following the increase in its interest in LCP, the Group has assessed whether it controls LCP and should therefore consolidate LCP from this date onwards. Under the revised partnership deed, the Group has obtained the right to determine the majority of the board members. It has been concluded the Group has the power to direct the relevant activities of the partnership and LCP should be consolidated. We concur with this accounting treatment.<br><br>In the acquisition accounting that followed, the deferred contingent consideration was estimated, being payable as a multiple of 2013, 2014 and 2015 profits. Judgement was exercised in selecting the forecast used for 2015. The fair value of the original investment made reference to the consideration for the new stake and market benchmarks, while allowing a discount for the absence of control.<br><br>An intangible asset of £15.1 million relating to LCP's customer relationships has been identified. The fair value attributed to the intangible asset has been based on the estimated net present value of forecast future cash flows attributable to the existing customer relationships. The useful life of the intangible asset is considered to be the period of time that the annual cash flows generated by the asset are expected to remain material. This was determined to be 12 years.<br><br>We reviewed the key judgements associated with determining the fair valuation of the deferred contingent consideration and the existing interest, taking into account the different valuation techniques used and other quantitative and qualitative factors and have accepted that management's position is appropriate. |
| **Compliance and Conduct**<br>During the year, we have taken a close interest in regulatory compliance and conduct issues given the increasing risk in this area and the reputational damage and monetary penalties caused by shortcomings in these areas. We focused particularly on three areas, being Amlin UK, where an expert report commissioned by the Company in 2013 highlighted areas that required attention and remediation, Crowe Livestock where we identified non-compliance with Group policies, and sanctions screening requirements in the Dutch market. | We receive a report from the Group Head of Compliance at every meeting updating us on all ongoing issues and actions taken. In relation to Amlin UK, the CEO of Amlin Underwriting Limited who is the executive responsible, attended three Committee meetings to present a remediation plan and explain progress against that plan. We also discussed and monitored issues arising from the Financial Conduct Authority's (FCA) periodic review of our UK businesses and a review of claims handling processes and performance.<br><br>We reviewed issues arising in Crowe Livestock and the subsequent integration of that company into the more robust Group framework of management and control. We also noted that management has subsequently enhanced its approach to the integration of acquired entities.<br><br>We monitored the response of Amlin Europe to the enhanced expectations of the Dutch regulatory authorities in respect of sanctions screening to ensure that a workable solution is found which is to the satisfaction of those regulators. |

### Relationship with external auditors

During 2014 we approved PwC's audit plan and terms of engagement. We reviewed the scope of PwC's audit and how PwC was working with the internal audit and risk functions to see if it could use audits carried out by Amlin to support its audit. We agreed that it would be useful if, going forward, PwC involved Amlin in the audit planning process to a greater degree. As part of this, I attended the PwC planning meeting in order to obtain greater clarity with regards to how areas of risk are identified. This meeting discussed Amlin's audit risks and areas of focus, the audit approach to the new SBU structure and the working relationship between Amlin and PwC.

We conducted a review of the effectiveness of the external audit process. Our review took the form of a questionnaire which was circulated to members of the Committee, Executive Directors and senior management. The survey was designed to assess the performance, independence, resources and effectiveness of the audit process. The results concluded that the external auditor remained independent and effective. Two main areas for improvement were suggested to and accepted by PwC. These were improving face-to-face dialogue at subsidiary level and being mindful about the experience of the audit team. In addition to the internal evaluation process, I have reviewed the results of the FRC's audit quality inspections which provide an external opinion on the effectiveness of PwC and discussed its relevance to Amlin. Additionally, I review and discuss the outcome of any internal PwC quality reviews of Amlin's audit team; there were no such reviews in 2014.

In line with Auditing Practices Board requirements, a new lead audit partner was appointed for 2014. We monitored the transition from one partner to another throughout the year. I also received and reviewed PwC's internal assessment of the lead audit partner and have regular communication with him.

PwC was appointed as Amlin's external auditor in 2009, following a comprehensive competitive tender process. In line with new rules introduced by the Competition and Markets Authority in October 2014, 2019 is the latest date we can put our audit services out to tender and will also be the end of the current lead audit partner's rotation and we will comply with the requirements.

In accordance with section 489 of the Companies Act 2006, a resolution proposing the reappointment of PwC as Group auditor will be put to the shareholders at the 2015 AGM.

### Non-audit services

We continue to monitor the use of the external auditors for non-audit services to ensure compliance with Amlin's policy and to safeguard further PwC's independence. The policy details the circumstances in which the auditors may be permitted to undertake non-audit work for the Group and is reviewed annually by the Committee. The last review was undertaken in November 2014 and incorporated a number of changes deriving from EU legislation and in particular altered the actuarial and taxation services permitted under the policy. A further review will be undertaken in 2015 to ensure the policy is fully compliant with the forthcoming requirements from the Competition and Markets Authority and EU legislation.

Services prohibited by the policy include: preparing statutory accounts, selecting accounting policies, designing and implementing internal controls or processes and financial information systems, valuation services, and tax planning and advice.

In addition to Amlin's policy, PwC completes its own independence procedures before commencing each piece of work.

The authorisation limits for non-audit services allowed by the policy are:

| | |
|---|---|
| **Chief Executive or Chief Finance & Operations Officer** | < £50,000 |
| **Audit Committee Chairman** | £50,000 – £250,000 |
| **Audit Committee** | £250,000 – £500,000<br>(This includes where the aggregate of all annual non-audit fees is above £500,000.) |

A detailed breakdown of fees paid to the auditor for non-audit work is in note 7(g) to the accounts. In 2014, £53,600 was spent on non-audit and assurance services. (2013: £261,600). In the last financial year there were no non-audit services conducted by PwC that exceeded £50,000 in value.

### Internal audit

We review the effectiveness of the Group's internal audit function, including internal audit resources, plans and performance, as well as how the function interacts with management.

In 2014 we appointed a new Head of Internal Audit to refresh the internal audit function within Amlin. The Head of Internal Audit has a direct reporting line to me and I interviewed the prospective candidates prior to appointment and was engaged with the process throughout. I have subsequently met with the new Head of Internal Audit to discuss the approach to internal audit going forward. Throughout 2014 the Committee spent a significant amount of time discussing risk and assurance within the Group in order to further strengthen our risk-based approach to internal audit for 2015. At our request, work is underway to develop a risk and assurance heat map for the whole Group to ensure there is comprehensive coverage across all three lines of defence. In addition, we have agreed with the Head of Internal Audit that a section on risk and control culture within Amlin will be included in each audit report. We approved the move to a rolling audit plan approach from 2015 in order to provide flexibility in areas of audit focus.

We receive a report from the Head of Internal Audit at each meeting which includes an update on the current internal audit plan, the findings of all internal audit reports and the consequent actions agreed with management, and a separate report covering fraud. In addition, we had two private sessions with the Head of Internal Audit during the year which gave us the opportunity to question the outcome of any report and discuss the new approach to internal audit. We consider the results of the audits undertaken by the internal audit function and the adequacy of management's response to the matters raised, including the issues identified, management's resolution plans and the time taken to resolve any such matters and challenge where we believe sufficient progress has not be made.

Since its publication in July 2013, the CIIA Code has set challenging standards and we continue to work with management on the necessary developments of the internal audit function to ensure that it is well equipped to perform in line with the Code's standards and support effective delivery. Many elements of the guidance in the Code have now been implemented and will be fully embedded during the forthcoming period. In addition, we completed an evaluation of the effectiveness of internal audit in the latter half of the year and I discussed the areas of strength and development with the Head of Internal Audit. We will continue to address the areas of development that have been identified during 2015. We reviewed and approved revised terms of reference for the internal audit function which were updated in line with the CIIA guidance and these were also recently published on the website www.amlin.com.

**Whistleblowing**
Amlin has a number of grievance policies in place and a whistleblowing policy for employees. All matters reported via the whistleblowing hotline, which is operated by an external and independent third party, are investigated and escalated to the Committee as appropriate. During 2014 we received an update on the arrangements in place for employees to raise matters of concern.

**Internal control and compliance**
Our role relating to internal control is set out in the Board's internal control statement on pages 75 to 76 within the Corporate governance report. Throughout the year, we monitored the Group's compliance with the requirements of the Prudential Regulation Authority (PRA), the FCA, Lloyd's and other regulatory bodies in the UK and elsewhere.

We receive a report from the Group Head of Compliance at each meeting. Issues covered during 2014 included UK and overseas regulation updates, Solvency II implementation, anti-bribery and corruption measures, and entity-specific updates. At our November 2014 meeting we reviewed and approved the 2015 compliance plan and the underwriting assurance plan, both of which complement the work being undertaken on risk assurance, which is discussed in the Internal Audit section above. The Committee will receive updates on progress against both plans and on-going assurance work in 2015.

**Committee evaluation**
We addressed a number of action points arising from the 2013 evaluation process, including reviewing the forward calendars of both the Audit Committee and the Risk & Solvency Committee to address any overlap of items and holding an additional scheduled meeting in April to ensure we had sufficient time to discuss all issues fully.

The 2014 evaluation process concluded that the Committee was considered to be effective in fulfilling its role throughout the year. Assurance controls and setting the internal audit agenda were identified as areas of focus going forward and both were discussed at the November meeting as part of the planning process for 2015. Further information about the performance evaluation can be found on page 72.

On behalf of the Audit Committee

**Shonaid Jemmett-Page**
Chairman of the Audit Committee
27 February 2015

# Risk & Solvency Committee report

Marty Feinstein
Committee Chairman

## Committee membership

| | Meetings attended |
|---|---|
| Marty Feinstein (Chairman)[1] | 5/6 |
| Julie Chakraverty | 6/6 |
| Richard Davey[2] | 5/6 |
| Shonaid Jemmett-Page | 6/6 |
| Oliver Peterken[3] | 2/2 |
| **Former Member** | |
| Sir Alan Collins[4] | 3/3 |

**Notes:**
1. Marty Feinstein was unable to attend the October meeting due to illness.
2. Richard Davey was unable to attend the November meeting due to a change in meeting dates.
3. Oliver Peterken joined the Committee from 1 September 2014
4. Sir Alan Collins retired from the Committee on 22 May 2014

### Key items in terms of reference

- Lead the review of risk management, risk appetite and regulatory capital
- Review and make recommendations to the Board based upon the review of the ORSA
- Review the adequacy, effectiveness and governance of the Group's Internal Model
- Review the effectiveness of internal controls and enable recommendation to the Board for approving the internal control statement

The Board last reviewed the terms of reference on 26 February 2015, and these can be found in the governance section at www.amlin.com.

## Introduction

The Risk & Solvency Committee plays an integral role in assessing the management of the Group's risk. As a Committee we have oversight of the policies that cover our internal capital model and we agree any major changes to that model, which is key to our regulatory Internal Model approval process, which we hope to complete in 2015. The Committee also approves all Group level regulatory filings as part of that process. These are complicated subjects which are constantly evolving within the regulatory environment as different regulators interpret Solvency II and other requirements. As such we receive briefings on Solvency II and on how the Internal Model works and interacts with the business. To assist this, the Chief Risk Officer (CRO) and the Group Company Secretary will be devising a training and update plan for the Committee throughout 2015.

We also receive detailed reports arising from the risk framework and our Own Risk & Solvency Assessment (ORSA) process, on the status of risk and controls within Amlin. The Committee also requests specific reviews into certain risk items arising from these reports or other factors during the year.

## Governance

The Committee is required to meet at least four times each year according to its terms of reference and met six times during 2014. We felt that the extra meetings were beneficial and enabled the Committee to have further "deep dives" on either complex topics or areas of interest to the Committee. Each meeting is attended by the Chief Executive, the Chief Finance & Operations Officer, the Head of Internal Audit and the CRO, who all have a standing invitation to attend the meetings. Additional Board members are welcome to attend the meetings and the Chief Underwriting Officer (CUO) attended both the October and November meetings.

The Committee meets with the CRO without other management being present at least once each year and also receives an "areas of concern" report from him at each meeting, which enables risks pertinent to the business to be discussed with a degree of immediacy. I also speak to the CRO and the Group Company Secretary at least six weeks before each meeting to agree the agenda and to receive updates on any matters of concern to them.

The Committee has access to external advice when required. At the suggestion of the CRO, results of two external reviews into the Internal Model were provided to the Committee. None of these services was provided by our auditor, although the reports were shared with PwC when requested.

The Committee has routine agenda items which are either reviewed at each meeting, such as proposed changes to the Internal Model; quarterly, such as the solvency and risks to solvency; or annually such as assessing the risks to, or arising from, the forthcoming years' business plan. In addition to this we have also requested information relating to new or emerging risks as and when required, and during 2014 we received updates on the risks arising from the acquisition of Leadenhall Capital Partners LLP, "clash risk" (where two policies may be underwritten independently of each other but will cover the same risk location) and outsourcing.

One area of focus during 2014 has been understanding the integrated risk and assurance map of the Group and we have worked closely with the Audit Committee to begin to develop this map across Amlin. The Audit Committee is leading the development of this area and more on this topic can be found in its report.

Throughout the course of 2015 we will be reviewing the changes to the guidance on risk from the FRC. Our early analysis in 2014 suggests that we meet many of the new requirements, but that there is still some further work for the Committee to do. We will seek to address these throughout the course of 2015 and will report on these developments next year.

**Significant issues**
As a Committee we reviewed several non-routine risks during the year, the three most significant being:

Leadenhall Capital Partners LLP acquisition
The Board asked the Committee to review the risks of acquiring a further stake in Leadenhall Capital Partners LLP and we undertook an exercise to understand the risks in so doing, the risks of not acquiring a controlling stake in Leadenhall Capital Partners and the assumptions concerning those risks. These were reviewed in advance of starting negotiations and once again prior to completion, the risks having been updated following a due diligence exercise. The Committee was able to make a recommendation to the Board to proceed with the transaction on that basis.

Review of outwards reinsurance programme
As a Committee we reviewed the outwards reinsurance programme which had been internalised to a greater extent for the 2014 financial year. This was looked at from a cost perspective and also from the extent to which the cover bought externally, and internalised, increased or decreased our risks and probability of making a loss. We reviewed the proposed programme for 2015 and discussed the options with the CRO and CUO, trying to strike the correct balance between reducing risks without reducing overall expected profit.

As a Committee we were satisfied with the approach proposed by management and were able to recommend to the Board that the programme be adopted.

Review of risks relating to the reorganisation
Amlin underwent a significant reorganisation during 2014. As a Committee we requested that the risks arising from the reorganisation be presented and tracked throughout the course of the programme. In addition we considered the risks of not implementing the reorganisation and the future risks associated with the new structure, including a deep dive into the manner in which, under the new management structure, the Group's regulated entities would be able to exercise proper oversight and control of their respective activities. These three views allowed the Committee to monitor progress and to be satisfied that the risks associated with the reorganisation were being mitigated and managed appropriately.

**Own Risk & Solvency Assessment (ORSA)**
The Committee receives quarterly updates on the Company's ORSA process in the form of risk status reports. In addition, a bi-annual review of the capital implications of the proposed business plan was considered at the start and finish of the planning cycle to help us judge the prudence of the proposed 2015 plan and consider the balance between risk and reward.

The outcomes of the Internal Model were considered in the context of the risk profile of the business. During the year we conducted specific reviews of the Internal Model, including receiving deep dives on economic capital and the investment operating model as well as market risk generally. These deep dives helped inform our understanding of these topics interaction with the Internal Model.

The risk function also highlighted a number of developing and emerging risks which we discussed along with the need for contingency plans.

**Internal Model**
The Committee received reports on the development of the Internal Model as part of Amlin's overall preparations for Solvency II. We received quarterly updates from the Dynamic Financial Analysis (DFA) Steering Committee on the evolution of the model including model changes. The Committee was asked during the year to approve a Major Model change associated with the implementation of a new Economic Scenario Generator (ESG) for market and credit risk. Following a detailed training session on this matter we approved the change.

We also received training during the year on the basis on which Economic Capital is calculated, recent changes made to the methodology and the resulting use for setting technical pricing targets.

We received, and approved, independent validation reports produced by the risk function and external advisers that provided assurance on the appropriateness of the Internal Model for use in capital setting and making strategic business decisions. The Committee was also updated on progress in addressing prior validation findings.

**Risk culture and risk framework**
The risk function presented to the Committee on developments in UK Corporate Governance associated with the new FRC guidance on risk management and internal controls and in particular the increased focus on risk culture. This aligned with the FCA regulatory developments and the introduction of guidance from the Financial Stability Board (FSB).

We reviewed, and agreed, to sponsor a programme of work focused on analysing Amlin's current risk culture and on helping the Board to articulate the nature of the risk culture they wish to foster. This will be reported on to the Committee during 2015.

At the same time we recognised that the risk management framework needed to evolve as a result of the Group's reorganisation and we agreed the terms of reference for a review of the framework. The risk function has completed its review of the framework and is implementing the necessary changes to align to the new structures. The function also completed a risk assurance mapping exercise during 2014 and this is being revisited in conjunction with internal audit and the compliance functions to ensure it addresses the impact of the reorganisation.

**Committee evaluation**
The Committee carries out an evaluation of its activities in the third quarter of each year and receives the results at the November meeting, with actions in response to that evaluation presented to the following February meeting. During 2014 we implemented the actions from the 2013 evaluation, which included reducing the overlap with the Audit Committee and refining the risk reporting to the Committee.

On behalf of the Risk & Solvency Committee

**Marty Feinstein**
Chairman of the Risk & Solvency Committee
27 February 2015

# Directors' remuneration report

**Sir Mark Wrightson**
Committee Chairman

**Dear Shareholder,**
I am pleased to introduce the Directors' report on remuneration for 2014. The Committee remains focused on its key objectives and has sought to balance the level and structure of executive remuneration with the long-term interests of the Company's stakeholders. This report is split into four sections: a summary of the Directors' Remuneration Policy which is applicable from 1 January 2015; the annual statement on remuneration, which provides details on the remuneration earned by Directors in 2014; a section detailing how the Directors' Remuneration Policy will be implemented in 2015; and a section detailing how the Committee operated during 2014. The annual report on remuneration section on pages 91 to 101 will be subject to an advisory shareholder vote at the 2015 AGM.

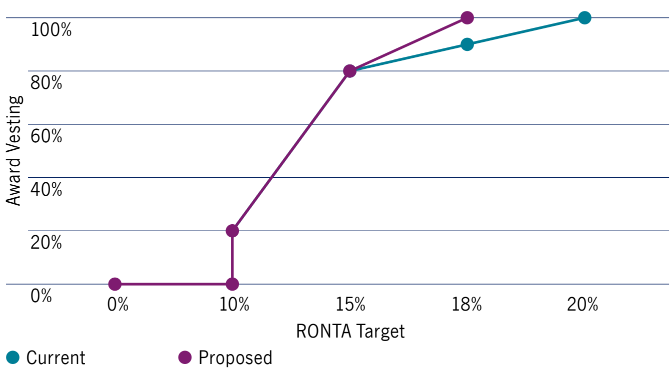
During 2014 the Committee extensively reviewed the executive remuneration framework, as part of the Group-wide review of remuneration, to ensure that it is aligned with Amlin's strategic direction. Following careful consideration and consultation, the Committee proposed a revised and improved remuneration framework which has a greater emphasis on the longer term, delivery of performance in alignment with Amlin's agreed level of ambition and risk appetite, and greater emphasis on shareholder alignment.

As planned, key shareholders were consulted during the review of the remuneration framework and any resulting suggestions or comments were taken into consideration in the amended Remuneration Policy. The remuneration review focus was on two main areas: to align the Company's annual bonus arrangement across the Group; and to simplify Amlin's long-term incentive arrangements into one scheme. The changes were in support of the Company's new structure.

As a result of the remuneration review, the Remuneration Policy was amended and a new 2014 Performance Share Plan (PSP) was adopted and approved at a General Meeting of shareholders on 24 November 2014. I am delighted that the amended Policy received over a 98% vote "For" from shareholders. The Remuneration Policy is operational from 1 January 2015 and is available, with a summary of changes, under shareholder circulars in the investor section at www.amlin.com.

As part of the remuneration review, the 2014 PSP became the sole senior executive long-term incentive, supplanting the Long-Term Incentive Plan (LTIP). Recognising the importance of the 2014 PSP, the Committee reviewed the targets and vesting schedule for the 2015 award. The targets and the vesting schedule have been modified to remove the top level of risk from its incentive arrangement by discouraging excessive levels of risk taking to achieve maximum pay-out. Set out on this page is an illustrative graph that shows how the target and vesting levels have not altered for minimum and target performance and only the maximum pay-out target has been modified.

## RONTA Targets & Vesting Schedule (%)




As well as discouraging excessive risk taking, the Committee believes that the new targets reflect market conditions and are sufficiently challenging but attainable to incentivise the intended participants. Page 100 sets out the proposed return on net tangible assets (RONTA) targets for the 2014 PSP for 2015 award.

The Committee will continue to monitor the regulatory environment and, where appropriate, to seek shareholder views on remuneration.

On behalf of the Remuneration Committee

**Sir Mark Wrightson**
Chairman of the Remuneration Committee

# Directors' Remuneration Policy

This section of the Directors' remuneration report sets out on pages 85 to 90 the executive remuneration policies for the Company (collectively entitled "the Policy"). The Policy reflects the Company's practice, and is effective from **1 January 2015**.

**Policy Table**

The table below summarises each element of the executive directors' remuneration packages, linkage to the Company's strategy and how they are maintained and operated. This applies to remuneration earned from 1 January 2015 onwards.

| Element of pay and purpose (with link to Amlin's strategy) | How operated | Maximum opportunity | Performance measures |
|---|---|---|---|
| **Fixed Salary**<br>To recruit and retain executives of a high calibre | Salary is reviewed annually with increases made in April.<br><br>The Remuneration Committee may consider exceptional increases in line with any change in role or for retention purposes. The Committee also takes into account pay and employment conditions elsewhere in the Company when considering increases to base salary. | Base salaries will be set by the Committee taking into account the scale, scope and responsibility of the role, skills and experience of the individual, retention risk, base salary of individuals undertaking similar roles in companies of comparable size and complexity, as well as total overall remuneration levels and the weighting of the package to fixed and variable remuneration.<br><br>Salary increase percentages for Executive Directors will not normally exceed those awarded on average to other group employees and will be a maximum of 10% per annum.<br><br>However higher increases may be awarded, for example but not limited to, if there is a significant increase in responsibility, change in size or scope of a role, or size of the business, or if there is a new appointment where executives are moved towards the desired market positioning as their experience and performance in role develops. | n/a |
| **Benefits**<br>To ensure benefits are commensurate with the market in which the Company operates and in line with applicable policies. | Including but not limited to:<br>• Car (cash and/or company car)<br>• Private medical insurance<br>• Permanent health insurance<br>• Life assurance<br>• Long Service Awards<br>• Choice of benefits such as gym, private dental etc. are part of a salary sacrifice scheme<br>• In respect of a Director relocating – a relocation allowance | The range of benefits provided is set by the Committee after taking into account market practice and the relevant circumstances and requirements of the executive. Due to the uncertainty and volatility surrounding the cost of insured benefits and any relocation allowance in a particular year and in order to comply with the requirements of the Regulations a maximum amount of 50% of salary is set for the cost of benefits. | n/a |

| Element of pay and purpose (with link to Amlin's strategy) | How operated | Maximum opportunity | Performance measures |
|---|---|---|---|
| **Pension**<br>To provide pension benefit commensurate with the market in which the Company operates. | The Company pays a percentage of base salary into a Group occupational and/or a stakeholder pension plan. Executive Directors participate in the relevant Group pension plans on the same basis as other senior employees.<br><br>Directors reaching lifetime or annual pension limits will receive cash payments in lieu of pension.<br><br>Executive Directors who are also members of the Group's defined benefit (DB) scheme continue to accrue additional years' service under the scheme but only based on their 2006 pensionable salary (with salary increases from April 2006 onwards being pensioned through the defined contribution (DC) arrangements). | Pensionable salary is base salary only.<br><br>In relation to the DC pension scheme the maximum employee and employer contribution allowed under the scheme is 26% of base salary.<br><br>DB employer contribution rates will vary from year to year according to actuarial advice in order to deliver the agreed levels of pension. Due to the uncertainty and volatility surrounding the cost of providing DB pensions and in order to comply with the requirements of the Regulations an absolute maximum is set at 50% of salary. | n/a |
| **Annual Bonus Plan (Bonus)**<br>To incentivise the achievement of annual targets rewarding strong financial performance and the delivery of annual personal objectives aimed at continuously improving the capability of the Group and its businesses. | Stretching Targets are set annually and performance against targets is reviewed by the Remuneration Committee.<br><br>Any Bonus paid to an Executive Director in excess of a predetermined percentage of salary will be deferred in three tranches over the ensuing three-year period and will be deferred into shares.<br><br>Total or partial claw-back of Bonus payments will apply in the event of either the Committee finding that a participant has not complied with internal standards or controls or has caused reputational damage to the Company or if any results or accounts on which the Bonus was based prove to be incorrect or are required to be re-stated. | For the Executive Directors who are not involved in underwriting activities, there is a 165% of base salary maximum opportunity.<br><br>Bonuses to Executive Directors involved in underwriting activities will be capped at a maximum of 400% of base salary. | The Committee will set performance targets for the Annual Bonus Plan at the beginning of each financial year.<br><br>47.44% of salary will be payable for threshold performance.<br><br>At least 70% of the maximum Bonus opportunity for the Executive Directors will be based on financial measures.<br><br>Bonuses for the Executive Directors may be determined in part by personal performance up to a maximum of 30% of the maximum opportunity. |
| **Long-term share-based incentive awarded under the Amlin Performance Share Plan 2014 (2014 PSP)**<br>The plan is intended to aid the recruitment, retention, motivation and reward of key senior executives and to reward the achievement of superior financial returns for shareholders and long-term target underwriting returns. | Awards will be granted annually and will vest on the fifth anniversary of the date of grant, provided the performance and employment conditions have been satisfied. Awards will be made in the form of nil-cost options. | The maximum award for Executive Directors is 200% of salary (over shares valued on grant) for the 2014 PSP scheme. | Awards vest based on a sliding scale of financial performance determined by the Committee prior to the date of award.<br><br>A minority (not more than 25%) of each award will vest for the achievement of a threshold level of performance increasing to full vesting at a stretch level.<br><br>The performance conditions selected and specific targets set for each year will be set out in the Annual Report on Remuneration.<br><br>There is no provision for retesting. |

| Element of pay and purpose (with link to Amlin's strategy) | How operated | Maximum opportunity | Performance measures |
|---|---|---|---|
| **All-employee share plans**<br>SAYE and Share Incentive Plan (SIP) offers are made under the HMRC-approved plans to all applicable employees (including Executive Directors). | SAYE: All Employees in the UK, Bermuda and Singapore who meet the employment criteria are invited to participate in the savings scheme.<br><br>SIP: All employees across the Group who meet the employment criteria may receive an award of free shares up to the maximum amount permitted by HMRC at the discretion of the Committee. | SAYE: Shares to the value of the total anticipated savings and accrued interest over up to a five-year savings period divided by a share price set with (up to a 20%) discount around the time of grant. Maximum HMRC savings available are £500 per month, which translates into a maximum value of shares of around £40,000 over a five-year period calculated at the date of grant.<br><br>SIP: £3,600 worth of shares with the value calculated at the date of grant. | n/a |
| **Non-Executive Directors**<br>To provide an appropriate fee level to attract individuals with the necessary experience and ability to make a significant contribution to the Group's activities while reflecting the time commitment and responsibility of the role. | The Chairman is paid an annual fee which is determined and reviewed by the Remuneration Committee taking into account the levels of fees paid by comparable companies for comparable services, time commitment, experience, responsibility and scope of role.<br><br>The fees for Non-Executive Directors (excluding the Chairman) are determined and reviewed by the Committee. These Non-Executive Directors are paid a basic fee and may be paid a further fee for additional services, such as committee or subsidiary Board responsibility. They may also be paid additional fees (calculated on an appropriate day rate) in the event of exceptional levels of additional time being required, for instance in response to corporate developments. Fees are determined and reviewed taking into account the levels of fees paid by comparable companies for comparable services, time commitment, experience, responsibility and scope of role.<br><br>Fees will be reviewed annually.<br><br>Non-Executive Directors are entitled to reimbursement of travel and other necessary expenses.<br><br>Non-Executive Directors do not participate in any incentive or variable pay arrangements and do not receive any pension benefits. | There is no prescribed maximum fee or fee increase. Total fees will not exceed the amount specified in the Company's Articles of Association of £500,000. | n/a |

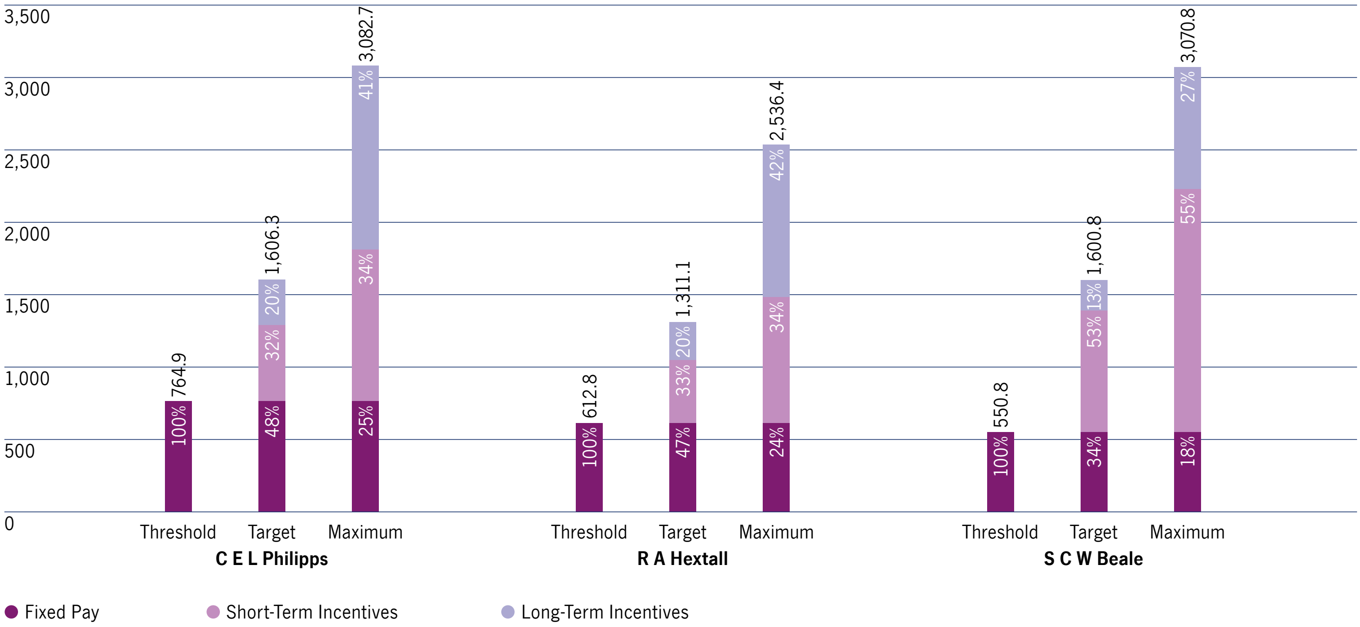
**Notes**

The Committee sets thresholds for the business performance element of the bonus potential on an annual basis. The thresholds set vary over the insurance cycle and the Committee believes that lower thresholds are appropriate when insurance market margins are low and higher thresholds are appropriate when margins are higher. The Committee also has regard to the anticipated investment returns.

# **Directors' remuneration report** continued
## Directors' Remuneration Policy continued

The chart below illustrates how the Executive Directors' total pay opportunities for 2015 will vary for different performance scenarios (Threshold, Target and Maximum). The chart is illustrative and the actual value ultimately received will depend on business and personal performance, the actual vesting of variable pay and share-price performance.

### **Reward scenarios** (£'000s)




#### Executive remuneration levels
Executive remuneration levels are reviewed annually to ensure continued relevance and alignment to the Group's strategy and business plans. The remuneration strategy's three key goals are:

- to reward our people for performance, in line with the Group's ambitions and creating shareholder value
- to have first-class employment practices, contributing to Amlin being "the place to work" for high-quality people in its sector. This requires appropriate levels and remuneration structures to attract, retain, incentivise and reward the high-calibre talent needed for the Group to succeed
- to reward management focus on financial measures, such as return on equity, risk and underwriting returns, and on longer-term objectives, such as underwriting cycle management attaining the Group's Vision.

When determining executive remuneration, the Committee will take into account pay and employment conditions elsewhere in the Group and the sector.

#### Remuneration structure
The core structure of remuneration is broadly the same for the senior management and employees. Both constituents receive a fixed salary, with benefits appropriate for their role, the opportunity to participate in a pension and all-employee share schemes, all of which are subject to local variances. Executive Directors and other senior employees are eligible to participate in additional long-term performance incentives.

Employee pay and employment conditions, along with wider associated undertakings, are also considered when determining Executive Director remuneration.

#### Overall remuneration levels
The remuneration strategy for senior management, including the Executive Directors, is designed with regard to the remuneration for employees across the Group as a whole. The job, market rate and personal performance (with the market rate having regard to the median for the appropriate market) determine base salaries across all categories of staff. Variable pay will be designed so that top-quartile performance is rewarded with top-quartile remuneration. When determining individuals' remuneration, the Group takes account of remuneration statistics for the non-life insurance sector in which the Group operates. Where applicable for certain roles, the Group also considers wider remuneration statistics.

In all spheres of operation, the Committee aims to continually review the practices of its competitors. The Committee also believes that, as the market and Amlin's own practices evolve, it is vital we ensure remuneration structures are aligned to strategy to continue supporting the Group's competitive advantage. This has been demonstrated over the last year with a Group-wide remuneration review.

#### Considering shareholders' views
The Remuneration Committee considers feedback received from shareholder representative bodies as part of its annual remuneration policy review.

### Discretion retained by the Committee

The Committee will operate the Company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules, and HMRC rules where relevant, including flexibility in a number of regards. These include:

- when to make awards and payments
- how to determine the size of an award or payment, or when and how much should vest
- who receives an award or payment
- how to deal with a change of control or restructuring of the Group
- whether a Director is a good/bad leaver for incentive plan purposes, and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s)
- how and whether an award may be adjusted in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends)
- what the weighting, measures and targets should be for the annual bonus plan and LTIP from year to year

The Committee also retains the discretion within the policy to adjust the targets and/or set different measures and alter weightings for the annual bonus plan. It can also adjust targets for the incentive plans if events cause it to determine that the conditions are unable to fulfil their original intended purpose and the metrics are not materially less difficult to satisfy.

The Committee may make adjustments to take account of variations in capital and similar matters. In the event of the Company being subject to a takeover or similar event before the normal vesting date, vesting will take place to the extent that the Committee is satisfied that the performance condition has been satisfied up to that early vesting date. The proportion of the award which vests will also depend on the time that has elapsed since the award was made, although the Committee retains the discretion to not pro-rate in exceptional circumstances.

### Recruitment policy

Salaries for a new hire or an appointment of an internal candidate to the Board of Directors will be set to reflect skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Executive Director on a below-market salary (for example, to allow them to gain experience in the role) their salary may be increased to a market level by way of a series of above inflation increases over two-to-three years to reflect their development in the role as detailed in the Policy.

The prevailing maximum annual bonus and long-term incentive opportunity for the current Chief Executive will not be exceeded for any newly appointed non-underwriting Executive Director. The prevailing salary, maximum annual and long-term incentive opportunities for the current Group Underwriting Director will not be exceeded in aggregate for any newly appointed underwriting Executive Director. Existing incentive arrangements will be used where possible and guaranteed bonuses will not be offered. Benefits and pension will be in line with the Company's prevailing policy unless under very exceptional circumstances.

Current entitlements (for example, bonus and share awards) which will lapse on the executive's departure from a previous employer may be replaced with awards that have no shorter time horizons, are subject to performance conditions (if replacing awards subject to performance conditions) and do not have a higher theoretical fair value. The Committee retains flexibility to do so on such basis as it deems appropriate in the circumstances, and to compensate new executives (if necessary on a net-of-tax basis) for any reasonable other expenses (for example, relocation costs). The Committee also retains the discretion to set a lower shareholding guideline for new Directors, or permit a longer period for it to be met relating to the minimum shareholding requirement.

Fee levels for Non-Executive Director appointments, including the Chairman of the Company, will take into account the expected time commitment, experience of the candidate, responsibility and scope of role, and the current fee structure in place at that time.

### Termination or loss of office policy

Our policy regarding termination payments is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. The Committee will normally ensure that any payments made are mitigated in the event that the individual assumes a new role immediately following termination.

Furthermore, the Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

The table below sets out the basis for determining payment on termination in relation to variable remuneration. The Committee will use its judgement depending on the particular circumstances of a cessation to determine the treatment of those executives who do not fall automatically into the categories set out on the next page. It recognises that it may exercise its judgement where applicable so that only certain elements of pay are determined in accordance with the good leaver category on the next page. In determining whether an executive should be treated as a good leaver, the Committee will take into account the performance of the individual and the reasons for their departure.

| Payment | "Bad" leaver (e.g. voluntary resignation to join a competitor or termination for cause) | "Good" leaver (e.g. death, injury, ill health, disability and any other circumstances agreed by the Committee) |
|---|---|---|
| **Annual Bonus Plan** | Forfeits entire award | Annual Bonus for the performance period in which the individual left would be calculated at the end of the performance period and would be pro-rated for the length of time served and paid once calculated.<br><br>Variable pay earned but retained under the deferral rules would be paid on cessation. |
| **PSP Awards** | Forfeits entire award | Share awards are tested against the performance condition at the time of termination and are pro-rated in accordance with the terms of the scheme(s). Vesting is assumed to occur in accordance with the terms of the scheme.<br><br>Where the participant dies or cessation is by reasons of ill health, the performance condition may be waived.<br><br>The Committee retains the discretion not to pro-rate in exceptional circumstances. |

### Executive Directors' service contracts

The dates of the service or employment contracts of each Director who served as an executive during the year, all of which are with the Company's subsidiary, Amlin Corporate Services Limited, are stated below.

| | Date of service or employment contract |
|---|---|
| C E L Philipps | 20 February 1997 |
| R A Hextall | 26 November 1999 |
| S C W Beale | 7 November 1994 |
| B D Carpenter[1] | 17 February 1997 |

**Note:**
1. Mr B D Carpenter stepped down from the Board on 30 September 2014.

With the exception of Mr Carpenter, all the contracts remain in force at the date of this report and are on a full-time basis. The contracts provide for 12 months' notice of termination by either party. There are no special provisions for compensation on termination in any Director's contract, other than that the employer has the right to pay salary in lieu of any required period of notice. Executive Directors' service or employment contracts are available for inspection at the Company's registered office.

The Company's policy is that service contracts may be terminated with 12 months' notice by either party (except in certain specific and limited recruitment situations where the Committee may exercise its discretion and where a longer notice period from the Company may be set provided that it reduces to a maximum of 12 months with a specified time limit).

### Shareholding Guidelines

Under the Shareholding Guidelines, Executive Directors and members of the next tier of management are expected to retain shareholdings in the Company up to a specified percentage of base salary. Shareholdings include vested and unexercised options and are valued at the end of the relevant financial year. Base salaries for the purposes of completing the calculation are also taken at the end of the relevant financial year. It is expected that Executive Directors will achieve this level of holding within three years of either their appointment to the Board or any increase in the Shareholding Guidelines.

### Non-Executive Directors

The Board aims to recruit Non-Executive Directors of a high calibre, with broad commercial, international or other relevant experience. The Board appoints Non-Executive Directors on the recommendation of the Nomination Committee. Their appointment is for an initial term of three years, subject to election by shareholders at the AGM following their appointment and annual re-election thereafter. The Non-Executive Directors' terms of engagement are set out in a letter of appointment.

If, at the end of a term of office, a Non-Executive Director is not nominated to continue, the Director is not entitled to any extra payment on termination. In other circumstances, either side may give six months' notice of termination without any entitlement to compensation.

### Basis of calculation

To comply with changes in regulation applicable to this report, remuneration is stated on an earned rather than paid basis. Where remuneration earned for a particular year is unknown until after the date of this report, then an estimate has been used and will be restated as appropriate in future years. This methodology is applicable for both the Capital Builder and Profit Commission plans.

### Directors' remuneration received for 2013 and 2014

The table below sets out the key elements of pay relating to the Directors' annual remuneration for 2013 and 2014.

| Name | | Salary & fees £'000 | Taxable benefits £'000 | Annual bonus[1/8] £'000 | LTIs vesting in year[2] £'000 | Pension £'000 | Other[3] £'000 | Total remuneration £'000 |
|---|---|---|---|---|---|---|---|---|
| C E L Philipps | **2014** | **615.0** | **16.4** | **779.4** | **395.8** | **113.5** | **3.0** | **1,923.1** |
| | 2013 | 595.0 | 24.9 | 904.4 | 413.8 | 109.8 | 3.3 | 2,051.2 |
| R A Hextall | **2014** | **511.3** | **16.4** | **647.4** | **286.4** | **69.4** | **4.0** | **1,534.9** |
| | 2013 | 491.3 | 23.4 | 788.7 | 264.9 | 67.9 | 3.3 | 1,639.5 |
| S C W Beale | **2014** | **404.8** | **16.4** | **1,815.3** | **80.3** | **114.4** | **3.0** | **2,434.2** |
| | 2013 | 392.5 | 22.0 | 967.0 | 181.3 | 106.3 | 3.3 | 1,672.4 |
| J Chakraverty | **2014** | **75.9** | **–** | **–** | **–** | **–** | **–** | **75.9** |
| | 2013 | 64.8 | – | – | – | – | – | 64.8 |
| R H Davey | **2014** | **240.0** | **–** | **–** | **–** | **–** | **–** | **240.0** |
| | 2013 | 233.3 | – | – | – | – | – | 233.3 |
| M D Feinstein | **2014** | **93.0** | **–** | **–** | **–** | **–** | **–** | **93.0** |
| | 2013 | 86.4 | – | – | – | – | – | 86.4 |
| S Jemmett-Page | **2014** | **86.0** | **–** | **–** | **–** | **–** | **–** | **86.0** |
| | 2013 | 76.5 | – | – | – | – | – | 76.5 |
| O L E Peterken[4] | **2014** | **22.3** | | | | | | **22.3** |
| | 2013 | – | – | – | – | – | – | – |
| Sir Mark Wrightson Bt | **2014** | **70.0** | **–** | **–** | **–** | **–** | **–** | **70.0** |
| | 2013 | 68.0 | – | – | – | – | – | 68.0 |
| N J C Buchanan[5] | **2014** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2013 | 37.1 | – | – | – | – | – | 37.1 |
| B D Carpenter[6] | **2014** | **275.4** | **11.9** | **215.5** | **0.0** | **19.4** | **5.5** | **527.7** |
| | 2013 | 357.6 | 21.5 | 354.5 | 0.0 | 90.3 | 3.3 | 827.2 |
| Sir Alan Collins[7] | **2014** | **27.9** | **–** | **–** | **–** | **–** | **–** | **27.9** |
| | 2013 | 67.0 | – | – | – | – | – | 67.0 |

**Notes:**

1. Amounts include deferred elements, see page 92 for description of payments under the Profit Commission scheme.
2. The LTI value for S C W Beale and B D Carpenter is the amount accrued under the Capital Builder plan for the five years 2010-2014 and 2009-2013 for 2014 and 2013 respectively. In the case of B D Carpenter the relevant figure for 2014 is £(156,419) and £(11,643) for 2013 and the regulations require that this negative value be shown as a zero.
   The 2010 & 2011 LTIP awards lapsed.
   The 2009 PSP award vested at 95.6% of the maximum. The share price at vesting was 453.00p.
   The 2010 PSP award vested at 68.9% of the maximum. As the share price at vesting is not currently known we have used the three month average share price to 31 December 2014 of 446.59p.
3. Value of free shares awarded under the Share Incentive Plan (SIP) that vested in the relevant financial year and, where applicable, long-term service awards as per the Remuneration Policy in place at the time (R A Hextall £1,000 and B D Carpenter £2,500).
4. O L E Peterken was appointed to the Board on 1 September 2014.
5. N J C Buchanan retired down from the Board on 16 May 2013.
6. B D Carpenter stepped down from the Board on 30 September 2014.
7. Sir Alan Collins retired from the Board on 22 May 2014.
8. The 2013 PC figures have been restated from estimated amounts to actual paid amounts.

### Details of variable pay earned in the year

#### Annual Bonus Plan

For those Executive Directors and other employees who are not directly involved in underwriting activities, the Group's shorter-term performance incentive is a cash bonus scheme. The Group Annual Bonus Plan aims to reward and incentivise the achievement of annual financial targets and the delivery of annual personal objectives aimed at continuously improving the capability of the Group and its businesses in line with the Group's strategy.

Performance targets are set and reviewed annually with any bonus paid to an Executive Director in excess of a predetermined percentage of salary to be deferred into shares or cash or a mixture of both for three years. The business performance is measured by reference to the Group's ROE compared with target returns set by the Committee at the beginning of each year. The individual's performance is measured against agreed stretching personal objectives. The mix of business and individual performance bonus elements varies by seniority, with at least 70% of the maximum bonus opportunity of the potential target reward at the most senior role levels (including participating Executive Directors) being rewarded on Group business performance, and up to a maximum of 30% of the maximum opportunity based on individual performance.

The total target and maximum bonus levels also increase with seniority. For 2014, the participating Executive Directors' scale was 12% for 'on-target' performance, rising to a potential maximum of 165% of base salary if the Group business and personal performance elements reached their maxima.

For participating Directors and those at other senior management levels, any amount of annual bonus above the base salary maximum percentage for the relevant management level (for example, 120% for Executive Directors) has been deferred for three years from the usual date of payment.

Total or partial claw-back of such deferred cash bonus will also apply in the event of either the Committee finding that a participant has not complied with internal standards or controls; or has caused reputational damage to the Company; or if any results or accounts on which the bonus was based prove to be incorrect or are required to be re-stated. Provisions also apply whereby a leaver during the three-year deferral period will forfeit the deferred bonus, unless they leave for one of a number of specified "good leaver" reasons, including circumstances the Committee agrees to be exceptional.

The business performance targets for the 2014 annual bonus and performance against them are set out below.

| | 2014 ROE targets | Vesting % of business budget maximum |
|---|---|---|
| Minimum payment ROE threshold | 6% | 22.8 |
| Target ROE | 12% | 45.5 |
| Maximum payment ROE threshold | 18% | 100 |
| Total ROE achieved for year[1] | 14.9% | 82.8 |

**Note:**
1. The Committee adjusts the ROE to remove the effects of final dividends being included in opening shareholders' equity and of foreign exchange items relating to hedging.

| Executive | Financial performance (ROE) % of max | Personal (% of max) | **Total**[1] | £'000 |
|---|---|---|---|---|
| C E L Philipps | 50.1% | 26.1% | **76.2%** | 779.4 |
| R A Hextall | 50.1% | 26.1% | **76.2%** | 647.4 |

**Note:**
1. The combined total of the business performance element (70% maximum) and the personal performance element (30% maximum).

Neither Messrs. Beale nor Carpenter participated in the Group Annual Bonus Plan in respect of the 2014 Financial Year.

### Profit Commission (PC)

The PC was a shorter-term incentive for underwriters. It consists of a cash profit share in respect of each underwriting year. Participants are from the UK and Bermudian businesses, and include certain Executive Directors of Amlin plc. PC is paid on an underwriting-year basis, usually partly related to the business unit in which the relevant participant works and partly to wider Syndicate 2001 and Amlin Bermuda underwriting performance. The last PC award was made in December 2013 and will vest in March 2017.

PC for an underwriting year is calculated over a 36-month period from the start of the underwriting year, allowing for a more informed assessment of reserves. Payments for this are paid in two tranches. The first 30% of the estimated payment is made in the second year following the year of account; and a further balancing payment of up to 70% of the estimated payment is made in the year following the year of account. PC for Brian Carpenter comprises two elements:

- a profit award based upon Amlin UK's profitability
- a performance award based upon Group ROE and personal performance during the year

PC for Simon Beale also comprises two elements:

- a profit award based upon Group underwriting profitability
- a performance award based upon Group ROE and personal performance during the year

Simon Beale moved to a Group Underwriting role during 2012 and, reflecting his change in responsibilities, he moved from the Amlin Syndicate PC scheme, covering Amlin London and Amlin Bermuda, to a Group PC Scheme in 2013. The payment in respect of the Group scheme is based upon calendar year performance and for 2014 has been adjusted to reflect the proportion of 2014 GAAP underwriting profits generated from that year. Therefore in 2014 Mr Beale received a deferred payment under his historic awards as well as a payment from the Group Scheme. The cap for each scheme will still apply and any award in excess of 300% of salary will still be deferred.

### Current underwriting Directors' PC and bonus reported for 2014

| | **B D Carpenter accounted for in 2014 £'000** | 2013[1] £'000 | **S C W Beale accounted for in 2014 £'000** | 2013[1] £'000 |
|---|---|---|---|---|
| 2013 year of account PC | **11.9** | – | **–** | – |
| 2012 year of account PC | **100.0** | 17.9 | **638.8** | 191.8 |
| 2011 year of account PC | **–** | 174.8 | **–** | 394.4 |
| Personal Performance | **103.6** | 161.8 | **197.9** | 236.8 |
| 2014 GPC | **–** | – | **978.6** | – |
| 2013 GPC | **–** | – | **–** | 144.0 |
| **Total** | **215.5** | 354.5 | **1,815.3** | 967.0 |

**Note:**
1. The 2013 PC figures have been restated from estimated amounts to actual paid amounts.

### Capital Builder Plan

The Amlin Capital Builder Plan 2006 (the Plan) was designed to reward senior underwriters if they exceed long-term target underwriting returns over rolling five-year performance periods.

Payments under the Plan may be made at the Company's discretion in either cash or shares. There is a cap of £1 million on the total amount that may be paid to a participant in respect of each rolling five-year performance period. Payments will be made over the two years after the end of each performance period.

Awards were made in each of the years from 2010 to 2014 inclusive in respect of performance periods of five underwriting years commencing in the year each respective award was made. Forecasts of rewards in respect of all performance periods are subject to change, particularly regarding later performance periods. Subject to that caveat, the forecast rewards based on earned premium and reserving as at 31 December 2014, for the periods stated to date, are as set out below. Where a positive result on the Syndicate creates a shortfall against the demanding return targets on individual classes, no payment will be due.

| | Class/ division | **Total amount accrued and paid in 2013** | 2008 Award balance paid 2014 | 5 years of 2009 Award paid in 2014 | 5 years of 2009 Award accrued in 2014 | **Total amount accrued and paid in 2014** | 5 years of 2010-2014 award | 4 years of 2011-2015 Award | 3 years of 2012-2016 | 2 years of 2013-2017 | 1 year of 2014-2018 | **Total for all awards since 2010** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| S C W Beale | Class | **400.9** | 147.8 | 61.3 | 51.8 | **260.9** | 80.3 | 108.9 | 85.5 | – | – | **274.7** |
| | Syndicate | **41.1** | 21.8 | 36.4 | 31.8 | **90.0** | – | 45.5 | 38.0 | – | – | **83.5** |
| | Total | **442.0** | 169.6 | 97.7 | 83.6 | **350.9** | 80.3 | 154.4 | 123.5 | – | – | **358.2** |
| B D Carpenter | Class | **(49.0)** | – | (63.8) | (109.7) | **(173.5)** | (108.2) | (14.2) | 69.9 | 102.7 | 121.8 | **172.0** |
| | Syndicate | **37.4** | – | 9.1 | 7.9 | **17.0** | 12.3 | 22.7 | 19.0 | 17.0 | 13.8 | **84.8** |
| | Total | **(11.6)** | – | (54.7) | (101.8) | **(156.5)** | (95.9) | 8.5 | 88.9 | 119.7 | 135.6 | **256.8** |
| A W Holt | Class | **23.4** | (1.0) | – | – | **(1.0)** | – | – | – | – | – | **–** |
| | Syndicate | **11.3** | 4.1 | – | – | **4.1** | – | – | – | – | – | **–** |
| | Total | **34.7** | 3.1 | – | – | **3.1** | – | – | – | – | – | **–** |

**Note:**
Where numbers are stated as negative no payment is made. These figures represent the performance of the Plan.

## Amlin Long-Term Incentive Plan 2006 (LTIP)

### LTIP Performance Conditions

Senior underwriters and senior non-underwriters, including Executive Directors, participate in the LTIP. The LTIP's primary performance condition is a relative Total Shareholder Return (TSR) measure. The Committee sets performance conditions at the time of each award. For all the awards made to date, the extent to which awards vest depends on the Company's TSR over the ensuing three years relative to an index of TSRs. The following is the comparator group of insurers in respect of the 2014 grant.

Axa
Hannover Rueckversicherung
Muenchener Rueckversicherung
RSA Insurance Group
Scor SE
Swiss Re
Zurich Insurance Group
Beazley
Catlin Group
Hiscox
Novae Group
Ace
Argo Group International Holdings
Chubb
Everest Re Group
Fairfax Financial Holdings
Markel
PartnerRe
RenaissanceRe Holdings
Validus Holdings
White Mountains Insurance Group
W. R. Berkley
XL Group

Irrespective of relative TSR, no award will vest unless the Committee is satisfied that the Company's financial performance over the performance period has been satisfactory. The performance period is always a single three-year period with no provision for re-testing the performance conditions.

### LTIP awards vesting in year

No LTIP awards vested in respect of the LTIP performance period ending 31 December 2014 as the threshold vesting performance conditions, set out below were not met (2013: 0).

### LTIP awards made during the year

Awards were made in 2014 to 127 participants in all parts of the Group (2013: 110), over a total of 1,782,778 shares (2013: 1,721,567).

LTIP awards granted on 7 March 2014 will vest on 7 March 2017, subject to continued service to that date. A performance period ending on 31 December 2016 determines the vesting of these, as set out below.

| The Company's TSR compared with the comparator group index | Vesting percentage |
|---|---|
| Below index | Nil |
| Equal to the index | 25% |
| Between index and index plus 25% on a straight-line basis | 25% to 100% |
| Equal to or greater than index plus 25% | 100% |

Details of awards made to current and former Executive Directors can be found in the table on page 98.

No further awards will be made under the LTIP scheme.

# Annual Statement on Remuneration 2014 continued

### Amlin Performance Share Plan 2004 (PSP)

#### PSP Performance Conditions

Under the PSP a small number of key senior executives who are not underwriters, including relevant Executive Directors were granted awards. The PSP's primary performance condition is a RONTA measure. The Committee sets performance conditions at the time of each award. For all the awards made to date, the extent to which awards vest depends on the Company's RONTA over the ensuing five years.

Irrespective of the RONTA measure, no award will vest unless the Committee is satisfied that the Company's financial performance over the performance period has been satisfactory. The performance period is always a single five-year period with no provision for re-testing the performance conditions.

#### PSP awards vesting in year

PSP awards granted on 5 March 2009, with a performance period ending 31 December 2013, vested on 5 March 2014. PSP awards granted on 5 March 2010, with a performance period ending 31 December 2014, will vest on 5 March 2015 subject to continued service to that date.

| Award | Vesting date | Performance period | Average return on NTA for period | Vesting % |
|---|---|---|---|---|
| 2009 | March 2014 | 2009-13 | 18.9 | 95.6 |
| 2010 | March 2015 | 2010-14 | 14.07 | 68.9 |

Details of awards vesting to current Executive Directors can be found in the table on page 96.

#### PSP awards made during the year

During 2014, awards were made to a total of 23 participants (2013: 19) over an aggregate of 709,801 shares (2013: 675,314). The rules of the PSP provide that no individual may receive an annual award over shares valued on grant at more than 100% of base salary. In 2014, the maximum such value was awarded to the Chief Executive, the Chief Finance & Operations Officer and the Chief Underwriting Officer.

PSP awards granted on 7 March 2014 will vest on 7 March 2019, subject to continued service to that date. A performance period ending on 31 December 2018 determines the vesting of these, as set out below.

| Average return on consolidated Net Tangible Assets per annum | % of shares that will vest |
|---|---|
| Less than 10% | Nil |
| 10% | 20% |
| Between 10% and 15% | Straight-line basis between 20% and 80% |
| 15% | 80% |
| Between 15% and 20% | Straight-line basis between 80% and 100% |
| 20% or over | 100% |

Details of awards made to current and former Executive Directors can be found in the table on the page opposite.

At the General Meeting (EGM) held in November, the Amlin plc 2014 Performance Share Plan (2014 PSP) was approved. No further awards will be made under the 2004 PSP.

### All-employee share plans

The Company offers HMRC-approved SAYE options, the current plan having been adopted in 2008 with a 10-year life for new grants. An annual offer was made in September 2014. Sharesave offers are made under the plan to staff in all jurisdictions where local tax and regulation makes this practicable without amending the plan, which does not include continental Europe. The 2014 SAYE offer was open to all applicable employees employed by the Group on 1 July 2014. Exercises are not subject to any performance condition.

Since 2007, the Company has also operated an HMRC-approved all-employee SIP, allowing offers of shares at no cost to employees. Such free shares are offered or allocated to all Group staff meeting an employment qualification period.

The Committee has a policy of making an award of free shares each year, on an equal basis to all eligible Executive Directors and staff (subject to a pro-rata adjustment, where permitted, for part-time employees), based on the annual results. The quantum, between nil and the annual maximum level currently permitted by HMRC of £3,600 worth of shares per employee, is decided in light of the ROE achieved in the previous year.

In respect of the period ending 31 December 2014, an award of £3,000 (2013: £3,000) was made to eligible employees. The Committee considers that the plans are successful in encouraging staff at all levels to build up interests in the Company, at an acceptable accounting and administrative cost to the Company.

### Executive share option schemes

Executive share options were granted at the discretion of the Committee under the Approved and Unapproved Amlin Executive Share Option Schemes each year from 1997 to 2006. The options were granted to Executive Directors and other staff (whether underwriters or not) above a certain level of seniority, and were subject to performance conditions. No further grants can be made.

### Executive Directors' PSP, LTIP and share option participations

As at 31 December 2014, the options held under these plans by Executive Directors, all of whom were Directors throughout the year and any changes during the year, are set out in the following table.

| | Scheme | Over new or ESOT shares[1] | Shares under option on 1 Jan 2014 | **Awards made during the year** | Awards lapsed during the year | Exercised during the year | Shares under option on 31 December 2014 | Exercise price per share | Years options exercisable (if performance conditions met) | Potential profit on 31 December 2014[2] £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| S C W Beale | LTIP | ESOT | 56,447 | – | 56,447 | – | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT | 69,642 | – | – | – | 69,642 | Nominal | 2015-2017 | 333.0 |
| | | ESOT | 90,481 | – | – | – | 90,481 | Nominal | 2016-2018 | 432.7 |
| | | ESOT | – | 85,627 | – | – | 85,627 | Nominal | 2017-2019 | 409.5 |
| | Total LTIP | | 216,570 | 85,627 | 56,447 | 0 | 245,750 | | | 1,175.2 |
| | PSP | ESOT | 90,481 | – | – | – | 90,481 | Nominal | 2018-2021 | 432.7 |
| | | ESOT | – | 85,627 | – | – | 85,627 | Nominal | 2019-2022 | 409.5 |
| | Total PSP | | 90,481 | 85,627 | 0 | 0 | 176,108 | | | 842.2 |
| | SAYE | Treasury | 6,163 | – | – | – | 6,163 | 247.00p | 2016-2017 | 14.2 |
| | | Treasury | – | 4,267 | – | – | 4,267 | 355.00p | 2019-2020 | 5.3 |
| | Total options | | 6,163 | 4,267 | 0 | 0 | 10,430 | | | 19.5 |
| | **Totals all** | | **313,214** | **175,521** | **56,447** | **0** | **432,288** | | | **2,036.9** |
| R A Hextall | LTIP | ESOT | 100,351 | – | 100,351 | – | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT | 125,000 | – | – | – | 125,000 | Nominal | 2015-2017 | 597.7 |
| | | ESOT | 109,283 | – | – | – | 109,283 | Nominal | 2016-2018 | 522.6 |
| | | ESOT | – | 108,389 | – | – | 108,389 | Nominal | 2017-2019 | 518.3 |
| | Total LTIP | | 334,634 | 108,389 | 100,351 | 0 | 342,672 | | | 1,638.6 |
| | PSP | ESOT | 61,164 | – | 2,692 | 58,472 | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT | 93,085 | – | – | – | 93,085 | Nominal | 2015-2017 | 445.1 |
| | | ESOT | 100,351 | – | – | – | 100,351 | Nominal | 2016-2018 | 479.9 |
| | | ESOT | 125,000 | – | – | – | 125,000 | Nominal | 2017-2019 | 597.7 |
| | | ESOT | 109,283 | – | – | – | 109,283 | Nominal | 2018-2020 | 522.6 |
| | | ESOT | – | 108,389 | – | – | 108,389 | Nominal | 2019-2021 | 518.3 |
| | Total PSP | | 488,883 | 108,389 | 2,692 | 58,472 | 536,108 | | | 2,563.6 |
| | SAYE | Treasury | 2,884 | – | – | – | 2,884 | 312.00p | 2016-2017 | 4.8 |
| | | Treasury | – | 2,535 | – | – | 2,535 | 355.00p | 2017-2018 | 3.1 |
| | Total options | | 2,884 | 2,535 | 0 | 0 | 5,419 | | | 7.9 |
| | **Totals all** | | **826,401** | **219,313** | **103,043** | **58,472** | **884,199** | | | **4,210.1** |
| C E L Philipps | LTIP | ESOT | 137,481 | – | 137,481 | – | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT | 168,154 | – | – | – | 168,154 | Nominal | 2015-2017 | 804.1 |
| | | ESOT | 136,310 | | – | – | 136,310 | Nominal | 2016-2018 | 651.8 |
| | | ESOT | – | 130,067 | – | – | 130,067 | Nominal | 2017-2019 | 622.0 |
| | Totals LTIP | | 441,945 | 130,067 | 137,481 | 0 | 434,531 | | | 2,077.9 |
| | PSP | ESOT | 95,550 | – | 4,205 | 91,345 | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT | 128,627 | – | – | – | 128,627 | Nominal | 2015-2017 | 615.1 |
| | | ESOT | 137,481 | – | – | – | 137,481 | Nominal | 2016-2018 | 657.4 |
| | | ESOT | 168,154 | – | – | – | 168,154 | Nominal | 2017-2019 | 804.1 |
| | | ESOT | 136,310 | – | – | – | 136,310 | Nominal | 2018-2020 | 651.8 |
| | | ESOT | – | 130,067 | – | – | 130,067 | Nominal | 2019-2021 | 622.0 |
| | Totals PSP | | 666,122 | 130,067 | 4,205 | 91,345 | 700,639 | | | 3,350.4 |
| | Exec options | Treasury | 92,150 | – | – | – | 92,150 | 293.00p | 2009-2016 | 170.7 |
| | SAYE | Treasury | 6,163 | – | – | – | 6,163 | 247.00p | 2016-2017 | 14.2 |
| | | Treasury | – | 2,535 | – | – | 2,535 | 355.00p | 2017-2018 | 3.1 |
| | Total options | | 98,313 | 2,535 | 0 | 0 | 100,848 | | | 188.0 |
| | **Totals all** | | **1,206,380** | **262,699** | **141,686** | **91,345** | **1,236,048** | | | **5,616.3** |
| B D Carpenter[3] | LTIP | ESOT | 62,092 | – | 62,092 | – | 0 | Nominal | 2014-2016 | 0 |
| | | ESOT[4] | 75,892 | – | 58,178 | 17,714 | 0 | Nominal | 2014-2015 | 0 |
| | | ESOT[4] | 61,727 | – | 61,727 | 0 | 0 | Nominal | 2014-2015 | 0 |
| | | ESOT[4] | – | 58,530 | 51,798 | 6,732 | 0 | Nominal | 2014-2015 | 0 |
| | Totals LTIP | | 199,711 | 58,530 | 233,795 | 24,446 | 0 | | | 0 |
| | SAYE | Treasury | 3,643 | – | 101 | 3,542 | 0 | 247.00p | 2014-2015 | 0 |
| | Total options | | 3,643 | 0 | 101 | 3,542 | 0 | | | 0 |
| | **Totals all** | | **203,354** | **58,530** | **233,896** | **27,988** | **0** | | | **0** |

**Notes:**
1. New shares can also potentially be sourced from Treasury.
2. Calculated assuming maximum vesting of awards, using the closing share price of 478.2p from the last trading day of 2014. During the year under review, the lowest and highest mid-market trading prices of the shares in the Company were 410.2p and 490.8p respectively.
3. B D Carpenter stepped down from the Board on 30 September 2014.
4. Performance conditions tested as at 30 September 2014.

The share price on the day prior to the grant of the Directors' PSP and LTIP awards on 4 March 2014 was 453p.

During the year Mr Philipps and Mr Hextall elected to receive the deferred element of their 2013 bonus as shares. These shares are not included in the table on the previous page.

### Directors' options exercised during 2014

| Executive | Scheme | Met by treasury or ESOT shares | Number of shares exercised | Exercise price | Date of exercise | Share price on exercise | Profit on exercise of £'000 |
|---|---|---|---|---|---|---|---|
| R A Hextall | PSP 2009 | ESOT | 58,472 | £1 Nominal | 6 March 2014 | 462p | 270.1 |
| C E L Philipps | PSP 2009 | ESOT | 91,345 | £1 Nominal | 6 March 2014 | 462p | 422.0 |

### Deferred share awards

In 2014 Mr Philipps and Mr Hextall elected to receive the deferred element of their 2013 bonus as shares. These shares are held by a nominee on behalf of Mr Philipps and Mr Hextall and are eligible to be released in March 2017, subject to the same restrictions as if they had received cash under the 2013 Group Bonus Scheme, including a clawback provision. The awards are set out in the table below.

| Participant | Deferred element of 2013 Bonus (£) | Number of shares[1] |
|---|---|---|
| R A Hextall | 188,700 | 39,117 |
| C E L Philipps | 184,440 | 38,234 |

**Note:**
1. The number of shares was calculated using the MMQ of 479p on 26 March 2014.

### Shareholding target

In 2006, an objective was set that Executive Directors would retain or build up shareholdings in the Company to the value of at least 100% which was later increased to 125%. During the year, the Committee reviewed the targets and proposed that the amount of shareholding target value for Executive Directors would increase from 125% to 150% of their base salaries. It was agreed that this would be achieved through the vesting of future incentive plans for those Executive Directors and senior executives who were not already at their target shareholding value. The Committee retains the discretion to amend the target. The Committee believes that the combination of these shareholdings and the structure of performance incentives continue to ensure that the interests of management and shareholders in the Company's success are closely aligned.

| Director | Beneficially owned at 31 December 2014[1] | Deferred bonus shares | Total of beneficially owned at 31 December 2014[1] | Vested but unexercised LTIP and PSP awards | Total cash equivalent of beneficially owned at 31 December 2014[2] £'000 | **% shareholding guideline achieved at 31 December 2014** |
|---|---|---|---|---|---|---|
| C E L Philipps | 614,063 | 38,234 | 652,297 | 0 | 3,119 | **507.2** |
| R A Hextall | 169,043 | 39,117 | 208,160 | 0 | 995 | **193.3** |
| S C W Beale | 327,644 | 0 | 327,644 | 0 | 1,567 | **384.0** |

**Note:**
1. And as at 27 February 2015.
2. The closing share price at 31 December 2014 was 478.2p.

### Using unissued and existing shares for incentive plans

The rules of the Company's share incentive plans include limits on the overall number of unissued shares over which options may be granted. The only employee schemes under which either unissued or treasury shares are committed to be issued are the executive share option schemes, the Sharesave plans, and the schedules to the PSP and LTIP applying to awards to participants in continental Europe. New shares were also issued in 2007 to the trustee of the Share Incentive Plan as SIP Free Shares. However, in subsequent years, such shares were purchased in the market. Shares awarded under the PSP and LTIP are intended to be satisfied from shares held, or to be purchased by the Group's Employee Share Ownership Trust (ESOT), unless overseas requirements dictate otherwise.

Grants of options over new and/or treasury shares under any selective plan, after deducting any such options which have lapsed, are limited to 5% of the issued share capital in any 10-year period. Grants over new/treasury shares under any scheme are also limited to 10% over 10 years. The percentages of the year-end shares in issue, together with the equivalent percentages a year earlier relating to each of these limits are shown in the table on the next page.

### Utilisation of new and Treasury shares

| | **Percentage of shares in issue utilised 31 December 2014** | Percentage of shares in issue utilised 31 December 2013 |
|---|---|---|
| Executive 5% limit over 10 years | **3.8%** | 3.8% |
| All schemes 10% limit over 10 years | **5.25%** | 5.0% |

### Executive Directors' pensions

Pension details, as applicable for each Executive Director who served as a Director during the year (Non-Executive Directors not being eligible), are shown in the table below. The total defined contributions (DC) employer contributions for the Directors were £65,250 (2013: £74,864). The increase in accrued pension during the year in respect of defined benefit (DB) schemes is before the effects of inflation. The changes in total transfer values during the year are shown before the effects of inflation and after deducting the individual's DB contributions during the year. The inflation measure used for the purposes of this disclosure is the change in the retail price index (RPI).

Transfer values are calculated in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996, as amended. Only base salary is pensionable.

The table below sets out disclosures of relevant pension amounts in line with the new regulations.

| | | | | **31 December 2014 disclosure** | | | 31 December 2013 disclosure | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | DB or DC | Payments in lieu of pension contributions 2014 £'000 | DC employer contributions 31 December 2014 £'000 | **Accrued pension entitlement at 31 December 2013 £'000** | **Accrued pension entitlement at 31 December 2014 £'000** | **Pension input amount for 2014 £'000** | Payments in lieu of pension contributions 2013 £'000 | DC employer contributions 31 December 2013 £'000 | Accrued pension entitlement at 31 December 2012 £'000 | Accrued pension entitlement at 31 December 2013 £'000 | Pension input amount for 2013 £'000 |
| S C W Beale | DB & DC | – | 47.5 | **65.8** | **71.3** | **66.9** | – | 44.9 | 61.1 | 65.8 | 61.4 |
| B D Carpenter[1] | DB & DC | 18.3 | 1.1 | **80.4** | **81.2** | **0** | 24.0 | 3.7 | – | – | – |
| R A Hextall | DC | 52.7 | 16.7 | **–** | **–** | **–** | 41.7 | 26.2 | – | – | – |
| C E L Philipps | DC | 113.5 | 0 | **–** | **–** | **–** | 109.8 | 0 | – | – | – |

**Notes:**
1. B D Carpenter stepped down from the Board on 30 September 2014.

Directors reaching lifetime or annual pension limits received cash payments in lieu of pension. These payments are included in the table above.

### External appointments

To broaden the experience of Executive Directors, they can accept one external appointment as a non-executive director of another public company, provided they seek advance permission from the Board. Any external appointment must not conflict with the Director's duties and commitments to the Company. Richard Hextall received and retained a non-executive director's fee of £30,000 from the City of London Investment Trust PLC (2013: £29,000) and Simon Beale received a fee of £37,500 from the Council of Lloyd's (2013: £37,500), which was paid over to the Company. Charles Philipps become a non-executive director of Great Portland Estates plc with effect from 1 April 2014 and received a pro-rated fee of £39,425.

### Non-Executive Director fees

The regular annual review of Non-Executive Director fees took place during 2014. The review involves considering a number of key factors, including market movements, time commitment and competition for high-quality Non-Executive Directors. The results of this review, which were effective from 1 July 2014, are summarised below.

| | Annual fee at 30 June 2014 £ | **Annual fee at 1 July 2014[1] £** | **Increase as a %** |
|---|---|---|---|
| J Chakraverty[2] | 67,000 | **75,000** | **11.9** |
| R H Davey | 240,000 | **240,000** | **0** |
| M D Feinstein[3] | 91,000 | **95,000** | **4.4** |
| S Jemmett-Page[2] | 77,000 | **87,000** | **13.0** |
| O L E Peterken | – | **67,000** | **–** |
| Sir Mark Wrightson[3] | 69,000 | **71,000** | **2.9** |

**Notes:**
1. Or date of appointment if later. O L E Peterken was appointed on 1 September 2014
2. J Chakraverty and S Jemmett-Page were appointed to serve on the Audit and Remuneration Committees respectively and both received an additional fee of £8,000.
3. M Feinstein and Sir Mark Wrightson both received a £2,000 increase in their Committee Chairman fee, with a further £2,000 paid to Mr Feinstein in respect of his position as Senior Independent Director.

The annual NED fees are calculated: base fee £51,000, with £8,000 per Committee, excluding Nomination, and £12,000 per Chairman position.

### Payments to former Directors during 2014

| Payments to past Directors | Fees and salaries £'000 | Annual bonuses and/or profit commission and Capital Builder[1] £'000 | Benefits in kind/allowances[2] £'000 | Total year to 31 December 2014 £'000 | Fees and salaries £'000 | Annual bonuses and/or profit commission and Capital Builder[1] £'000 | Benefits in kind/allowances[2] £'000 | Total year to 31 December 2013 £'000 |
|---|---|---|---|---|---|---|---|---|
| B D Carpenter | 275.4 | 215.5 | 33.8 | 524.7 | 357.6 | 354.5 | 113.1 | 825.2 |
| N J C Buchanan | – | – | – | – | 37.1 | – | – | 37.1 |
| A W Holt | – | 3.1 | – | – | – | 25.1 | – | 25.1 |
| Sir Alan Collins | 27.9 | – | – | 27.9 | 67.0 | – | – | 67.0 |

**Notes:**
1. The 2013 PC figures have been restated from estimated amounts to actual paid amounts.
2. This includes employer pension contribution and taxable benefits. SIP awards have been excluded.

### Chief Executive's remuneration

Percentage change in Chief Executive remuneration

The table below shows the percentage change in Chief Executive's salary, benefits and annual bonus compared with the average for all full-time employees in the UK, and the ratio between Chief Executive and the average for all employees for 2014 relative to 2013.

| | % change from 2013 to 2014 | | |
|---|---|---|---|
| | Salary | Benefits | Annual bonus |
| Chief Executive | 3.3 | 3.4 | (13.8) |
| Average for all UK employees | 4.4 | 4.6 | (17.8) |

| Ratio of CEO pay to average employee | 2014 | 2013 |
|---|---|---|
| CEO: Employee | 15:1 | 15:1 |

**Note:**
CEO to employee pay is calculated using the employment costs and numbers disclosed in note 7.

The total remuneration figures for the CEO during each of the last five financial years are shown in the table below. Consistent with the calculation methodology used for the single figure for total remuneration, the total remuneration figure includes the total annual bonus based on that year's performance and PSP and LTIP Share Award performance based on the three- and five-year performance period ending in the relevant year. The annual bonus pay-out, PSP and LTIP performance vesting levels as a percentage of the maximum opportunity are also shown for each of these years.

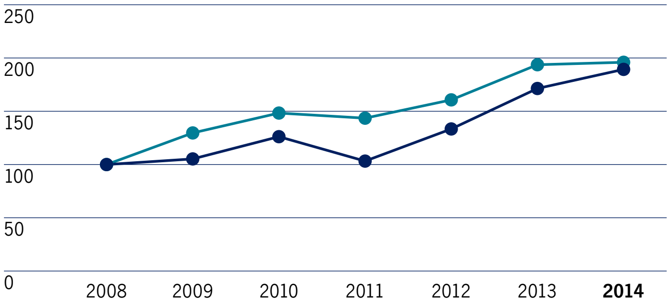
| | Year ending 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Total remuneration (£'000) | £2,270 | £2,302 | £1,385 | £2,055 | £2,051 | £1,144 |
| Annual bonus (%) | 100% | 61.4% | 20% | 85% | 92% | 76% |
| Total LTIP & PSP vesting (%) | 100% | 86% | 60% | 45% | 39% | 30% |
| PSP awards vesting (%) | 100% | 100% | 98% | 83% | 97% | 69% |
| LTIP awards vesting (%) | 100% | 71% | 0% | 0% | 0% | 0% |

### Total Shareholder Return (TSR) performance

The graphs opposite illustrate the TSR performance of the Company's ordinary shares relative to the FTSE 350 and the FTSE All Share Insurance indices respectively (Amlin's shares are a constituent of both) over the six years to 31 December 2014.

Comparisons are shown with both these indices, as the performance of Amlin's shares is affected both by the general UK stock market in companies of its size and by its insurance sector. The graphs show the values, at each year end from 2008 to 2014 inclusive, of £100 invested in the Company's shares on 31 December 2008 compared with the values of £100 invested in the relevant index on the same date.

## Total Shareholder Return compared with FTSE 350 Index at 31 December
(Value, £)

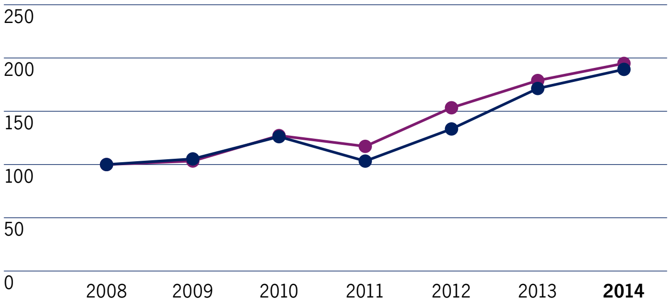



This graph shows the value, by 31 December 2014, of £100 invested in Amlin plc at the end of the 2008 financial year compared with the value of £100 invested in the FTSE 350

● Amlin ● FTSE 350

Source: Thomson Reuters

## Total Shareholder Return compared with FTSE All Share Non-Life Insurance Index at 31 December
(Value, £)




This graph shows the value, by 31 December 2014, of £100 invested in Amlin plc at the end of the 2008 financial year compared with the value of £100 invested in the FTSE All Share Non-Life Insurance Index

● Amlin ● FTSE All Share Non-Life Insurance Index

Source: Thomson Reuters

### Relative spend on pay during the year

The table below sets out the Company's actual spend on pay for all employees (as detailed on page 136) and dividends for the year under review, as compared with the previous year, and the percentage change between the two years.

| All figures in £m | 2013 | **2014** | **Increase/ (Decrease)** |
|---|---|---|---|
| All employee cost (including Executive Directors)[1] | 212.5 | **208.5** | **(1.9)%** |
| Distributions to shareholders (dividend payments)[2] | 121.4 | **131.2** | **8.1%** |

**Notes:**
1. Taken from Note 7 of the Report and Accounts.
2. Taken from the Consolidated Income Statement of Changes in Equity. Full details of the increase in the dividend paid in the year are set out on page 102.

### How the executive remuneration policy will be applied for 2015

#### Salary

The Executive Directors' salaries were reviewed on 26 February 2015. The result is that the following salary increases will take place for 2015 with effect from 1 April 2015. This compares with the average salary increase provided to UK employees of 4.4% (2013: 3%).

| Executive Director | Salary as at 31 December 2014 £ | **Salary effective 1 April 2015 £** | **Increase as a %** |
|---|---|---|---|
| C E L Philipps | 620,000 | **635,000** | **2.40** |
| R A Hextall | 515,000 | **527,000** | **2.33** |
| S C W Beale | 408,000 | **420,000** | **2.94** |

#### Pension and other benefits

The current pension provision policy will continue in 2015. All Executive Directors will participate in the Group's DC plan with the Company and participant making a maximum contribution of up to 26% of base salary in total. Directors reaching lifetime or annual pension limits will receive cash payments in lieu of pension. Additional benefits will be provided in line with the Policy described in the Policy table.

Simon Beale is also a member of the Group's DB scheme. Mr Beale will continue to accrue additional years' service under the scheme but only based on his 2006 pensionable salary (with salary increases from April 2006 onwards being pensioned through the DC arrangements).

#### Annual bonus

For 2015, the maximum annual bonus opportunity for Charles Philipps and Richard Hextall is 165% of salary. For 2015, the maximum annual bonus opportunity for Simon Beale is 400% of salary.

The annual bonus will be determined by:

- Group financial measures and performance (at least 70% of maximum opportunity)
- non-financial personal performance (up to a maximum of 30% of opportunity).

The Group financial performance target is based on the Group's actual return on equity (ROE) compared with target returns and is set by the Committee at the start of the year. In addition, Simon Beale's bonus will be decided in part by a financial measure of each SBU's underwriting profit, as well as ROE.

The Committee considers that the targets are commercially sensitive and will therefore disclose them only on a retrospective basis. Details of the targets and outturn against them will therefore be disclosed in the 2015 annual report on remuneration, except where the Committee considers they remain commercially sensitive. Any annual bonus paid exceeding a predetermined percentage of salary will be deferred in three tranches over the ensuing three-year period and will be deferred into shares.

Non-financial personal performance objectives are set at the start of the year as part of the annual performance review operating for all employees and are either agreed by the CEO or by the Chairman in the case of the CEO.

### Performance Share Plan 2014

At the EGM held in November the Amlin plc 2014 Performance Share Plan (2014 PSP) was approved. This scheme will enable selected Executive Directors and senior employees of the Group to be granted awards under the scheme. The purpose is to aid recruitment, retention, motivation and to reward achievement of superior financial returns for shareholders and long-term target underwriting returns. Awards under the 2014 PSP will be granted annually, up to a maximum award for Executive Directors of 200% of salary over shares valued on the date of grant. Awards will be made in the form of nil-cost options. Once the vesting level is determined after five years in accordance with the performance condition, and provided the relevant participant is still employed by the Group, an award can be exercised within the following 30 months. The amount to which 2014 PSP awards vest would depend on a sliding scale of financial performance determined by the Committee as set out below. The Company plans to use the 2014 PSP to award shares in 2015.

### 2015 proposed target and vesting schedule

| RONTA target | Award Vesting |
|---|---|
| <10% | 0% |
| 10% | 20% |
| 10-15% | 20-80% |
| 15-18% | 80-100% |
| 18%+ | 100% |

The Remuneration Committee may vary the performance target for grants in future years. In all cases the performance target applying to grants of awards to Directors will be compliant with the Executive Pay Policy in force from time to time.

#### Historic awards

Simon Beale will continue to be entitled to receive payments under the Capital Builder and Profit Commission schemes during 2015. These entitlements are in respect of historic awards granted prior to the start of the Remuneration Policy and which vest during the year.

### How the Remuneration Committee operates

In determining the Executive Directors' remuneration, the Committee consulted with and received recommendations from Mark Farrow, Director of HR, and the Chief Executive. The Committee also received advice from Mark Stevens, Group Company Secretary, and New Bridge Street, which assisted the Committee in the 2014 financial year. In setting the overall Remuneration Policy, the Committee made decisions in the broader context of employee remuneration throughout the Group.

The table below sets out members of the Committee who served during the year and that the Board regards as independent. Their attendance at Committee meetings was as follows:

#### Remuneration Committee members

| | Meetings attended |
|---|---|
| Sir Mark Wrightson | 8/8 |
| Julie Chakraverty | 8/8 |
| Shonaid Jemmett-Page | 7/8 |

Oliver Peterken will be appointed to the Committee with effect from 1 March 2015.

The Committee meets as often as necessary to discharge its duties, with the CEO and the Chairman being invited to attend meetings as appropriate. No member of the Committee has any personal financial interest in the Company (other than as a shareholder), any conflict of interest arising from cross-directorships, or any day-to-day involvement in running the business. No individual is present when matters relating directly to his or her own remuneration are addressed. The Committee last reviewed its Terms of Reference on 3 December 2014. The Board approved the Terms of Reference at its meeting on 26 February 2015, which can be found on the Company's website in the governance section at www.amlin.com.

#### Matters considered by the Committee during the year

During the year, the Committee considered the following key matters:

- Approving the Directors' remuneration report for 2013
- The annual review of all Executive Directors' and senior managers' remuneration packages, and approving any salary increases
- Reviewing achievement of Group Bonus Scheme against profit target
- Reviewing and approving all awards made under the PSP and LTIP, taking into account the total value of all awards made under these plans
- Approving the vesting level for the PSP and LTIP grant of award
- Considering the performance measures and targets to be applied to the 2014 PSP and LTIP awards
- Reviewing Director shareholding guidelines
- Considering external market developments and best practice in remuneration
- Reviewing Committee performance during 2013
- Reviewing Committee terms of reference
- Reviewing statement in respect of remuneration consultants
- Reviewing and approving CB and PC plan payments
- Reviewing Remuneration Policy and associated shareholder consultation documentation
- Reviewing amendment to incentive plans

- The annual review of the Chairman's fee
- A Group-wide review of remuneration

### Discretion exercised by the Committee during the year

During the year, the Committee exercised its discretion in respect of the Remuneration Policy in respect of the following matter:

- In determining the status of Brian Carpenter as a "good leaver" and in applying its discretion concerning his entitlement to receive earned and deferred PC and CB payments and his eligibility under the PSP and LTIP schemes.

### External advisers

The Committee's independent remuneration adviser is New Bridge Street (NBS). NBS advises the Committee on structuring and using the Group's performance-related incentives, and on remuneration policy generally. NBS also advises on remuneration of the Non-Executive Directors. NBS operates independently in the Aon plc group of companies, which has certain trading relationships with the Company's subsidiaries. NBS is a signatory to the Remuneration Consultants Group Code of Conduct and has confirmed its compliance with the Code. A copy of the statement regarding the relationship with NBS can be found on the Company's website at www.amlin.com.

NBS's role of providing ongoing support and advice to the Committee over the entire remuneration year included:

- Advising on the increase in award levels under the PSP
- Providing performance measurement relating to the PSP and LTIP
- Updating on developments in remuneration practices
- Supporting and advising in relation to the Department of Business, Innovation and Skills requirements
- Advising on increases of the Chairman and Non-Executive Directors' fees
- Advising on increases of the Executive Directors' total remuneration; supporting the review of the Directors' remuneration report
- Supporting the shareholder consultation process
- Advising on updating SIP and SAYE scheme rules

The Committee is exclusively responsible for reviewing, selecting and appointing its advisers. The Committee reviewed its appointment of NBS during the year and confirmed its reappointment as adviser, and is satisfied that the advice received was objective and independent. During the year, the fee payable to NBS was £63,723 (2013: £93,700). This included advice on other HR matters and on the Regulations and other new legislation.

### Shareholder and broader context

The Committee considers the external environment in which the Company operates and guidance issued by institutional shareholders. During the year, the Chairman of both the Remuneration Committee and Amlin plc consulted investors on general and specific remuneration matters. In particular, the Committee consulted with investors regarding the Directors' remuneration report and the Remuneration Policy.

The AGM and EGM of Amlin plc were held on 22 May and 24 November 2014 respectively. A vote was taken on a show of hands at the AGM and a poll at the EGM on each resolution at each meeting. The results of the proxies are set out below.

| Resolution | For | For % | Against | Against % | Total Shares | Total Shares % | Votes withheld[1] |
|---|---|---|---|---|---|---|---|
| Approval of the remuneration report | 385,137,858 | 98.91 | 4,250,478 | 1.09 | 389,388,336 | 78.4 | 7,865,981 |
| Approve the Directors' Remuneration Policy (AGM) | 382,674,867 | 97.57 | 9,533,452 | 2.43 | 392,208,319 | 78.9 | 5,045,997 |
| Approve the Directors' Remuneration Policy (EGM) | 401,697,523 | 98.14 | 7,602,976 | 1.86 | 409,300,499 | 81.7 | 38,171 |
| Authorise the Directors to establish the Amlin plc Performance Share Plan | 401,570,656 | 98.11 | 7,737,481 | 1.89 | 409,308,137 | 81.7 | 32,661 |

**Note:**
1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion if the votes "For" and "Against" a resolution.

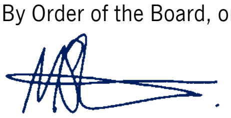
These votes include those votes giving the Chairman discretion. The shares in issue on the respective general meetings where:

| | 22 May 2014 | 24 November 2014 |
|---|---|---|
| Total shares in issue | 504,799,359 | 504,865,900 |
| Shares held in treasury | 4,076,070 | 4,003,650 |

### Status of report

As required by the Large and Medium-Sized Companies and Group (Accounts & Reports) (Amendment) Regulations 2013, in accordance with which this report has been prepared, the sections entitled "Directors' remuneration received for 2013 and 2014", "Executive Directors' Capital Builder Plan participations and estimates to date", "Executive Directors' Performance Share Plan, Long-Term Incentive Plan and share options participations" and "Executive Directors' pensions" have been audited by PricewaterhouseCoopers LLP.

By Order of the Board, on the recommendation of the Remuneration Committee



**Mark Stevens**
Group Company Secretary
27 February 2015

# Directors' report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2014. This report on pages 102 to 103 together with the Strategic Report on pages 1 to 63 form the management report as required under the FCA Disclosure and Transparency Rules (DTR) 4.1.5R.

### Share capital, treasury shares and dividends

The Company's share capital during the year comprised a single class of ordinary shares of 28.125p each. There were 504,865,900 shares in issue at the year end (2013: 504,799,359) including shares held in treasury.

At the 2014 AGM the Directors were given the authority to allot shares or grant rights to subscribe for, or convert, any security into shares up to a nominal value of £46,941,279 which is equivalent to approximately one third of the total issued ordinary share capital of the Company exclusive of treasury shares as at 1 April 2014. In addition, the Directors are authorised to allot shares, or grant rights to subscribe for, or convert, any security into shares up to a further nominal value of £46,941,279 in connection with a rights issue only.

At the 2014 AGM the Company was given authority to purchase 50,070,697 ordinary shares. The minimum price that may be paid for each share is 28.125p and the maximum price will be an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares on the London Stock Exchange for the five business days prior to any purchase or the highest current independent bid for the Company's ordinary shares on the London Stock Exchange at the time of the purchase.

The present authority for the Company to purchase its own shares will expire at the 2015 AGM and it will be proposed that the Company's authority to purchase its own shares be renewed. Further details will be contained in the Notice of AGM.

No shares were bought back into treasury during the year (2013: nil). 756,372 shares were transferred out of treasury during the year to service exercises of employee share options (2013: 716,586), leaving 3,495,713 shares in treasury at the year end (2013: 4,252,085). The Group issued 66,541 ordinary shares on 7 November 2014 in conjunction with the Group increasing its interest in Leadenhall Capital Partners LLP from 40% to 75%. The shares issued have the same rights as all other shares in issue. The fair value of the shares issued amounted to £289,000 (434p per share).

There have been no issues of shares or further share buy backs or transfers into treasury since the year end but a further 70,735 shares had, by 27 February 2015, been transferred from treasury to satisfy employee share options, leaving 3,424,978 shares in treasury at that date.

The Directors have declared dividends as follows:

| Ordinary shares |
|---|
| Paid interim dividend of 8.1p per share on 2 October 2014 to shareholders on the register of members on 5 September 2014 (2013: 7.8p) |
| Proposed final dividend of 18.9p per share to be paid on 28 May 2015 to shareholders on the register of members at the close of business on 17 April 2015 (2013: 18.2p) |
| Total ordinary dividend of 27p per share (2013: 26.0p) |
| Proposed special dividend of 15p per share to be paid on 28 May 2015 to shareholders on the register of members at the close of business on 17 April 2015 |

Those shareholders wishing to use any of these dividends to purchase further shares were, and are, able to participate in a Dividend Reinvestment Plan. Details of the plan are available on the Company's website and shareholders are being reminded of the plan as this Annual Report is published.

### Directors

The Directors' biographical details are contained within the Corporate governance report and are incorporated into this report by reference.

Amlin's Articles set out clear powers of removal, appointment, election and re-election of Directors. A Director may be removed either by a unanimous resolution of fellow Directors or by an ordinary resolution of Amlin plc in a general meeting. The Board may appoint additional Directors at any time but such appointees must, if they wish to continue, be elected by shareholders by an ordinary resolution at the AGM following their appointment. Directors may also be appointed by election at the AGM. The Articles also provide that no term of office may exceed the period between election, or re-election, by shareholders and the AGM in the third year following such election or re-election. Although the Board complies with the UK Corporate Governance Code annual re-election provision for FTSE 350 companies, it is not intended to amend the Articles in this respect.

The Articles provide that, following a Director's election by shareholders at the AGM immediately following his or her initial appointment by the Board, each Director's term of office before being required to submit himself or herself to shareholders for re-election is three years. This term has historically been shortened to one year for any Non-Executive Director who has served on the Board for nine years or more. As referred to above, it is intended that all Directors will generally submit themselves for re-election annually.

### Directors' interests

The interests of the Directors and their related parties who have interests in the shares of the Company, all of which are beneficial except where indicated otherwise, are set out below.

Directors' interests in shares

| | **At date of signing 2014 report[1]** | At date of signing 2013 report |
|---|---|---|
| S C W Beale | **327,644** | 332,016 |
| J Chakraverty | **8,000** | 8,000 |
| R H Davey | **10,000** | 10,000 |
| M D Feinstein | **4,000** | 4,000 |
| R A Hextall | **169,043** | 168,415 |
| S C R Jemmett-Page | **700** | 700 |
| O L E Peterken | **4,000** | n/a |
| C E L Philipps | **614,063** | 613,435 |
| Sir Mark Wrightson Bt[2] | **15,388** | 15,388 |
| **Former Directors** | | |
| B D Carpenter[3] | **381,577** | 380,949 |
| Sir Alan Collins[4] | **2,927** | 2,927 |

**Notes:**
1. Or at date of retirement if earlier.
2. Includes 1,500 shares held non-beneficially as a bare trustee.
3. B D Carpenter stepped down from the Board on 30 September 2014.
4. Sir Alan Collins retired from the Board on 22 May 2014.

In the case of the three Executive Directors, Messrs Beale, Hextall and Philipps, the above holdings include beneficial interests held through Amlin's Share Incentive Plan (SIP) and details of their interests in share options and long-term incentive plans are set out in the Directors' remuneration report on pages 84 to 101 in this governance section of the Annual Report, as are details of the total interests of the trustees of the SIP and of the Amlin's Employee Share Ownership Trust (ESOT). Details of transactions between the Group and Directors who served during the year are set out in note 21 to the Accounts.

No Directors have any other interests in the shares or any other securities of the Company or any of its subsidiaries.

### Substantial shareholdings

Information provided to the Company pursuant to the FCA's DTRs is published on a Regulatory Information Service and on the Company's website. As at 31 December 2014, the following information had been received in accordance with DTR5 from holders of notifiable interests in the Company's issued share capital.

## Substantial shareholders' interests

| | Number of shares held | % of shares in issue[1] |
|---|---|---|
| Invesco Limited | 65,178,940 | 12.9 |
| Baillie Gifford & Co | 25,136,807 | 5.1 |
| BlackRock, Inc. | 27,781,395 | 5.55 |
| Majedie Asset Management Ltd | 23,663,478 | 4.8 |
| AXA S.A. | 23,197,732 | 4.7 |
| JP Morgan Chase & Co | 19,624,490 | 4.0 |

**Note:**

1. Based on shares in issue, excluding treasury shares, as at 31 December 2014 of 501,370,187.

There are no special rights attached to any of the Shares. No changes have been disclosed in the period 31 December 2014 to 27 February 2015.

### Corporate governance and Directors' remuneration

The Board's Corporate governance report and reports from the Board's Nomination, Audit and Risk & Solvency Committees on pages 66 to 83 are incorporated into this report by reference. Details of Directors' remuneration and of the Board's Remuneration Committee are set out in the Directors' remuneration report.

### Employees

Copies of the Group's employment policies are available from the Group Company Secretary on request. Some apply to the whole Group whilst others apply to the UK with local variations outside the UK. They cover professional qualifications; family leave; flexible working; sabbaticals; staff harassment; and equal opportunities. The Group's Health & Safety policy and details of its local application are publicised to staff, including by intranet. Its operation in the UK is monitored by a staff Health & Safety Committee. As Chief Finance & Operations Officer, Mr Hextall is responsible for the oversight of health and safety throughout the Group.

The Group's Equal Opportunities policy aims to ensure that no employee, in application for initial employment or as an existing employee (including in the event of a change in his or her circumstances), receives less favourable treatment because of his or her gender (including gender reassignment), marital or family status, actual or perceived sexual orientation, age, ethnic origin, race, colour, nationality, national origin, creed, political affiliation, part-time status, disability (including the training career development and promotion of disabled persons), or any other condition, unless differing treatment can be shown to be legally justifiable.

Further information is set out in the Resources and Relationships section on pages 38 to 47 and is incorporated into this report by reference.

Amlin operates a SIP for all employees, where we are legally allowed to operate such a plan. For employees located in the UK, Bermuda and Singapore, the shares are held in Trust on behalf on the employee. Whilst these shares are held in Trust, the employee has full shareholder rights, and is entitled to receive any declared dividend and exercise their voting rights.

### Other Statutory Disclosures

Information regarding the future development of Amlin, post year end events, overseas branches, employee involvement, research and development and greenhouse gas emissions is set out in the Strategic Report on pages 1 to 63 and is incorporated into this report by reference.

### Political donations

The Group made no political donations during the year (2013: nil).

### Annual General Meeting

The Notice of AGM, to be held at 9.00am on 21 May 2015 at the offices of the Company at St. Helen's, 1 Undershaft, London, EC3A 8ND, is contained in a separate circular to shareholders which is being mailed or otherwise provided to shareholders at the same time as this report.

### Directors' indemnities

The Company has made third-party indemnity provisions for the benefit of its Directors and certain Directors of the Company's subsidiaries.

The current indemnities of the Directors of the Company were entered into during 2008, with the exception of Mrs Jemmett-Page (2012), Mrs Chakraverty (2013) and Mr Peterken (2014). All of these indemnities remain in force at the date of this report.

### Authorisation of Directors' conflicts of interest

The Company's Articles permit the authorisation of a Director's potential conflict of interest or duty, for instance arising from a Director's appointment as a Director of another company which may have a business relationship with the Group. Such authorisations may be given by the remaining Directors who are independent of the potential conflict. A number of authorisations have been approved by the Board in this manner. Such authorisations do not remove a Director's duty to ensure that any actual conflict of interest or duty, should it arise, is dealt with appropriately, usually by the Director taking no part in the relevant Board or Committee decision. A register of approved conflicts is maintained and available for inspection at the Company's Registered Office.

### Going concern

The Group's business, risk and financial management, performance and position, together with factors that are likely to affect future development, are described in the Strategy and performance section of this Annual Report on pages 22 to 63. Capital management strategy, which covers how regulatory and economic capital needs are measured and how capital is deployed, is described under Financial review on pages 56 to 61. The financial position of the Group, including commentary on cash and investment levels, currency management, insurance liability management, liquidity and borrowings, is also covered in that section.

In addition, note 2 to the accounts describes capital management needs and policies, and notes 12 and 13 cover market and underwriting respectively, which includes liquidity and credit risks which may affect the financial position of the Group.

The Group has considerable financial resources to meet its financial needs and, in much of the Group, manages a mature portfolio of insurance risk through an experienced and stable team. The Directors believe that the Group is well positioned to manage its business risks successfully in the current economic environment.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Directors' statement on the disclosure of information to the auditors

Each Director at the date of the approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware
- they have taken all the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Independent Auditors

A resolution is to be proposed at the AGM for the reappointment of PricewaterhouseCoopers LLP as auditors and to authorise the Audit Committee to determine their remuneration.

By Order of the Board

**Mark Stevens**
Group Company Secretary
27 February 2015

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee on the process, all the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the section of the Annual Report entitled "Board of Directors" confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company
- the Strategic Report and Directors' report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the Group website, www.amlin.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

**Mark Stevens**
Group Company Secretary
27 February 2015

# Independent auditor's report to the members of Amlin plc

## Report on the Group financial statements

### Our opinion

In our opinion, Amlin plc's Group financial statements (financial statements):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

Amlin plc's financial statements comprise:

- the consolidated statement of profit or loss and consolidated statement of other comprehensive income for the year ended 31 December 2014;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of financial position as at 31 December 2014;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

## Our audit approach Overview

Overall Group materiality: £11 million, which represents 5% of the five-year weighted average profit before tax.

We scoped our Group audit by focusing our work on three underwriting components, Syndicate 2001 whose sole member is Amlin Corporate Member Limited, Amlin AG and Amlin Europe N.V., described in the "Overview of our business" section of the financial statements.

Our risk assessment highlighted the following areas of focus:

- estimation of outstanding claims and reinsurers' share of outstanding claims
- risk of inappropriate revenue recognition
- control assessment and acquisition accounting for Leadenhall Capital Partners LLP (LCP)
- the valuation of intangible assets
- the valuation of level three investments.

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table on the next page. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

## Independent auditor's report to the members of Amlin plc continued

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Estimation of outstanding claims and reinsurers' share of outstanding claims**<br>**Outstanding claims are described in the Audit Committee report on page 78 and Note 13 Insurance liabilities and reinsurance assets to the financial statements on page 160.**<br><br>Gross outstanding claims continue to be a significant area of focus, particularly in respect of catastrophe losses and attritional loss ratios by class of business. This is due both to the inherent uncertainty in estimating total losses arising from known and unknown events at year end and to the magnitude of this estimated reserve, together with the calculation of reinsurer's share.<br><br>Actuarial techniques are used to determine these reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims.<br><br>Reserves are established above an actuarial best estimate, reflecting a risk premium relating to the uncertainty of the actual level of claims incurred. This is inherently judgemental and therefore a key area of focus for the audit.<br><br>Relative to the prior year, we consider the estimation risk surrounding the estimation of outstanding claims and reinsurers' share of outstanding claims to have increased due to a move in focus from an underwriter led to actuarial-led reserving process. Whilst this is an improvement in the process, change poses increased risk whilst the new processes become business as usual. | We understood, assessed and tested the design and operational effectiveness of the governance and controls in Amlin's reserving process, the key feature being the quarterly reserve committee which we attended throughout the year and assessed as providing robust challenge to the assumptions used in setting the level of reserves.<br><br>We assessed the Directors' estimates based on the methodology, assumptions and judgements made. Applying our industry knowledge and experience, our assessment considered whether the methodology and assumptions were in line with recognised actuarial techniques and best practices.<br><br>The methodology and assumptions were considered appropriate and the reserving philosophy year on year was considered to be consistent.<br><br>Additionally, we performed independent re-projections on selected classes of business. For those classes, we compared our re-projected claims reserves to those booked by management to enable us to investigate any differences in excess of our pre-determined threshold; no differences above that threshold were identified.<br><br>In performing our work we considered the accuracy (with the benefit of hindsight) of the Group's previous estimates through examination of the prior-year development. We also tested the accuracy and completeness of underlying company data used in setting reserves. No errors were noted.<br><br>We tested the recoverability of reinsurance assets by obtaining the credit rating and payment history of reinsurers and considered whether they indicated that the reinsurance assets might not be recoverable, concluding that they did not. |
| **Risk of inappropriate revenue recognition**<br>**Revenue recognition is described in the Audit Committee report on page 79 and in Note 1 Summary of significant accounting policies and critical accounting judgements and estimates, on page 118.**<br><br>A significant proportion of revenue recognised in a year is estimated premium income (EPI) whereby the extent of coverage under a given contract at the year-end and, hence the premium income in respect of it, is unknown and, therefore, requires estimation. Such commercial arrangements can be complex and significant judgement is applied in estimating the premium income.<br><br>The EPI for a year of account and adjustments to previous years of account can have a significant impact on the profit for a financial year.<br><br>For each of the underwriting entities EPI is a material area of judgement.<br><br>The Directors have taken the decision to move to an exposure weighted earning profile for the North American catastrophe class based on windstorm losses and to apply this to the 2014 earned premium to bring premium earnings in line with how the associated losses are earned. Both the timing and the judgemental nature of this adjustment mean it is a heightened area of risk. | We understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring and collation of revenue written through third parties and associated estimates. In particular we have focused on management's monitoring controls of EPI versus forecast and settlements to date.<br><br>We tested the historic accuracy of EPI for existing arrangements by comparing EPI booked to subsequent cash settlements received and investigating differences above a pre-determined threshold for a sample of contracts. No exceptions were noted in our sample.<br><br>We consider the adoption of exposure weighted earning profiles to be an enhancement given it more accurately reflects the nature of the incidence of risk and is more in line with market practice.<br><br>We have challenged the Director's methodology and assumptions in respect of this adjustment. The main assumptions which impact the adjustment are the selection of lines of business, specific contracts to be risk weighted and the risk profile used. We assessed the reasonableness of the assumptions through consideration of loss history and exposure, finding them to be reasonable.<br><br>In addition we recalculated management's adjustment and reviewed the formulae used to ensure the calculation was appropriate and accurate.<br><br>We reviewed the earning profile with consideration to IAS 8 and have concluded that it represents a change in estimate and is therefore appropriately accounted for. |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Control assessment and acquisition accounting for LCP** **This is discussed in the Audit Committee report on page 79, and the Notes to the financial statements – Note 1 Summary of significant accounting policies and critical accounting judgements and estimates, on page 118, and Note 3 Business Combinations on page 127.**<br><br>Amlin has increased its ownership share of LCP from 40% to 75% during the year and consequently LCP is now accounted for as a subsidiary as opposed to an associate in the prior year. Accounting considerations, which arise as a result, involve a significant amount of judgement. The key considerations have been the control assessment of whether Amlin now controls LCP under IFRSs and assessment of how the Directors determined the value of the consideration. The consideration has a deferred element based on LCP's forecasted result and is therefore a judgemental area. | We read the Heads of Terms, revised Partnership Deed and Share Purchase agreement, which confirmed that Amlin has control over LCP and that, from the date of the acquisition it should be accounted for as a subsidiary. We noted that the board has the power to influence LCP's relevant activities. The board is composed of two Amlin members, two individual members, and one independent member (each with one vote on board matters, with a simple majority required for approval). While initially this may suggest neither party has power to direct relevant activities, we noted that Amlin has the right to appoint and remove the independent member, giving Amlin control of the independent member's vote.<br><br>We read the Partnership Deed to ensure that the deferred consideration had been correctly accounted for based on the substance of the transaction. We assessed the appropriateness of the forecasted result used in the deferred consideration calculation and in particular management's analysis of worst and best case scenarios. We concluded that the forecasted results were reasonable for the purposes of valuing the deferred consideration.<br><br>In addition we reperformed the deferred consideration calculation and reviewed the formulae to ensure the calculation was appropriate and accurate, with no errors noted. |
| **Valuation of intangible assets** **As principally described in Note 15 Goodwill and intangible assets on page 184.**<br><br>Errors in the valuation of goodwill and intangible assets acquired in the year in respect of the increased investment in LCP may lead to a material misstatement.<br><br>The key assumptions underpinning the valuation were the forecasted results of LCP, the weighted average cost of capital and the useful life of the customer relationships.<br><br>Additionally, errors in the impairment assessment of existing intangible assets may lead to a material misstatement. | Customer relationships intangible assets and goodwill were generated as a result of the increased investment in LCP. We tested the valuation of goodwill and customer relationships intangible assets and resulting goodwill through testing of the Directors' valuation.<br><br>Specifically, we have assessed the Directors' methodology and assumptions by challenging the key assumptions and comparing them to publicly available data such as interest rates and economic growth projections. Additionally we have performed a sensitivity analysis over the key assumptions. As a result of undertaking these procedures we believe that the assumptions used were reasonable.<br><br>We reperformed the calculations within the valuation model to ensure they were appropriate and accurate.<br><br>In testing the impairment assessment of existing intangible assets we have evaluated the results of the Directors' impairment assessment, including challenging the methodology and the assumptions adopted through consideration of and comparison to publicly available data such as interest rates and economic growth projections. In addition we performed sensitivity analysis over the Directors' assumptions. The impairment analysis shows significant headroom and our testing has allowed us to conclude this assessment is reasonable. |
| **Valuation of level three investments** **As described in Note 12(f)(i) to the financial statements on page 148.**<br><br>The valuation of investments classified as level 3 under IFRS 7 is based on inputs to a valuation model that are not based on observable market data.<br><br>As at 31 December 2014, £190 million of level 3 investments were recognised in the balance sheet, of which £181 million were property funds.<br><br>The Directors used the property fund managers' valuations as the basis for valuing these investments. The latest valuation available from the fund manager was for the quarter ending September 2014. As such, the Directors needed to determine whether any movement in valuation should be recognised during the fourth quarter but based on their assessment no change in valuation was required. | For the property funds we understood both the methodology and assumptions used by the property fund manager through discussions with the fund managers directly. We also evaluated the governance and controls that the Directors have in place to monitor the valuations provided by the property fund managers.<br><br>In order to assess the Directors' judgement that no adjustment was required at 31 December 2014 we assessed the historic accuracy and appropriateness of the Directors' valuation by reviewing the accuracy of the prior year assumptions relative to actual valuation data received subsequently. We noted no significant differences.<br><br>In addition, we read correspondence and meeting minutes between Amlin and the property fund managers that have occurred since September 2014 and considered whether any matters discussed indicated that there were movements in the funds' value that should have been recognised. We have also reviewed all fund statements received since the year end and noted no material movements.<br><br>Based on the above procedures we believe the Directors' approach to the valuation of property funds to be reasonable. |

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 65 reporting units, comprising the Group's operating and non-operating businesses and centralised functions. We scoped our Group audit by focusing our work on three underwriting entities; Syndicate 2001, (whose sole member is Amlin Corporate Member Limited), Amlin AG and Amlin Europe N.V., which together are composed of five reporting units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

We determined that certain components within the underwriting entities required an audit of their complete financial information, either due to their size or their risk characteristics. Specific audit procedures on certain balances and transactions were also performed in relation to other components to ensure we obtained appropriate coverage across all account balances and performed audit work to cover the areas of focus we identified and which are set out above.

The work performed on the components, together with additional procedures performed at the Group level gave us the evidence we needed for our opinion on the Group financial statements as a whole.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall Group materiality** | £11 million (2013: £14 million). |
| **How we determined it** | 5% of the five-year weighted average profit before tax. |
| **Rationale for benchmark applied** | We concluded using a five-year weighted average profit before tax to be most relevant as this eliminates the variability of results due to claims experience, particularly in respect of catastrophe losses. This is consistent with the benchmark used in the prior year audit. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.6 million (2013: £0.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 103, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

**Companies Act 2006 opinions**

In our opinion:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement as set out on pages 64 to 83 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

**ISAs (UK & Ireland) reporting**

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| • information in the Annual Report is:<br>– materially inconsistent with the information in the audited financial statements; or<br>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>– otherwise misleading. | We have no exceptions to report arising from this responsibility. |
| • the statement given by the Directors on page 104, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit. | We have no exceptions to report arising from this responsibility. |
| • the section of the Annual Report on pages 77 to 81, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report arising from this responsibility. |

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made, We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

**Responsibilities for the financial statements and the audit**

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 104, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Other matter**

We have reported separately on the parent company financial statements of Amlin plc for the year ended 31 December 2014 and on the information in the Directors' remuneration report that is described as having been audited.

J. BICHARD

**James Bichard (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2015

# Financial statements



# Consolidated statement of profit or loss

## For the year ended 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Gross earned premium | 4(c),5(a) | **2,476.4** | 2,440.6 |
| Reinsurance premium ceded | 4(c),5(a) | **(275.8)** | (346.0) |
| **Net earned premium** | 4(c),5(a) | **2,200.6** | 2,094.6 |
| | | | |
| Investment return | 4(c),6 | **101.3** | 143.2 |
| Other operating income | 4(c) | **8.0** | 4.3 |
| **Total income** | | **2,309.9** | 2,242.1 |
| | | | |
| Insurance claims and claims settlement expenses | 4(c),5(b) | **(1,306.8)** | (1,153.1) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 4(c),5(b) | **83.6** | 60.0 |
| **Net insurance claims** | 5(b) | **(1,223.2)** | (1,093.1) |
| | | | |
| Expenses for the acquisition of insurance contracts | 4(c),7(a) | **(473.0)** | (450.9) |
| Other operating expenses | 7(b) | **(343.1)** | (347.3) |
| **Total expenses** | | **(816.1)** | (798.2) |
| | | | |
| **Results of operating activities** | | **270.6** | 350.8 |
| Finance costs | 4(c),7(f) | **(27.0)** | (29.0) |
| Share of profit after tax of associates | 4(c),18(b) | **3.7** | 3.9 |
| Gain on revaluation of existing investment | 3(a),4(c) | **11.4** | – |
| **Profit before tax** | 4 | **258.7** | 325.7 |
| Tax | 8 | **(22.3)** | (27.0) |
| **Profit for the year** | | **236.4** | 298.7 |
| | | | |
| Attributable to: | | | |
| Owners of the Parent Company | | **236.5** | 298.7 |
| Non-controlling interests | | **(0.1)** | – |
| | | **236.4** | 298.7 |
| | | | |
| **Earnings per share attributable to owners of the Parent Company** | | | |
| Basic | 11 | **47.4p** | 60.0p |
| Diluted | 11 | **46.6p** | 59.1p |

The attached notes form an integral part of these consolidated financial statements.

# Consolidated statement of other comprehensive income

For the year ended 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Profit for the year** | | **236.4** | 298.7 |
| **Items that will not be reclassified to profit or loss** | | | |
| Defined benefit pension fund (losses)/gains | 16(a) | **(9.8)** | 9.4 |
| Income tax relating to items that will not be reclassified | 8 | **2.4** | (2.3) |
| | | **(7.4)** | 7.1 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Foreign exchange gains/(losses) on translation of foreign operations, net of designated hedges | 9(a) | **3.4** | (16.0) |
| Net unrealised losses on assets designated as available-for-sale | 12(b) | **(0.1)** | – |
| Income tax relating to items that may be reclassified | 8 | **(0.5)** | 0.5 |
| | | **2.8** | (15.5) |
| **Other comprehensive expense for the year, net of tax** | | **(4.6)** | (8.4) |
| **Total comprehensive income for the year** | | **231.8** | 290.3 |
| Attributable to: | | | |
| Owners of the Parent Company | | **231.9** | 290.3 |
| Non-controlling interests | | **(0.1)** | – |
| | | **231.8** | 290.3 |

The attached notes form an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

## For the year ended 31 December 2014

| For the year ended 31 December 2014 | Note | Attributable to owners of the Parent Company: Share capital £m | Share premium £m | Other reserves £m | Treasury shares £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | | 142.0 | 311.3 | 112.4 | (18.8) | 1,131.2 | **1,678.1** | 0.5 | **1,678.6** |
| **Total comprehensive (expense)/income for the year** | | – | – | (4.6) | – | 236.5 | **231.9** | (0.1) | **231.8** |
| Employee share option schemes: | | | | | | | | | |
| – share-based payment reserve | | – | – | 2.0 | 0.7 | – | **2.7** | – | **2.7** |
| – proceeds from shares issued | | – | 0.1 | – | 2.0 | (0.4) | **1.7** | – | **1.7** |
| Dividends paid | 10 | – | – | – | – | (131.2) | **(131.2)** | – | **(131.2)** |
| Deferred tax relating to share option schemes | 8 | – | – | (0.6) | – | – | **(0.6)** | – | **(0.6)** |
| Issue of new shares | 17(a) | – | 0.3 | – | – | – | **0.3** | – | **0.3** |
| Changes in non-controlling interests in subsidiaries | 3 | – | – | (0.1) | – | – | **(0.1)** | 2.7 | **2.6** |
| **Transactions with the owners of the Group for the year** | | – | 0.4 | 1.3 | 2.7 | (131.6) | **(127.2)** | 2.7 | **(124.5)** |
| **At 31 December 2014** | | 142.0 | 311.7 | 109.1 | (16.1) | 1,236.1 | **1,782.8** | 3.1 | **1,785.9** |

| For the year ended 31 December 2013 | Note | Attributable to owners of the Parent Company: Share capital £m | Share premium £m | Other reserves £m | Treasury shares £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 141.2 | 300.4 | 121.6 | (20.8) | 954.7 | 1,497.1 | 0.6 | 1,497.7 |
| **Total comprehensive (expense)/income for the year** | | – | – | (8.4) | – | 298.7 | 290.3 | – | 290.3 |
| Employee share option schemes: | | | | | | | | | |
| – share-based payment reserve | | – | – | (0.5) | – | – | (0.5) | – | (0.5) |
| – proceeds from shares issued | | – | 0.1 | – | 2.0 | (0.9) | 1.2 | – | 1.2 |
| Dividends paid | 10 | – | – | – | – | (121.3) | (121.3) | (0.1) | (121.4) |
| Deferred tax relating to share option schemes | 8 | – | – | (0.3) | – | – | (0.3) | – | (0.3) |
| Issue of new shares | | 0.8 | 10.8 | – | – | – | 11.6 | – | 11.6 |
| **Transactions with the owners of the Group for the year** | | 0.8 | 10.9 | (0.8) | 2.0 | (122.2) | (109.3) | (0.1) | (109.4) |
| At 31 December 2013 | | 142.0 | 311.3 | 112.4 | (18.8) | 1,131.2 | 1,678.1 | 0.5 | 1,678.6 |

The attached notes form an integral part of these consolidated financial statements.

# Consolidated statement of financial position

At 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 12(a) | **204.8** | 164.5 |
| Financial assets | 12(b) | **4,390.3** | 4,368.8 |
| Reinsurance assets | | | |
| – reinsurers' share of outstanding claims | 13(a) | **305.9** | 343.1 |
| – reinsurers' share of unearned premium | 13(c) | **44.0** | 45.1 |
| Loans and receivables, including insurance and reinsurance receivables | | | |
| – insurance and reinsurance receivables | 13(e) | **1,046.9** | 1,013.8 |
| – other loans and receivables | 12(c) | **85.5** | 88.4 |
| Deferred acquisition costs | 13(d) | **270.7** | 246.1 |
| Current income tax assets | | **11.6** | 23.0 |
| Deferred tax assets | 8 | **5.7** | 6.1 |
| Property and equipment | 14 | **35.9** | 22.6 |
| Goodwill and intangible assets | 15 | **267.4** | 239.1 |
| Investments in associates | 18(b) | **7.0** | 12.5 |
| **Total assets** | | **6,675.7** | 6,573.1 |
| | | | |
| **Equity and reserves** | | | |
| Share capital | 17(a) | **142.0** | 142.0 |
| Share premium | | **311.7** | 311.3 |
| Other reserves | 17(b) | **109.1** | 112.4 |
| Treasury shares | | **(16.1)** | (18.8) |
| Retained earnings | | **1,236.1** | 1,131.2 |
| **Equity attributable to owners of the Parent Company** | | **1,782.8** | 1,678.1 |
| Non-controlling interests | | **3.1** | 0.5 |
| **Total equity and reserves** | | **1,785.9** | 1,678.6 |
| | | | |
| **Liabilities** | | | |
| Insurance liabilities | | | |
| – outstanding claims | 13(a) | **2,928.2** | 2,897.1 |
| – unearned premium | 13(c) | **1,168.4** | 1,093.9 |
| Other payables, including insurance and reinsurance payables | | | |
| – insurance and reinsurance payables | 13(f) | **196.2** | 273.3 |
| – other payables | 12(d) | **178.6** | 137.5 |
| Financial liabilities | 12(b) | **28.6** | 4.7 |
| Current income tax liabilities | | **0.6** | 0.1 |
| Borrowings | 12(e) | **262.1** | 391.6 |
| Retirement benefit obligations | 16(a) | **41.4** | 32.6 |
| Deferred tax liabilities | 8 | **85.7** | 63.7 |
| **Total liabilities** | | **4,889.8** | 4,894.5 |
| **Total equity, reserves and liabilities** | | **6,675.7** | 6,573.1 |

The attached notes form an integral part of these consolidated financial statements.

The financial statements on pages 112 to 116 were approved by the Board of Directors and authorised for issue on 27 February 2015. They were signed on its behalf by:

**Charles Philipps**
Chief Executive

**Richard Hextall**
Chief Finance & Operations Officer

# Consolidated statement of cash flows

For the year ended 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Profit before tax | | **258.7** | 325.7 |
| **Adjustments:** | | | |
| Depreciation charge | 14,7(g) | **5.4** | 7.4 |
| Amortisation charge | 15,7(g) | **10.7** | 11.2 |
| Finance costs | 7(f) | **27.0** | 29.0 |
| Interest income | 6 | **(22.0)** | (30.4) |
| Dividend income | 6 | **(22.9)** | (16.3) |
| Gains on investments realised and unrealised | 6 | **(56.4)** | (96.5) |
| Gain on revaluation of existing investment | 3(a),4(c) | **(11.4)** | – |
| Other non-cash movements | | **3.0** | 1.5 |
| **Movement in operating assets and liabilities:** | | | |
| Net sales/(purchases) of financial investments | 12(b) | **71.5** | (92.1) |
| Foreign exchange (gains)/losses on investments | 12(b) | **(8.9)** | 28.9 |
| Increase in loans and receivables | | **(14.6)** | (0.4) |
| Decrease in insurance and reinsurance contract assets | | **5.2** | 120.7 |
| Increase/(decrease) in insurance and reinsurance contract liabilities | | **28.5** | (152.9) |
| Increase/(decrease) in other payables | | **11.4** | (2.9) |
| (Decrease)/increase in retirement benefit obligations | | **(1.0)** | 1.1 |
| Foreign exchange gains on long-term borrowings | | **–** | (0.3) |
| Foreign exchange losses/(gains) on other non-operating assets and liabilities | | **9.6** | (5.8) |
| **Cash generated from operations** | | **293.8** | 127.9 |
| Interest received | | **20.1** | 21.5 |
| Dividends received | | **22.9** | 16.3 |
| Income taxes received/(paid) | | **13.2** | (0.1) |
| **Net cash inflows from operating activities** | | **350.0** | 165.6 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | **2.0** | (8.8) |
| Deferred payment for acquired subsidiary | | **(0.4)** | (0.2) |
| Investments in associates | | **4.8** | 0.9 |
| Purchase of property and equipment | | **(16.5)** | (7.5) |
| Purchase and development of intangible assets | | **(9.9)** | (2.3) |
| **Net cash outflows from investing activities** | | **(20.0)** | (17.9) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary shares, including treasury shares | | **1.7** | 12.8 |
| Dividends paid to owners of the Parent Company | 10 | **(131.2)** | (121.3) |
| Purchase of non-controlling interest | 3(b) | **(0.4)** | – |
| Dividends paid to non-controlling interests | 10 | **–** | (0.1) |
| Interest paid | | **(22.1)** | (24.4) |
| Purchase of ESOT and treasury shares | | **(4.0)** | (5.5) |
| Net repayment of borrowings | 12(e) | **(131.8)** | (24.1) |
| **Net cash outflows from financing activities** | | **(287.8)** | (162.6) |
| Net increase/(decrease) in cash and cash equivalents | | **42.2** | (14.9) |
| Cash and cash equivalents at beginning of year | | **164.5** | 190.6 |
| Effect of exchange rate changes on cash and cash equivalents | | **(1.9)** | (11.2) |
| **Cash and cash equivalents at end of year** | 12(a) | **204.8** | 164.5 |

The Group includes cash flows from purchase and disposal of financial assets in its operating cash flows as these transactions are generated by the cash flows associated with the origination and settlement of insurance contract liabilities or capital requirements to support underwriting.

The attached notes form an integral part of these consolidated financial statements.

# Notes to the financial statements

## For the year ended 31 December 2014

### 1. Summary of significant accounting policies and critical accounting judgements and estimates

Amlin plc (the Company) is a public limited company registered in England and Wales. The address of the registered office is: St Helen's, 1 Undershaft, London EC3A 8ND.

The basis of preparation, basis of consolidation and significant accounting policies adopted in the preparation of Amlin plc and subsidiaries' (the Group) consolidated financial statements are set out below.

#### Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRICs), as adopted for use in the European Union (EU). The consolidated financial statements comply with Article 4 of the EU IAS regulation and Companies Act 2006.

The consolidated financial statements have been prepared on the historical cost basis except for cash and cash equivalents, financial assets and financial liabilities, share options, contingent consideration and pension assets, which are measured at their fair value.

Except where otherwise stated, all figures included in the consolidated financial statements are presented in millions of British Pounds Sterling (sterling) shown as £m rounded to the nearest £100,000.

The accounting policies adopted in preparing these financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, unless otherwise stated.

In accordance with IFRS 4, 'Insurance contracts', the Group has applied existing accounting practices for insurance contracts, modified as appropriate, to comply with the IFRS framework and applicable standards.

#### Basis of consolidation

The financial statements consolidate the accounts of the Company and subsidiaries, including the Group's underwriting through participation on a Lloyd's syndicate. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of all subsidiaries are prepared for the same reporting year as the Parent Company. Consolidation adjustments are made to convert subsidiary financial statements prepared under different accounting standards into IFRS so as to remove the effects of any different accounting policies that may exist. Subsidiaries are consolidated from the date that control is transferred to the Group and cease to be consolidated from the date that control is transferred out.

All inter company balances, profits and transactions are eliminated.

Details of principal subsidiaries included within the consolidated financial statements can be found in note 18.

#### Going concern

The Group's business, risk and financial management, performance and position, together with factors that are likely to affect future development, are described in the Financial Review section of this Annual Report on page 56. Capital management strategy, which covers how regulatory and economic capital needs are measured and how capital is deployed, is described on page 61. The financial position of the Group, including commentary on cash and investment levels, currency management, insurance liability management, liquidity and borrowings, is also covered in that section. In addition, note 2 describes capital management needs and policies, note 13(g) covers underwriting risk, and note 12(h) covers market, liquidity and credit risk which may affect the financial position of the Group.

The Group has considerable financial resources to meet its financial needs and, in much of the Group, manages a mature portfolio of insurance risk through an experienced and stable team. The Directors believe that the Group is well positioned to manage its business risk successfully in the current economic environment.

After making enquiries, the Directors have a reasonable expectation that the Company, and the Group, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### Changes to financial reporting

The Group operates a process of continual review and update of its consolidated financial statements and this has resulted in the reorganisation of the notes. In making changes, the Group has considered the findings of the Financial Reporting Council's Financial Reporting Lab reports: Accounting Policies and Integration of Related Financial Information and Towards Clear and Concise Reporting, issued in July 2014 and August 2014 respectively. The presentation of related disclosures enables greater understanding of the Group's performance and financial position.

The Group's consolidated financial statements have been divided into 5 sections:

- Primary (pages 112 to 116) contains the Group's consolidated primary statements;
- Policy, Capital and Business combinations (pages 117 to 128) includes the critical judgements and accounting policies that have had a material impact on financial reporting; together with details of the Group's capital requirements and significant transactions that have occurred during the year;
- Performance (pages 129 to 144) includes the segmental analysis and other notes which are integral to understanding the Group's financial performance;
- Position (pages 145 to 191) provides details on the key areas of financial position and the Group's approach to management of related risks; and
- Other notes (pages 192 to 195) covers disclosures required to be compliant with accounting standards or the Companies Act. This information is important, but less significant to understanding the Group's business and performance.

**1. Summary of significant accounting policies and critical accounting judgements and estimates continued**

Adoption of new and revised standards

*(a) Standards, amendments to published standards and interpretations effective on or after 1 January 2014*

The Group has adopted the following new and amended IFRSs effective as of 1 January 2014:

IAS 36 (amended), 'Impairment of assets – Recoverable amount disclosures for non-financial assets'

The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite life intangible assets but there has been no impairment. However, the amendments require additional information about fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments have had no impact on the financial statements of the Group.

Investment entities (amendments to IFRS 10, 'Consolidated Financial Statements', IFRS 12, 'Disclosure of Interest in Other Entities' and IAS 27, 'Separate Financial Statements')

IFRS 10, IFRS 12 and IAS 27 have been amended to address the accounting for investments controlled by investment entities. The amendments define an investment entity and require an investment entity to measure its subsidiaries at fair value through profit or loss. The amendments do not permit the "roll-up" of fair value accounting in the consolidated financial statements of a non-investment entity parent. The amendments have had no impact on the financial statements of the Group.

IAS 39 (amended), 'Financial instruments: recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting'

The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have had no impact on the financial statements of the Group.

*(b) Standards, amendments to published standards and interpretations early adopted by the Group*

The Group has early adopted the following new and amended IFRSs for the year ended 31 December 2014:

IFRIC 21, 'Levies'

The interpretation was endorsed by the EU for periods commencing on or after 13 June 2014. This has been early adopted by the Group from 1 January 2014 and requires retrospective application. The interpretation sets out the accounting for a liability to pay levies that are imposed by governments. The interpretation requires a liability to be recognised when the obligating event to pay a levy occurs, which might arise at a point in time or progressively over time. The interpretation has had no significant impact on the financial statements of the Group.

*(c) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Group*

Standards, amendments to published standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective.

IFRS 9, 'Financial instruments'

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9.

The final standard has a mandatory effective date of 1 January 2018 with early adoption permitted[1].

The adoption of IFRS 9 will have an effect on the classification and measurement and impairment model applied to the Group's financial instruments. Work is ongoing to quantify the impact of these changes. Consideration will also be given to the interaction with emerging requirements and expected timetable of the IASB's insurance contracts project in addressing the Group's classification and measurement approach.

IFRS 15, 'Revenue from Contracts with Customers'

In May 2014 the IASB and FASB issued a converged standard on the recognition of revenue from contracts with customers, applicable for periods beginning on or after 1 January 2017, with early adoption permitted[1].

The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services, based on the satisfaction of performance objectives.

Adoption of this standard replaces existing revenue recognition guidance applied by the Group, IAS 18 'Revenue'. It is not expected to have a material impact on the Group but could impact the timing and recognition of service company commission income.

IAS 19 (amended), 'Employee benefits – Defined benefit plans: employee contributions'

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for periods commencing on or after 1 July 2014 and are not expected to have a material impact on the financial statements of the Group.

Annual improvements to IFRSs 2010-2012, 2011-2013 and 2012-2014

The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project.

The amendments clarify existing guidance and do not give rise to significant changes in existing accounting practice. The improvements are not expected to significantly impact the Group's consolidated financial statements.

The annual improvements are applicable for periods beginning on or after 1 July 2014 (2010-2012 and 2011-2013 cycles) and 1 January 2016[1] (2012-2014 cycle).

Disclosure Initiative (amendments to IAS 1)

Disclosure Initiative (amendments to IAS 1) was issued in December 2014 and is applicable for periods beginning on or after 1 January 2016. The amendment clarifies, rather than specifically changes existing IAS 1 requirements. The Group has assessed its impact and incorporated some improvements relating to the ordering of notes to the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

*Insurance contract liabilities*

The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Group.

Note:
1. Subject to EU endorsement

Unpaid claims reserves are estimated on an undiscounted basis. Unpaid claims reserves acquired through a business combination are measured at fair value, using an applicable risk-free discount rate and having regard to the expected settlement dates of the claims. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the statement of profit or loss.

During 2014 the Group transitioned to an actuarial-led reserving process, based on an actuarial best estimate plus an explicit management margin, which reflects the risk premium relating to the uncertainty of the actual level of claims incurred. The move to an actuarial-led reserving process has refined the judgement about the profile of risk over the coverage period applied to certain classes of business. Consequently, changes in the estimate of claims should be considered in conjunction with the impact on earned premium, described below.

Although it is possible that claims could develop and exceed the reserves carried, there is therefore a reasonable chance of release of reserves from one year to the next. The estimated provision for the total level of claims incurred changes as more information becomes known about the actual losses for which the initial provisions were set up. The change in claims costs for prior period insurance claims represents the claims development of earlier reported years incurred in the current accounting period. The carrying value of the Group's net outstanding claims reserves at 31 December 2014 is £2,622.3 million (2013: £2,554.0 million). In 2014, there has been a net positive development of £89.6 million (2013: £133.5 million positive) for the Group. Note 13(i) provides further details of the method the Group applies in estimating insurance contract liabilities.

*Insurance contract premium*

Gross written premium is recognised on insurance contracts incepting during the financial year and includes an estimate of the total premium expected to be received under each contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is deemed to be written in full at the inception of such contracts and therefore this estimate is particularly judgemental. Adjustments to estimates from previous years are included in the reported premium.

With over supply of capital, particularly in the reinsurance market, clients have increasingly requested multi-year placements of their reinsurance programme. A number of contracts include cancellation clauses which can be enforced by the client. Judgement is therefore required to be applied in calculating the estimated total premium at the inception of these contracts.

The premium estimation processes use expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Therefore, gross written premium estimates are reviewed on a quarterly basis using underwriter estimates and actuarial projections.

The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts. During 2014, improvements in those estimates have been made to better reflect the seasonal nature of certain classes of business. This more closely aligns the earning of premium with the seasonal basis of reserving claims and the impact should be considered in conjunction with the offsetting effect of moving to an actuarial-led reserving process. Such enhancements follow the move to actuarial-led best estimate reserving and the ongoing development of new Group finance systems. The impact on net earned premium, after acquisition costs, in 2014 is £19.9 million.

*Product classification*

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts underwritten by the Group under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Any contracts not considered to be insurance contracts under IFRS 4 are classified as financial instruments.

Based on the current assessment, all of the products underwritten by the Group's insurance entities are insurance contracts within the scope of IFRS 4. Certain risk transfer contracts held by the Group, for example catastrophe linked instruments, do not meet the definition of an insurance contract and are therefore accounted for as financial instruments in accordance with IAS 39.

*Financial assets and financial liabilities*

The Group uses pricing vendor sources in determining the fair value of financial assets and financial liabilities. Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 and Level 3 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 12(f). The carrying values of the Group's financial assets and financial liabilities at 31 December 2014 are £4,390.3 million (2013: £4,368.8 million) and £28.6 million (2013: £4.7 million) respectively. These include £262.2 million (2013: £189.6 million) of Level 3 investments, principally comprising property funds.

*Intangible assets*

Intangible assets are recognised on the acquisition of a subsidiary, on the purchase of specific rights to renew a particular underwriting portfolio, on the acquisition of syndicate capacity and on internally developed computer software.

The value of intangible assets arising from the acquisition of a subsidiary, syndicate capacity or on the purchase of renewal rights is largely based on the expected cash flows of the business acquired and contractual rights on that business.

The internally developed computer software principally relates to cost directly attributable to the development of an IT platform for Amlin Europe N.V. and new Group finance systems.

The assumptions made by management on initial recognition and valuation of intangible assets, together with the performance of impairment tests, are subject to estimation uncertainty. The results of the impairment test may result in the value of the intangible being impaired in the current period. Note 15 provides further details on these assumptions.

The carrying value of the Group's intangible assets (excluding goodwill) at 31 December 2014 is £161.3 million (2013: £150.0 million). The carrying value at the reporting date of goodwill is £106.1 million (2013: £89.1 million).

### 1. Summary of significant accounting policies and critical accounting judgements and estimates continued

*Goodwill impairment*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which goodwill is allocated. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 15.

The Group has allocated goodwill to cash generating units based on a number of factors, which include how the entity's operations are monitored. Note 15 provides further details.

*Tax*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The wide range of international business relationships and the long-term nature and complexity of existing contractual agreements could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country of the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The carrying value at the reporting date of the deferred tax asset is £5.7 million (2013: £6.1 million), and of the deferred tax liability is £85.7 million (2013: £63.7 million). Further analysis is included in note 8.

*Determining control of entities*

The Group has made significant judgements and assumptions in reaching its control conclusions for the following entities:

i. Leadenhall Capital Partners LLP (LCP)

The Group acquired an additional 25% of the voting rights in LCP on 23 October 2014, taking its ownership to 75%. Having previously held a significant influence over LCP and equity accounted for this as an investment in associate, a detailed control assessment was performed in accordance with IFRS 10, 'Consolidated Financial Statements'.

The Group determined that through its rights to appoint board members with a majority of the voting rights over the relevant activities and its exposure to variable returns, through its share of growth in the capital value and profits, the Group has control over LCP and it should consolidate from the acquisition date of the additional stake. LCP is therefore accounted for as a subsidiary and consolidated in the financial statements at 31 December 2014.

ii. Investment funds

The Group holds financial investments in a number of pooled vehicles, which are typically sub-funds of umbrella structures. In certain instances the Group may hold a majority of the voting rights in particular sub-funds. The Group has determined that it neither controls nor significantly influences these sub-funds despite owning a majority of the voting rights, on the basis that direction of the relevant activities of the sub-funds is by the umbrella vehicle, over which the Group has no significant rights. Such entities are accounted for as financial investments in accordance with IAS 39, 'Financial instruments: Recognition and measurement'. Note 12(g) provides further details on these investments.

*LCP valuation*

The LCP acquisition accounting required significant judgements to be made in determining the fair value of the deferred contingent consideration and the original investment held by the Group, in addition to judgements in respect of control, goodwill and intangible assets referred to above.

The deferred contingent consideration was estimated, being payable as a multiple of 2013, 2014 and 2015 profits. Judgement was exercised in selecting the forecast used for 2015. The fair value of the original investment made reference to the consideration for the new stake and market benchmarks, whilst allowing a discount for the absence of control. Note 3 provides further details and the carrying value of these items.

*Retirement benefit obligations*

The Group participates in the Lloyd's Superannuation Fund defined benefit scheme and also operates defined benefit schemes in the Netherlands, Belgium and Switzerland.

The amounts included in these financial statements are sensitive to changes in the assumptions used to derive the value of the scheme assets and liabilities.

A loss of £9.8 million (2013: £9.4 million gain) has been recognised in other comprehensive income and an expense of £6.4 million (2013: £7.2 million) has been recognised in the statement of profit or loss. Note 16(a) provides further details on the Group's retirement benefit obligations. At 31 December 2014, the Group recognised a liability of £41.4 million (2013: £32.6 million) in respect of its defined benefit plans.

Significant accounting policies

*Insurance contracts liabilities*

Claims paid are defined as those claims transactions settled up to the reporting date including internal and external claims settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The unpaid claims reserves also include, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision.

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries and subrogation reimbursements are included as allowances in the measurement of the insurance liability for unpaid claims, and recognised in insurance and reinsurance receivables when the liability is settled.

*Reinsurance recoveries*

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Where there is objective evidence that a reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss.

*Insurance contracts premium*
Gross written premium comprise premium on insurance contracts incepting during the financial year together with adjustments to premium written in previous accounting years. The estimated premium income in respect of facility contracts, for example binding authorities and lineslips, is deemed to be written in full at the inception of the contract.

Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. The proportion of gross written premium, gross of commission payable, attributable to periods after the reporting date is deferred as a provision for unearned premium. The change in this provision is taken to the statement of profit or loss in order that revenue is recognised over the period of the risk.

Premium is recognised as earned over the policy contract period. The earned element is calculated separately for each contract on a basis where the premium is apportioned over the period of risk. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts.

*Acquisition costs*
Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting year and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues.

*Reinsurance premium ceded*
Reinsurance premium ceded comprise premium on reinsurance arrangements bought which incept during the financial year, together with adjustments to premium ceded in previous accounting years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

*Financial assets*
The Group classifies its financial assets at fair value through profit and loss (FVPL) or available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Other than investments in certain unlisted insurance intermediaries (see below), the Group classifies its financial investments at FVPL. This classification requires all fair value changes to be recognised immediately within the investment return line in the statement of profit or loss. Within the FVPL category, fixed income securities, equity securities, property funds and certain derivatives are classified as 'trading' as the Group buys with the intention to resell.

All other assets at FVPL are classified as 'other than trading' within the FVPL category as they are managed and their performance is evaluated on a FVPL basis.

The Group has investments in certain unlisted insurance intermediaries which are treated as available-for-sale and are measured at fair value, unless their fair value cannot be reliably measured, in which case they are valued at cost less impairment.

Changes in the fair value of these investments are included in other comprehensive income in the year in which they arise. They are tested for impairment annually, or when events or changes in circumstances indicate that impairment might have occurred. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as gains and losses from investment securities.

Purchases and sales of investments are recognised on the trade date, which is the date the Group commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value based on quoted bid prices. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the statement of profit or loss in the year in which they arise. The uncertainty around valuation is discussed further in note 12(h).

*Derivative financial instruments*
Derivative financial instruments primarily include currency swaps, currency and interest rate futures, currency options, catastrophe linked instruments and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates or catastrophe risk. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss unless the derivative is designated as a hedging instrument.

As defined by IAS 39, the Group designates certain foreign currency derivatives as hedges of net investments in foreign operations. The Group documents at the inception of each hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Any gain or loss on the hedging instrument related to the effective portion is recognised in other comprehensive income. The fair values of derivative instruments used for hedging purposes are disclosed in note 12(b). Gains and losses accumulated in equity are included in the statement of profit or loss when the foreign operation is partially disposed of or sold.

Embedded derivatives with risks and characteristics which are not closely related to the host contract, and where the combined instrument is not measured at fair value with changes in fair value recognised in the statement of profit or loss, are separated from the host contract and measured at fair value.

*Intangible assets*
i. Goodwill
Goodwill arising on acquisitions prior to 1 January 1999 was written off to reserves. Goodwill recognised between 1 January 1999 and the date of transition to IFRS (1 January 2004) was capitalised and amortised on a straight-line basis over its estimated useful life. Following the transition to IFRS this goodwill is stated at net book value at 1 January 2004. Goodwill that was recognised subsequent to 1 January 2004 is capitalised. Goodwill is tested for impairment annually, or when events or changes in circumstance indicate that it might be impaired, by comparing the net present value of the future earnings stream of the cash generating unit to which goodwill has been allocated, against the carrying value of the goodwill and the carrying value of the related net assets.

### 1. Summary of significant accounting policies and critical accounting judgements and estimates continued

ii. Syndicate capacity
Lloyd's syndicate participations that have been purchased in the Lloyd's capacity auctions are capitalised at cost. Syndicate capacity is considered to have an indefinite life as it will provide benefits over an indefinite future period and is therefore not subject to an annual amortisation charge. The continuing value of the capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from the cash generating units to which the intangible asset is allocated, with any impairment in value being charged to the statement of profit or loss.

iii. Broker and customer relationships, computer software and other intangible assets
The Group recognises intangible assets in respect of rights to broker and customer relationships acquired through business combinations. Costs directly attributable to internally developed computer software are capitalised and recognised as intangible. Other intangible assets, which do not fall under the aforementioned categories, include the recognition of acquired renewal rights to certain underwriting portfolios.

Costs are recognised as intangible assets where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future economic benefits. Intangible assets are reviewed for impairment losses at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised in line with the consumption of the benefits based on the estimated useful economic life of the assets, which is estimated to be between five and 15 years, and is charged to other operating expenses in the statement of profit or loss.

*Business combinations*
i. Business combinations before 1 January 2010
The acquisitions of subsidiaries are accounted for using the purchase method. The cost of acquisition is measured as the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Group at the date of exchange, plus any costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed, meeting the conditions for recognition under IFRS 3, 'Business combinations', are recognised at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

ii. Business combinations after 1 January 2010
The Group applies IFRS 3 (revised) to all acquisitions taking place on or after 1 January 2010. Business combinations are accounted for using the acquisition method.

The cost of acquisition is measured as the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Group at the date of exchange. Under IFRS 3 (revised), with the exception of the costs of registering and issuing debt and securities that are recognised in accordance with IAS 32 and IAS 39 (i.e. as a reduction in proceeds), all other acquisition-related costs are to be expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed, meeting the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

For each business combination, the Group measures any non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

*Tax*
Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The Group's and Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised in respect of taxable temporary differences arising on investments in subsidiaries and associates, except where the Group and Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the substantively enacted tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity respectively.

Deferred tax is recognised on the profits of foreign subsidiaries where it is reasonably foreseeable that distribution of the profit back to the UK will take place and the UK dividend exemption is not expected to apply.

*Employee benefits*
i. Retirement benefit obligations
The Group participates in a number of pension schemes, including several defined benefit schemes and defined contribution schemes.

The Lloyd's Superannuation Fund scheme is a multi-employer defined benefit scheme. Amlin Europe N.V. participates in two defined benefit schemes. Amlin Re Europe's pension scheme is classified as a defined benefit scheme in accordance with IAS 19.

The defined benefit obligation and associated pension costs are calculated annually by independent actuaries using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final liability. The cost of providing these benefits is charged to the statement of profit or loss to spread the pension cost over the service lives of employees. Any re-measurements arising from the recognition and funding of the Group's pension obligations are recognised in other comprehensive income during the year in which they arise.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for restrictions on the recognition of a defined benefit asset due to an asset ceiling. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates set on the basis of the yield of high-quality debt instruments (AA rated or equivalent) issued by blue-chip companies, with maturities consistent with those of the defined benefit obligations.

In respect of the defined benefit schemes in Amlin Europe N.V. and Amlin Re Europe, the fair value of the plan assets reflects the benefits that accrue under the insurance policy taken out to meet its obligations.

Pension contributions to defined contribution plans are charged to the statement of profit or loss when due.

### ii. Equity compensation plans (equity-settled)
The Company operates a number of executive and employee share schemes. Options issued after 7 November 2002 are accounted for using the fair value method where the cost for providing equity compensation is based on the fair value of the share option or award at the date of the grant. The fair value is calculated using an option pricing model and the corresponding expense is recognised in the statement of profit or loss over the vesting period. The accrual for this charge is recognised in equity shareholders' funds. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital for the par value and the surplus to share premium.

### iii. Other benefits
Other employee incentive schemes and long-term service awards, including the Amlin Capital Builder Plan and sabbatical leave, are recognised when they accrue to employees. A provision is made for the estimated liability for long-service leave as a result of services rendered by employees up to the reporting date.

### *Foreign currency translation*
The Group and Company present their financial statements in sterling since they are subject to regulation in the United Kingdom and the net assets, liabilities and income of both are currently weighted towards sterling. US dollar and euro revenues are significant but the sterling revenue stream is currently material. Group entities conduct business in a range of economic environments, although these are primarily the UK, USA and continental Europe. Transactions denominated in foreign currencies are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the rates of exchange at the reporting date. Non-monetary assets and liabilities are translated at the rate prevailing in the year in which the asset or liability first arose or, where such items are revalued, at the latest valuation date. Exchange differences are recognised within Other operating expenses.

The results and financial position of those Group entities whose functional currency is not sterling ("foreign operations") are translated into sterling as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the reporting date;
- Income and expenses for each statement of profit or loss are translated at the exchange rates at the date of each transaction, or a practical approximation to these rates; and
- On consolidation, all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Where contracts to sell currency have been entered into prior to the year end, the contracted rates have been used. Differences arising on the translation of foreign currency amounts on such items are included in other operating expenses.

Details of the principal exchange rates used are included in note 9(b).

### Other accounting policies
### *Investment return*
Dividends and any related tax credits are recognised as income on the date that the related listed investments are marked ex-dividend. Other investment income and interest receivable are recognised on an accruals basis.

### *Segment reporting*
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Amlin Management Committee.

### *Exceptional items*
Exceptional items are those that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

### *Investments in associates*
Investments in associates are accounted for using the equity method.

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's share of its associates' post-acquisition profits and losses after tax is recognised in the statement of profit or loss each year, and its share of the movement in associates' net assets is reflected in the investments' carrying values in the statement of financial position.

### *Treasury shares*
Treasury shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the treasury shares. Any consideration paid or received is recognised directly in equity.

### 1. Summary of significant accounting policies and critical accounting judgements and estimates continued

*Property and equipment*
Property and equipment are stated at historical cost less accumulated depreciation and provision for impairment where appropriate. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on the straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold land and buildings | Over period of lease or 2% per annum |
| Freehold buildings | 2% to 5% per annum |
| Motor vehicles | 33% per annum |
| Computer equipment | 20% to 33% per annum |
| Furniture, fixtures and leasehold improvements | 20% per annum |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstance indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the statement of profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recorded in the statement of profit or loss. Repairs and renewals are charged to the statement of profit or loss when the expenditure is incurred. The freehold land is not depreciated.

*Loans and receivables*
Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is evidence that the asset is impaired. These are reversed when the triggering event that caused the impairment is reversed.

*Borrowings*
Borrowings are stated initially at the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between amortised cost and the redemption value is recognised in the statement of profit or loss over the period of the borrowings. Transaction costs on borrowings are charged to the statement of profit or loss over the period of the borrowings.

*Finance costs*
Finance costs mainly comprise interest payable on subordinated loans and the revolving credit facility, together with commissions charged for the utilisation of letters of credit. These costs are charged to the statement of profit or loss as finance costs, as incurred. Fees paid for the arrangement of debt, the revolving credit facility and letter of credit facilities are charged to finance costs over the life of the facility.

*Cash and cash equivalents*
Cash and cash equivalents are carried in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short-term, highly liquid investments which are believed to be subject to insignificant risk of change in fair value.

*Earnings per share*
Earnings per share are based on the profit attributable to shareholders and the weighted average number of shares in issue during the year. Shares held by the Employee Share Ownership Trust (ESOT) and treasury shares are excluded from the weighted average number of shares.

Basic earnings per share are calculated by dividing profit after tax by the weighted average number of issued shares during the year.

Diluted earnings per share are calculated by dividing profit after tax by the adjusted average number of shares in issue. The adjusted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the Executive Share Option Scheme, Long-Term Incentive Plan (LTIP), Performance Share Plan (PSP), Share Incentive Plan (SIP) and the Sharesave scheme.

*Leases*
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards to the Group. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the statement of profit or loss in the year in which they become payable in accordance with the terms of the lease, which is representative of the time pattern of the Group's benefit.

*Other operating income*
Fee income received on insurance-related services is recognised as the benefits of the services are provided.

*Dividend distribution*
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

*Other payables*
Other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

## 2. Capital

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and note 17, and subordinated debt as disclosed in note 12(e). For business planning purposes, account is also taken of the Group's debt facilities as disclosed in note 12(e).

The method by which the Group manages its capital base is described on page 61 of the Financial Review section.

During the current and prior financial years, the Group complied with all external capital requirements to which it is subject. In addition to regulatory capital requirements, the Group believes that it should retain a level of capital within the Group to allow it to grow its business in the aftermath of a major insurance disaster, and also to respond to other opportunities to enhance long-term growth, for example through acquisition. The overall capital held by the Group is driven by the business mix, nature and objectives of each division and its context within the wider Group.

### Solvency II

Solvency II, a new regulatory regime for (re)insurers in the European Economic Area, introduces a new basis for assessing capital. This assessment includes a market-consistent economic balance sheet and a Solvency Capital Requirement, using either an internal model or the standard formula. It will impact the Group, Amlin Corporate Member Ltd (as part of Lloyd's) and, at a solo level, Amlin Insurance (UK) Ltd and Amlin Europe N.V. and is effective from 1 January 2016.

The Group is currently implementing the new requirements and, as part of the preparatory phase, is providing interim information on this basis to regulators in 2015.

### UK regulated entities

*Amlin Corporate Member Limited*

Amlin Corporate Member Limited, which supports Syndicate 2001, is required to hold regulatory capital in compliance with the prudential rules issued by the UK's Prudential Regulation Authority (PRA) and is also subject to Lloyd's capital requirements, including maintaining Funds at Lloyd's (FAL).

Under PRA rules, the corporate member must hold capital in excess of the higher of two amounts. The first is the Minimum Capital Requirement (MCR), as prescribed by EU directives, calculated by applying fixed percentages to premium and claims and allowing for historic reinsurance recoveries.

The second is an Individual Capital Assessment (ICA) calculated internally under the Individual Capital Adequacy Standards (ICAS) regime. The ICA is defined as the level of capital that is required to contain the probability of insolvency, over a one year timeframe, to no greater than 0.5% (1:200).

Lloyd's require the preparation of a Lloyd's Capital Return (LCR), including a statement of financial position prepared under Solvency II principles and the calculation of an ultimate Solvency Capital Requirement (uSCR). The uSCR takes account of one year of new business in full attaching to the next underwriting year and the risks over the lifetime of the liabilities ("to ultimate"). The requirements include risks for all business attaching to the next underwriting year. This is an equivalent recognition of risks and exposures at a 1:200 confidence level as required under ICAS at Lloyd's.

For the final capital requirement, the Economic Capital Assessment (ECA), Lloyd's take the "to ultimate" LCR and apply an uplift currently at 35%. This is then subject to a minimum of 40% (2013: 40%) of the Syndicate's agreed premium capacity limit. At 31 December 2014, the agreed ECA as a percentage of the agreed underwriting capacity for the following underwriting year was 50.0% (2013: 46.4%).

The Syndicate also benefits from mutualised capital within the Lloyd's Central Fund, for which a variable annual levy, for 2014 of 0.5% (2013: 0.5%) of Syndicate gross premium, is payable.

The LCR is expected to be reviewed annually by Lloyd's (as was the ICA previously) and periodically by the PRA. The PRA expects management to apply their rules continuously. If a firm's capital falls below its ECA, steps must be taken to restore capital adequacy. Due to the nature of the Lloyd's capital setting process, FAL requirements are formally assessed and funded twice yearly at discrete periods and must be met for the Syndicate to continue underwriting.

At 31 December 2014, Amlin Corporate Member Limited funded the agreed FAL requirement of £576.0 million (2013: £540.6 million) to support underwriting for the 2015 underwriting year. The increase of £35.4 million is largely driven by changes in underlying risk profile reflecting softening market conditions coupled with planned growth.

The Group does not seek to retain any assets in excess of the Lloyd's capital requirement within the Lloyd's framework and any surplus is paid to the corporate entities in the Group.

*Amlin Insurance (UK) Public Limited Company*

Amlin Insurance (UK) Public Limited Company is also required to hold minimum levels of regulatory capital in compliance with the prudential rules issued by the PRA. The MCR for Amlin Insurance (UK) Public Limited Company is currently the sterling equivalent of €3.7 million (£2.9 million) (2013: €3.7 million and £3.1 million). In addition to holding overall admissible capital in excess of MCR, Amlin Insurance (UK) Public Limited Company is required to pass a number of capital tests to demonstrate solvency, with rules restricting admissibility of certain types of capital.

### Other regulated entities

*Amlin AG*

Amlin AG is supervised by the Swiss Financial Market Supervisory Authority (FINMA) as well as the Bermuda Monetary Authority (BMA).

FINMA supervision is composed of various qualitative assessments, governance requirements and minimum solvency levels. Amlin AG provides regulatory solvency reporting to FINMA, under the rules of Solvency I and the Swiss Solvency Test (SST). Solvency I is based on the Swiss statutory financial statements and the required capital is calculated as a fixed percentage of premiums, claims incurred and/or net amounts at risk. The SST is based on an economic view and required capital is derived from an internal capital model.

Whilst the internal model is still subject to final approval by FINMA, it has been temporarily approved by FINMA until 31 December 2015. Amlin AG calculates available and required capital under the SST using the aforementioned model. For the year ending 31 December 2013, Amlin AG calculated a SST ratio of 214%. The minimum ratio for Solvency I as well as for the SST is set at 100%. Amlin AG is expected to exceed the minimum ratios for the year ending 31 December 2014.

Under BMA regulations, Amlin AG is licensed as a Class IV insurer and the minimum solvency margin is the greater of US$100 million, 50% of net premiums written in the current financial year, 15% of claims reserves and the Enhanced Capital Requirement (ECR).

The ECR is calculated on an annual basis through either the Bermuda Solvency Capital Requirement (BSCR) model or an approved internal model. In addition, as a Class IV insurer, Amlin AG is required to maintain a minimum liquidity ratio such that the value of "relevant assets" is not less than 75% of its "relevant liabilities". Amlin AG calculated an ECR of US$543.1 million for the year ending 31 December 2013, and is expected to have an ECR for the year ending 31 December 2014 that exceeds the minimum requirements.

**2. Capital continued**

For trading purposes, Amlin AG believes that it is necessary to hold at least US$1 billion of capital, which is currently in excess of the minimum required by the BMA and FINMA.

*Amlin Europe N.V.*

Amlin Europe N.V. is required to hold regulatory capital in compliance with the rules issued by its regulator De Nederlandsche Bank (DNB), and as prescribed by EU directives. DNB supervision comprises various qualitative assessments, governance requirements and minimum solvency levels. Currently Amlin Europe N.V. provides regulatory solvency reporting to DNB, under the rules of Solvency I.

At 31 December 2014, the minimum required capital for Amlin Europe N.V. amounted to €88.7 million (2013: €95.8 million). The minimum capital requirement is calculated by applying fixed percentages to premiums and claims.

At 31 December 2014, Amlin Europe N.V. complied with external capital requirements. For trading purposes, Amlin Europe N.V. holds capital in excess of the minimum required by the DNB.

### 3. Business combinations

a) Acquisition of subsidiary – Leadenhall Capital Partners LLP

On 23 October 2014, the Group increased its interest in Leadenhall Capital Partners LLP (LCP) to 75% for consideration of US$29.1 million (£18.1 million), payable over a three year period. The acquisition is a key part of the Group's strategy to continue to provide its clients with a comprehensive range of reinsurance products.

This acquisition increases the Group's interest in the partnership from 40% to 75% and its share of the voting rights from 50% to 75% and consequently control has been assessed as passing to the Group. LCP is an investment fund manager wholly focused on structuring and managing insurance linked investment portfolios for institutional investors. At 31 December 2014, LCP had funds under management of US$1,880.8 million (£1,206.3 million equivalent) (2013: US$1,591.8 million; £961.0 million equivalent). The provisional acquisition-date fair value of the total consideration transferred, identifiable assets acquired and resulting goodwill are as follows:

| | £m |
|---|---|
| Initial cash consideration | 4.1 |
| Fair value of equity shares issued | 0.3 |
| Fair value of contingent consideration | 13.7 |
| **Total purchase consideration** | **18.1** |
| | |
| Fair value of previously held investment in LCP | 16.7 |
| Non-controlling interest in net assets of LCP | 3.0 |
| | **37.8** |
| **Fair value of assets acquired (see below)** | (17.4) |
| **Goodwill** | **20.4** |

The assets acquired and liabilities assumed as of the acquisition date are as follows:

| | Acquiree's carrying amount £m | Fair value and accounting policy adjustments £m | Fair value £m |
|---|---|---|---|
| Cash and cash equivalents | 6.1 | – | 6.1 |
| Loans and receivables, including insurance and reinsurance receivables | | | |
| – Other receivables | 6.9 | – | 6.9 |
| Goodwill and intangible assets | – | 15.1 | 15.1 |
| **Total assets** | **13.0** | **15.1** | **28.1** |
| Other payables, including insurance and reinsurance payables | | | |
| – other payables | 0.6 | 6.2 | 6.8 |
| Current income tax liabilities | – | 0.9 | 0.9 |
| Deferred tax liability | – | 3.0 | 3.0 |
| **Total liabilities** | **0.6** | **10.1** | **10.7** |
| **Net assets acquired** | **12.4** | **5.0** | **17.4** |

The goodwill shown above relates to the premium paid for the opportunities for further growth through a more comprehensive product offering, the potential to exploit synergies, and the ability of the Group to leverage its existing presence in the reinsurance market to attract new business to LCP. No provision for impairment of goodwill has been made at the acquisition date. The total amount of goodwill which is expected to be deductible for tax purposes is £nil.

A liability of US$22.1 million (£13.7 million) is recognised as of the acquisition date for contingent consideration. This is calculated based on the discounted cash flow model that has been used in determining the fair value of LCP. The core acquisition consideration is split into three tranches, the first payable at the acquisition date. The remaining amounts are payable in June 2015 and May 2016 with 90% payable in cash and 10% payable in Amlin plc shares. The total consideration has been capped at US$110.0 million. The outcomes are based on pre-tax profits and earnings multiples and the undiscounted range of the final amount payable is US$nil (£nil) to US$110.0 million (£68.6 million).

The Group's existing 40% interest in LCP, held as an investment in associate and equity accounted, is re-measured at the acquisition date to fair value of US$26.7 million (£16.7 million) and deemed part of the consideration paid by the Group to obtain control of LCP. Accordingly, the fair value of the investment is included in the determination of goodwill.

Re-measuring the carrying value of the investment in associate gives rise to a gain of US$18.3 million (£11.4 million). This is shown under the line item 'Gain on revaluation of existing investment' within the consolidated statement of profit or loss.

In accordance with the Group's accounting policy the Non-controlling interest is calculated as the proportionate share of the fair value of the identifiable net assets of LCP.

### 3. Business combinations continued

a) Acquisition of subsidiary – Leadenhall Capital Partners LLP continued

The gross contractual amount of receivables as of the acquisition date is £6.9 million and are all expected to be received within the next 12 months.

An intangible asset of £15.1 million has been recognised, representing the fair value of acquired customer relationships.

The assets and liabilities as of the acquisition date are stated at their provisional fair values and may be amended during the following 12 months if further evidence of the appropriate fair values is received, in accordance with paragraph 45 of IFRS 3, 'Business combinations'.

A new priority distribution and bonus scheme was introduced, for partners and employees respectively of LCP, at acquisition. 30% of the business's operating profit will be available for incentivisation. As part of this arrangement there is a scheme to protect the non-controlling interest in the event that a partner leaves. A component of the priority distribution will be retained undistributed within LCP and will be distributed in a future period to any partner when they reduce their partnership interest on retirement or departure from the business.

An enhanced profit share arrangement has been put in place for the non-controlling interest. For the 2014 and 2015 accounting years, the enhanced profit share will be 48.3% and 36.7% respectively, before reducing to reflect the non-controlling interest in LCP of 25% thereafter. The enhanced profit share is accounted for as remuneration.

The undeclared priority distributions, bonus awards and profit share for 2014 to the date of acquisition have been accrued as part of the fair value adjustments of the acquired net assets, and included in Other payables as £6.2 million.

Total acquisition-related costs were £0.9 million. Of these costs £0.7 million is recognised as an expense within Other operating expenses for the year ended 31 December 2014. The remainder of the acquisition-related costs were incurred in 2013.

LCP generated £0.6 million of profit for the Group from the acquisition date to 31 December 2014. If the acquisition of LCP had been on 1 January 2014, its profit generated for the year to 31 December 2014 would have been £4.2 million.

b) Purchase of non-controlling interest in Amlin Plus Limited

On 20 May 2014, the Group acquired the 40% non-controlling interest in Amlin Plus Limited for consideration of £0.4 million, resulting in a £0.3 million reduction to the non-controlling interest and a £0.1 million decrease in other reserves. The acquisition supports the Group's strategy to develop its equine and bloodstock business.

## 4. Segmental reporting

### a) Basis of segmentation

Management has determined the Group's operating segments based on the management information reviewed during the year by the chief operating decision maker that is used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8, 'Operating segments'.

Segments represent the distinct units through which the Group is organised and managed. Segments are as follows:

- Amlin London, consisting of the Reinsurance, Property & Casualty, and Marine & Aviation business units, underwritten via Syndicate 2001;
- Amlin UK, underwriting commercial insurance in the UK domestic market, via Syndicate 2001 and Amlin Insurance (UK) Limited;
- Amlin Bermuda, which writes predominantly property reinsurance business, via Amlin AG, including reinsurance ceded by Syndicate 2001;
- Amlin Re Europe, which writes continental European non-life reinsurance business, via Amlin AG;
- Amlin Europe, including Amlin Europe N.V., a leading provider of marine, corporate property and casualty insurance in the Netherlands and Belgium; specialised, commercial SME property and casualty business in Germany and specialty business in France; and
- Other corporate companies, comprising all other entities of the Group including holding companies.

Included within the intra group items column are consolidation adjustments, primarily eliminating transactions between segments.

Consolidation adjustments relating to transactions within segments that were previously reported through the intra group items column, are now reported through the segment to which the adjustment relates. The most significant impact is in respect of service company commission income recognised as acquisition expenses in Amlin London, Amlin UK and Amlin Europe. The segmental analyses for the comparative year have been restated accordingly.

Investment return generated from centrally managed investments and managing agency expenses that were previously reported through the other corporate companies column, are now reported through segments that support the business. The segmental analyses for the comparative year have been restated accordingly.

Transactions between segments are carried out at arm's length. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of profit or loss and revenues are allocated based on the country in which the insured is located. Prior-year geographic disclosures have been re-presented to reflect this. Management considers its external customers to be the individual policyholders, and as such the Group is not reliant on any individual customer.

During 2014, management reviewed the Group operating structure. As from 1 September 2014, the Group changed its structure to operate as three Strategic Business Units (SBU): Reinsurance, Marine & Aviation and Property & Casualty. Reporting to the chief operating decision maker for the 2015 financial year will reflect the change in allocation of responsibility and the financial statements will be adjusted accordingly. As a result, unaudited comparable SBU financial information for 2014 has been included in the Underwriting management section of the Annual Report on page 48 for the first time.

### 4. Segmental reporting continued

b) Segmental information

Segmental information for the reportable segments of the Group is provided below. A reconciliation between this information and the consolidated statement of profit or loss is provided in note 4(c).

| Income and expenses by business segment Year ended 31 December 2014 | Amlin London £m | Amlin UK £m | Amlin Bermuda £m | Amlin Re Europe £m | Amlin Europe £m | Other corporate companies £m | Intra group items £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Analysed by geographic segment: | | | | | | | | |
| UK | 247.2 | 258.2 | 266.8 | 38.5 | 22.8 | – | (241.5) | **592.0** |
| North America | 640.1 | 12.7 | 198.7 | 2.8 | 3.2 | – | – | **857.5** |
| Europe | 95.6 | 25.9 | 54.5 | 200.8 | 373.9 | – | (23.6) | **727.1** |
| Other | 229.2 | 28.7 | 81.3 | 14.9 | 33.3 | – | – | **387.4** |
| **Gross written premium** | **1,212.1** | **325.5** | **601.3** | **257.0** | **433.2** | **–** | **(265.1)** | **2,564.0** |
| **Net written premium** | 888.5 | 270.4 | 558.9 | 213.0 | 370.7 | – | (22.6) | **2,278.9** |
| | | | | | | | | |
| Gross earned premium | 1,170.0 | 330.9 | 579.0 | 228.6 | 420.4 | – | (252.5) | **2,476.4** |
| Reinsurance premium ceded | (328.5) | (53.2) | (44.9) | (40.4) | (60.0) | – | 234.0 | **(293.0)** |
| **Net earned premium** | **841.5** | **277.7** | **534.1** | **188.2** | **360.4** | **–** | **(18.5)** | **2,183.4** |
| Insurance claims and claims settlement expenses | (568.0) | (241.2) | (299.8) | (169.8) | (208.5) | – | 180.5 | **(1,306.8)** |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 169.5 | 45.6 | (1.8) | 26.0 | 26.5 | – | (182.2) | **83.6** |
| Expenses for the acquisition of insurance contracts | (241.4) | (68.2) | (92.7) | (33.9) | (60.3) | – | 23.5 | **(473.0)** |
| Underwriting expenses | (79.8) | (30.2) | (29.7) | (12.0) | (82.6) | – | (6.9) | **(241.2)** |
| **Result attributable to underwriting** | **121.8** | **(16.3)** | **110.1** | **(1.5)** | **35.5** | **–** | **(3.6)** | **246.0** |
| Investment return | 53.9 | 7.2 | 39.9 | 3.9 | 26.5 | 8.9 | (21.8) | **118.5** |
| Other operating income | 1.4 | 2.6 | 1.9 | 0.1 | 1.5 | 2.7 | (2.2) | **8.0** |
| Other non-underwriting expenses | (21.0) | (2.3) | (5.5) | (2.6) | (8.6) | (79.5) | 17.6 | **(101.9)** |
| **Result of operating activities** | 156.1 | (8.8) | 146.4 | (0.1) | 54.9 | (67.9) | (10.0) | **270.6** |
| Finance costs | | | | | | | | **(27.0)** |
| Share of profit after tax of associates | | | | | | | | **3.7** |
| Gain on revaluation of existing investment | | | | | | | | **11.4** |
| **Profit before tax** | | | | | | | | **258.7** |
| Claims ratio | 47% | 70% | 56% | 76% | 50% | | | **56%** |
| Expense ratio | 38% | 35% | 23% | 24% | 40% | | | **33%** |
| **Combined ratio** | **85%** | **105%** | **79%** | **100%** | **90%** | | | **89%** |

Note:
Finance costs are incurred in support of the entire business of the Group and have not been allocated to particular reportable segments.

Included within the gross written premium of Amlin Bermuda is premium ceded from Amlin London, Amlin UK and Amlin Europe amounting to £221.0 million on reinsurance contracts undertaken at commercial rates (2013: £197.8 million).

The table below illustrates the claims, expense and combined ratio excluding whole account quota share (WAQS) intra group reinsurance arrangements:

| Excluding WAQS intra group reinsurance arrangements | Amlin London | Amlin UK | Amlin Bermuda | Amlin Re Europe | Amlin Europe | Total |
|---|---|---|---|---|---|---|
| Claims ratio | 50% | 74% | 49% | 76% | 50% | **56%** |
| Expense ratio | 34% | 30% | 29% | 24% | 40% | **33%** |
| **Combined ratio** | **84%** | **104%** | **78%** | **100%** | **90%** | **89%** |

| Restated<br>Income and expenses by business segment<br>Year ended 31 December 2013 | Amlin London £m | Amlin UK £m | Amlin Bermuda £m | Amlin Re Europe £m | Amlin Europe £m | Other corporate companies £m | Intra group items £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Analysed by geographic segment: | | | | | | | | |
| UK | 189.2 | 269.6 | 237.8 | 25.6 | 18.9 | – | (217.0) | 524.1 |
| North America | 621.5 | 11.6 | 203.2 | 2.3 | – | – | – | 838.6 |
| Europe | 89.9 | 21.3 | 40.3 | 171.7 | 435.6 | – | (1.7) | 757.1 |
| Other | 234.2 | 31.5 | 70.7 | 11.2 | – | – | – | 347.6 |
| **Gross written premium** | 1,134.8 | 334.0 | 552.0 | 210.8 | 454.5 | – | (218.7) | 2,467.4 |
| **Net written premium** | 775.1 | 279.4 | 500.4 | 173.8 | 385.4 | – | (6.7) | 2,107.4 |
| Gross earned premium | 1,086.7 | 333.4 | 560.3 | 207.1 | 469.8 | – | (216.7) | 2,440.6 |
| Reinsurance premium ceded | (351.9) | (58.8) | (53.8) | (40.9) | (65.2) | – | 207.4 | (363.2) |
| **Net earned premium** | 734.8 | 274.6 | 506.5 | 166.2 | 404.6 | – | (9.3) | 2,077.4 |
| Insurance claims and claims settlement expenses | (439.8) | (216.9) | (249.4) | (148.2) | (241.0) | – | 142.2 | (1,153.1) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 119.7 | 46.8 | 1.6 | 24.3 | 14.6 | – | (147.0) | 60.0 |
| Expenses for the acquisition of insurance contracts | (210.5) | (65.8) | (83.5) | (32.8) | (70.8) | – | 12.5 | (450.9) |
| Underwriting expenses | (86.0) | (38.7) | (25.5) | (16.5) | (91.2) | – | 7.6 | (250.3) |
| **Profit attributable to underwriting** | 118.2 | – | 149.7 | (7.0) | 16.2 | – | 6.0 | 283.1 |
| Investment return | 41.0 | 11.2 | 51.7 | 2.3 | 44.5 | 24.2 | (14.5) | 160.4 |
| Other operating income | 2.5 | 0.8 | 1.0 | 0.1 | 1.1 | 0.2 | (1.4) | 4.3 |
| Other non-underwriting expenses | (25.9) | (3.7) | (9.4) | (0.9) | (15.7) | (37.1) | (4.3) | (97.0) |
| **Result of operating activities** | 135.8 | 8.3 | 193.0 | (5.5) | 46.1 | (12.7) | (14.2) | 350.8 |
| Finance costs | | | | | | | | (29.0) |
| Share of profit after tax of associates | | | | | | | | 3.9 |
| **Profit before tax** | | | | | | | | 325.7 |
| Claims ratio | 44% | 62% | 49% | 74% | 56% | | | 52% |
| Expenses ratio | 40% | 38% | 21% | 30% | 40% | | | 34% |
| **Combined ratio** | 84% | 100% | 70% | 104% | 96% | | | 86% |

Note:
Finance costs are incurred in support of the entire business of the Group and have not been allocated to particular reportable segments.

The table below illustrates the claims, expense and combined ratio excluding whole account quota share (WAQS) intra group reinsurance arrangements:

| Restated<br>Excluding WAQS intra group reinsurance arrangements | Amlin London | Amlin UK | Amlin Bermuda | Amlin Re Europe | Amlin Europe | Total |
|---|---|---|---|---|---|---|
| Claims ratio | 47% | 65% | 40% | 74% | 56% | 52% |
| Expenses ratio | 35% | 33% | 28% | 30% | 40% | 34% |
| **Combined ratio** | 82% | 98% | 68% | 104% | 96% | 86% |

### 4. Segmental reporting continued

c) Reconciliation between management information and the consolidated statement of profit or loss

The table below shows the reconciliation between the management information provided to the chief operating decision maker and the consolidated statement of profit or loss.

| | Year ended 31 December 2014 | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Management information £m | Reconciling items £m | IFRS Consolidated statement of profit or loss £m | Management information £m | Reconciling items £m | IFRS Consolidated statement of profit or loss £m |
| **Gross written premium** | 2,564.0 | – | 2,564.0 | 2,467.4 | – | 2,467.4 |
| **Net written premium** | 2,278.9 | 17.0 | 2,295.9 | 2,107.4 | 18.2 | 2,125.6 |
| Gross earned premium | 2,476.4 | – | 2,476.4 | 2,440.6 | – | 2,440.6 |
| Reinsurance premium ceded | (293.0) | 17.2 | (275.8) | (363.2) | 17.2 | (346.0) |
| **Net earned premium** | 2,183.4 | 17.2 | 2,200.6 | 2,077.4 | 17.2 | 2,094.6 |
| Insurance claims and claims settlement expenses | (1,306.8) | – | (1,306.8) | (1,153.1) | – | (1,153.1) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 83.6 | – | 83.6 | 60.0 | – | 60.0 |
| Expenses for the acquisition of insurance contracts | (473.0) | – | (473.0) | (450.9) | – | (450.9) |
| Underwriting expenses | (241.2) | – | (241.2) | (250.3) | – | (250.3) |
| **Result attributable to underwriting** | 246.0 | 17.2 | 263.2 | 283.1 | 17.2 | 300.3 |
| Investment return | 118.5 | (17.2) | 101.3 | 160.4 | (17.2) | 143.2 |
| Other operating income | 8.0 | – | 8.0 | 4.3 | – | 4.3 |
| Other non-underwriting expenses | (101.9) | – | (101.9) | (97.0) | – | (97.0) |
| **Result of operating activities** | 270.6 | – | 270.6 | 350.8 | – | 350.8 |
| Finance costs | (27.0) | – | (27.0) | (29.0) | – | (29.0) |
| Share of profit after tax of associates | 3.7 | – | 3.7 | 3.9 | – | 3.9 |
| Gain on revaluation of existing investment | 11.4 | – | 11.4 | – | – | – |
| **Profit before tax** | 258.7 | – | 258.7 | 325.7 | – | 325.7 |

The reconciling items relate to items of income and expense under the Group's risk transfer contracts with Tramline Re Ltd and Tramline Re II Ltd, the risk periods of which incepted on 1 January 2012 and 1 July 2013 respectively. From a management information perspective, these instruments are insurance linked and therefore these balances are included within the Group's profit attributable to underwriting in the segmental information provided to the chief operating decision maker. Under IAS 39, the instruments are classified as derivatives and therefore such items of income and expense are reported through investment return in the Group's consolidated statement of profit or loss.

d) Non-current assets by location

The Group’s non-current assets, consisting of Property and equipment, Goodwill and intangible assets, and Investments in associates are £310.3 million (2013: £274.2 million) of which £178.3 million (2013: £151.0 million) is located in the UK and £132.0 million (2013: £123.2 million) is located in foreign countries such as Bermuda, the US and continental Europe.

## 5. Underwriting activities

a) Net earned premium

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Gross earned premium** | | | |
| Gross written premium | 4,13(c) | **2,564.0** | 2,467.4 |
| Change in unearned premium | | **(87.6)** | (26.8) |
| | | **2,476.4** | 2,440.6 |
| **Reinsurance premium ceded** | | | |
| Reinsurance premium payable | 13(c) | **(268.1)** | (341.8) |
| Change in reinsurers' share of unearned premium | | **(7.7)** | (4.2) |
| | | **(275.8)** | (346.0) |
| | | **2,200.6** | 2,094.6 |

b) Net insurance claims

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Insurance claims and claims settlement expenses** | | | |
| Current year insurance claims and claims settlement expenses | 13(a) | **1,387.2** | 1,303.6 |
| Reduced costs for prior-period insurance claims | 13(a) | **(80.4)** | (150.5) |
| | | **1,306.8** | 1,153.1 |
| **Insurance claims and claims settlement expenses recoverable from reinsurers** | | | |
| Current year insurance claims and claims settlement expenses recoverable from reinsurers | 13(a) | **(74.4)** | (77.0) |
| (Increased)/reduced income from prior-period insurance claims recoverable from reinsurers | 13(a) | **(9.2)** | 17.0 |
| | | **(83.6)** | (60.0) |
| | | **1,223.2** | 1,093.1 |

### 6. Investment return

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Investment income** | | | |
| – dividend income | | **22.9** | 16.3 |
| – interest income | | **20.5** | 27.5 |
| – cash and cash equivalents interest income | | **1.5** | 2.9 |
| | | **44.9** | 46.7 |
| **Net realised gains/(losses)** | | | |
| **on assets held for trading** | | | |
| – equity securities | | **26.0** | 25.6 |
| – debt securities | | **50.5** | 71.9 |
| – property funds | | **(0.1)** | 3.6 |
| – derivative instruments | | **(5.7)** | (6.2) |
| – derivative instruments relating to the Group's contracts with Tramline Re Ltd and Tramline Re II Ltd | 4(c) | **(17.9)** | (15.7) |
| **on assets classified as other than trading** | | | |
| – participation in investment pools | | **1.7** | 2.0 |
| | | **54.5** | 81.2 |
| **Net unrealised gains/(losses)** | | | |
| **on assets held for trading** | | | |
| – equity securities | | **26.0** | 44.7 |
| – debt securities | | **(19.2)** | (48.9) |
| – property funds | | **5.5** | 0.4 |
| – derivative instruments | | **(10.0)** | 19.0 |
| – derivative instruments relating to the Group's contracts with Tramline Re Ltd and Tramline Re II Ltd | 4(c) | **0.7** | (1.5) |
| **on assets classified as other than trading** | | | |
| – other | | **(1.1)** | 1.6 |
| | | **1.9** | 15.3 |
| | | **101.3** | 143.2 |

Note:
Included within debt securities held for trading are realised losses and unrealised gains of £1.7 million and £4.8 million respectively, relating to the investment in the funds managed by Leadenhall Capital Partners LLP (2013: £0.2 million realised gains and £3.9 million unrealised gains).

## 7. Expenses

a) Expenses for the acquisition of insurance contracts

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Expenses for the acquisition of insurance contracts deferred during the year | 13(d) | **501.0** | 458.2 |
| Changes in deferred expenses for the acquisition of insurance contracts | | **(28.0)** | (7.3) |
| | | **473.0** | 450.9 |

b) Other operating expenses

| | 2014 £m | 2013 £m |
|---|---|---|
| **Expenses relating to underwriting** | | |
| Employee expenses, excluding employee incentives | **133.5** | 132.6 |
| Lloyd's expenses | **20.2** | 20.9 |
| Other administrative expenses | **83.9** | 86.3 |
| Underwriting foreign exchange losses | **3.6** | 10.5 |
| | **241.2** | 250.3 |
| **Other expenses** | | |
| Employee expenses, excluding employee incentives | **22.4** | 18.9 |
| Employee incentives and related social security costs | **43.7** | 53.4 |
| Asset management fees | **8.9** | 14.0 |
| Other administrative expenses | **20.2** | 16.1 |
| Non-underwriting foreign exchange losses/(gains) | **6.7** | (5.4) |
| | **101.9** | 97.0 |
| | **343.1** | 347.3 |

Employee and other administrative expenses not relating to underwriting represent costs associated with the centrally managed activities of the Group.

c) Employee benefit expenses

The average number of persons employed by the Group, including individuals on fixed term contracts and Directors, were:

| | 2014 | 2013 |
|---|---|---|
| Senior underwriters | **132** | 135 |
| Other underwriters | **274** | 281 |
| Underwriting support | **408** | 377 |
| Claims staff | **108** | 114 |
| Claims support | **262** | 256 |
| Operational | **328** | 292 |
| Operational support | **387** | 407 |
| | **1,899** | 1,862 |

The allocation of headcount has been enhanced to align with the presentation of management information. The comparative for 2013 has also been updated to reflect this change.

| | 2014 | 2013 |
|---|---|---|
| **By location** | | |
| UK | **1,168** | 1,123 |
| Continental Europe | **634** | 654 |
| Bermuda | **59** | 51 |
| Singapore | **33** | 30 |
| US | **5** | 4 |
| | **1,899** | 1,862 |

**7. Expenses continued**

c) Employee benefit expenses continued

The aggregate payroll costs incurred by Group companies are analysed as follows:

| | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| Wages and salaries | | **127.2** | 122.5 |
| Employee incentives and related social security costs | | **43.7** | 53.4 |
| Equity-settled share options and awards granted to Directors and employees | 7(d) | **6.2** | 5.1 |
| Social security costs | | **17.2** | 16.5 |
| Other pension costs | 16 | **14.7** | 15.0 |
| | | **209.0** | 212.5 |

d) Long-term employee incentive schemes

During the year ended 31 December 2014, the Group operated a number of long-term employee incentive schemes. The total cost recognised in the consolidated statement of profit or loss for these schemes is shown below:

| | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| Equity-settled share-based payment schemes | 7(c) | **6.2** | 5.1 |
| Cash-settled share-based payment schemes | | **5.3** | 2.6 |
| **Total expense arising from long-term employee incentive schemes** | | **11.5** | 7.7 |

*i) Equity-settled share-based payment schemes*

Share options

Details of the Group's executive and all employee share option schemes are set out in the Directors' remuneration report.

A summary of the status and the changes to new or treasury shares under option during the year were as follows:

| | **Number of shares 2014** | **Weighted average exercise price per share (pence)** | Number of shares 2013 | Weighted average exercise price per share (pence) |
|---|---|---|---|---|
| Outstanding at 1 January | **2,574,934** | **277** | 2,676,348 | 266 |
| Granted during the year | **1,103,855** | **355** | 506,531 | 312 |
| Exercised during the year | **(640,404)** | **254** | (490,876) | 247 |
| Forfeited during the year | **(118,613)** | **289** | (117,069) | 289 |
| **Total shares outstanding at 31 December** | **2,919,772** | **311** | 2,574,934 | 277 |
| **Total shares exercisable at 31 December** | **536,895** | **268** | 610,953 | 267 |

The weighted average share price at the date of exercise for share options exercised during the year was 451 pence (2013: 430 pence).

The following table summarises information about options outstanding at the end of the year:

| Range of exercise prices | **Number of outstanding shares under option 2014** | **Weighted average remaining contractual life (years)** | Number of outstanding shares under option 2013 | Weighted average remaining contractual life (years) |
|---|---|---|---|---|
| £1.12 – £1.62 | **62,674** | **0.25** | 120,500 | 1.23 |
| £1.63 – £2.46 | **–** | **–** | 23,145 | 0.42 |
| £2.47 – £2.93 | **868,792** | **1.68** | 1,423,031 | 2.28 |
| £2.94 – £3.55 | **1,988,306** | **3.06** | 1,008,258 | 3.51 |

### Share awards
Details of the Group's share awards are set out in the Directors' remuneration report in the Governance section of the Annual Report.

At 31 December 2014, the total awards over new or treasury shares outstanding, or committed to be met by the Group's Employee Share Ownership Trust (ESOT), or shares held in trust under these schemes are summarised below:

| | **Number of shares under conditional award 2014** | **Vesting period** | Number of shares under conditional award 2013 | Vesting period |
|---|---|---|---|---|
| LTIP grants | **5,154,988** | **2015 to 2017** | 5,121,807 | 2014 to 2016 |
| PSP grants | **3,123,994** | **2015 to 2019** | 2,736,126 | 2013 to 2018 |
| SIP grants | **2,265,938** | **2010 to 2017** | 1,630,581 | 2010 to 2016 |
| Amlin Special | **261,636** | **2015 to 2019** | 271,248 | 2014 to 2016 |
| Deferred Share Award | **132,149** | **2017** | – | – |

LTIP and PSP awards are normally exercisable from three and five years after grant respectively.

### Modifications to share-based payment arrangements
There have been no modifications to share-based payment arrangements in 2014.

### Options from the ESOT
The trustee of the ESOT held 1,769,796 ordinary shares as at 31 December 2014 (2013: 1,962,534 ordinary shares) to meet potential future exercises of executive awards and long-term incentive plans. The ESOT shares are valued at the lower of cost and net realisable value. The market value of Amlin plc ordinary shares on the last trading day of the year, being 31 December 2014, was 478.2 pence per share (2013: 458.9 pence per share).

The assets, liabilities, income and costs of the ESOT are incorporated into the consolidated financial statements. The ESOT waives the right to dividends on ordinary shares in excess of 0.01 pence per each share ranking for an interim or final dividend.

### Fair value of options and awards
At 31 December 2014, the weighted average fair values of options and awards granted during the year were 58.80 pence per option and 233.45 pence per award respectively (2013: 60.57 pence and 157.51 pence).

The Black-Scholes option pricing model has been used to determine the fair value of the option grants and share awards listed above.

The assumptions used in the model are as follows:

| | **2014** | 2013 |
|---|---|---|
| Weighted average share price on grant (pence) | **400.11** | 377.10 |
| Weighted average exercise price (pence) | **306.49** | 282.61 |
| Expected volatility | **30.00%** | 30.00% |
| Expected life (years) | **1.00 – 5.25** | 3.00 – 5.25 |
| Risk-free rate of return | **1.00% – 3.00%** | 1.00% – 4.50% |
| Expected dividend yield | **5.00% – 7.00%** | 5.00% – 7.00% |

### Volatility
The volatility of Amlin plc's share price is calculated as a normalised standard deviation of the log of the daily return on the share price. In estimating 30% volatility, the volatility of return for six months, one year and three year intervals are considered. As a guide to the reasonableness of the volatility estimate, similar calculations are performed on a selection of Amlin's peer group.

### Interest rate
The risk free interest rate is consistent with government bond yields.

### Dividend yield
The assumptions are consistent with the information given in the financial statements for each relevant valuation year.

### Staff turnover
The option pricing calculations are split by staffing grades as staff turnover is higher for more junior grades. Furthermore, historical evidence suggests that senior employees tend to hold their options for longer whereas more junior levels within the organisation appear to exercise earlier. In addition, senior employees hold a larger proportion of the options but represent a smaller group of individuals.

### Market conditions
The Group issues options that include targets for the Group's performance against a number of market and non-market conditions. Failure to meet these targets can reduce the number of options exercisable. In some circumstances, no options may be exercised. Assumptions are made about the likelihood of meeting the market and non-market conditions based on the outlook at the time of each option grant.

**7. Expenses continued**

d) Long-term employee incentive schemes continued

*ii) Cash-settled share-based payment shemes*

Capital Builder Plan

The Group rewards senior underwriters through payments under the Capital Builder Plan (the Plan) if they achieve performance below the target loss ratio for their class(es) of business or business area over the five-year period of each award under the Plan. Under the scheme rules, the Group has the option to settle the awarded bonus in the shares of the Company or as a cash payment.

Provision for payments of an award under the Plan is calculated every year where actual profits exceed the target profit on a cumulative basis over the performance period to date under the Plan. The rate of accrual for each five-year performance period is determined at the start of the period, reflecting the share of the excess return payable and committed under the terms of the Plan.

Under this approach, the services received and the related liability are recognised as the services are rendered, in that the liability at any point in time for the Plan reflects the level of actual performance by underwriters in relation to the target.

The carrying amount of the liability under the Plan at 31 December 2014 is £6.9 million (2013: £4.8 million) and is recorded in other payables.

e) Directors' remuneration

The aggregate remuneration of the Directors of the Company, including amounts received from subsidiaries, was:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Remuneration of Executive Directors | **3.4** | 3.6 |
| Remuneration of Non-Executive Directors | **0.6** | 0.6 |
| Amounts (excluding equity-settled share options and awards) receivable under long-term incentive schemes | **1.7** | 2.5 |
| | **5.7** | 6.7 |
| Pension contributions | **0.1** | 0.1 |
| | **5.8** | 6.8 |

Details of Directors' remuneration, pension benefits and gains on the exercise of share options, including those of the highest paid Director, are included in the remuneration report in the Governance section of the Annual Report.

Payments were made to both a defined benefit pension scheme and a stakeholder defined contribution scheme for two (2013: two) Executive Directors and to a stakeholder defined contribution scheme for one (2013: one) other Executive Director.

f) Finance costs

| | **2014 £m** | 2013 £m |
|---|---|---|
| Letter of credit commission | **1.3** | 1.8 |
| Revolving credit facility | **2.3** | 3.2 |
| Subordinated debt interest | **19.4** | 19.5 |
| Other similar charges | **4.0** | 4.5 |
| | **27.0** | 29.0 |

### g) Profit before tax

Profit before tax is stated after charging the following amounts:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Depreciation | 14 | **5.4** | 7.4 |
| Amortisation | 15 | **10.8** | 11.2 |
| Operating lease expenditure | 20(b) | **9.9** | 9.6 |
| Foreign exchange losses | 7(b) | **10.3** | 5.1 |

Fees paid to the Group's auditors in respect of the financial year are set out below:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Audit** | | |
| Audit of the Group's and Company's annual financial statements | **157.5** | 151.6 |
| Audit of subsidiaries | **1,023.8** | 966.7 |
| | **1,181.3** | 1,118.3 |
| **Assurance services** | | |
| Audit-related assurance services | **277.8** | 286.9 |
| Other assurance services | **12.0** | 19.3 |
| | **289.8** | 306.2 |
| **Services relating to taxation** | | |
| Tax advisory services | **3.0** | 40.0 |
| | **3.0** | 40.0 |
| **Other non-audit services** | | |
| Other services | **38.6** | 202.3 |
| | **38.6** | 202.3 |
| **Total fees** | **1,512.7** | 1,666.8 |

## 8. Tax

| | 2014 £m | 2013 £m |
|---|---|---|
| **Current tax – current year** | | |
| Corporate income tax | 0.6 | (13.7) |
| Foreign tax | 1.6 | 2.8 |
| | 2.2 | (10.9) |
| **Current tax – adjustments in respect of previous years** | | |
| Corporate income tax | (2.0) | 0.1 |
| **Deferred tax – current year** | | |
| Origination and reversal of temporary differences | 19.3 | 41.5 |
| **Deferred tax – adjustments in respect of previous years** | | |
| Movements for the year | 4.9 | 1.9 |
| Impact of change in UK tax rate | (2.1) | (5.6) |
| | 2.8 | (3.7) |
| **Income tax expense** | 22.3 | 27.0 |

In addition to the above, tax of £1.9 million (2013: £1.8 million charge) has been credited directly to other comprehensive income as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Deferred tax on defined benefit pension fund actuarial (losses)/gains | (2.4) | 2.3 |
| **Income tax on items that will not be reclassified to profit or loss** | (2.4) | 2.3 |
| Current tax on foreign exchange gains/(losses) on translation of foreign operations, net of designated hedges | 0.6 | (0.5) |
| Deferred tax charged on other items within the other comprehensive income | (0.1) | – |
| **Income tax on items that may be reclassified subsequently to profit or loss** | 0.5 | (0.5) |
| **Taxes (credited)/charged to other comprehensive income** | (1.9) | 1.8 |

In addition to the above, tax of £0.6 million (2013: £0.3 million) has been charged directly to other reserves as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Deferred tax relating to employee share option schemes | 0.6 | 0.3 |
| **Taxes charged to other reserves** | 0.6 | 0.3 |

The cumulative tax in reserves was £30.8 million (2013: £29.5 million), as per note 17(b).

### Reconciliation of tax expense

The UK standard rate of corporation tax is 21.5% (2013: 23.25%), whereas the tax charged for the year ended 31 December 2014 as a percentage of profit (2013: profit) before tax is 8.6% (2013: 8.3%). The reasons for this difference are explained below:

| | 2014 £m | 2014 % | 2013 £m | 2013 % |
|---|---|---|---|---|
| **Profit before tax** | 258.7 | | 325.7 | |
| Taxation on profit on ordinary activities at the standard rate of corporation tax in the UK | 55.6 | 21.5 | 75.7 | 23.3 |
| Non-deductible or non-taxable items | (1.8) | (0.7) | (2.9) | (0.9) |
| Tax rate differences on foreign subsidiaries | (33.9) | (13.1) | (45.0) | (13.8) |
| Adjustments in respect of previous years | 2.9 | 1.1 | 2.0 | 0.6 |
| Irrecoverable foreign tax | 1.6 | 0.6 | 2.8 | 0.8 |
| UK deferred tax rate change | (2.1) | (0.8) | (5.6) | (1.7) |
| **Income tax expense** | 22.3 | 8.6 | 27.0 | 8.3 |

### Deferred tax

The deferred tax asset is attributable to temporary differences arising on the following:

| | Provisions for losses £m | Other provisions £m | Pension provisions £m | Other temporary differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2013 | 28.2 | 1.5 | 8.3 | (22.2) | 15.8 |
| Amounts (charged)/credited to statement of profit or loss | (12.9) | 0.8 | (1.9) | 16.3 | 2.3 |
| Amounts (charged)/credited to statement of other comprehensive income | – | – | (2.3) | 0.5 | (1.8) |
| Amounts charged to statement of changes in equity | – | – | – | (0.3) | (0.3) |
| Amounts netted off against deferred tax liabilities | – | – | – | (9.0) | (9.0) |
| Other movements | – | – | – | (0.9) | (0.9) |
| At 31 December 2013 | 15.3 | 2.3 | 4.1 | (15.6) | 6.1 |
| Amounts credited/(charged) to statement of profit or loss | 1.3 | 1.3 | (0.3) | (4.9) | (2.6) |
| Amounts credited/(charged) to statement of other comprehensive income | – | – | 2.4 | (0.5) | 1.9 |
| Amounts charged to statement of changes in equity | – | – | – | (0.6) | (0.6) |
| Amounts netted off against deferred tax liabilities | – | – | – | (1.4) | (1.4) |
| Other movements | 0.2 | – | 0.1 | 2.0 | 2.3 |
| **At 31 December 2014** | **16.8** | **3.6** | **6.3** | **(21.0)** | **5.7** |

Deferred tax assets of £3.0 million, £6.4 million and £7.1 million (2013: £2.4 million, £9.4 million and £3.2 million) have been recognised in respect of tax losses arising in Amlin AG (federal taxes only), Amlin Europe N.V. and Amlin plc respectively. These assets have been recognised as management consider it probable that future taxable profits will be available against which the losses can be utilised.

The deferred tax liability is attributable to temporary differences arising on the following:

| | Underwriting results £m | Unrealised capital gains £m | Syndicate capacity £m | Intangibles £m | Other temporary differences £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2013 | (7.2) | 13.2 | 6.8 | 9.7 | 5.4 | 27.9 |
| Amounts charged/(credited) to statement of profit or loss | 27.3 | (1.9) | (0.3) | (1.3) | 16.3 | 40.1 |
| Opening balances recognised on acquisition of subsidiaries | – | – | – | 5.6 | 0.2 | 5.8 |
| Amounts netted off against deferred tax assets | – | – | – | – | (9.0) | (9.0) |
| Other movements | – | (0.6) | – | – | (0.5) | (1.1) |
| At 31 December 2013 | 20.1 | 10.7 | 6.5 | 14.0 | 12.4 | 63.7 |
| Amounts (credited)/charged to statement of profit or loss | (1.4) | 2.8 | 0.5 | (2.1) | 19.7 | 19.5 |
| Opening balances recognised on acquisition of subsidiaries | – | – | – | 3.0 | – | 3.0 |
| Amounts netted off against deferred tax assets | – | – | – | – | (1.4) | (1.4) |
| Other movements | 0.1 | – | – | (0.6) | 1.4 | 0.9 |
| **At 31 December 2014** | **18.8** | **13.5** | **7.0** | **14.3** | **32.1** | **85.7** |

The movements disclosed in the tables above have been enhanced to present the impact on individual primary statements. Comparative information has been re-presented accordingly.

A deferred tax liability of £65.7 million (2013: £37.4 million) is expected to crystallise more than 12 months after the consolidated statement of financial position date.

### UK tax rate

Recent UK budgets have announced changes in the main rate of UK corporation tax. The current rate of 21.0% was enacted on 2 July 2013 and applies from 1 April 2014. The final rate reduction announced in the March 2013 budget, also enacted on 2 July 2013, will reduce the main rate to 20.0% and is applicable from 1 April 2015.

### 8. Tax continued

#### Underwriting profits

Underwriting profits and losses are recognised in the consolidated statement of profit or loss on an annual accounting basis, recognising the results in the period in which they are earned. UK corporation tax on Syndicate 2001's underwriting result is charged in the period in which the underwriting profits are actually paid by the Syndicate to the corporate member subsidiary. This creates a deferred tax position.

Deferred tax is provided on the underwriting result with reference to the forecast ultimate result of each of the years of account. Where this is a taxable loss, deferred tax is only provided on the movement on that year of account to the extent that forecasts show that the taxable loss will be utilised in the foreseeable future. A deferred tax liability (before netting off) has been recognised on the underwriting result for this accounting period of £19.9 million (2013: £21.5 million liability).

The Group is subject to US tax on US underwriting profits generated by Syndicate 2001. No provision has been made in respect of such tax arising in 2014 (2013: £nil) as any net provision is likely to be immaterial.

#### Controlled foreign companies legislation

Amlin AG operates in Switzerland as Amlin Re Europe, with the Bermudian business operating as a branch. The Group's tax provision for 2014 has been prepared on the basis that Amlin AG is non-UK resident for UK corporation tax purposes and is exempt from the UK controlled foreign company regime. The corporation tax rate for profits earned by the Bermudian branch of Amlin AG is currently nil% (2013: nil%). The combined rate of Swiss cantonal and federal taxes, applicable to profits arising from the Swiss operation only, is 21.2% (2013: 21.2%).

#### Deferred tax rate

Deferred tax has been provided for at the local tax rate in force when the temporary differences are expected to reverse. The tax rates used are:

- UK – 20.0% (2013: 20.0%);
- The Netherlands – 25.0% (2013: 25.0%);
- Bermuda – nil% (2013: nil%); and
- Switzerland – 21.2% (2013: 21.2%).

### 9. Foreign exchange

#### a) Net foreign exchange movements

The following exchange movements have been charged directly to other comprehensive income:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Gains/(losses) on translation of foreign operations: | | |
| – Amlin Bermuda | **30.8** | (17.0) |
| – RaetsMarine Insurance B.V. | **0.4** | (0.8) |
| – Amlin France SAS | **0.2** | (0.1) |
| – Amlin Europe N.V. | **(8.0)** | 2.1 |
| – Amlin Re Europe | **–** | 0.1 |
| – Solo Absolute Bonds & Currency Fund | **(16.4)** | (1.0) |
| | **7.0** | (16.7) |
| (Losses)/gains on translation of intangibles arising from investments in foreign operations | **(5.5)** | 0.2 |
| Gains on financial instruments that hedge investments in foreign operations | **1.9** | 0.5 |
| **Foreign exchange gains/(losses) on translation of foreign operations, net of designated hedges** | **3.4** | (16.0) |

#### b) Principal exchange rates

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the production of these financial statements were:

| | **Average rate** | | **Year end rate** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| US dollar | **1.65** | 1.56 | **1.56** | 1.66 |
| Canadian dollar | **1.82** | 1.61 | **1.81** | 1.76 |
| Euro | **1.24** | 1.18 | **1.29** | 1.20 |
| New Zealand dollar | **1.99** | 1.91 | **1.99** | 2.01 |
| Japanese yen | **174.22** | 152.80 | **186.79** | 174.36 |

### c) Foreign exchange risk

The exposures to translation, revaluation and asset liability currency matching risk combine to form the Group's overall exposure to foreign exchange risk. The Group's reporting currency is sterling and significant subsidiary functional currencies are sterling, euro and US dollar. The Group holds asset and liability balances in major base currencies of sterling, euro, US dollars, Canadian dollars, New Zealand dollars and Japanese yen.

*Translation risk*

Foreign exchange translation risk arises when business is written in non-functional currencies. These transactions are translated into the functional currency of the relevant Group entity at the prevailing spot rate at the inception date of the premium. Consequently, there is exposure to currency movements between the inception date and the date premium is received. Claims incurred in non-functional currencies are recorded at the prevailing spot rate on the date of the loss event (or suitable equivalent) and then translated back from the functional currency at the time a claim is to be settled; therefore the Group is exposed to exchange rate risk between the date the claim is made and the date of settlement.

*Revaluation risk*

The Group is subject to revaluation risk as a result of the translation into the Group's sterling reporting currency of the net assets of the Group entities that have a non-sterling functional currency. At 31 December 2014, the Group was exposed to net investments in foreign operations balances totalling US$1,302.5 million (2013: US$1,343.8 million) and €1,004.0 million (2013: €873.4 million). Foreign exchange gains and losses on investments in foreign subsidiaries are recognised in other comprehensive income in accordance with IAS 21, 'The effects of changes in foreign exchange rates'.

The gains recognised in other comprehensive income for the year ended 31 December 2014 was £1.5 million (2013: £16.5 million loss). This reflects the movement in the US dollar rate from 1.66 at the start of the year to 1.56 at the balance sheet date and the movement in the euro rate from 1.20 at the start of the year to 1.29 at the balance sheet date. In order to mitigate the impact of these currency fluctuations, the Group adopts a policy of hedging approximately 50% (2013: 50%) of the net currency exposure resulting from the net investments in foreign operations.

For this purpose, the Group uses a combination of subordinated debt, drawdowns on the revolving credit facility and options that are accounted for as hedges of net investments in foreign operations, in accordance with the hedge accounting requirements of IAS 39. The effective portion of all unrealised and realised gains and losses on the designated portion of the hedging instruments is taken to the consolidated statement of other comprehensive income to match the underlying movement in the valuation of the net investment in foreign operations, with the ineffective portion recognised in consolidated statement of profit or loss. At the year end, hedges were in place for US$638.0 million (2013: US$702.0 million) and €495.0 million (2013: €397.0 million). The net realised and unrealised gains from hedging recognised in the consolidated statement of other comprehensive income during the year was £1.9 million (2013: £0.5 million gain).

In relation to revaluation of the net investment in foreign operations, if the US$/GBP exchange rates were to improve by 10% at 31 December 2014, this would result in an additional exchange gain of £83.5 million recognised in other comprehensive income. This gain would be offset by a valuation loss of £35.1 million on the designated portion of the hedging instruments. The same exchange rate deterioration would result in an additional £55.2 million exchange loss through other comprehensive income. This loss would be offset by a valuation gain of £10.6 million on the designated portion of the hedging instruments.

If the EUR/GBP exchange rate were to improve by 10% at 31 December 2014, this would result in an additional exchange gain of £53.9 million recognised in other comprehensive income. This gain would be offset by a valuation loss of £7.1 million on the designated portion of the hedging instruments. The same exchange rate deterioration would result in an additional £77.5 million exchange loss through other comprehensive income. This loss would be offset by a valuation gain of £28.4 million on the designated portion of the hedging instruments.

*Asset liability matching by currency risk*

If a liability in a currency other than the functional currencies of sterling, euro and US dollars is considered to be sufficiently large following a major event, for example such as the 2010 and 2011 New Zealand earthquakes, that currency will be bought and held as a base currency to cover the potential liability.

Underwriting assets are primarily held in the base currencies of sterling, euros, US dollars, Canadian dollars, New Zealand dollars and Japanese yen, which represent the majority of the Group's liabilities by currency, thus limiting the underwriting asset liability matching currency risk.

The table below presents the Group's assets and liabilities by currency. The amounts are stated in the sterling equivalent of the local currency, in order that the amounts can be reconciled to the Group's consolidated statement of financial position. The local currency amounts have been converted into sterling using the exchange rates as disclosed in note 9(b).

| | 31 December 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Currency risk** | **Sterling £m** | **US$ £m** | **CAN$ £m** | **Euro £m** | **NZ$ £m** | **JPY £m** | **Total £m** |
| Total assets | **1,592.4** | **2,652.1** | **136.3** | **2,159.1** | **97.4** | **38.4** | **6,675.7** |
| Total liabilities | **1,356.9** | **1,967.5** | **104.4** | **1,343.0** | **98.5** | **19.5** | **4,889.8** |
| **Net assets** | **235.5** | **684.6** | **31.9** | **816.1** | **(1.1)** | **18.9** | **1,785.9** |

| | 31 December 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Currency risk | Sterling £m | US$ £m | CAN$ £m | Euro £m | NZ$ £m | JPY £m | Total £m |
| Total assets | 1,738.6 | 2,382.8 | 132.3 | 2,099.4 | 165.1 | 54.9 | 6,573.1 |
| Total liabilities | 975.9 | 2,155.5 | 99.2 | 1,494.4 | 143.7 | 25.8 | 4,894.5 |
| Net assets | 762.7 | 227.3 | 33.1 | 605.0 | 21.4 | 29.1 | 1,678.6 |

### 9. Foreign exchange continued

c) Foreign exchange risk continued

If the base currencies were to improve/deteriorate by 10%, the movement in the monetary net underwriting assets and liabilities and borrowings of the Group, excluding foreign operations, would result in the following gains/(losses) in the consolidated statement of profit or loss for the year ended 31 December 2014:

| | 31 December 2014 | |
|---|---|---|
| **Currency** | **10% improvement £m** | **10% deterioration £m** |
| US dollars | **14.1** | **(11.5)** |
| Canadian dollars | **6.6** | **(5.4)** |
| Euro | **(0.2)** | **0.2** |
| New Zealand dollars | **5.0** | **(4.1)** |
| Japanese yen | **0.7** | **(0.6)** |
| | **26.2** | **(21.4)** |

Further foreign exchange risk arises until non-sterling profits or losses are converted into sterling. Foreign exchange risk is mitigated by converting the subsidiaries' functional currency profits into the Group's reporting currency. Given the inherent volatility in some business classes, a cautious approach is adopted on the speed and level of sales, but the Group seeks to extinguish all currency risk on earned profit during the second year after the commencement of each underwriting year. It is not the intention to take speculative currency positions in order to make currency gains.

At 31 December 2014, the investment managers held some forward foreign exchange contracts in their portfolios to hedge non-base currency investments.

### 10. Dividends

The amounts recognised as distributions to equity holders are as follows:

| Group | **2014 £m** | 2013 £m |
|---|---|---|
| Final dividend for the year ended: | | |
| – 31 December 2013 of 18.2 pence per ordinary share | **90.8** | – |
| – 31 December 2012 of 16.5 pence per ordinary share | **–** | 82.4 |
| Interim dividend for the year ended: | | |
| – 31 December 2014 of 8.1 pence per ordinary share | **40.4** | – |
| – 31 December 2013 of 7.8 pence per ordinary share | **–** | 38.9 |
| – 31 December 2012 of Amlin Plus Limited to non-controlling interests of 12.0 pence per ordinary share | **–** | 0.1 |
| | **131.2** | 121.4 |

A final ordinary dividend of 18.9 pence per ordinary share for 2014, amounting to £94.4 million, payable in cash, and a special dividend of 15.0 pence per ordinary share, amounting to £74.9 million, payable in cash, were agreed by the Board on 27 February 2015, subject to shareholder approval at the AGM on 21 May 2015, and have not been included as a liability as at 31 December 2014.

### 11. Earnings per share

Basic and diluted earnings per share are as follows:

| | **2014** | 2013 |
|---|---|---|
| Profit attributable to owners of the Parent Company | **£236.5m** | £298.7m |
| Weighted average number of shares in issue | **498.9m** | 498.1m |
| Dilutive shares | **8.6m** | 7.1m |
| Adjusted average number of shares in issue | **507.5m** | 505.2m |
| Basic earnings per share | **47.4p** | 60.0p |
| Diluted earnings per share | **46.6p** | 59.1p |

## 12. Financial assets and liabilities

### a) Cash and cash equivalents

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash in hand | **168.7** | 125.8 |
| Short-term deposits | **36.1** | 38.7 |
| | **204.8** | 164.5 |

Cash and cash equivalents represent cash at bank and in hand, short-term bank deposits and other short-term highly liquid investments that are subject to insignificant risk of changes in fair value.

### b) Net financial investments

| | At valuation 2014 £m | At valuation 2013 £m | At cost 2014 £m | At cost 2013 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets held for trading at fair value through profit or loss** | | | | |
| Shares and other variable yield securities | **652.4** | 515.9 | **562.8** | 452.4 |
| Debt and other fixed income securities | **2,978.5** | 3,128.2 | **2,853.6** | 3,069.6 |
| Property funds | **255.5** | 181.0 | **258.8** | 185.7 |
| Derivative instruments | **32.5** | 18.9 | **–** | 0.6 |
| **Other financial assets at fair value through profit or loss** | | | | |
| Participation in investment pools | **280.6** | 379.2 | **280.6** | 379.2 |
| Deposits with credit institutions | **176.7** | 119.4 | **176.7** | 119.4 |
| Other | **1.4** | 2.6 | **1.4** | 1.1 |
| **Available-for-sale financial assets** | | | | |
| Unlisted equities | **6.6** | 6.7 | **6.7** | 6.7 |
| **Other** | | | | |
| Derivative instruments in designated hedge accounting relationships | **6.1** | 16.9 | **–** | – |
| **Total financial assets** | **4,390.3** | 4,368.8 | **4,140.6** | 4,214.7 |
| **Liabilities** | | | | |
| **Financial liabilities held for trading at fair value through profit or loss** | | | | |
| Derivative instruments | **(21.6)** | (4.7) | **–** | (0.6) |
| **Other** | | | | |
| Derivative instruments in designated hedge accounting relationships | **(7.0)** | – | **–** | – |
| **Total financial liabilities** | **(28.6)** | (4.7) | **–** | (0.6) |
| **Net financial assets** | **4,361.7** | 4,364.1 | **4,140.6** | 4,214.1 |

Debt and other fixed income securities include pooled funds, investing in bonds and other fixed income securities. The valuation of these funds is £1,871.4 million (2013: £1,820.8 million). Participation in investment pools includes units held in money market funds.

The Group holds hedging and non-hedging derivatives. Hedging derivatives are designated at inception and qualify for hedge accounting under IAS 39. Non-hedging derivatives either do not qualify for hedge accounting or the option to hedge account has not been taken.

The reconciliation of opening and closing net financial investments is as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 January | **4,364.1** | 4,199.3 |
| Foreign exchange gains/(losses) | **8.9** | (28.9) |
| Net (sales)/purchases | **(71.5)** | 92.1 |
| Net realised gains on assets held for trading or other than trading | **54.5** | 81.2 |
| Net unrealised gains on assets held for trading or other than trading | **1.9** | 15.3 |
| Net unrealised losses on assets designated as available-for-sale | **(0.1)** | – |
| Acquisition through business combination | **–** | 0.1 |
| Net realised and unrealised gains on derivative instruments in designated hedge accounting relationships | **3.9** | 5.0 |
| **At 31 December** | **4,361.7** | 4,364.1 |

### 12. Financial assets and liabilities continued

c) Other loans and receivables

| | 2014 £m | 2013 £m |
|---|---|---|
| Other receivables | **50.5** | 63.8 |
| Prepayments and other accrued income | **35.0** | 24.6 |
| | **85.5** | 88.4 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **84.4** | 84.7 |
| Non-current portion | **1.1** | 3.7 |
| | **85.5** | 88.4 |

Other receivables comprise principally of amounts receivable from investment managers for financial investments sold, input VAT and other sundry receivables.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

d) Other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Accrued expenses and deferred income | **112.5** | 92.7 |
| Other liabilities | **56.5** | 36.2 |
| Social security and other tax payables | **9.6** | 8.6 |
| | **178.6** | 137.5 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **155.4** | 122.2 |
| Non-current portion | **23.2** | 15.3 |
| | **178.6** | 137.5 |

Other liabilities comprise principally of amounts payable to investment managers for financial investments purchased, collateral repayable on derivative contracts and other sundry payables.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

### e) Borrowings

| | 2014 £m | 2013 £m |
|---|---|---|
| Subordinated debt | **261.5** | 289.5 |
| Revolving credit facility | **–** | 101.4 |
| Other | **0.6** | 0.7 |
| | **262.1** | 391.6 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **32.2** | 101.6 |
| Non-current portion | **229.9** | 290.0 |
| | **262.1** | 391.6 |

Details of the Group's two subordinated debts issued by Amlin plc are as follows:

| Issue date | Principal amount | Reset date | Maturity date | Interest rate to reset date % | Interest rate from reset date to maturity date % |
|---|---|---|---|---|---|
| 15 March 2005 | US$50m | March 2015 | March 2020 | 7.28 | LIBOR + 3.32 |
| 25 April 2006 | £230m | December 2016 | December 2026 | 6.50 | LIBOR + 2.66 |

The Group has the option to redeem the subordinated debt in whole, subject to certain requirements, on the reset dates or any interest payment date thereafter at the principal amount plus any outstanding accrued interest. The Group has contractually agreed to redeem the US$50.0 million subordinated debt in March 2015.

The Directors' estimation of the fair value of the Group's subordinated debt is £287.0 million (2013: £326.0 million) and £nil million (2013: £98.3 million) for the revolving credit facility. The aggregate fair values are based on a discounted cash flow model. This model uses a current yield curve appropriate for the remaining terms to maturity. The discount rate used was 1.2% (2013: 1.9%).

The Company and certain of its subsidiaries have a debt facility with its banks which is available until August 2017 and provides an unsecured £300.0 million multicurrency revolving credit facility available by way of cash advances and a secured US$200.0 million letter of credit (LOC). The facility is guaranteed by the Company's subsidiaries Amlin Corporate Services Ltd and Amlin (Overseas Holdings) Ltd. The secured LOC is secured by a fixed charge over a portfolio of assets managed by Insight Investment Management (Global) Ltd with State Street Bank and Trust Company as custodian. As at 31 December 2014, the revolving credit facility was not drawn down (2013: £101.4 million).

In addition to the £100.0 million net repayment of the multicurrency revolving credit facility during the year, a redemption of $50.0 million (£31.8 million) in subordinated debt was made in November 2014.

Amlin AG has a LOC facility US$280.0 million (2013: US$280.0 million). The facility is secured by a registered charge over a portfolio of assets managed by Aberdeen Asset Management Inc. with State Street Bank and Trust Company as custodian. One further LOC is arranged for NZ$75.0 million (2013: NZ$41.5 million; AU$16.2 million) and is secured by time deposits. As at 31 December 2014, US$216.9 million of LOC were issued (2013: US$268.0 million). The total value of restricted assets as at 31 December 2014 was US$226.0 million (2013: US$286.8 million).

Amlin Europe N.V. has a credit facility with ABN AMRO N.V. as arranger. The facility provides a daily revocable overdraft of up to €5.0 million (2013: €5.0 million), a guarantee facility to a third party of up to €10.0 million (2013: €10.0 million) and a guarantee/standby LOC for up to the Euro equivalent of £22.5 million (2013: £22.5 million).

At 31 December 2014, €40.1 million of guarantees were issued (2013: €25.1 million); €17.8 million (2013: €4.3 million) from the guarantee facility and €22.3 million (2013: €20.8 million) from the guarantee/standby LOC. There are no restricted assets to secure the facility. The amount drawn on the guarantee facility exceeded the facility granted. However, this was in agreement with the lender and a new facility limit for €30.0 million (replacing the previous facility of €10.0 million) was signed on 6 February 2015.

### 12. Financial assets and liabilities continued

f) Fair value hierarchy

*i) Fair value methodology*

For financial instruments carried at fair value the Group has categorised the measurement basis into a fair value hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide readily and regularly available quoted prices.

Level 2 – Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs to a valuation model for the asset or liability that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

There were no changes to the valuation techniques during the year.

Shares and other variable yield securities

Listed equities traded on a primary exchange in an active market are classified as Level 1.

Available-for-sale unlisted equities represent the Group's investments in broker businesses and do not have a quoted price in an active market. As such they are valued using a discounted cash flow of future income method adjusted for management expectation of market exit prices which is largely unobservable. Hence, they have been included in Level 3 with fair value movements being recognised in other comprehensive income.

Debt and other fixed income securities

The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Level 1. This is typically the case for government bonds. Level 1 also includes bond funds, where fair value is based upon quoted prices. Where the market is inactive or the price is adjusted, but significant market observable inputs have been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency debt, corporate debt, mortgage and asset-backed securities and catastrophe bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Level 3.

Property funds

The Group's property fund portfolios are valued using the most recent net asset value provided by the fund managers. The net asset values, which may be a quarter in arrears, are determined by the fund managers using proprietary cash flow models. In such cases, adjustments may be made to bring the net asset value to a more current valuation. The inputs into that valuation, such as discount rates, are primarily unobservable and, as such, these assets are classified as Level 3. Where an investment is made into a new property fund the transaction price is considered to be the fair value if it is the most recent price available.

Participation in investment pools

These are units held in money market funds and the value is based upon unadjusted, quoted and executable prices provided by the fund manager and these are classified as Level 1.

Derivatives

Listed derivative contracts, such as futures, that are actively traded are valued using quoted prices from the relevant exchange and are classified as Level 1. Over the counter currency options are valued by the counterparty using quantitative models with multiple market inputs such as foreign exchange rate volatility. The market inputs are observable and the valuation can be validated through external sources. These are classified as Level 2. The Group's risk transfer contracts with Tramline Re Ltd and Tramline Re II Ltd have been classified as derivative instruments. The valuation of these instruments is based on forecast cash flow models which contain principally unobservable market inputs, and as such are classified as Level 3.

In 2013, the options relating to Leadenhall Capital Partners LLP, which allowed either the Group or partnership management to purchase the remaining shares and voting rights, were also classified as Level 3. These options expired during 2014. The valuation of these options was judgemental as no liquid market existed and estimation of future cash flows was highly subjective. Therefore both a forecast cash flow model and limited observable market data were used in 2013.

*ii) Net financial investments by fair value grouping*

| | Fair value hierarchy | | | | Fair value hierarchy | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total 2014 £m** | Level 1 £m | Level 2 £m | Level 3 £m | Total 2013 £m |
| **Assets** | | | | | | | | |
| **Financial assets held for trading at fair value through profit or loss** | | | | | | | | |
| Shares and other variable yield securities[1] | **652.4** | **–** | **–** | **652.4** | 515.9 | – | – | 515.9 |
| Debt and other fixed income securities[2] | **2,722.1** | **256.4** | **–** | **2,978.5** | 2,602.6 | 525.6 | – | 3,128.2 |
| Property funds | **–** | **–** | **255.5** | **255.5** | – | – | 181.0 | 181.0 |
| Derivative instruments | **–** | **32.5** | **–** | **32.5** | – | 18.9 | – | 18.9 |
| **Other financial assets at fair value through profit or loss** | | | | | | | | |
| Participation in investment pools | **280.6** | **–** | **–** | **280.6** | 379.2 | – | – | 379.2 |
| Deposits with credit institutions | **176.7** | **–** | **–** | **176.7** | 119.4 | – | – | 119.4 |
| Other | **1.3** | **–** | **0.1** | **1.4** | 0.6 | – | 2.0 | 2.6 |
| **Available-for-sale financial assets** | | | | | | | | |
| Unlisted equities | **–** | **–** | **6.6** | **6.6** | – | – | 6.7 | 6.7 |
| **Other** | | | | | | | | |
| Derivative instruments in designated hedge accounting relationships | **–** | **6.1** | **–** | **6.1** | – | 16.9 | – | 16.9 |
| **Total assets** | **3,833.1** | **295.0** | **262.2** | **4,390.3** | 3,617.7 | 561.4 | 189.7 | 4,368.8 |
| **Liabilities** | | | | | | | | |
| **Financial liabilities held for trading at fair value through profit or loss** | | | | | | | | |
| Derivative instruments | **–** | **(21.6)** | **–** | **(21.6)** | – | (4.6) | (0.1) | (4.7) |
| **Other** | | | | | | | | |
| Derivative instruments in designated hedge accounting relationships | **–** | **(7.0)** | **–** | **(7.0)** | – | – | – | – |
| **Total liabilities** | **–** | **(28.6)** | **–** | **(28.6)** | – | (4.6) | (0.1) | (4.7) |
| **Net financial investments** | **3,833.1** | **266.4** | **262.2** | **4,361.7** | 3,617.7 | 556.8 | 189.6 | 4,364.1 |

Notes:

1. Comparative hierarchy information for Shares and other variable yield securities have been represented to exclude accrued income as this is shown separately within Other loans and receivables. The amendments amounted to £0.6 million for the year ending 31 December 2013.
2. Comparative hierarchy information for Debt and other fixed income securities have been represented to exclude accrued income as this is shown separately within Other loans and receivables. The amendments amounted to £5.3 million for the year ending 31 December 2013.

The table above excludes the Group's holdings of cash and cash equivalents of £204.8 million (2013: £164.5 million). These are measured at fair value and are categorised as Level 1.

The table also excludes the Group's borrowings which are not measured at fair value but for which fair value information is provided in note 12(e). These are categorised as Level 3 in the fair value hierarchy.

The table also excludes the Group's loans and receivables and other payables, included in notes 12(c) and 12(d) respectively, which are carried at amounts that approximate to the fair value and are categorised as Level 3 in the fair value hierarchy.

The majority of the Group's investments are valued based on quoted market information or other observable market data. The Group holds 6.0% (2013: 4.3%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

### 12. Financial assets and liabilities continued
f) Fair value hierarchy continued

*iii) Transfers between levels of the fair value hierarchy*

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

There has been no transfer between Levels 1, 2, and 3 during the year or in the comparative reporting year.

The table below analyses the movements in assets and liabilities classified as Level 3 investments during 2014:

| | **Debt and other fixed income securities £m** | **Property funds £m** | **Derivative instruments £m** | **Other £m** | **Unlisted equities £m** | **Total £m** |
|---|---|---|---|---|---|---|
| At 1 January 2014 | **–** | **181.0** | **(0.1)** | **2.0** | **6.7** | **189.6** |
| Total net gains/(losses) recognised in investment return in profit or loss | **–** | **5.4** | **(17.2)** | **(1.2)** | **(0.1)** | **(13.1)** |
| Sales | **–** | **(20.2)** | **–** | **–** | **–** | **(20.2)** |
| Purchases | **–** | **86.8** | **–** | **–** | **–** | **86.8** |
| Settlements | **–** | **(1.5)** | **16.9** | **–** | **–** | **15.4** |
| Foreign exchange gains/(losses) | **–** | **4.0** | **0.4** | **(0.7)** | **–** | **3.7** |
| **At 31 December 2014** | **–** | **255.5** | **–** | **0.1** | **6.6** | **262.2** |
| **Total net unrealised gains for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year** | | | | | | **2.4** |

| | Debt and other fixed income securities £m | Property funds £m | Derivative instruments £m | Other £m | Unlisted equities £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 12.2 | 153.6 | – | 0.6 | 4.7 | 171.1 |
| Total net gains/(losses) recognised in investment return in profit or loss | 0.2 | 4.1 | (17.2) | 1.7 | – | (11.2) |
| Sales | (10.7) | (27.2) | – | – | – | (37.9) |
| Purchases | – | 54.4 | – | – | 2.0 | 56.4 |
| Settlements | (1.5) | (2.6) | 17.1 | (0.2) | – | 12.8 |
| Foreign exchange losses | (0.2) | (1.3) | – | (0.1) | – | (1.6) |
| At 31 December 2013 | – | 181.0 | (0.1) | 2.0 | 6.7 | 189.6 |
| Total net unrealised losses for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year | | | | | | 1.1 |

## g) Financial risk management

The following section describes the Group's investment risk management from a quantitative and qualitative perspective.

The Group has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.

- Capital assets – capital required by the regulators to support the underwriting business plus working capital and surplus funds. Apart from the outstanding borrowings, these assets do not have specific current liabilities attached to them.

### Investment governance

The Group manages its investments in accordance with investment frameworks that are set by the Boards of Amlin plc and its subsidiaries (the Boards). These frameworks determine investment governance and the investment risk tolerance. They are reviewed on a regular basis to ensure that the Boards' fiduciary and regulatory responsibilities are being met. Day-to-day management of the investments is delegated to the Investment Management Executive or members of the relevant subsidiary's executive, who are advised by the Chief Investment Officer.

The Amlin Investment Management Committee comprises the Chief Executive, Chief Finance & Operations Officer and Chief Investment Officer, and meets quarterly to consider whether the strategic asset allocation and tactical asset allocation ranges are appropriate to optimise investment returns within the risk tolerances set by the Boards. Amlin Investments, led by the Chief Investment Officer, is responsible for tactical asset allocation and the appointment of external investment managers and custodians.

### Risk tolerance

Investment risk tolerances are set by the Board of Amlin plc and its subsidiaries. The investment process is driven from the risk tolerance which is determined by reference to factors such as the underwriting cycle and the requirements of the capital providers. In a hard underwriting market capital preservation is paramount in order to support the insurance business and, therefore, the risk tolerance for the capital assets will be low. Conversely, the risk tolerance for the underwriting assets under these circumstances will be relatively high due to the strong cash flow. In a soft underwriting market the opposite applies.

Investment risk is monitored by Amlin Investments using a market-recognised third-party risk model. Risk reporting is generated by Amlin Investments and an independent review conducted by the Amlin Risk function. These reports are then circulated to the Amlin Investment Management Committee, the Executive Underwriting & Risk Committee and the Risk & Solvency Committee.

### Strategic asset allocation

Each of the Group's principal subsidiaries has its own strategic asset allocation which is set according to its risk tolerance and liabilities.

The strategic asset allocations for capital assets are set by using a Value at Risk (VaR[1]) model to determine the optimum asset allocation for the current risk tolerance, which ensures that appropriate solvency levels are maintained.

The expected timescale for future cash flows in each currency is calculated by the Group Actuarial team; the average of these form the basis of our asset liability duration management.

Tactical ranges around these strategic asset allocations provide flexibility to ensure that an appropriate risk/reward balance is maintained in changing investment markets.

### Investment management

Investments are run on a multi-asset, multi-manager basis. Exposure to the asset classes is achieved using physical holdings of the asset class or derivative instruments and may be managed by Amlin Investments or by outsourced managers, on a segregated, pooled or commingled basis[2]. Manager selection is based on a range of criteria that leads to the expectation that they will add value to the funds over the medium to long-term. The managers have discretion to manage the funds on a day-to-day basis within investment guidelines or prospectuses applicable to their funds that ensure that they comply with the investment frameworks. The managers' performance, compliance and risk are monitored on an ongoing basis.

Notes:

1. VaR is a statistical measure which calculates the possible loss over a year in normal market conditions. As VaR estimates are based on historical market data this should not be viewed as an absolute gauge of the level of risk to the investments.
2. Segregated funds are managed separately for the Group. Pooled funds are collective investment vehicles in which the Group and other investors purchase units. Commingled funds combine the assets of several clients.

### 12. Financial assets and liabilities continued

g) Financial risk management continued

The funds under management with each manager are shown below:

| Manager | 31 December 2014 Total assets £m | 31 December 2014 Total % | 31 December 2013 Total assets £m | 31 December 2013 Total % |
|---|---|---|---|---|
| **Segregated funds** | | | | |
| Aberdeen Asset Managers Ltd | **133.2** | **3.0** | 257.6 | 5.8 |
| Artemis Investment Management LLP | **370.4** | **8.3** | 327.3 | 7.4 |
| Barclays Bank plc | **26.3** | **0.6** | 22.6 | 0.5 |
| Bank of Butterfield | **12.9** | **0.3** | 12.0 | 0.3 |
| CBRE Global Collective Investors (UK) Ltd | **134.4** | **3.0** | 85.0 | 1.9 |
| Fiera Capital Corporation (Formerly Union Bank of Switzerland) | **72.3** | **1.6** | – | – |
| Insight Investment Management (Global) Ltd | **112.3** | **2.5** | 228.8 | 5.2 |
| Lloyds Bank plc | **–** | **–** | 14.3 | 0.3 |
| Townsend Group Europe Ltd | **129.3** | **2.9** | 109.7 | 2.5 |
| Veritas Asset Management LLP | **332.2** | **7.5** | 227.3 | 5.1 |
| Wellington Management International Ltd | **361.3** | **8.1** | 407.4 | 9.2 |
| **Pooled vehicles – liquidity funds** | | | | |
| BlackRock Investment Management (UK) Ltd | **126.4** | **2.8** | 102.8 | 2.3 |
| Citibank | **0.4** | **–** | 0.4 | – |
| Goldman Sachs Asset Management International | **3.0** | **0.1** | 2.9 | 0.1 |
| HSBC Global Asset Management (France) | **39.8** | **0.9** | 23.9 | 0.5 |
| JP Morgan Asset Management | **–** | **–** | 120.0 | 2.7 |
| Western Asset Management Company | **–** | **–** | 0.1 | – |
| **Pooled vehicles – bonds and LIBOR plus funds** | | | | |
| Bluebay Asset Management LLP | **342.0** | **7.7** | 330.9 | 7.6 |
| Goldman Sachs Asset Management International | **571.3** | **12.8** | 547.0 | 12.4 |
| H20 AM LLP | **584.3** | **13.2** | 455.4 | 10.3 |
| Insight Investment Management (Global) Ltd | **304.7** | **6.8** | 71.6 | 1.6 |
| PIMCO Global Advisers (Ireland) Ltd | **350.0** | **7.9** | 439.3 | 9.9 |
| Wellington Management International Ltd | **235.5** | **5.3** | 369.8 | 8.4 |
| **Pooled vehicles – insurance linked securities** | | | | |
| Leadenhall Capital Partners LLP | **63.7** | **1.4** | 62.2 | 1.4 |
| **Commingled funds** | | | | |
| Corporation of Lloyd's Treasury Services | **111.6** | **2.5** | 140.6 | 3.2 |
| Fiera Capital Corporation (formerly Union Bank of Switzerland) | **37.1** | **0.8** | 60.8 | 1.4 |
| | **4,454.4** | **100.0** | 4,419.7 | 100.0 |

Note:
The table above excludes the Group's directly held securities of £14.4 million (2013: £29.4 million) comprising insurance linked securities £0.7 million (2013: £5.0 million), unlisted equities £5.9 million (2013: £6.0 million) and other liquid investments £7.8 million (2013: £18.4 million). The table also excludes £3.1 million unrealised losses (2013: £10.6 million unrealised gains) accruing to a series of foreign exchange contracts placed on behalf of the Group to hedge portfolio currency exposures.

### Asset allocation

The total value of investments in the following tables is reconciled to note 12(b), financial assets and financial liabilities, as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Net financial investments per note 12(b) | **4,361.7** | 4,364.1 |
| Assets/(liabilities) shown separately in the notes to the financial statements: | | |
| Accrued income | **6.3** | 5.9 |
| Net unsettled (payables)/receivables for investments (purchased)/sold | **(7.1)** | 32.0 |
| Cash funds held by financial institutions | **112.2** | 59.1 |
| Assets not analysed in the investment asset allocation tables: | | |
| Liquid investments | **(2.2)** | (3.2) |
| Unlisted equities | **(0.7)** | (0.7) |
| Margin and collateral relating to derivative instruments | **(4.5)** | 2.5 |
| Total investments in asset allocation tables below | **4,465.7** | 4,459.7 |

The asset allocation of the Group's investments is set out below.

| | **31 December 2014** | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Underwriting assets £m** | **Capital assets £m** | **Total assets £m** | **Total %** | Underwriting assets £m | Capital assets £m | Total assets £m | Total % |
| **Global equities** | **4.0** | **654.7** | **658.7** | **14.8** | – | 522.4 | 522.4 | 11.7 |
| **Bonds** | | | | | | | | |
| Government securities | **667.6** | **20.6** | **688.2** | **15.4** | 639.1 | 25.7 | 664.8 | 14.9 |
| Government agencies/guaranteed bonds | **27.4** | **–** | **27.4** | **0.6** | 45.6 | – | 45.6 | 1.1 |
| Asset-backed securities | **8.9** | **–** | **8.9** | **0.2** | 90.2 | – | 90.2 | 2.0 |
| Mortgage-backed securities – Prime | **56.5** | **–** | **56.5** | **1.3** | 101.1 | – | 101.1 | 2.3 |
| Corporate bonds | **105.0** | **–** | **105.0** | **2.3** | 226.3 | – | 226.3 | 5.1 |
| Pooled vehicles | **1,273.7** | **597.7** | **1,871.4** | **41.9** | 1,114.4 | 706.4 | 1,820.8 | 40.7 |
| Insurance linked securities | **0.7** | **–** | **0.7** | **–** | 5.0 | – | 5.0 | 0.1 |
| | **2,139.8** | **618.3** | **2,758.1** | **61.7** | 2,221.7 | 732.1 | 2,953.8 | 66.2 |
| **Property funds** | **–** | **255.5** | **255.5** | **5.7** | – | 181.0 | 181.0 | 4.1 |
| **Other liquid investments** | | | | | | | | |
| Liquidity funds and other liquid investments | **592.4** | **201.0** | **793.4** | **17.8** | 499.0 | 303.5 | 802.5 | 18.0 |
| | **2,736.2** | **1,729.5** | **4,465.7** | **100.0** | 2,720.7 | 1,739.0 | 4,459.7 | 100.0 |

Pooled vehicles held are represented by 33.4% government/agency bonds (2013: 23.4%), 39.3% corporate bonds (2013: 26.0%), 10.4% mortgage backed and asset backed securities (2013: 19.9%), 3.4% insurance linked securities (2013: 3.5%) and 13.5% other liquid investments (2013: 27.2%).

### 12. Financial assets and liabilities continued

g) Financial risk management continued

The industry and geographical splits were as follows:

| Industry | 31 December 2014 Corporate bonds % | 31 December 2014 Global equities % | 31 December 2014 Total % | 31 December 2013 Corporate bonds % | 31 December 2013 Global equities % | 31 December 2013 Total % |
|---|---|---|---|---|---|---|
| Oil & gas | **4.1** | **2.7** | **2.9** | 7.6 | 7.8 | 7.7 |
| Basic materials | **0.9** | **4.1** | **3.7** | 1.0 | 2.7 | 2.2 |
| Industrials | **3.6** | **14.1** | **12.6** | 8.6 | 13.4 | 12.0 |
| Consumer goods & services | **10.8** | **18.0** | **17.0** | 10.4 | 22.0 | 18.4 |
| Healthcare | **0.4** | **23.1** | **20.0** | 6.9 | 18.7 | 15.1 |
| Government guaranteed | **1.1** | **–** | **0.1** | 0.2 | – | 0.1 |
| Telecommunications | **3.0** | **8.6** | **7.8** | 5.2 | 9.2 | 8.0 |
| Utilities | **3.0** | **1.0** | **1.2** | 5.4 | 1.1 | 2.4 |
| Financials | **71.0** | **18.7** | **26.0** | 50.5 | 12.3 | 23.9 |
| Technology | **2.1** | **9.7** | **8.7** | 4.2 | 12.8 | 10.2 |
| | **100.0** | **100.0** | **100.0** | 100.0 | 100.0 | 100.0 |

Note:
The table above excludes government bonds and pooled vehicles but includes £1.2 million (2013: £1.2 million) of corporate bonds with government guarantees.

| Region | 31 December 2014 Bonds % | 31 December 2014 Global equities % | 31 December 2014 Total % | 31 December 2013 Bonds % | 31 December 2013 Global equities % | 31 December 2013 Total % |
|---|---|---|---|---|---|---|
| UK | **2.0** | **10.7** | **5.7** | 1.5 | 13.6 | 5.4 |
| US and Canada | **68.3** | **50.2** | **60.6** | 61.6 | 45.0 | 56.4 |
| Europe (excluding UK) | **23.5** | **17.6** | **21.0** | 27.9 | 19.3 | 25.1 |
| Far East | **5.6** | **18.0** | **10.9** | 6.8 | 17.0 | 10.0 |
| Emerging markets | **0.6** | **3.5** | **1.8** | 2.2 | 5.1 | 3.1 |
| | **100.0** | **100.0** | **100.0** | 100.0 | 100.0 | 100.0 |

Note:
The table above includes all bond and equity investments, but excludes pooled vehicles.

h) Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described in note 9(c).

*Valuation risk*

Where possible, Group assets are marked to market at bid price. Prices are supplied by the Group's custodians whose pricing processes are covered by their published annual controls reports. In accordance with their pricing policies, prices are sourced from market recognised pricing vendor sources. These pricing sources use closing trades or, where more appropriate in illiquid markets, pricing models. These models typically use broker quotes or other independent valuation techniques such as discounted cash flow models using observable or unobservable market inputs.

The Group has an established control framework with respect to fair value measurement which ensures the valuation of financial assets and financial liabilities meets the requirements of IFRS. As part of this process, the Group reviews the valuation policies of its custodians along with the evidence provided by the custodians to support fair value measurement. The prices are also reconciled to the fund managers' records to check for reasonableness.

As an additional level of governance over pricing, the Group validates the prices provided by pricing vendor sources against information obtained from Bloomberg where available. A review of stale prices was also conducted at 31 December 2014, though the impact of stale prices on the Group's investment valuation is considered immaterial. Further details of the fair value measurement of financial assets and financial liabilities are included in note 12(f).

The valuation of investments is sensitive to equity risk. The impact on profit before tax of a 1% improvement/deterioration in the total market value of shares and other variable yield securities would be a £6.6 million gain/loss (2013: £5.2 million). Sensitivities in relation to other risks are considered in the following pages and 9(c).

*Interest rate risk*
Investors' expectations for interest rates will impact bond yields[1]. Therefore, the value of the Group's bond holdings is subject to fluctuation as bond yields rise and fall. If yields fall the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration[2]. The greater the duration of a security, the greater its possible price volatility. Typically, the longer the maturity of a bond the greater its duration. The maturity bands of the Group's bond holdings as at 31 December 2014 are shown below.

| | **31 December 2014** | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Underwriting assets £m** | **Capital assets £m** | **Total £m** | Underwriting assets £m | Capital assets £m | Total £m |
| Less than 1 year | **60.4** | **0.9** | **61.3** | 106.5 | 11.4 | 117.9 |
| 1-2 years | **238.0** | **–** | **238.0** | 309.9 | 1.4 | 311.3 |
| 2-3 years | **227.3** | **–** | **227.3** | 302.7 | 1.9 | 304.6 |
| 3-4 years | **95.3** | **2.7** | **98.0** | 134.5 | 1.0 | 135.5 |
| 4-5 years | **83.6** | **–** | **83.6** | 75.6 | – | 75.6 |
| Over 5 years | **161.5** | **17.0** | **178.5** | 178.1 | 10.0 | 188.1 |
| | **866.1** | **20.6** | **886.7** | 1,107.3 | 25.7 | 1,133.0 |

Note:
The table above excludes pooled vehicles of £1,871.4 million (2013: £1,820.8 million).

The duration of underwriting assets is set with reference to the duration of the underlying liabilities. It should be noted that the liabilities are not currently discounted and therefore their value is not impacted by interest rate movements. Cash is raised, or the duration of the portfolio reduced, if it is believed that yields may rise and therefore capital values will fall.

The average durations of the bond and cash portfolios for the underwriting assets and associated insurance liabilities as at 31 December 2014 were as follows:

| | **31 December 2014** | | 31 December 2013 | |
|---|---|---|---|---|
| **Underwriting assets/liabilities** | **Assets Years** | **Liabilities Years** | Assets Years | Liabilities Years |
| Sterling | **0.5** | **4.1** | (0.3) | 4.1 |
| US dollar | **0.1** | **2.5** | 0.7 | 2.5 |
| Euro | **0.1** | **3.4** | 0.2 | 3.4 |
| Canadian dollar | **1.0** | **4.0** | 1.0 | 4.0 |

Note:
The table above includes pooled vehicles.

The asset durations above are calculated by the custodian and are checked against those reported by the fund managers. Liabilities durations are calculated by the Group Actuarial team.

An indication of the potential sensitivity of the value of the bond and cash funds to changes in yield is shown below.

| | **Syndicate 2001** | | | | | | | **Amlin AG** | | **Amlin Europe N.V.** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Shift in yield (basis points)** | **U/wtg Sterling %** | **U/wtg US$ %** | **U/wtg CAN$ %** | **U/wtg Euro %** | **U/wtg NZ$ %** | **U/wtg JPY %** | **Capital Sterling %** | **U/wtg %** | **Capital %** | **U/wtg %** | **Capital %** | **Net (reduction)/ increase in value £m** |
| 100 | **(0.9)** | **(2.0)** | **(0.7)** | **(0.9)** | **1.4** | **1.4** | **(0.2)** | **(0.4)** | **(0.4)** | **(0.3)** | **0.1** | **(24)** |
| 75 | **(0.7)** | **(1.5)** | **(0.5)** | **(0.7)** | **1.0** | **1.1** | **(0.1)** | **(0.3)** | **(0.3)** | **(0.2)** | **0.1** | **(18)** |
| 50 | **(0.5)** | **(1.1)** | **(0.3)** | **(0.4)** | **0.7** | **0.7** | **(0.1)** | **(0.2)** | **(0.2)** | **(0.2)** | **–** | **(12)** |
| 25 | **(0.2)** | **(0.6)** | **(0.2)** | **(0.2)** | **0.3** | **0.4** | **(0.1)** | **(0.1)** | **(0.1)** | **(0.1)** | **–** | **(6)** |
| – 25 | **0.2** | **0.5** | **0.2** | **0.2** | **(0.4)** | **(0.4)** | **0.1** | **0.1** | **0.1** | **0.1** | **–** | **5** |
| – 50 | **0.3** | **0.9** | **0.3** | **0.5** | **(0.7)** | **(0.7)** | **0.1** | **0.2** | **0.2** | **0.1** | **–** | **11** |
| – 75 | **0.5** | **1.4** | **0.5** | **0.7** | **(1.1)** | **(1.1)** | **0.2** | **0.3** | **0.3** | **0.2** | **(0.1)** | **16** |
| – 100 | **0.7** | **1.9** | **0.7** | **0.9** | **(1.4)** | **(1.4)** | **0.2** | **0.3** | **0.4** | **0.3** | **(0.1)** | **22** |

Note:
The table above includes pooled vehicles.

Notes:
1. The yield is the rate of return paid if a security is held to maturity. The calculation is based on the coupon rate, length of time to maturity and the market price. It assumes coupon interest paid over the life of the security is reinvested at the same rate.
2. The duration is the weighted average maturity of the security's expected cash flows, where the present values of the cash flows serve as the weights.

### 12. Financial assets and liabilities continued

h) Market risk continued

*Liquidity risk*

It is important that the Group's entities can pay their obligations as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of the Group's assets, which may result in realising prices below fair value, especially in periods of below normal investment market liquidity.

The Group funds its insurance liabilities with a portfolio of cash and debt securities exposed to market risk. The following table indicates the contractual timing of cash flows arising from assets and liabilities for management of insurance contracts at 31 December 2014:

| | Contractual cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2014 Financial assets** | **No stated maturity £m** | **0-1 yr £m** | **1-3 yrs £m** | **3-5 yrs £m** | **>5 yrs £m** | **Carrying amount £m** |
| Shares and other variable yield securities | **658.2** | **0.5** | **–** | **–** | **–** | **658.7** |
| Debt and other fixed income securities | **1,871.4** | **144.8** | **396.0** | **235.7** | **203.8** | **2,758.1** |
| Property funds | **255.5** | **–** | **–** | **–** | **–** | **255.5** |
| Liquidity funds and other liquid investments | **784.5** | **–** | **–** | **–** | **–** | **784.5** |
| Derivative financial instruments, net | **(1.3)** | **10.2** | **–** | **–** | **–** | **8.9** |
| **Total** | **3,568.3** | **155.5** | **396.0** | **235.7** | **203.8** | **4,465.7** |

| | Expected cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|
| **Insurance liabilities** | **No stated maturity £m** | **0-1 yr £m** | **1-3 yrs £m** | **3-5 yrs £m** | **>5 yrs £m** | **Carrying amount £m** |
| Outstanding claims | **0.1** | **1,109.1** | **1,019.9** | **388.6** | **424.9** | **2,928.2** |
| Less reinsurers' share of outstanding claims | **–** | **(117.3)** | **(109.8)** | **(42.4)** | **(38.6)** | **(305.9)** |
| **Total** | **0.1** | **991.8** | **910.1** | **346.2** | **386.3** | **2,622.3** |
| **Difference in contractual cash flows** | **3,568.2** | **(836.3)** | **(514.1)** | **(110.5)** | **(182.5)** | **1,843.4** |

Note:
Debt and other fixed income securities include pooled vehicles of £1,871.4 million (2013: £1,820.8 million) which have no stated maturity.

| | Contractual cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2013 Financial assets | No stated maturity £m | 0-1 yr £m | 1-3 yrs £m | 3-5 yrs £m | >5 yrs £m | Carrying amount £m |
| Shares and other variable yield securities | 521.9 | 0.5 | – | – | – | 522.4 |
| Debt and other fixed income securities | 1,820.8 | 218.2 | 563.0 | 255.1 | 193.9 | 2,953.8 |
| Property funds | 181.0 | – | – | – | – | 181.0 |
| Liquidity funds and other liquid investments | 769.1 | – | – | – | – | 769.1 |
| Derivative financial instruments, net | 12.8 | 20.6 | – | – | – | 33.4 |
| Total | 3,305.6 | 239.3 | 563.0 | 255.1 | 193.9 | 4,459.7 |

| | Expected cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|
| Insurance liabilities | No stated maturity £m | 0-1 yr £m | 1-3 yrs £m | 3-5 yrs £m | >5 yrs £m | Carrying amount £m |
| Outstanding claims | – | 1,083.8 | 980.4 | 381.3 | 463.9 | 2,897.1 |
| Less reinsurers' share of outstanding claims | – | (141.8) | (100.3) | (45.7) | (57.4) | (343.1) |
| Total | – | 942.0 | 880.1 | 335.6 | 406.5 | 2,554.0 |
| Difference in contractual cash flows | 3,305.6 | (702.7) | (317.1) | (80.5) | (212.6) | 1,905.7 |

Liquidity, in the event of a major disaster, is tested regularly using internal cash flow forecasts and realistic disaster scenarios. Liquidity is supported by pre-arranged revolving credit facilities as detailed in note 12(e). If a major insurance event occurs the investment strategy is reviewed to ensure that sufficient liquidity is also available in the assets.

A breakdown of the current and non-current portions of the other non-derivative financial liabilities is available in notes 12(d), 12(e) and 13(f).

*Credit risk*
Credit risk is the risk that the Group becomes exposed to losses if a specific counterparty fails to perform its contractual obligations in a timely manner, impacting the Group's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Group's credit risk is mitigated by the collateral received from counterparties, details of which are given in note 12(j). The Group is exposed to credit risk in its investment portfolio and with its premium and reinsurance receivables. The table below shows the breakdown at 31 December 2014 of the exposure of the bond portfolio, liquidity funds and insurance and reinsurance receivables by credit quality[1].

| **31 December 2014** | **Debt securities £m** | **%** | **Liquidity funds £m** | **%** | **Insurance and reinsurance receivables[2] £m** | **%** | **Reinsurers' share of outstanding claims £m** | **%** |
|---|---|---|---|---|---|---|---|---|
| AAA | **582.3** | **21.1** | **272.0** | **100.0** | **–** | **–** | **1.9** | **0.6** |
| AA | **778.5** | **28.3** | **–** | **–** | **26.0** | **2.5** | **103.2** | **33.8** |
| A | **1,161.6** | **42.1** | **–** | **–** | **41.5** | **4.0** | **174.1** | **56.9** |
| BBB | **111.2** | **4.0** | **–** | **–** | **–** | **–** | **0.7** | **0.2** |
| Other | **124.5** | **4.5** | **–** | **–** | **979.4** | **93.5** | **26.0** | **8.5** |
| | **2,758.1** | **100.0** | **272.0** | **100.0** | **1,046.9** | **100.0** | **305.9** | **100.0** |

| 31 December 2013 | Debt securities £m | % | Liquidity funds £m | % | Insurance and reinsurance receivables £m | % | Reinsurers' share of outstanding claims £m | % |
|---|---|---|---|---|---|---|---|---|
| AAA | 811.5 | 27.5 | 365.2 | 100.0 | 16.2 | 1.6 | 7.5 | 2.2 |
| AA | 959.5 | 32.5 | – | – | 18.2 | 1.8 | 104.5 | 30.5 |
| A | 955.8 | 32.4 | – | – | 82.9 | 8.2 | 188.2 | 54.8 |
| BBB | 152.2 | 5.1 | – | – | 0.9 | 0.1 | 1.5 | 0.4 |
| Other | 74.8 | 2.5 | – | – | 895.6 | 88.3 | 41.4 | 12.1 |
| | 2,953.8 | 100.0 | 365.2 | 100.0 | 1,013.8 | 100.0 | 343.1 | 100.0 |

Notes:
1. Credit ratings on debt securities are State Street composite ratings based on Standard & Poor's, Moody's and Fitch, depending on which agency/agencies rate each bond.
2. Insurance and reinsurance receivables includes £748.2 million (2013: £580.7 million) of premium receivable from policyholders and £231.2 million (2013: £314.9 million) of premium receivable from intermediaries that are not rated.

*i)* Insurance and reinsurance
The table above includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts. Premium credit risk is managed through a number of controls that include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Also included are reinsurance receivables, which represent the amounts due at 31 December 2014, as well as amounts expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Group's Reinsurance Security Committee prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the Group's own ratings for each reinsurer and Standard & Poor's ratings. The Group holds collateral from certain reinsurers including those that are non-rated as security against potential default. The details of reinsurance collaterals held and placed with third party trust funds are provided in note 12(j). At 31 December 2014, the Group held collateral of £476.8 million (2013: £436.0 million). Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The impact on profit before tax of a 1% variation in the reinsurance assets would be £3.5 million (2013: £3.9 million). The details of overdue reinsurance assets and insurance receivables are provided in notes 13(a) and 13(e).

*ii)* Investments
As well as failure of a counterparty to perform its contractual obligations, the price of government and corporate bond holdings will be affected by investors' perception of a borrower's creditworthiness. Credit risk within the investment funds is managed through restrictions on the exposures by credit rating, as determined by the rating agencies, and by holding diversified portfolios. No bonds held at 31 December 2014 were subject to downgrades during the year (2013: £0.6 million).

The Group's largest non-government counterparty as at 31 December 2014 has an A rating. The investment held with this counterparty is valued at £98.2 million (2013: £72.3million) at 31 December 2014 and comprises solely liquid funds.

### 12. Financial assets and liabilities continued

i) Offsetting financial assets and financial liabilities

The Group's derivative transactions with respect to over-the-counter options and currency forwards are subject to International Swaps and Derivatives Association (ISDA) master netting agreements. Transactions under such agreements meet the criteria for offsetting in the Group's consolidated statement of financial position. The Group also receives and pledges collateral in the form of cash in respect of the derivative transactions. The fair value of the Group's options and currency forwards are not offset by such collaterals as they create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties.

The Group's listed futures are transacted under Global Principal Clearing agreements and are not subject to offsetting in the consolidated statement of financial position. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and the liabilities simultaneously.

The disclosure provided in the tables below include derivatives that are set off in the Group's consolidated statement of financial position.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

| | | | | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| **31 December 2014** | **Gross amounts of recognised financial assets £m** | **Gross amounts of recognised financial liabilities set off in the statement of financial position £m** | **Net amounts of financial assets presented in the statement of financial position £m** | **Financial instruments £m** | **Cash collateral received £m** | **Net amount £m** |
| Derivative instruments held for trading | **1,575.2** | **(1,542.7)** | **32.5** | **–** | **(19.9)** | **12.6** |
| Derivative instruments in designated hedge accounting relationships | **78.4** | **(72.3)** | **6.1** | **–** | **(2.1)** | **4.0** |
| | **1,653.6** | **(1,615.0)** | **38.6** | **–** | **(22.0)** | **16.6** |

| | | | | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| 31 December 2013 | Gross amounts of recognised financial assets £m | Gross amounts of recognised financial liabilities set off in the statement of financial position £m | Net amounts of financial assets presented in the statement of financial position £m | Financial instruments £m | Cash collateral received £m | Net amount £m |
| Derivative instruments held for trading | 1,040.5 | (1,021.6) | 18.9 | (0.2) | (3.7) | 15.0 |
| Derivative instruments in designated hedge accounting relationships | 95.7 | (78.8) | 16.9 | – | (16.2) | 0.7 |
| | 1,136.2 | (1,100.4) | 35.8 | (0.2) | (19.9) | 15.7 |

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

| | | | | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| **31 December 2014** | **Gross amounts of recognised financial liabilities £m** | **Gross amounts of recognised financial assets set off in the statement of financial position £m** | **Net amounts of financial liabilities presented in the statement of financial position £m** | **Financial instruments £m** | **Cash collateral pledged £m** | **Net amount £m** |
| Derivative instruments held for trading | **1,564.3** | **(1,542.7)** | **21.6** | **–** | **(8.4)** | **13.2** |
| Derivative instruments in designated hedge accounting relationships | **79.3** | **(72.3)** | **7.0** | **–** | **(5.0)** | **2.0** |
| | **1,643.6** | **(1,615.0)** | **28.6** | **–** | **(13.4)** | **15.2** |

| | | | | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| 31 December 2013 | Gross amounts of recognised financial liabilities £m | Gross amounts of recognised financial assets set off in the statement of financial position £m | Net amounts of financial liabilities presented in the statement of financial position £m | Financial instruments £m | Cash collateral pledged £m | Net amount £m |
| Derivative instruments held for trading | 1,026.3 | (1,021.6) | 4.7 | (0.2) | (2.4) | 2.1 |
| Derivative instruments in designated hedge accounting relationships | 78.8 | (78.8) | – | – | – | – |
| | 1,105.1 | (1,100.4) | 4.7 | (0.2) | (2.4) | 2.1 |

### j) Restricted funds held/placed by the Group

At 31 December 2014, the Group holds restricted funds in the form of trust fund investments, letter of credit (LOC) collaterals, initial margin calls on derivative financial instruments and collateral received from reinsurance counterparties.

#### Trust funds

Syndicate 2001 holds gross assets of £3,271.3 million (2013: £3,100.5 million), offset by gross liabilities of £2,703.7 million (2013: £2,557.0 million), which are held within individual trust funds. The Group cannot obtain or use these assets until such time as each Syndicate underwriting year is closed and profits are distributed, or an advance profit release is made. The Funds at Lloyd's, as set out in note 2, represent the restricted capital for regulatory purposes. Furthermore, £17.7 million (2013: £15.4 million) of Amlin Singapore Pte Ltd's assets are held within trust funds and restricted from use within the working capital of the Group until settlement has been made to Syndicate 2001.

#### LOC facilities

At 31 December 2014, £145.0 million (2013: £173.1 million) of Amlin Bermuda's assets are restricted for use by the Group. These assets are collateral for the LOC facility drawn at the end of the year. Details are included in note 12(e). At 31 December 2014, Syndicate 2001 recognised £0.7 million (2013: £0.7 million) of cash drawn down from LOC facilities as a liability on the consolidated statement of financial position. This has been received from reinsurance counterparties as a guarantee for business written and is included within total funds held by Syndicate 2001.

#### Derivative margins and collateral

Derivative instruments traded across the Group give rise to collateral being placed with, or received from, external counterparties. At 31 December 2014, included in other receivables and other payables are £8.6 million (2013: £4.7 million) margins and collaterals pledged and £13.0 million (2013: £16.4 million) margins and collaterals held respectively in relation to listed futures margins and over-the-counter options.

#### Collaterals received under reverse repurchase agreements

Collateral assets received under reverse repurchase agreements amounted to £nil (2013: £26.6 million).

#### Reinsurance collateral received

Collateral of £304.3 million (2013: £259.8 million) is held in third party trust funds to guarantee Syndicate 2001 against reinsurance counterparties. Furthermore, collateral of £151.7 million (2013: £137.6 million) and £20.8 million (2013: £38.6 million) is held in third party trust funds as a guarantee against reinsurance counterparties to Amlin Bermuda and Amlin Re Europe respectively. Collateral held in third party trust funds is not recognised as assets pertaining to the Group but is available for immediate drawdown in the event of a default. At 31 December 2014, £0.7 million (2013: £3.5 million) of the funds placed in trust by counterparties of Amlin Bermuda were related to specific reinsurance assets.

#### Insurance collateral placed

Syndicate 2001 holds £367.1 million (2013: £374.6 million) of collateral in a US trust fund to meet US regulatory requirements, which are recognised as an asset to the Group. As part of the quarterly reserving process these funds can be released to match paid claims. Amlin Europe N.V. has £32.7 million (2013: £20.9 million) of bank guarantees in place to cover insurance counterparties.

#### Funds withheld as premium/claim deposits

At 31 December 2014, the Group had net funds of £23.2 million (2013: £46.3 million) placed as claim deposits and net £0.6 million (2013: £nil) premium deposits placed with/receivable from external brokers. Amlin Re Europe and Amlin Bermuda have placed a further £34.0 million (2013: £16.3 million) and £2.5 million (2013: £2.1 million) respectively into pledge accounts to collateralise against losses due to reinsurance cedants.

#### Funds in escrow

At 31 December 2014, the Group holds £14.2 million (2013: £14.1 million) of funds in an escrow account to meet any potential funding requirements of the Lloyd's Superannuation Fund. Further details are provided in note 16(a).

### 13. Insurance liabilities and reinsurance assets

a) Net outstanding claims

| Outstanding claims | Note | 2014 Insurance liabilities £m | 2014 Reinsurers' share £m | 2014 Net liabilities £m | 2013 Insurance liabilities £m | 2013 Reinsurers' share £m | 2013 Net liabilities £m |
|---|---|---|---|---|---|---|---|
| At 1 January | | **2,897.1** | **(343.1)** | **2,554.0** | 3,083.5 | (478.6) | 2,604.9 |
| Claims incurred during the current year | 4(a),5(b) | **1,387.2** | **(74.4)** | **1,312.8** | 1,303.6 | (77.0) | 1,226.6 |
| Movements arising from prior year claims | 4(a),5(b) | **(80.4)** | **(9.2)** | **(89.6)** | (150.5) | 17.0 | (133.5) |
| | | **1,306.8** | **(83.6)** | **1,223.2** | 1,153.1 | (60.0) | 1,093.1 |
| Claims paid during the year | | **(1,288.7)** | **133.3** | **(1,155.4)** | (1,330.2) | 183.5 | (1,146.7) |
| Accretion of fair value adjustment | | **3.8** | **(0.6)** | **3.2** | 4.7 | (0.8) | 3.9 |
| Other movements | | **–** | **–** | **–** | – | (0.5) | (0.5) |
| Exchange adjustments | | **9.2** | **(11.9)** | **(2.7)** | (14.0) | 13.3 | (0.7) |
| **At 31 December** | | **2,928.2** | **(305.9)** | **2,622.3** | 2,897.1 | (343.1) | 2,554.0 |

In connection with the purchase accounting for the acquisition of Amlin Europe N.V., the Group adjusted outstanding claims and related reinsurers' share of outstanding claims to fair value on acquisition. The reduction to the original carrying value of £39.1 million and £6.4 million to outstanding claims and reinsurers' share of outstanding claims respectively is being recognised through a charge to the consolidated statement of profit or loss over the period the claims are settled.

The fair value was based on the present value of the expected cash flows with consideration for the uncertainty inherent in both the timing of, and the ultimate amount of, future payments for losses and receipts of amounts recoverable from reinsurers. The nominal amounts were discounted to their present value using an applicable risk-free discount rate. The carrying value at 31 December 2014 of the reduction was £14.1 million and £2.3 million (2013: £19.2 million and £3.1 million) to outstanding claims and reinsurers' share of outstanding claims respectively.

Further information on the calculation of outstanding claims and the risks associated with them is provided in notes 13(i) and 13(g) respectively.

Outstanding claims are further analysed between notified outstanding claims and claims incurred but not reported below:

| Outstanding claims | 2014 Insurance liabilities £m | 2014 Reinsurers' share £m | 2014 Net liabilities £m | 2013 Insurance liabilities £m | 2013 Reinsurers' share £m | 2013 Net liabilities £m |
|---|---|---|---|---|---|---|
| Notified outstanding claims | **2,068.0** | **(254.9)** | **1,813.1** | 2,125.6 | (291.0) | 1,834.6 |
| Claims incurred but not reported | **860.2** | **(51.0)** | **809.2** | 771.5 | (52.1) | 719.4 |
| | **2,928.2** | **(305.9)** | **2,622.3** | 2,897.1 | (343.1) | 2,554.0 |

The current and non-current portions for outstanding claims are expected to be as follows:

| Outstanding claims | 2014 Insurance liabilities £m | 2014 Reinsurers' share £m | 2014 Net liabilities £m | 2013 Insurance liabilities £m | 2013 Reinsurers' share £m | 2013 Net liabilities £m |
|---|---|---|---|---|---|---|
| Current portion | **1,108.7** | **(118.2)** | **990.5** | 1,082.5 | (141.5) | 941.0 |
| Non-current portion | **1,819.5** | **(187.7)** | **1,631.8** | 1,814.6 | (201.6) | 1,613.0 |
| | **2,928.2** | **(305.9)** | **2,622.3** | 2,897.1 | (343.1) | 2,554.0 |

The total reinsurers' share of outstanding claims is set out in the table below:

| | 2014 £m | 2013 £m |
|---|---|---|
| Reinsurers' share of outstanding claims | **(324.3)** | (359.0) |
| Less provision for impairment of receivables from reinsurers | **18.4** | 15.9 |
| | **(305.9)** | (343.1) |

The Group assesses its reinsurers' share of outstanding claims for impairment on a quarterly basis by reviewing counterparty payment history and credit grades provided by rating agencies. The credit ratings of the Group's reinsurers' share of outstanding claims are shown in note 12(h).

As at 31 December 2014 there were £1.7 million (2013: £nil) reinsurers' share of outstanding claims greater than three months overdue. The Group holds collateral of £26.2 million (2013: £64.6 million) in relation to reinsurers' share of outstanding claims. Details are included in note 12(j).

b) Claims development

The tables below illustrate the development of the estimates of ultimate cumulative claims for the consolidated Group (excluding Amlin Europe), Amlin London, Amlin UK, Amlin Bermuda and Amlin Re Europe after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Tables for Amlin Europe have been constructed on an accident year basis. All tables are prepared on an undiscounted basis and exclude the effect of intra Group reinsurance arrangements. Non-sterling balances have been converted using average 2014 exchange rates to aid comparability.

### Group (excluding Amlin Europe)

| **Gross basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Current ultimate gross written premium | 1,098.9 | 1,255.7 | 1,200.4 | 1,176.1 | 1,351.1 | 1,448.6 | 1,714.5 | 1,910.7 | 2,057.9 | **2,229.4** |
| Current gross earned premium | 1,098.9 | 1,255.7 | 1,200.4 | 1,176.1 | 1,351.1 | 1,448.6 | 1,708.6 | 1,908.0 | 1,977.8 | **1,205.2** |
| Estimate of cumulative claims at end of underwriting year | 1,007.8 | 604.8 | 635.6 | 890.5 | 682.5 | 883.4 | 1,157.6 | 1,085.9 | 1,122.4 | **1,236.3** |
| One year later | 1,043.3 | 498.9 | 558.5 | 752.2 | 649.6 | 1,233.2 | 1,079.0 | 949.4 | 1,066.4 | |
| Two years later | 1,008.5 | 475.9 | 510.6 | 721.9 | 612.6 | 1,211.9 | 1,028.2 | 918.5 | | |
| Three years later | 974.7 | 450.3 | 496.0 | 715.1 | 604.0 | 1,212.9 | 1,049.1 | | | |
| Four years later | 957.8 | 439.1 | 484.4 | 711.1 | 594.4 | 1,215.1 | | | | |
| Five years later | 937.3 | 433.7 | 479.3 | 708.6 | 590.1 | | | | | |
| Six years later | 933.0 | 428.5 | 467.2 | 707.1 | | | | | | |
| Seven years later | 916.5 | 416.1 | 464.4 | | | | | | | |
| Eight years later | 919.9 | 420.2 | | | | | | | | |
| Nine years later | 920.0 | | | | | | | | | |
| Cumulative payments | 903.5 | 399.4 | 442.6 | 662.8 | 509.4 | 1,021.2 | 791.5 | 591.4 | 504.2 | **139.2** |
| Estimated balance to pay | 16.5 | 20.8 | 21.8 | 44.3 | 80.7 | 193.9 | 257.6 | 327.1 | 562.2 | **1,097.1** |

| **Net basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | 618.2 | 549.9 | 569.6 | 731.8 | 612.8 | 791.3 | 979.3 | 980.8 | 1,020.5 | **1,135.4** |
| One year later | 604.5 | 446.3 | 504.5 | 625.2 | 578.9 | 1,043.7 | 929.3 | 881.3 | 976.7 | |
| Two years later | 584.0 | 433.2 | 460.4 | 591.0 | 550.5 | 1,033.3 | 885.9 | 858.1 | | |
| Three years later | 555.8 | 409.8 | 447.6 | 587.7 | 540.1 | 1,025.8 | 897.2 | | | |
| Four years later | 543.1 | 398.7 | 437.2 | 580.9 | 528.9 | 1,029.7 | | | | |
| Five years later | 522.6 | 393.6 | 429.4 | 577.1 | 528.3 | | | | | |
| Six years later | 518.2 | 389.4 | 420.7 | 574.6 | | | | | | |
| Seven years later | 507.9 | 376.4 | 418.8 | | | | | | | |
| Eight years later | 512.4 | 380.2 | | | | | | | | |
| Nine years later | 512.6 | | | | | | | | | |
| Cumulative payments | 498.2 | 363.2 | 402.4 | 543.3 | 469.1 | 864.8 | 657.8 | 576.8 | 480.8 | **139.1** |
| Estimated balance to pay | 14.4 | 17.0 | 16.4 | 31.3 | 59.2 | 164.9 | 239.4 | 281.3 | 495.9 | **996.3** |

| | | | | | | | | | | **Total**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Net claims reserve (strengthen)/release | (0.2) | (3.8) | 1.9 | 2.5 | 0.6 | (3.9) | (11.3) | 23.2 | 43.8 | **52.8** |

The Group's net aggregate reserve releases from all prior years amounted to £89.6 million (2013: £133.5 million). In part, this arises from the Group's reserving philosophy which aims to make the most recent years, with the greatest uncertainty of result, prudently reserved leaving a potential for subsequent release.

This differs from the £52.8 million release in reserves stated in the claims development table above because:

- the table is on an underwriting year basis and the surpluses in this narrative are on an annually accounted basis;
- the table excludes any net aggregate reserve releases from 2004 and prior years; and
- the table excludes Amlin Europe, which is disclosed on an accident year basis and for which net reserve releases are £56.3 million. The Amlin Europe table also excludes any net aggregate reserve releases from 2004 and prior years.

Further details on these reserve releases and other aspects of the underwriting performance are included in the Financial Review section on page 57.

### 13. Insurance liabilities and reinsurance assets continued

b) Claims development continued

**Amlin London**

| **Gross basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Current ultimate gross written premium | 926.9 | 960.3 | 880.3 | 797.7 | 892.5 | 887.9 | 987.1 | 1,069.1 | 1,140.9 | **1,226.7** |
| Current gross earned premium | 926.9 | 960.3 | 880.3 | 797.7 | 892.5 | 887.9 | 987.1 | 1,069.1 | 1,091.8 | **628.7** |
| Estimate of cumulative claims at end of underwriting year | 892.7 | 457.7 | 462.7 | 618.9 | 447.5 | 531.7 | 647.6 | 603.7 | 592.5 | **644.4** |
| One year later | 931.5 | 367.8 | 402.7 | 512.9 | 418.4 | 724.3 | 599.1 | 528.8 | 556.0 | |
| Two years later | 905.1 | 344.6 | 362.0 | 471.3 | 370.4 | 693.5 | 556.3 | 503.9 | | |
| Three years later | 885.0 | 329.7 | 348.4 | 467.6 | 365.6 | 695.1 | 566.8 | | | |
| Four years later | 868.0 | 321.4 | 340.4 | 465.0 | 355.7 | 686.4 | | | | |
| Five years later | 857.3 | 315.0 | 337.6 | 458.8 | 353.4 | | | | | |
| Six years later | 849.8 | 310.8 | 334.8 | 460.0 | | | | | | |
| Seven years later | 837.8 | 306.2 | 331.0 | | | | | | | |
| Eight years later | 841.9 | 306.2 | | | | | | | | |
| Nine years later | 841.8 | | | | | | | | | |
| Cumulative payments | 827.9 | 295.7 | 319.3 | 437.4 | 300.0 | 590.2 | 442.3 | 334.6 | 271.9 | **82.3** |
| Estimated balance to pay | 13.9 | 10.5 | 11.7 | 22.6 | 53.4 | 96.2 | 124.5 | 169.3 | 284.1 | **562.1** |

| **Net basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | 514.1 | 410.9 | 403.5 | 474.1 | 384.7 | 447.9 | 501.4 | 522.3 | 520.0 | **568.8** |
| One year later | 503.1 | 323.4 | 359.3 | 399.6 | 356.9 | 574.3 | 480.1 | 480.7 | 496.7 | |
| Two years later | 486.6 | 308.3 | 322.8 | 354.9 | 316.6 | 548.2 | 441.0 | 460.9 | | |
| Three years later | 467.5 | 294.7 | 308.8 | 352.4 | 311.8 | 544.2 | 442.5 | | | |
| Four years later | 454.8 | 284.0 | 302.9 | 346.8 | 303.7 | 540.3 | | | | |
| Five years later | 444.1 | 278.4 | 298.0 | 343.3 | 302.8 | | | | | |
| Six years later | 439.2 | 275.1 | 294.5 | 342.5 | | | | | | |
| Seven years later | 432.1 | 271.0 | 291.9 | | | | | | | |
| Eight years later | 437.2 | 271.1 | | | | | | | | |
| Nine years later | 437.0 | | | | | | | | | |
| Cumulative payments | 424.9 | 261.3 | 282.9 | 326.5 | 265.2 | 463.4 | 332.4 | 328.5 | 260.7 | **82.0** |
| Estimated balance to pay | 12.1 | 9.8 | 9.0 | 16.0 | 37.6 | 76.9 | 110.1 | 132.4 | 236.0 | **486.8** |

## Amlin UK

### Gross basis

| Underwriting year | 2005 £m | 2006 £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Current ultimate gross written premium | 170.8 | 150.4 | 146.2 | 158.4 | 209.0 | 258.2 | 281.8 | 333.5 | 377.9 | **369.5** |
| Current gross earned premium | 170.8 | 150.4 | 146.2 | 158.4 | 209.0 | 258.2 | 281.8 | 333.4 | 359.3 | **151.4** |
| Estimate of cumulative claims at end of underwriting year | 115.1 | 102.5 | 101.0 | 117.3 | 136.6 | 167.4 | 198.5 | 209.8 | 220.2 | **233.2** |
| One year later | 111.2 | 106.4 | 102.6 | 123.4 | 150.9 | 177.0 | 191.1 | 194.9 | 228.3 | |
| Two years later | 103.0 | 102.1 | 101.9 | 125.7 | 156.2 | 173.7 | 188.5 | 195.4 | | |
| Three years later | 89.4 | 94.5 | 103.6 | 125.5 | 154.5 | 177.4 | 192.5 | | | |
| Four years later | 89.4 | 92.3 | 102.6 | 123.7 | 156.0 | 182.2 | | | | |
| Five years later | 79.7 | 93.6 | 100.3 | 127.6 | 155.7 | | | | | |
| Six years later | 83.0 | 92.8 | 91.5 | 124.2 | | | | | | |
| Seven years later | 78.4 | 85.3 | 92.0 | | | | | | | |
| Eight years later | 77.7 | 89.3 | | | | | | | | |
| Nine years later | 77.9 | | | | | | | | | |
| Cumulative payments | 75.3 | 79.2 | 82.5 | 104.0 | 132.5 | 141.2 | 136.4 | 113.9 | 115.1 | **20.8** |
| Estimated balance to pay | 2.6 | 10.1 | 9.5 | 20.2 | 23.2 | 41.0 | 56.1 | 81.5 | 113.2 | **212.4** |

### Net basis

| Underwriting year | 2005 £m | 2006 £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | 104.1 | 94.4 | 94.3 | 103.5 | 129.6 | 159.1 | 191.6 | 199.8 | 212.3 | **221.4** |
| One year later | 100.6 | 98.2 | 92.1 | 109.8 | 141.7 | 168.7 | 184.2 | 186.6 | 220.0 | |
| Two years later | 97.1 | 95.7 | 90.8 | 111.2 | 148.6 | 168.3 | 187.0 | 189.4 | | |
| Three years later | 88.0 | 89.1 | 94.7 | 113.3 | 145.1 | 168.9 | 189.5 | | | |
| Four years later | 88.0 | 89.3 | 93.0 | 111.7 | 143.2 | 170.0 | | | | |
| Five years later | 78.2 | 90.1 | 90.0 | 111.6 | 145.0 | | | | | |
| Six years later | 78.8 | 89.4 | 85.3 | 109.1 | | | | | | |
| Seven years later | 75.5 | 80.8 | 85.4 | | | | | | | |
| Eight years later | 74.9 | 84.4 | | | | | | | | |
| Nine years later | 75.3 | | | | | | | | | |
| Cumulative payments | 73.0 | 77.3 | 78.6 | 95.5 | 127.6 | 138.7 | 136.4 | 113.3 | 113.7 | **20.7** |
| Estimated balance to pay | 2.3 | 7.1 | 6.8 | 13.6 | 17.4 | 31.3 | 53.1 | 76.1 | 106.3 | **200.7** |

### 13. Insurance liabilities and reinsurance assets continued
b) Claims development continued

**Amlin Bermuda**

| **Gross basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Current ultimate gross written premium | 1.2 | 145.1 | 173.9 | 220.1 | 249.6 | 299.7 | 349.5 | 345.4 | 347.9 | **389.9** |
| Current gross earned premium | 1.2 | 145.1 | 173.9 | 220.1 | 249.6 | 299.7 | 349.5 | 345.3 | 344.6 | **256.3** |
| Estimate of cumulative claims at end of underwriting year | – | 44.7 | 71.8 | 154.2 | 98.4 | 182.3 | 246.4 | 166.5 | 166.2 | **175.2** |
| One year later | 0.7 | 24.7 | 53.1 | 115.9 | 80.3 | 329.9 | 223.1 | 124.5 | 138.0 | |
| Two years later | 0.4 | 29.3 | 46.8 | 124.9 | 86.0 | 343.0 | 219.1 | 121.3 | | |
| Three years later | 0.3 | 26.1 | 44.0 | 122.0 | 83.9 | 338.8 | 223.8 | | | |
| Four years later | 0.3 | 25.4 | 41.3 | 122.5 | 82.6 | 344.7 | | | | |
| Five years later | 0.3 | 25.2 | 41.4 | 122.2 | 81.0 | | | | | |
| Six years later | 0.3 | 24.9 | 40.9 | 122.9 | | | | | | |
| Seven years later | 0.3 | 24.7 | 41.4 | | | | | | | |
| Eight years later | 0.3 | 24.8 | | | | | | | | |
| Nine years later | 0.3 | | | | | | | | | |
| Cumulative payments | 0.3 | 24.6 | 40.8 | 121.3 | 76.9 | 288.8 | 183.3 | 93.8 | 61.5 | **27.0** |
| Estimated balance to pay | – | 0.2 | 0.6 | 1.6 | 4.1 | 55.9 | 40.5 | 27.5 | 76.5 | **148.2** |

| **Net basis**<br>**Underwriting year** | 2005<br>£m | 2006<br>£m | 2007<br>£m | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | **2014**<br>**£m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | – | 44.7 | 71.8 | 154.2 | 98.4 | 182.3 | 223.2 | 166.5 | 166.2 | **175.2** |
| One year later | 0.7 | 24.7 | 53.1 | 115.9 | 80.3 | 298.6 | 200.8 | 124.5 | 138.0 | |
| Two years later | 0.4 | 29.3 | 46.8 | 124.9 | 85.3 | 315.0 | 195.0 | 121.3 | | |
| Three years later | 0.3 | 26.1 | 44.0 | 122.0 | 83.2 | 311.0 | 200.8 | | | |
| Four years later | 0.3 | 25.4 | 41.3 | 122.5 | 82.0 | 317.6 | | | | |
| Five years later | 0.3 | 25.2 | 41.4 | 122.2 | 80.4 | | | | | |
| Six years later | 0.3 | 24.9 | 40.9 | 122.9 | | | | | | |
| Seven years later | 0.3 | 24.7 | 41.4 | | | | | | | |
| Eight years later | 0.3 | 24.8 | | | | | | | | |
| Nine years later | 0.3 | | | | | | | | | |
| Cumulative payments | 0.3 | 24.6 | 40.8 | 121.3 | 76.3 | 261.8 | 161.0 | 93.8 | 61.5 | **27.0** |
| Estimated balance to pay | – | 0.2 | 0.6 | 1.6 | 4.1 | 55.8 | 39.8 | 27.5 | 76.5 | **148.2** |

## Amlin Re Europe

### Gross basis

| Underwriting year | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|
| Current ultimate gross written premium | 2.8 | 96.2 | 162.7 | 191.1 | **243.4** |
| Current gross earned premium | 2.8 | 90.3 | 160.1 | 182.2 | **168.9** |
| Estimate of cumulative claims at end of underwriting year | 2.0 | 65.0 | 105.9 | 143.5 | **183.5** |
| One year later | 2.0 | 65.6 | 101.1 | 144.2 | |
| Two years later | 1.8 | 64.4 | 97.9 | | |
| Three years later | 1.7 | 65.9 | | | |
| Four years later | 1.8 | | | | |
| Cumulative payments | 1.0 | 29.4 | 49.1 | 55.8 | **9.1** |
| Estimated balance to pay | 0.8 | 36.5 | 48.8 | 88.4 | **174.4** |

### Net basis

| Underwriting year | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | 2.0 | 63.0 | 92.3 | 122.0 | **170.1** |
| One year later | 2.0 | 64.2 | 89.5 | 122.0 | |
| Two years later | 1.8 | 62.9 | 86.5 | | |
| Three years later | 1.7 | 64.5 | | | |
| Four years later | 1.8 | | | | |
| Cumulative payments | 1.0 | 28.0 | 41.2 | 45.0 | **9.4** |
| Estimated balance to pay | 0.8 | 36.5 | 45.3 | 77.0 | **160.7** |

### 13. Insurance liabilities and reinsurance assets continued
b) Claims development continued

**Amlin Europe**

| **Gross basis** Accident year | 2005 £m | 2006 £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Current ultimate gross written premium | 451.5 | 463.6 | 509.4 | 591.8 | 572.5 | 641.4 | 524.6 | 445.2 | 419.4 | **409.7** |
| Current gross earned premium | 451.1 | 459.5 | 490.3 | 574.7 | 599.1 | 559.1 | 553.4 | 447.2 | 426.5 | **402.4** |
| Estimate of cumulative claims at end of underwriting year | 240.7 | 273.8 | 304.3 | 489.6 | 400.2 | 409.5 | 415.2 | 280.3 | 264.9 | **254.0** |
| One year later | 333.0 | 286.6 | 316.8 | 480.9 | 410.3 | 479.1 | 426.9 | 304.2 | 273.0 | |
| Two years later | 319.4 | 287.1 | 339.8 | 472.6 | 410.4 | 464.2 | 394.2 | 310.0 | | |
| Three years later | 304.2 | 275.0 | 329.9 | 473.3 | 424.6 | 429.8 | 387.3 | | | |
| Four years later | 296.2 | 272.4 | 319.8 | 453.9 | 415.8 | 438.6 | | | | |
| Five years later | 289.6 | 270.4 | 314.7 | 447.6 | 388.5 | | | | | |
| Six years later | 287.8 | 265.2 | 311.6 | 443.7 | | | | | | |
| Seven years later | 285.2 | 260.9 | 303.2 | | | | | | | |
| Eight years later | 285.8 | 258.9 | | | | | | | | |
| Nine years later | 283.0 | | | | | | | | | |
| Cumulative payments | 270.0 | 246.6 | 285.1 | 408.1 | 334.9 | 383.2 | 299.1 | 227.1 | 171.6 | **67.6** |
| Estimated balance to pay | 13.0 | 12.3 | 18.1 | 35.6 | 53.6 | 55.4 | 77.2 | 82.9 | 101.4 | **186.4** |

| **Net basis** Accident year | 2005 £m | 2006 £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | **2014 £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at end of underwriting year | 195.7 | 223.8 | 268.2 | 376.4 | 373.1 | 377.7 | 372.8 | 259.8 | 250.0 | **244.5** |
| One year later | 210.7 | 237.1 | 267.9 | 373.8 | 384.3 | 421.9 | 391.1 | 260.3 | 253.2 | |
| Two years later | 195.3 | 231.4 | 278.0 | 365.6 | 389.0 | 384.5 | 359.4 | 250.7 | | |
| Three years later | 182.5 | 226.6 | 260.6 | 354.5 | 372.1 | 367.3 | 338.1 | | | |
| Four years later | 180.0 | 220.3 | 245.2 | 339.2 | 362.8 | 383.0 | | | | |
| Five years later | 171.7 | 217.4 | 255.3 | 334.6 | 332.7 | | | | | |
| Six years later | 168.0 | 213.7 | 249.8 | 331.0 | | | | | | |
| Seven years later | 169.1 | 214.2 | 242.6 | | | | | | | |
| Eight years later | 169.5 | 212.8 | | | | | | | | |
| Nine years later | 167.5 | | | | | | | | | |
| Cumulative payments | 155.1 | 202.0 | 228.1 | 313.7 | 302.3 | 342.8 | 277.1 | 196.4 | 159.7 | **64.6** |
| Estimated balance to pay | 12.4 | 10.8 | 14.5 | 17.3 | 30.4 | 40.2 | 61.0 | 54.3 | 93.5 | **179.9** |

| | | | | | | | | | | **Total £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| Net claims reserve release/(strengthen) | 2.0 | 1.4 | 7.2 | 3.6 | 30.1 | (15.7) | 21.3 | 9.6 | (3.2) | **56.3** |

### c) Net unearned premium

Unearned premiums are further analysed between written and earned premium below

| Unearned premium | Note | 2014 Insurance liabilities £m | 2014 Reinsurers' share £m | 2014 Net liabilities £m | 2013 Insurance liabilities £m | 2013 Reinsurers' share £m | 2013 Net liabilities £m |
|---|---|---|---|---|---|---|---|
| At 1 January | | **1,093.9** | **(45.1)** | **1,048.8** | 1,054.8 | (46.8) | 1,008.0 |
| Premium written during the year | 4(c),5(a) | **2,564.0** | **(268.1)** | **2,295.9** | 2,467.4 | (341.8) | 2,125.6 |
| Premium earned during the year | 4(c),5(a) | **(2,476.4)** | **275.8** | **(2,200.6)** | (2,440.6) | 346.0 | (2,094.6) |
| Foreign exchange (losses)/gains | | **(13.1)** | **(6.6)** | **(19.7)** | 12.3 | (2.5) | 9.8 |
| **At 31 December** | | **1,168.4** | **(44.0)** | **1,124.4** | 1,093.9 | (45.1) | 1,048.8 |

The current and non-current portions for unearned premium are expected to be as follows:

| Unearned premium | 2014 Insurance liabilities £m | 2014 Reinsurers' share £m | 2014 Net liabilities £m | 2013 Insurance liabilities £m | 2013 Reinsurers' share £m | 2013 Net liabilities £m |
|---|---|---|---|---|---|---|
| Current portion | **1,041.4** | **(28.6)** | **1,012.8** | 976.6 | (27.7) | 948.9 |
| Non-current portion | **127.0** | **(15.4)** | **111.6** | 117.3 | (17.4) | 99.9 |
| | **1,168.4** | **(44.0)** | **1,124.4** | 1,093.9 | (45.1) | 1,048.8 |

### d) Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| At 1 January | | **246.1** | 239.3 |
| Expenses for the acquisition of insurance contracts deferred during the year | 7(a) | **501.0** | 458.2 |
| Amortisation | 7(a) | **(473.0)** | (450.9) |
| Foreign exchange losses | | **(3.4)** | (0.5) |
| **At 31 December** | | **270.7** | 246.1 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **244.9** | 220.0 |
| Non-current portion | **25.8** | 26.1 |
| | **270.7** | 246.1 |

### e) Insurance and reinsurance receivables

| | 2014 £m | 2013 £m |
|---|---|---|
| Receivables arising from insurance and reinsurance contracts | **1,069.5** | 1,033.1 |
| Less provision for impairment of receivables from contract holders and agents | **(22.6)** | (19.3) |
| Insurance and reinsurance receivables | **1,046.9** | 1,013.8 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **998.8** | 980.7 |
| Non-current portion | **48.1** | 33.1 |
| | **1,046.9** | 1,013.8 |

Receivables arising from reinsurance contracts are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivables on inward reinsurance business, including reinstatement premium.

The Group assesses its insurance and reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payment history and for circumstances which may give rise to a dispute or default. At 31 December 2014, insurance and reinsurance receivables at a nominal value of £55.4 million (2013: £51.2 million) were greater than three months overdue and provided for on the basis of credit rating to the value of £11.3 million (2013: £10.8 million).

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

### 13. Insurance liabilities and reinsurance assets continued

e) Insurance and reinsurance receivables continued

The ageing analysis of insurance and reinsurance receivables overdue, before impairment provision, is as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Not overdue or less than 3 months | 1,014.1 | 981.9 |
| 3 to 6 months | 21.1 | 20.3 |
| 6 to 9 months | 7.9 | 14.5 |
| Greater than 9 months | 26.4 | 16.4 |
| | 1,069.5 | 1,033.1 |

Movements on the Group's provision for impairment of receivables from contract holders and agents are as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 January | (19.3) | (18.4) |
| Increase in the provision | (8.7) | (2.8) |
| Utilised provision | 0.3 | 0.7 |
| Release of unused provision | 5.1 | 1.3 |
| Foreign exchange losses | – | (0.1) |
| **At 31 December** | (22.6) | (19.3) |

f) Insurance and reinsurance payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Insurance and reinsurance payables | 196.2 | 273.3 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | 165.7 | 216.0 |
| Non-current portion | 30.5 | 57.3 |
| | 196.2 | 273.3 |

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

Insurance payables are comprised principally of premium payable for reinsurance, including reinstatement premium.

g) Underwriting risk

The Group accepts underwriting risk in a range of classes of business through Lloyd's Syndicate 2001, Amlin Europe N.V., Amlin AG (including its branch operation, Amlin Bermuda) and Amlin Insurance (UK) Public Limited Company. Syndicate 2001's portfolio is underwritten by Amlin London and Amlin UK. The bias of the Group's portfolio is towards short-tail property and accident risk but liability coverage is also underwritten. With effect from 1 September 2014 the Group established three Strategic Business Units (Reinsurance, Marine & Aviation and Property & Casualty) operating across regional and national boundaries to provide a global service.

In underwriting insurance or reinsurance policies, the Group's underwriters use their skill and knowledge to assess each risk. Exposure information and data on past claims experience is used to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk, there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or may result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to control the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed by the boards of Amlin plc and its subsidiaries. This plan is used to monitor the amount of premium income, and exposure, written in total and for each class of business. Progress against this plan is monitored during the year.

Apart from the UK, European and international comprehensive motor liability portfolios, which have unlimited liability, all policies have a per loss limit which caps the size of any individual claim. For larger sum insured risks, facultative reinsurance coverage may be purchased. The Group operates line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. These limits can be exceeded in exceptional circumstances with the approval of senior management.

The Group is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in section 13(h).

Insurance policies are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Group is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on the Group's behalf under clear authority levels.

The insurance policies underwritten by the Group are reviewed on an individual risk, or contract, basis and through review of portfolio performance. Claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a detailed and disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried.

Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise which, in aggregate, exceed the reserve provision established. This is partly mitigated by the reserving policy adopted by the Group which is to carry reserves in excess of the mean actuarial best estimate.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risks already underwritten which cannot be re-priced until renewal at the end of the policy period.

The Group is exposed to the impact of large catastrophe events such as windstorms, earthquakes or terrorist incidents. Exposure to such events is controlled and measured through loss modelling. The Group's broad risk appetite guidelines are set out on page 30. It is possible that a catastrophe event could exceed the maximum expected event loss. This is particularly the case for the direct property proportion of the loss exposure, where models are used to calculate a damage factor representing the amount of damage expected to exposed aggregate insured values from a particular scenario. Errors, or incorrect assumptions in the damage factor calculation, can result in incurred catastrophe event claims higher, or lower, than predicted due to unforeseen circumstances, inadequacies in data, or shortcomings in the models used.

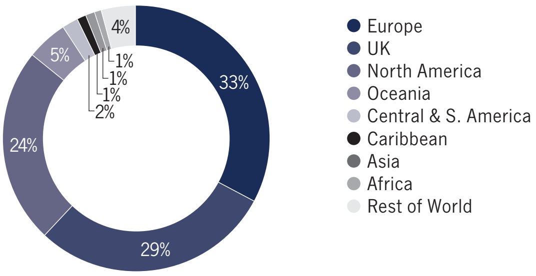
As explained in note 13(h), reinsurance is purchased to protect against the impact of any individual or series of severe catastrophes. However, the price and availability of such cover is variable and the amount of loss retained by the Group may therefore also increase or reduce. The Group will alter its insurance and reinsurance exposures to take account of changes in reinsurance availability and cost, capital levels and profitability in order to remain within the risk appetite guidelines.

Sections A, B and C below describe the insurance and reinsurance portfolios written by the Group and the associated risks of such business. Section D summarises the business written within each group of insurance and reinsurance portfolios.

*A. Property & Casualty portfolios*

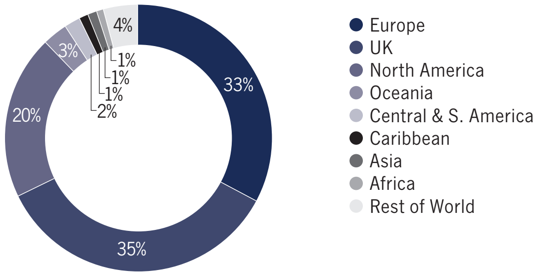
The geographic spread, based on the country in which the insured is located, of Property & Casualty direct insurance and facultative reinsurance portfolios is shown below:

**2014 Property & Casualty portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

**2013 Property & Casualty portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

A. (i) Property

Property cover is provided to large commercial enterprises with high-value, single locations and/or many locations, and also for small commercial property. The perils covered include fire, flood, wind and earthquake damage. Business interruption cover is also provided for loss of earnings sustained due to the perils and properties covered but may also be extended to connected enterprises such as suppliers or customers that provide potential for contingent business interruption claims.

Terrorism cover is given on a limited basis, particularly where required by local regulation, but nuclear and bio-chemical coverage is excluded from standard property cover in most territories.

### 13. Insurance liabilities and reinsurance assets continued

g) Underwriting risk continued

Property insurance is written for the full value of the risk, on a primary or excess of loss basis, through individual placements, or by way of delegated underwriting facilities given to coverholders ("binding authorities"). Binding authority arrangements delegate the day-to-day underwriting to underwriting agents and therefore, for these contracts, the Group is reliant on coverholders exercising underwriting judgement on its behalf. Coverholders must have local regulatory approval (including Lloyd's where relevant), and also be approved by internal Binding Authority Committees.

For binding authority facilities, the Group receives monthly or quarterly bordereaux which are checked by underwriting staff. The underwriting is controlled by setting clear authority levels for coverholders stipulated within the binding authority agreement, regularly monitoring performance and periodically carrying out underwriting visits and/or commissioning third-party audits.

The coverholder is incentivised to produce an underwriting profit through the payment of profit commission. However, with the day to day underwriting not controlled by the Group, there is a risk that coverholder underwriting, or claim decisions, are made which would not have been made by Amlin underwriters or claims staff.

As well as natural catastrophes, the property portfolio is also exposed to an above average frequency of individual fire, explosion or weather related claims. The premium charged for the coverage given may not be sufficient to cover all claims made in any year, particularly in a year in which there is an abnormal frequency of claims. The US account is particularly exposed to large catastrophe events, such as California earthquake, tornado and hurricane losses.

In the UK, standalone property protection is written mainly on a 100% basis for small and medium commercial and household properties. Package policies combine one or more liability coverages (mainly employers' and public liability) with motor and/or property damage protection.

The European property account mainly comprises large schedules of properties (e.g. for municipalities) written on a co-insurance basis in the Netherlands and larger commercial industrial clients in Belgium and France. Overseas exposure is written mainly from the large commercial industrial portfolio where there are clients or other incidental operations overseas. The engineering book includes contractors all risks, machinery breakdown and some computer equipment.

These portfolios are exposed to European weather conditions whereby a large windstorm, flood or winter freeze could result in a large number of small claims.

Bloodstock and livestock business are also written within the Property & Casualty business unit of Syndicate 2001. The bloodstock account provides coverage for death, illness or injury to horses mainly in the UK. Business from the US, Australia and South Africa is also written. This covers racing or eventing horses and breeding studs. The average value insured is below £1 million but there is the potential for an aggregate loss, such as a stable fire, which could cause multiple claims.

The livestock account provides a broad portfolio of protection for livestock and specialist products such as zoo animals, with a maximum line of any one policy of US$10 million. The Group also writes employers' liability cover for livestock business up to a limit of £10 million. Again, an event affecting several animals across many policies such as disease could result in a loss significantly higher than this.

A. (ii) Casualty

The US casualty insurance account provides insurance cover to individuals, or companies, in order to indemnify them against legal liability arising from their activities and actions or for incidents occurring on their property.

The portfolio is made up of specialist general casualty, professional indemnity, medical malpractice and errors and omissions cover. Small amounts of directors' and officers' liability and auto liability are also written. Professional lines liability cover is written by a dedicated underwriting team. This class includes professional indemnity cover given to US lawyers, accountants, architects and engineers.

The casualty portfolio is mostly written on a claims notified basis (responding to all claims made during a defined period) except for small amounts of general liability business which may be written on a losses occurring basis (the policy responds to losses which occur during the period even if reported after the policy has expired).

Claims from this class emanate from professional error, negligence or an accident which causes injury, damage or financial loss. The account is vulnerable to a high frequency of claims, but not to individual large losses as the cost to the Group of any individual claim is lower than property due to line size restrictions. Claims frequency may be impacted by a generic claim type which impacts many individuals and (re)insurance policies such as poor housing design or bad medical practice. The size of many individual claims is subject to the decisions arising from the US court system which can be higher than anticipated. There is also the potential for US courts to impose a 'bad faith' judgement on insurers if it is deemed that the insurer has acted improperly in trying to avoid contractual obligations. Such awards can, in exceptional circumstances, be much higher than the value of the insurance claim.

The Group's international liability portfolio predominantly protects insureds domiciled in the UK, Ireland, France, Germany, Belgium and the Netherlands. An international casualty team was established in 2012 to develop business in other territories, including Canada and Australia. A portfolio of professional indemnity and general liability business is written in the Netherlands, on a claims made basis with a particular focus on property related professions and miscellaneous professions such as travel operators. In Belgium, medical liability and general liability are written on a losses occurring basis.

In the UK and Ireland employers' liability insurance protects employers against accident or injury to employees. This is also written on a losses occurring basis.

Public liability insurance in the same territories provides coverage, often written in conjunction with employers' liability, for accident or injury occurring to clients, customers or other third parties as a result of contact with the insured's personnel, property or products. This is written on a losses occurring basis.

Professional indemnity business written in the UK covers liability which may arise from services provided by the assured, for example, as a result of negligence or error which may lead to financial or physical loss. This includes, but is not limited to, services from architects, engineers, surveyors, advertising firms, medical professionals and financial advisors. This portfolio is written on a claims made basis.

Through AUA Insolvency Risk Services Ltd, a Financial Conduct Authority (FCA) registered broker, the Group writes a portfolio of UK insolvency practitioners business providing protection against fraud or negligence committed by the practitioners. Such cover also protects the property assets under their management.

The Group also writes a small account of financial institutions policies covering fidelity, professional indemnity and directors' and officers' liability for companies providing financial services. Approximately half of the income is from western European financial institutions with the balance spread broadly by territory. Coverage is given on a claims made basis.

The expected claims costs from these lines of business may be impacted by larger than anticipated damage awards to injured parties, as well as due to an unforeseen increase in generic claims such as industrial disease or other health hazards. It is expected that claims frequency will increase during an economic downturn as unemployment leads to an increase in action against employers and people are more likely to seek redress for third party advice or behaviour which may have led to financial loss or injury. It is also possible that multiple claims could arise under multiple policies from a common cause such as financial advice or generic building defects. The financial institutions account could be affected by a major fraud or a series of related liability claims arising from banking, investment activity, stockbroking or other practices.

### A. (iii) Motor

The Group's UK motor insurance account provides protection for fire, theft, collision and third party property and bodily injury liability. Under the requirements of UK law, third party liability coverage is unlimited, but matching reinsurance is purchased. The account is biased towards commercial clients such as coach operators, haulage companies, commercial vehicle fleets and company executive fleets. A small UK agriculture facility, a taxi book and a specialist private car account are also written.

The Benelux commercial motor account is comprised of domestic company fleets including a large leasing and rental fleets, portfolio written in the Netherlands and a smaller portfolio in Belgium. Cars, vans or commercial vehicles account for over 70% of the book.

Claims frequency has improved in recent years due to car and road safety measures, but can fluctuate due to factors such as weather conditions. Inflation is a key factor in determining the size of motor claims. Car values affect the size of theft claims and for physical damage claims size is linked to repair costs. Inflationary pressure on court awards within the European legal systems impacts liability claim values. This issue is evidenced in the UK through the provision for Periodic Payment Orders (PPOs) which spread insurers' payment liabilities for bodily injury claims over future years. Government intervention, such as liability award limit changes or expense recoveries for government bodies, for example the UK National Health Service, will also impact claim size. For the motor account, severe bodily injury and catastrophe damage claims (e.g. UK flood) are limited through the purchase of a reinsurance programme, the highest layer of which is unlimited.

Motor insurance is a highly competitive area of insurance and pricing levels fluctuate. Whilst underwriters accept business subject to sufficient rates per vehicle, in a year where there is an unexpectedly high level of claims the total premium may not be sufficient to cover all the claims. There is also a risk that legal changes impact bodily injury payments and result in a requirement to increase reserves for outstanding claims.

Auto business is also written covering property damage only (fire, theft and collision) in the US and property damage and third party motor liability combined cover in other international territories. This class could be impacted by unexpected claim frequency, a multi vehicle event, such as a severe flood and also large bodily injury award claims emanating from an accident.

### A. (iv) Personal accident

The accident and health class is written through medical expense schemes in the US and direct personal accident cover on a worldwide basis. Medical expense cover is subject to a high frequency of claim and significant medical cost inflation. Personal accident insurance could be impacted by a single or series of accidents to high-value insured individuals or from a multiple death and injury event such as an air crash or natural catastrophe.

### A. (v) Special risks

The direct special risks are subject to detailed financial analysis to manage potential credit risk.

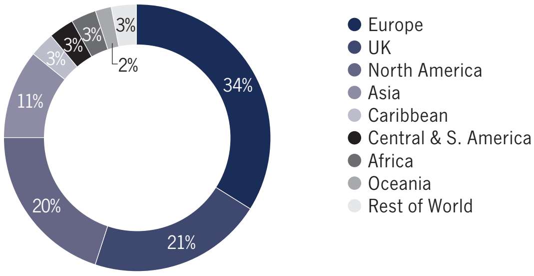
### 13. Insurance liabilities and reinsurance assets continued

g) Underwriting risk continued

*B. Marine & Aviation portfolios*

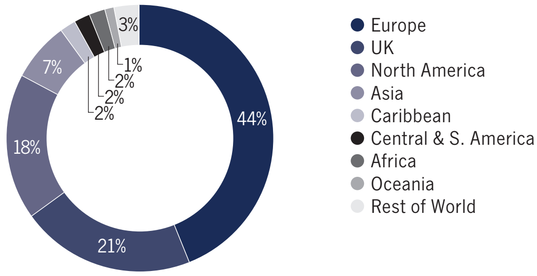
The geographic spread, based on the country in which the insured is located, of Marine & Aviation direct insurance and facultative reinsurance portfolios is shown below:

**2014 Marine & Aviation portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

**2013 Marine & Aviation portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

B. (i) Hull

The hull account is worldwide covering property damage to ships.  Coverage may include machinery breakdown. The portfolio written includes lower-value tonnage, smaller "brown water" vessels and fishing boats as well as larger "blue water" ocean hull risks such as cruise liners, tankers and bulk carriers. Inland hull and builders' risks are also written. The hull account can be impacted by attritional claims of a small size as well as single individual large claims. In an economic recession, premium income is likely to fall as trade reduces and hull values are impacted by reduced freight rates.

B. (ii) Cargo

The cargo account is also worldwide and covers loss or damage, to a large variety of cargo or goods in transit. This portfolio is exposed to small attritional claims and single individual large claims. The cargo account could be involved in a major natural catastrophe loss or be impacted by an economic recession when claims frequency could increase due to increased economic pressures leading to fraud and theft claims.

The continental European portfolio includes a commodities book for Belgian and French trading corporations.

B. (iii) Energy

The energy portfolio mainly comprises offshore rig and construction policies, which may be impacted by large individual claims from construction fault or property damage such as fire or explosion, but is also exposed to severe catastrophe losses, for example, in the North Sea and Gulf of Mexico. The account includes control of well to limit loss of oil and avoid pollution and also some business interruption cover which indemnifies companies for loss of production.

B. (iv) War and terrorism

War business includes marine, aviation and on-land terrorism coverage. The account is exposed to single incidents or a series of losses arising from concerted action. Political risk, confiscation and contract frustration business is also written.

B. (v) Yacht

Yacht business covers property damage and third party injury for small leisure boats and craft. The UK domestic account is comprised of smaller-value yachts in the UK and Europe, although there are a number of binders written by coverholders elsewhere, such as Scandinavia, USA, Canada and Australia.

There is an expectation of a large number of small claims, as average values are low in comparison to other policies written in the Group. Third-party liability yacht claims arise from injury or damage caused by one of our policyholders to third parties. There is also the potential for a large catastrophe loss, such as a UK windstorm, where there are large aggregate sums insured in coastal regions such as southern England.

Amlin Europe N.V. and Syndicate 2001 write shares of a portfolio of large private yachts.

B. (vi) Marine liability

The marine liability portfolio is written to protect ship-owners, harbours, charterers and energy companies against damage or injury to crew or third parties. This includes the potential for pollution damage and clean-up claims. The account could suffer a large catastrophe incident from a collision causing death of crew and passengers or an oil, or chemical, spill which could incur large clean-up costs.

B. (vii) Specie

Specie business consists of the insurance against damage or theft to fine art, the contents of vaults and other high-value goods including jewellers' block and cash in transit. The fine art may be shown at exhibitions which have very high aggregate values at risk. The class is therefore exposed to the potential for a frequency of small claims and also large individual losses. Some specie is written in catastrophe zones, for example California, and may be exposed to terrorist events.

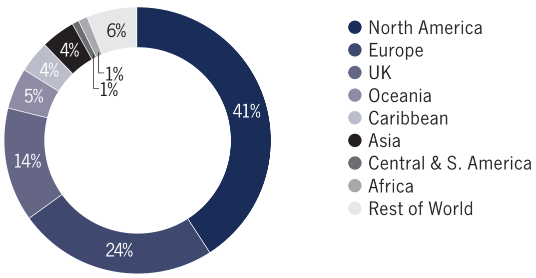
B. (viii) Aviation
The aviation airline account is exposed to large claims arising from property damage, death or injury arising from aircraft accidents. The domicile of the airline and passengers has a notable influence on the cost of claims, for example, US court awards are generally higher. The general aviation account covers smaller aircraft or cargo and covers owners or operators against loss or damage and third party injury. The risk excess account is a book of general aviation reinsurance business written to protect a small number of insurers against large general aviation claims.

Airport liability insurance covers airport operators, refuellers and air traffic controllers against losses arising from injury caused by their activities or occurring on their premises. Product liability covers manufacturers against accidents arising from faulty parts or equipment, or poor servicing of aircraft. Both airport and product liability coverage is written on a losses occurring basis, meaning that claims advices can be made after the policy has expired. Space liability insurance covers launch and operation of satellites whilst in orbit for a limited period, normally of one year.

The aviation account is subject to both small and large claims. Claims involving loss of life or serious injury to high-earning passengers or third parties are subject to the ongoing inflation of court awards particularly in the US. Large accidents involving the potential death of 500 or more passengers are feasible and could potentially result in a gross claim to the business of more than the vertical reinsurance programme if, for example, two large aircraft were to collide.

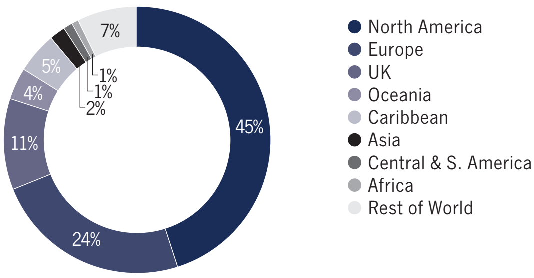
*C. Reinsurance portfolios*
The geographic spread, based on the country in which the insured is located, of treaty Reinsurance portfolios is shown below:

**2014 Reinsurance portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

**2013 Reinsurance portfolios** (%)
Gross written premium by geography




Note: Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior years.

C. (i) Property
Catastrophe reinsurance protects insurance companies against losses, such as windstorm or earthquake, which may impact more than one risk written by the client. The catastrophe excess of loss portfolio is a key part of the reinsurance risk written by the Group.

These programmes are placed on a layered or excess of loss basis. Territorial exposures, from a number of programmes, are carefully recorded and analysed through loss simulations or realistic disaster scenarios but represent significant loss exposure to natural or man-made catastrophes.

Aggregate excess of loss programmes are also written providing protection in response to multiple loss events.

Per risk property reinsurance is also written on an excess of loss basis but covers loss or damage to any single risk within the reinsured's portfolio. This portfolio protects insureds against large individual property losses and will also be affected by large catastrophe losses.

Proportional property reinsurance covers a proportionate share of a reinsured's portfolio of business subject to payment of commission and/or profit commission. Proportional property business is normally written with an occurrence limit.

The Group's portfolio of property reinsurance business is written with the aim of achieving territorial diversification. However, as experienced in 2011, a single or series of severe catastrophes to major economic zones in Europe, Japan, Australasia or the US is likely to result in a loss to the portfolio prior to retrocessional reinsurance. For each operating division, overall catastrophe loss limits are applied in relation to specific scenarios as an allocation of total Group tolerances.

### 13. Insurance liabilities and reinsurance assets continued

g) Underwriting risk continued

C. (ii) Casualty

The US casualty reinsurance account provides cover for reinsureds in respect of legal liability arising from insureds' activities and actions or for incidents occurring on insureds' properties. The portfolio is written on both an excess of loss and proportional basis but most underlying policies are on a claims notified basis (responding to all claims made during a defined period). The portfolio includes specialist general casualty, professional indemnity, medical malpractice and errors and omissions cover. Small amounts of directors' and officers' liability and auto liability are also written.

US Workers Compensation Act/casualty clash excess of loss business may be impacted by large catastrophic events such as earthquake.

International liability reinsurance business is mainly general third party liability protecting companies against significant public or products liability claims, written on a proportional or excess of loss basis. The liability account also includes some professional liability reinsurance.

The construction and engineering portfolio provides liability and property reinsurance cover for construction projects which may be of several years' duration.

C. (iii) Motor

Motor reinsurance is written on a proportional and excess of loss basis. This portfolio is at risk from increases in frequency or severity of motor accident claims and bodily injury or third party property claims payments which may take several years to settle. Unlimited and limited motor business is written. Whilst the original premium and the investment income generated are expected to be more than sufficient to meet such claims, there is no guarantee that this will be the case, particularly due to inflation or superimposed inflation resulting from changes to court awards. The aim is to diversify the portfolio across several territories in order to reduce the impact of a single legal jurisdiction revising its claims policy.

C. (iv) Personal accident

Personal accident reinsurance is written on a worldwide basis. Such business could be impacted by a single or series of accidents to high-value insured individuals or from a multiple death and injury event, such as an air crash or natural catastrophe.

C. (v) Marine and aviation

The Group's portfolio of aviation and marine excess of loss reinsurance protects insurers against losses to their direct portfolios of business on a worldwide basis. This will include offshore energy business, specie and other static risks written in reinsured companies' marine portfolios. The marine account, in particular, is exposed to catastrophe losses as well as large individual risk losses.

C. (vi) Special risks

The special risks reinsurance account is predominantly made up of terrorism excess of loss and nuclear reinsurance emanating from all parts of the world and written without excess of loss reinsurance protection. The portfolio also includes short-term trade credit and contingency business as well as trade credit reinsurance which protects reinsureds against the non-payment of monies or goods or services due from trade partners locally or overseas. Satellite physical damage cover is also written in the special risks account.

*D. Business written and, maximum and average line sizes by operating divisions*

On the following pages are tables summarising the business written, in both gross written premium and line size, across the insurance and reinsurance portfolios of the Group, per operating division.

The following points apply to each of the tables:

- Amlin London limits are set in US dollars converted to sterling at a rate of exchange of £1= US$1.5, Amlin Europe and Amlin Re Europe limits are set in euros converted to sterling at a rate of exchange of £1= €1.2. Therefore, currency rate of exchange changes may increase or reduce the sterling limits.
- Amlin London maximum line size is after business written and ceded by specific proportional treaties to Amlin Bermuda and Amlin Europe.
- Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior periods.
- Gross written premiums are converted to sterling using the year end average rates set out in note 9(b).

*Property & Casualty portfolios*

| At 31 December 2014 | Amlin London Gross written premium £m | Amlin UK Gross written premium £m | Amlin Europe Gross written premium £m | Amlin London Max line size £m | Amlin UK Max line size £m | Amlin Europe Max line size £m | Amlin London Average line size £m | Amlin UK Average line size £m | Amlin Europe Average line size £m |
|---|---|---|---|---|---|---|---|---|---|
| **(i) Property** | | | | | | | | | |
| Direct and facultative property | 122 | – | – | 23 | – | – | 2 | – | – |
| Binding authorities | 40 | – | – | 2 | – | – | 1 | – | – |
| UK/Europe property/package | – | 124 | 95 | – | 100 | 42 | – | 1 | 3 |
| Engineering | – | – | 22 | – | – | 21 | – | – | 3 |
| Bloodstock/livestock | 21 | – | – | 7 | – | – | 1 | – | – |
| **(ii) Casualty** | | | | | | | | | |
| International casualty | 33 | – | – | 17 | – | – | 6 | – | – |
| Casualty | 41 | – | – | 3 | – | – | 1 | – | – |
| Professional lines | 18 | – | – | 13 | – | – | 2 | – | – |
| Employers' liability | – | 22 | – | – | 27 | – | – | 10 | – |
| Liability | – | – | 81 | – | – | 21 | – | – | 2 |
| Public/products liability | – | 16 | – | – | 12 | – | – | 4 | – |
| Financial institutions fidelity and liability | 6 | – | – | 14 | – | – | 2 | – | – |
| Professional indemnity | 40 | – | – | 8 | – | – | 2 | – | – |
| **(iii) Motor** | | | | | | | | | |
| US/International auto | 51 | – | – | 1 | – | – | 1 | – | – |
| UK/Europe motor | – | 154 | 46 | – | Unlimited | Unlimited | – | Unlimited | Unlimited |
| **(iv) Personal accident** | | | | | | | | | |
| Accident and health | 24 | – | – | 3 | – | – | 2 | – | – |
| **(v) Special risks** | | | | | | | | | |
| Special risks | 6 | – | 20 | 97 | – | 21 | 6 | – | 4 |
| **Total Property & Casualty** | **402** | **316** | **264** | | | | | | |

| At 31 December 2013 | Amlin London Gross written premium £m | Amlin UK Gross written premium £m | Amlin Europe Gross written premium £m | Amlin London Max line size £m | Amlin UK Max line size £m | Amlin Europe Max line size £m | Amlin London Average line size £m | Amlin UK Average line size £m | Amlin Europe Average line size £m |
|---|---|---|---|---|---|---|---|---|---|
| **(i) Property** | | | | | | | | | |
| Direct and facultative property | 123 | – | – | 23 | – | – | 2 | – | – |
| Binding authorities | 41 | – | – | 2 | – | – | 1 | – | – |
| UK/Europe property/package | – | 123 | 104 | – | 52 | 42 | – | <1 | 3 |
| Engineering | – | – | 22 | – | – | 21 | – | – | 3 |
| Bloodstock/livestock | 24 | – | – | 4 | – | – | 1 | – | – |
| **(ii) Casualty** | | | | | | | | | |
| International casualty | 22 | – | – | 17 | – | – | 6 | – | – |
| Casualty | 31 | – | – | 3 | – | – | 1 | – | – |
| Professional lines | 13 | – | – | 7 | – | – | 1 | – | – |
| Employers' liability | – | 25 | – | – | 27 | – | – | 10 | – |
| Liability | – | – | 81 | – | – | 11 | – | – | 2 |
| Public/products liability | – | 23 | – | – | 12 | – | – | 4 | – |
| Financial institutions fidelity and liability | – | 7 | – | – | 16 | – | – | 2 | – |
| Professional indemnity | – | 45 | – | – | 16 | – | – | 2 | – |
| **(iii) Motor** | | | | | | | | | |
| US/International auto | 35 | – | – | 1 | – | – | 1 | – | – |
| UK/Europe motor | – | 154 | 43 | – | Unlimited | Unlimited | – | Unlimited | Unlimited |
| **(iv) Personal accident** | | | | | | | | | |
| Accident and health | 26 | – | – | 3 | – | – | 1 | – | – |
| **(v) Special risks** | | | | | | | | | |
| Special risks | 7 | – | 18 | 97 | – | 21 | 5 | – | 4 |
| Total Property & Casualty | 322 | 377 | 268 | | | | | | |

**13. Insurance liabilities and reinsurance assets continued**
g) Underwriting risk continued
*Marine & Aviation portfolios*

| **At 31 December 2014** | **Amlin London Gross written premium £m** | **Amlin Europe Gross written premium £m** | **Amlin London Max line size £m** | **Amlin Europe Max line size £m** | **Amlin London Average line size £m** | **Amlin Europe Average line size £m** |
|---|---|---|---|---|---|---|
| **(i) Hull** | 52 | 54 | 17 | 21 | 4 | 2 |
| **(ii) Cargo** | 41 | 37 | 20 | 21 | 7 | 1 |
| **(iii) Energy** | 66 | – | 53 | – | 8 | – |
| **(iv) War and terrorism** | 33 | – | 53 | – | 10 | – |
| **(v) Yacht** | 33 | 6 | 35 | 8 | 3 | 6 |
| **(vi) Marine Liability** | 40 | 48 | 62 | 67 | 14 | 14 |
| **(vii) Specie** | 15 | – | 24 | – | 6 | – |
| **(viii) Aviation** | | | | | | |
| Airline (hull & liability) | 18 | – | 83 | – | 20 | – |
| General aviation (hull & liability) | 10 | – | 57 | – | 13 | – |
| Risk excess | 5 | – | 69 | – | 14 | – |
| Airports liability | 6 | – | 57 | – | 24 | – |
| Products | 4 | – | 50 | – | 22 | – |
| **Total Marine & Aviation** | **323** | **145** | | | | |

| At 31 December 2013 | Amlin London Gross written premium £m | Amlin Europe Gross written premium £m | Amlin London Max line size £m | Amlin Europe Max line size £m | Amlin London Average line size £m | Amlin Europe Average line size £m |
|---|---|---|---|---|---|---|
| **(i) Hull** | 47 | 69 | 13 | 21 | 2 | 2 |
| **(ii) Cargo** | 36 | 43 | 20 | 21 | 6 | 1 |
| **(iii) Energy** | 57 | – | 25 | – | 4 | – |
| **(iv) War and terrorism** | 33 | – | 50 | – | 9 | – |
| **(v) Yacht** | 34 | – | 5 | – | 2 | – |
| **(vi) Marine Liability** | 39 | 55 | 33 | 42 | 7 | 14 |
| **(vii) Specie** | 16 | – | 24 | – | 6 | – |
| **(viii) Aviation** | | | | | | |
| Airline (hull & liability) | 20 | – | 67 | – | 23 | – |
| General aviation (hull & liability) | 14 | – | 40 | – | 14 | – |
| Risk excess | 4 | – | 57 | – | 7 | – |
| Airports liability | 8 | – | 57 | – | 24 | – |
| Products | 5 | – | 50 | – | 19 | – |
| Total Marine & Aviation | 313 | 167 | | | | |

*Reinsurance portfolios*

| At 31 December 2014 | Amlin London Gross written premium £m | Amlin Bermuda Gross written premium £m | Amlin Re Europe Gross written premium £m | Amlin London Max line size £m | Amlin Bermuda Max line size £m | Amlin Re Europe Max line size £m | Amlin London Average line size £m | Amlin Bermuda Average line size £m | Amlin Re Europe Average line size £m |
|---|---|---|---|---|---|---|---|---|---|
| **(i) Property** | | | | | | | | | |
| Catastrophe (per programme) | 279 | 179 | 36 | 50 | 50 | 17 | 5 | 5 | 4 |
| Per risk property (per programme) | 54 | 33 | 17 | 20 | 9 | 17 | 2 | 2 | 2 |
| Proportional | 53 | 89 | 51 | 13 | 9 | 17 | 2 | 1 | 2 |
| Engineering | – | – | 28 | – | – | 17 | – | – | 3 |
| **(ii) Casualty** | | | | | | | | | |
| Casualty | 33 | 20 | – | 7 | 10 | – | 3 | 1 | – |
| Liability | – | – | 40 | – | – | 17 | – | – | 2 |
| **(iii) Motor** | | | | | | | | | |
| Motor | – | – | 61 | – | – | Unlimited | – | – | Unlimited |
| **(iv) Personal accident** | | | | | | | | | |
| Accident and health | 7 | – | – | 3 | – | – | 1 | – | – |
| Personal accident | – | 2 | 3 | – | 7 | 17 | – | 3 | 1 |
| **(v) Marine and aviation** | | | | | | | | | |
| Marine (per programme) | 27 | 3 | 8 | 67 | 50 | 17 | 2 | 7 | 1 |
| Aviation (per programme) | 6 | – | – | 27 | – | – | 3 | – | – |
| **(vi) Special risks** | | | | | | | | | |
| Special risks | 38 | 47 | 6 | 33 | 27 | 17 | 4 | 4 | 3 |
| Surety | – | – | 2 | – | – | 4 | – | – | 1 |
| **Total Reinsurance** | **497** | **373** | **252** | | | | | | |

| At 31 December 2013 | Amlin London Gross written premium £m | Amlin Bermuda Gross written premium £m | Amlin Re Europe Gross written premium £m | Amlin London Max line size £m | Amlin Bermuda Max line size £m | Amlin Re Europe Max line size £m | Amlin London Average line size £m | Amlin Bermuda Average line size £m | Amlin Re Europe Average line size £m |
|---|---|---|---|---|---|---|---|---|---|
| **(i) Property** | | | | | | | | | |
| Catastrophe (per programme) | 270 | 183 | 33 | 57 | 50 | 17 | 4 | 4 | 3 |
| Per risk property (per programme) | 63 | 35 | 16 | 23 | 9 | 17 | 2 | 2 | 2 |
| Proportional | 58 | 73 | 47 | 5 | 9 | 17 | 1 | 1 | 1 |
| Engineering | – | – | 23 | – | – | 17 | – | – | 2 |
| **(ii) Casualty** | | | | | | | | | |
| International casualty | – | – | – | – | – | – | – | – | – |
| Casualty | 38 | 9 | – | 3 | 3 | – | <1 | 1 | – |
| Liability | – | – | 26 | – | – | 17 | – | – | 1 |
| **(iii) Motor** | | | | | | | | | |
| Motor | – | – | 45 | – | – | Unlimited | – | – | Unlimited |
| **(iv) Personal accident** | | | | | | | | | |
| Accident and health | 9 | – | – | 3 | – | – | 1 | – | – |
| Personal accident | – | 2 | 2 | – | 7 | 17 | – | 3 | 1 |
| **(v) Marine and aviation** | | | | | | | | | |
| Marine (per programme) | 27 | 4 | 7 | 76 | 50 | 17 | 2 | 4 | 1 |
| Aviation (per programme) | 6 | – | – | 31 | – | – | 2 | – | – |
| **(vi) Special risks** | | | | | | | | | |
| Special risks | 29 | 35 | 6 | 38 | 27 | 17 | 3 | 3 | 3 |
| Surety | – | – | 2 | – | – | 4 | – | – | 1 |
| Total Reinsurance | 500 | 341 | 207 | | | | | | |

### 13. Insurance liabilities and reinsurance assets continued

h) Reinsurance and other risk mitigation arrangements

Proportional reinsurance is purchased to supplement line size and to reduce exposure on individual risks, notably for large property risks. Part of the premium ceded under such facilities by Syndicate 2001 is placed with Amlin Bermuda and Amlin Europe N.V. Since 2009, a separate proportional facility has protected the excess of loss reinsurance portfolio through a Special Purpose Syndicate (SPS) at Lloyd's, Syndicate 6106. The SPS was not renewed at 1 January 2014.

The Group purchases a number of excess of loss reinsurances to protect its portfolio from severe frequency or size of losses. The structure of these programmes and type of protection bought will vary from year to year depending on the availability and price of cover.

On large risks, individual facultative reinsurance may be purchased to protect against a loss to that specific risk.

Specific risk excess of loss reinsurance is purchased for certain portfolios of business. The amount of cover bought depends upon the line size written for each class. The deductibles, or amounts borne prior to recovery, vary from class to class as do the amounts of co-reinsurance or unplaced protection. Specific programmes are purchased to protect against large individual risk losses, such as fire or large energy losses, and these programmes may be combined at a higher level into a general programme for larger losses.

The combined claims from several policies which may aggregate in a single catastrophe event are protected by catastrophe cover. UK and European direct property accounts are protected by a European property catastrophe programme. There is also a worldwide catastrophe programme protecting direct and facultative property business.

A separate retrocessional excess of loss programme is purchased by the Group to protect the excess of loss reinsurance portfolio written in London, Bermuda and Zurich against such losses.

With effect from 1 January 2015, the programme deductible for all territories and perils is US$125.0 million for a first loss with a lower deductible applicable for second and subsequent Florida windstorm losses. Aggregate protection has been renewed to provide lower level cover in the event of multiple losses to the portfolio.

Excess of loss protection is also purchased to protect the motor treaty reinsurance account written in Zurich.

In July 2013, the Group acquired coverage for US and Canadian earthquake perils of up to US$75.0 million from a Bermudian special purpose insurer, Tramline Re II Ltd, which in turn placed a catastrophe bond into the capital markets. This transaction provides the Group with fully collateralised protection over a four-year period from 1 July 2013 and is in addition to the protection the Group purchases through the traditional reinsurance marketplace. The bond provides protection against a remote catastrophic event for the Group.

In December 2014, the Group acquired coverage for US hurricane, US earthquake and European windstorm perils of up to US$200.0 million from Tramline Re II Ltd, which in turn placed a second catastrophe bond into the capital markets. This transaction replaces the coverage provided by Tramline Re Ltd (which expired on 31 December 2014) and provides the Group with fully collateralised protection over a four-year period from 1 January 2015. This is in addition to the protection the Group purchases through the traditional reinsurance marketplace. The bond provides significant protection against remote but substantial catastrophe events for the Group.

There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances as, for very severe catastrophe losses, it is possible that the full extent of the cover bought is not sufficient. Any loss amount which exceeds the programme would be retained by the Group. It is also possible that a dispute could arise with a reinsurer which reduces the recovery made. The reinsurance programme is bought to cover the expected claims arising on the original portfolio. However, it is possible for there to be a mismatch, or a gap in cover, which would result in a higher than expected retained loss.

Many parts of the programme also have limited reinstatements and therefore the number of claims which may be recovered from second or subsequent major losses is limited. It is possible for the programme to be exhausted by a series of losses in one annual period and it may not be possible to purchase additional reinsurance at all or for an acceptable price. This would result in the Group bearing higher losses from further events occurring. It should also be noted that the renewal date of the reinsurance programmes does not necessarily correspond to that of the business written. Where business is not protected by risk attaching reinsurance (which provides coverage for the duration of all the policies written) this reinsurance protection could expire resulting in an increase in possible loss retained by the Group if renewal of the programme is not achieved.

*Realistic disaster scenario (RDS) analysis*

The Group has a defined event risk tolerance which determines the maximum net loss that the Group intends to limit its exposure with respect to major modelled catastrophe event scenarios. Currently this is a maximum of £300.0 million (2013: £350.0 million) for the Group. The Group Underwriting Risk team are responsible for aggregating potential scenarios and at 1 January 2015, levels of exposure were below the potential maximum tolerance, one of the largest being the San Francisco Earthquake at £271.0 million for the Group. At present the Group is not utilising the full extent of its risk tolerance.

These scenarios are extraordinary events – with an occurrence probability of less than 1 in 100 years estimated for natural peril or elemental losses. The Group also adopts risk tolerance maximum net limits for a number of other non-elemental scenarios, including aviation collision and North Sea rig loss.

The risk tolerance policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include changes in rates of exchange, non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements which increase original claims levels.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against risk tolerance. The following assumptions and procedures are used in the process:

- The data used reflects the information supplied to the Group by insureds and ceding companies. This may prove to be incomplete, inaccurate or could develop during the policy period;

- The exposures are modelled using a mixture of stochastic models and underwriter input to arrive at "damage factors" – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;

- The reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is included in the analysis but may prove to be inadequate; and

- Reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate.

Furthermore, there could also be a loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote, but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

### i) Claims reserving and IBNR

*Insurance liabilities and reinsurance assets: Calculation of incurred but not reported (IBNR) and claims development*

The Group adopts a rigorous process in the calculation of an adequate provision for insurance claim liabilities. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. Therefore, the reserves are set at a level above the mean actuarial "best estimate" position. However, there is a risk that, due to unforeseen circumstances, the reserves carried are not sufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

*Process and methodology*

The reserving process commences with the proper recording and reporting of claims information which consists of paid and notified or outstanding claims. For the London market business information is received through Xchanging plc (the London market bureau) and, in the case of Amlin UK service companies and Amlin Europe, Amlin Bermuda and Amlin Re Europe, directly from brokers and policyholders. Claims records are maintained for each policy and class. For notified or outstanding claims, a case reserve is established based on the views of underwriting management and claims managers, using external legal or expert advice where appropriate. This reserve is expected to be sufficient to meet the claim payment when it is finally determined. For some classes of business, particularly liability business, settlement may be several years after the initial notification of the claim, as it may be subject to complexities or court action. For claims received from Xchanging plc, the market reserve is generally set by the lead underwriter, but there are circumstances on larger claims where the Group will post higher reserves than those notified.

To assist with the process of determining the reserves, triangulation statistics for each class are produced which show the historical development of premium, as well as paid and incurred losses, for each underwriting year (accident year for Amlin Europe). In all cases, the different potential development of each class of business is fully recognised. The development period varies by class, by method of acceptance and is also determined by the deductible of each policy written. For casualty business, the policy form will determine whether claims can be made on a claims made (as advised) or on a losses occurring (determined by date of loss) basis. This has a significant impact on the reporting period in which claims can be notified.

*IBNR*

To establish a provision for IBNR claims, the local actuarial teams use their experience and knowledge of the classes of business to estimate the potential future development of the incurred claims for each class for every underwriting year (accident year for Amlin Europe). This is known as the "best estimate". In setting the IBNR provision, estimates are made for the ultimate premium and ultimate gross claims value for each underwriting year ('ultimate' earned claims for each accident year for Amlin Europe). Allowance is then made for anticipated reinsurance recoveries to reach a net claim position. Reinsurance recoveries are calculated for outstanding and IBNR claims, sometimes through the use of historical recovery rates or statistical projections, and provisions are made as appropriate for bad debt or possible disputes. The component of ultimate IBNR provision estimates and reinsurance recoveries that relates to future events occurring to the existing portfolio is removed in order to reflect generally accepted accounting practice.

Meetings are initially held in which underwriters and actuaries discuss the initial proposed estimates and revise them if it is felt necessary. At the next round of meetings, local management discuss reserving issues with the actuaries and underwriters and challenge the proposed estimates. At this meeting, local management propose the "margin" for risk to be added to the best estimate, assisted by diagnostics produced from the internal model. The margin is proposed on a net of reinsurance basis only. Further meetings are then held at which further review and challenge is provided by central teams, led by Amlin Risk.

*Areas of uncertainty*

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR claims. The impact on profit before tax of a 1% improvement/deterioration in the total net claims reserves would be £26.2 million gain/loss (2013: £25.5 million).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of lawyers. Claims arising from events such as the 11 September 2001 terrorist attacks in the US are examples of cases where there continues to be some uncertainty over the eventual value of claims.

### 13. Insurance liabilities and reinsurance assets continued

i) Claims reserving and IBNR continued

Property catastrophe claims, such as earthquake or hurricane losses can take several months or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Group. There is uncertainty over the adequacy of information and modelling of major losses for a period that can range from several months to a number of years after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased repair cost inflation or a change in law.

The long tail liability classes represent the most difficult classes to project because often claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for liability business written on a losses occurring basis.

The use of historical development data is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims. Known changes to wordings or the claims environment are also considered.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

The estimated premium income in respect of facility contracts, for example, binding authorities and lineslips, is deemed to be written in full at the inception of the contract but actual premium may exceed or fail to meet initial estimates. The magnitude of claims arising from such facilities may differ from estimates as a result of differences between estimated and actual premium.

j) Internal capital modelling of risk

To improve the Group's risk management capability, and assessment of capital requirements, the Group has developed a stochastic financial model. This enables standalone modelling for each entity as well as a consolidated Group total position. The output from the model includes a distribution of financial outcomes for all material risks. The main output of the model gives a full distribution of potential profit or loss scenarios allowing the future profitability of the business to be managed on a risk adjusted basis.

The model requires the input of a large number of explicit parameters. Those inputs are based on many different sources of information including detailed historical data on premium and claims, forecast income and exposures, estimated rating levels and catastrophe loss data from proprietary models applied to the Group's portfolio. It enables projection of an estimated mean ultimate loss ratio and the distribution of results around it. The model explicitly recognises diversification credit, since class results are not all strongly correlated and thus individual classes are unlikely to all produce losses (or profits) in the same year. Due to the inherent uncertainty of predicting the key drivers of business performance, including in particular the level of claims, any individual simulation of the model viewed in isolation cannot be relied upon as an accurate forecast. However, the output from many thousands of simulated results can provide a picture of the possible distribution of business results. This output is useful in developing an understanding of the losses which may be borne by the business at varying levels of probability.

There are a large number of uncertainties and difficulties in achieving accurate results from the model. Some of the key issues are:

- The model is based on a best estimate view of business volumes and rate expectations, which may not be borne out in practice;
- A significant change in the portfolio of business could result in the past not being a reliable guide to the future;
- Forecasting changes to external environmental factors may be incorrectly assessed;
- Model risk may be significant in such a complex and developing discipline;
- Key assumptions over levels of correlation between classes may over time prove to be incorrect; and
- Catastrophe model inputs, which estimate the severity and frequency of large catastrophes on the portfolio, may turn out to overstate or understate the risk.

The results reproduced in the table below represents the modelled capital amounts required to be able to absorb an extreme loss at the 1 in 200 year level (i.e. at the 0.5 percentile). This probability is the calculation benchmark required under Solvency II. However, it does not represent the level of capital required for the Group to support current and expected business levels.

Furthermore, the Group is required to carry higher levels of capital which are considered sufficient by the rating agencies and clients.

| Forecast (unaudited) | 2015 £m | 2014 £m |
|---|---|---|
| Underwriting risk | **340** | 408 |
| Reserving risk | **264** | 250 |
| Credit (reinsurance counterparty risk) | **35** | 27 |
| Investment (market risk) | **35** | 28 |
| Liquidity risk | **1** | 4 |
| Operational risk | **48** | 52 |
| Currency risk | **62** | 46 |
| Diversified result | **785** | 815 |

Note:

1. All figures are based on business plan forecasts which are subject to regular review to take account of changes in the trading environment, interest rate outlook and movements in rates of exchange.
2. These figures are derived from the Group internal capital model and are based on data as at 31 December 2014.
3. Capital has been allocated to risk categories using the Percentile Layer Capital Allocation approach. It should be recognised that allocating capital has a number of limitations and different allocations can be obtained by using alternative allocation approaches.
4. No dividend is considered.
5. Investment (market) risk includes explicit modelling of currency risk.
6. Non-sterling amounts in the internal capital model have been converted using business planning rates of exchange as at 31 December 2014 (US$1.66: CAN$1.83: €1.21) (31 December 2013: US$1.66: CAN$1.76: €1.20).
7. Figures include an allowance for investment returns generated on assets backing the insurance liabilities (i.e. discounting).
8. Investment income includes Group corporate (surplus) assets.
9. No credit has been taken for carried reserve margins.

### 14. Property and equipment

| | Note | Freehold land and buildings £m | Leasehold land and buildings £m | Motor vehicles £m | Computer equipment £m | Fixtures, fittings and leasehold improvements £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2014 | | 8.7 | 2.2 | 0.8 | 43.6 | 16.8 | 72.1 |
| Additions | | 13.7 | – | 0.4 | 1.6 | 3.3 | 19.0 |
| Disposals | | – | – | (0.4) | (2.9) | – | (3.3) |
| Foreign exchange losses | | – | – | – | – | (0.2) | (0.2) |
| At 31 December 2014 | | **22.4** | **2.2** | **0.8** | **42.3** | **19.9** | **87.6** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2014 | | 0.5 | – | 0.1 | 37.6 | 11.3 | 49.5 |
| Charge for the year | 7(g) | 0.1 | 0.1 | 0.2 | 2.9 | 2.1 | 5.4 |
| Disposals | | – | – | (0.3) | (2.9) | – | (3.2) |
| At 31 December 2014 | | **0.6** | **0.1** | **–** | **37.6** | **13.4** | **51.7** |
| **Net book value** | | | | | | | |
| **At 31 December 2014** | | **21.8** | **2.1** | **0.8** | **4.7** | **6.5** | **35.9** |
| At 1 January 2014 | | 8.2 | 2.2 | 0.7 | 6.0 | 5.5 | 22.6 |

| | Note | Freehold land and buildings £m | Leasehold land and buildings £m | Motor vehicles £m | Computer equipment £m | Fixtures, fittings and leasehold improvements £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2013 | | 7.2 | – | 0.1 | 40.8 | 14.9 | 63.0 |
| Additions | | 1.5 | 2.2 | 0.3 | 2.6 | 0.7 | 7.3 |
| Acquisition through business combination | | – | – | 0.6 | 0.4 | 1.4 | 2.4 |
| Disposals | | – | – | (0.1) | (0.2) | – | (0.3) |
| Foreign exchange losses | | – | – | (0.1) | – | (0.2) | (0.3) |
| At 31 December 2013 | | 8.7 | 2.2 | 0.8 | 43.6 | 16.8 | 72.1 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2013 | | 0.4 | – | – | 33.1 | 9.1 | 42.6 |
| Charge for the year | 7(g) | 0.1 | – | 0.2 | 4.8 | 2.3 | 7.4 |
| Disposals | | – | – | (0.1) | (0.2) | – | (0.3) |
| Foreign exchange gains | | – | – | – | (0.1) | (0.1) | (0.2) |
| At 31 December 2013 | | 0.5 | – | 0.1 | 37.6 | 11.3 | 49.5 |
| **Net book value** | | | | | | | |
| **At 31 December 2013** | | 8.2 | 2.2 | 0.7 | 6.0 | 5.5 | 22.6 |
| At 1 January 2013 | | 6.8 | – | 0.1 | 7.7 | 5.8 | 20.4 |

### 15. Goodwill and intangible assets

| | Note | Goodwill £m | Syndicate participations £m | Broker and customer relationships £m | Computer software £m | Other intangibles £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2014 | | 89.5 | 63.2 | 71.7 | 46.7 | 3.2 | 274.3 |
| Additions | | – | – | – | 9.9 | – | 9.9 |
| Acquisition through business combination | 3(a) | 20.4 | – | 15.1 | – | – | 35.5 |
| Adjustment to prior acquisition | | – | – | – | 0.1 | (0.2) | (0.1) |
| Foreign exchange losses | | (3.4) | – | (3.2) | (1.0) | – | (7.6) |
| **At 31 December 2014** | | **106.5** | **63.2** | **83.6** | **55.7** | **3.0** | **312.0** |
| **Accumulated amortisation** | | | | | | | |
| At 1 January 2014 | | 0.4 | – | 24.2 | 7.9 | 2.7 | 35.2 |
| Charge for the year | 7(g) | – | – | 4.3 | 6.3 | 0.2 | 10.8 |
| Foreign exchange gains | | – | – | (1.2) | (0.2) | – | (1.4) |
| **At 31 December 2014** | | **0.4** | **–** | **27.3** | **14.0** | **2.9** | **44.6** |
| **Net book value** | | | | | | | |
| **At 31 December 2014** | | **106.1** | **63.2** | **56.3** | **41.7** | **0.1** | **267.4** |
| At 1 January 2014 | | 89.1 | 63.2 | 47.5 | 38.8 | 0.5 | 239.1 |

| | Note | Goodwill £m | Syndicate participations £m | Broker and customer relationships £m | Computer software £m | Other intangibles £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2013 | | 75.5 | 63.2 | 49.4 | 44.2 | 2.9 | 235.2 |
| Additions | | – | – | – | 2.2 | 0.3 | 2.5 |
| Acquisition through business combination | | 13.5 | – | 22.4 | – | – | 35.9 |
| Foreign exchange gains/(losses) | | 0.5 | – | (0.1) | 0.3 | – | 0.7 |
| At 31 December 2013 | | 89.5 | 63.2 | 71.7 | 46.7 | 3.2 | 274.3 |
| **Accumulated amortisation** | | | | | | | |
| At 1 January 2013 | | 0.4 | – | 18.6 | 2.6 | 2.2 | 23.8 |
| Charge for the year | 7(g) | – | – | 5.4 | 5.3 | 0.5 | 11.2 |
| Foreign exchange losses | | – | – | 0.2 | – | – | 0.2 |
| At 31 December 2013 | | 0.4 | – | 24.2 | 7.9 | 2.7 | 35.2 |
| **Net book value** | | | | | | | |
| **At 31 December 2013** | | 89.1 | 63.2 | 47.5 | 38.8 | 0.5 | 239.1 |
| At 1 January 2013 | | 75.1 | 63.2 | 30.8 | 41.6 | 0.7 | 211.4 |

The amortisation charge for the year is included within ‘Other administrative expenses’ in note 7(b).

Syndicate participations represent the ongoing rights to trade on Syndicate 2001 within the Lloyd’s insurance market.

Goodwill and the intangible asset in relation to syndicate participations are considered to have an indefinite life. As such, they are tested for impairment annually. All other intangible assets are tested for impairment only if an indication exists that the asset may be impaired at the reporting date.

Broker and customer relationship intangibles include those acquired in relation to AUA Insolvency Risk Services Limited, Amlin Europe N.V., RaetsMarine Insurance B.V. and Leadenhall Capital Partners LLP; the net book value being £8.0 million (2013: £9.0 million), £15.4 million (2013: £18.2 million), £17.6 million (2013: £20.3 million) and £15.3 million (2013: nil) respectively. These intangibles are being amortised over a period of 13, 15, 15 and 12 years respectively, and their remaining amortisation life is nine, 10, 13 and 12 years respectively.

Included within the net book value of £15.3 million broker and customer relationship intangibles for Leadenhall Capital Partners LLP is the net book value of £3.8 million relating to the non-controlling interest’s share.

Computer software represents the costs that the Group has incurred on internally developed software and predominantly relates to current development of Group finance systems and to a new underwriting platform for Amlin Europe N.V. developed in 2012. The amortisation of the Group finance systems will commence at the point of completion. Costs relating to Amlin Europe N.V. are being amortised over 10 years, with eight years remaining.

### 15. Goodwill and intangible assets continued
For the purpose of impairment testing, intangible assets are allocated to the Group's cash generating units (CGUs), identified according to the way in which management operates and monitors the business. The intangible asset relating to the syndicate participations supports the underwriting in Amlin London and Amlin UK.

The analysis of goodwill and indefinite life intangible assets by CGU is shown below:

| | 2014 | | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amlin London £m | Amlin UK £m | Amlin Europe £m | Leadenhall Capital Partners £m | Total £m | Amlin London £m | Amlin UK £m | Amlin Europe £m | Total £m |
| Goodwill | 18.8 | 4.8 | 61.5 | 21.0 | 106.1 | 18.8 | 4.8 | 65.5 | 89.1 |
| Syndicate participations | 57.1 | 6.1 | – | – | 63.2 | 55.2 | 8.0 | – | 63.2 |
| | 75.9 | 10.9 | 61.5 | 21.0 | 169.3 | 74.0 | 12.8 | 65.5 | 152.3 |

The Amlin London goodwill balance comprises the goodwill from three CGUs. The largest individual balance is the goodwill from the acquisition of Lead Yacht Underwriters Limited totalling £11.5 million (2013: £11.5 million).

The Amlin Europe goodwill balance comprises the goodwill from one CGU, following the acquisition of Amlin France Holdings SAS by Amlin Europe N.V., its formation as a branch and further integration of operations. The largest individual balance is the goodwill from the acquisition of Amlin Europe N.V. totalling £27.0 million (2013: £28.5 million).

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. Value in use is calculated for each CGU using a discounted cash flow projection based on business plans and growth assumptions approved by management and discounted at an appropriate discount rate.

Key assumptions used in the calculation are as follows:

- Cash flow projections are based on the budgeted profit before tax for each CGU contained within the most recent business plans approved by management, adjusted for non-cash items such as depreciation. As such, these forecasts reflect the best estimate of future cash flows based on historical trends and expected growth rates. The period covered by the projections is five years. The most significant assumptions used to derive the operating profit include an assessment of the market cycle, retention rates, claims inflation, outwards reinsurance expenditure and long-term investment return;

- In order to extrapolate future cash flows beyond the business plan period, a long-term average growth rate of 2.5% (2013: 2.5%) has been assumed for all CGUs, based on historical growth rates and management's estimates of future growth; and

- A risk adjusted pre-tax discount rate of 8.5% (2013: 8.5%), has been applied to each CGU's cash flow projection, which reflects a combination of factors including the Group's expected cost of equity, expected cost of borrowing, and different risk factors attaching to each CGU.

In each case, the results of this exercise indicate that the recoverable amount exceeds the intangible asset's carrying value and would not be sensitive to reasonable possible changes in assumptions.

## 16. Retirement benefit obligations

The Group participates in a number of pension arrangements, including defined contribution schemes, defined benefit schemes and personal pension schemes.

### a) Defined benefit schemes

The Group participates in four funded defined benefit schemes, the Lloyd's Superannuation Fund located in the United Kingdom, Amlin Europe schemes located in the Netherlands and Belgium and the Amlin Re Europe scheme in Switzerland.

*Scheme descriptions*

Lloyd's Superannuation Fund – United Kingdom

The scheme is operated as part of the Lloyd's Superannuation Fund (the Fund). The Fund is administered by an entity which is legally separate from the Group. The board of the pension fund, the board of trustees, is made up by a majority of independent directors, an Amlin employers' director and an Amlin members' director. The trustees are required by legislation and by its articles of association to act in the interests of the pension scheme and the plan participants. The trustees are responsible for the investment strategy of the Fund, in accordance with the Statement of Investment Principles. The trustees are also responsible for the appointment of custodians and actuaries for the Fund, in addition to consulting with the employers of the Fund.

Historically the Fund has catered for a number of employers in the Lloyd's market. As a consequence of market consolidation, employers closing final salary schemes and some companies failing, during 2013 Amlin became the only active employer in the Fund.

Prior to Amlin becoming the sole participating employer, the trustees operated separate notional accounts for the scheme of each contributing employer and also a section relating to former employees of the employers no longer contributing to the fund (known as the orphans' section). Since becoming the sole participating employer, the trustees has stopped notionally segregating the assets and therefore the Company continues to be ultimately responsible for the assets and liabilities of the Fund, including 100% of the orphan liabilities (2013: 100%).

Following the exit of the remaining other employer during 2013, the trustees entered into a contract with an insurance company to secure the liabilities relating to the employer exiting the Fund and to some of the liabilities of the orphans' section. During 2014, the trustees subsequently decided that they would not be securing seven members of the exiting employer outside the Fund under this insurance contract. Instead the trustees opted to retain them in the Fund as orphan section members and maintain their cover with the insurance contract. This has resulted in an increase in the defined benefit obligation by £5.8 million and a corresponding (and equal) increase in the assets of the Fund as at 31 December 2014.

Amlin Europe schemes – Netherlands and Belgium

Amlin Europe N.V. operates two defined benefit pension schemes covering the majority of its employees. These plans are governed by the Amlin Europe board in accordance with Dutch and Belgian legislation. Under these schemes, benefits are based on years of service and level of salary. Benefits also include other post-employment benefits which continue to be granted to employees after retirement. These plans are insured and are funded partly by means of employee contributions.

Amlin Re Europe scheme – Switzerland

Amlin Re Europe operates a pension scheme which meets the classification of a defined benefit scheme under IAS 19. In accordance with Swiss legislation, Amlin Re Europe provides for occupational pension insurance, the regulations of which, as may be amended from time to time, apply to both Amlin Re Europe and the employee. The pension scheme's management board (equally consisting of employer as well as employee representatives) retains overall responsibility for deciding on such fundamental aspects as the level and structure of plan benefits.

The insured salary is based on the agreed compensation exclusive of bonus and/or other benefits granted by Amlin Re Europe. The employees pay a portion of the premium determined in the applicable pension fund regulations.

*Net defined benefit liability*

Amount recognised in the consolidated statement of financial position in respect of the Group's defined benefit schemes is as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Present value of defined benefit obligation | **(572.3)** | (470.3) |
| Fair value of scheme assets | **535.1** | 468.1 |
| Deficit in schemes | **(37.2)** | (2.2) |
| Restriction to defined benefit asset due to asset ceiling | **(4.2)** | (30.4) |
| **Net defined benefit liability** | **(41.4)** | (32.6) |

# Notes to the financial statements continued
# For the year ended 31 December 2014

### 16. Retirement benefit obligations continued

The movement in the net defined benefit liability is as follows:

| | Present value of obligation £m | Fair value of scheme assets £m | Deficit in schemes £m | Effect of asset ceiling £m | Net defined benefit liability £m |
|---|---|---|---|---|---|
| At 1 January 2014 | (470.3) | 468.1 | **(2.2)** | (30.4) | **(32.6)** |
| Interest (expense)/income | (19.3) | 19.6 | **0.3** | (1.3) | **(1.0)** |
| Current service cost | (5.1) | – | **(5.1)** | – | **(5.1)** |
| Past service cost | 0.9 | – | **0.9** | – | **0.9** |
| Administration expenses | 0.4 | (1.6) | **(1.2)** | – | **(1.2)** |
| **(Charged)/credited to consolidated statement of profit or loss** | (23.1) | 18.0 | **(5.1)** | (1.3) | **(6.4)** |
| Re-measurements: | | | | | |
| Actuarial gains and losses arising from: | | | | | |
| – changes in demographic assumptions | (8.6) | – | **(8.6)** | – | **(8.6)** |
| – changes in financial assumptions | (66.5) | 11.5 | **(55.0)** | – | **(55.0)** |
| – changes in experience | (26.4) | 5.8 | **(20.6)** | – | **(20.6)** |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 46.9 | **46.9** | – | **46.9** |
| Changes in asset ceiling, excluding amounts included in interest (expense)/income | – | – | **–** | 27.5 | **27.5** |
| **(Charged)/credited to consolidated statement of other comprehensive income** | (101.5) | 64.2 | **(37.3)** | 27.5 | **(9.8)** |
| Exchange differences | 5.8 | (4.1) | **1.7** | – | **1.7** |
| Participant contributions | (1.1) | 1.1 | **–** | – | **–** |
| Benefits paid | 17.9 | (17.9) | **–** | – | **–** |
| Employer contributions | – | 5.7 | **5.7** | – | **5.7** |
| **At 31 December 2014** | (572.3) | 535.1 | **(37.2)** | (4.2) | **(41.4)** |

A plan amendment has resulted in a reduction in past service costs of £0.8 million (2013: £1.6 million) due to the increase in the retirement age in the Netherlands effective from 1 January 2014.

| | Present value of obligation £m | Fair value of scheme assets £m | Deficit in Schemes £m | Effect of asset ceiling £m | Net defined benefit liability £m |
|---|---|---|---|---|---|
| At 1 January 2013 | (454.4) | 436.6 | (17.8) | (23.1) | (40.9) |
| Interest (expense)/income | (18.4) | 18.2 | (0.2) | (1.0) | (1.2) |
| Current service cost | (6.0) | – | (6.0) | – | (6.0) |
| Past service cost | 1.6 | – | 1.6 | – | 1.6 |
| Administration expenses | – | (1.6) | (1.6) | – | (1.6) |
| **(Charged)/credited to consolidated statement of profit or loss** | (22.8) | 16.6 | (6.2) | (1.0) | (7.2) |
| Re-measurements: | | | | | |
| Actuarial gains and losses arising from: | | | | | |
| – changes in demographic assumptions | 0.9 | – | 0.9 | – | 0.9 |
| – changes in financial assumptions | (4.6) | (2.4) | (7.0) | – | (7.0) |
| – other actuarial gains | (2.9) | 19.0 | 16.1 | – | 16.1 |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 5.7 | 5.7 | – | 5.7 |
| Changes in asset ceiling, excluding amounts included in interest (expense)/income | – | – | – | (6.3) | (6.3) |
| **(Charged)/credited to consolidated statement of other comprehensive income** | (6.6) | 22.3 | 15.7 | (6.3) | 9.4 |
| Exchange differences | (2.2) | 1.2 | (1.0) | – | (1.0) |
| Participant contributions | (1.2) | 1.2 | – | – | – |
| Benefits paid | 16.9 | (16.9) | – | – | – |
| Employer contributions | – | 7.1 | 7.1 | – | 7.1 |
| **At 31 December 2013** | (470.3) | 468.1 | (2.2) | (30.4) | (32.6) |

Other actuarial gains relate to the impact of the exit of the remaining other employer from Lloyd's Superannuation Fund in the UK.

### Funding arrangements

#### Lloyd's Superannuation Fund

Contributions are paid to provide for the cost of benefit accrual. The rate of contribution agreed with the trustees is 16% (2013: 16%) paid by the employer plus 5% (2013: 5%) member contributions, in each case of pensionable earnings, and additional contributions as agreed with the trustees. Contributions totalled £2.6 million at 31 December 2014 (2013: £2.8 million).

The funding position of the Fund is assessed every three years by an independent qualified actuary. Contributions are made at the funding rates recommended by the actuary and typically include adjustments to amortise any funding surplus or shortfall over a period. Amounts paid under the scheme are charged to Syndicate 2001 or other Group companies. The last completed formal valuation of the Fund was as at 31 March 2013 and was completed in June 2014 by Mr D Wilding, Fellow of the Institute of Actuaries, and used the projected unit credit actuarial method.

On 20 June 2014, the Group agreed a schedule of contributions with the Trustee, to run over 10 years. The schedule requires four separate payments of £2.0 million to the Fund, followed by six separate payments of £1.2 million to the Fund. The present value of the future payments attributable to past service has been recognised as a liability at 31 December 2014, to the extent that the contributions will not be available after they are paid into the Fund through a refund or a reduction in future contributions.

The Group has also entered into an agreement with the trustees to hold certain funds within an escrow account. The Group has made payments totalling £14.0 million to the escrow account, with the most recent made in May 2013, and it is now fully funded. Following the 2013 triennial actuarial valuation, the escrow account is being held as security against certain of the assumptions used in the valuation. Further details are provided in note 12(j).

#### Other schemes

Funding for the other schemes in operation is in accordance with related insurance arrangements and regulations described above.

*Restriction to defined benefit asset due to asset ceiling*

The Lloyd's Superannuation Fund's rules do not allow the Group to receive a refund of contributions in any circumstances. Therefore, the present value of the future payments has been recognised as a liability at 31 December 2014, to the extent that the contributions will not be available after they are paid into the Fund. A restriction to the defined benefit asset has therefore been recognised.

*Risks to which the Group is exposed through its defined benefit schemes*

The defined benefit schemes expose the Group to the following risks:

- Changes in bond yields – The discount rate used in calculating the present value of the defined benefit obligation is based upon the yield of high-quality debt instruments issued by blue-chip companies, with maturities consistent with those of the defined benefit obligations. A decrease in bond yields is likely to increase the defined benefit obligation.

- Asset volatility – There is a risk that the return on the plan assets underperforms the yield on corporate bonds, thereby reducing the surplus or increasing the deficit.

- Inflation risk – The defined benefit obligation is linked to inflation and therefore should the inflation rate increase, there will be an increase in the plan obligation.

- Life expectancy – The present value of the defined benefit obligation is calculated based on certain mortality assumptions as stated below. An increase in the life expectancy of the plan participants will result in an increase in the defined benefit obligation.

- Risk of insurer default – Where the schemes have entered into an insurance arrangement, if the insurer is unable to meet its obligations, or if the contract is cancelled by either party, it will fall to the Group to provide the benefits to members in accordance with the relevant scheme assets.

### 16. Retirement benefit obligations continued

a) Defined benefit schemes continued

*Significant actuarial assumptions*

The significant actuarial assumptions used as at 31 December 2014 were:

| | UK % pa | The Netherlands % pa | Belgium % pa | Switzerland % pa |
|---|---|---|---|---|
| Discount rate for pension benefits | **3.6** | **2.1** | **1.4** | **1.0** |
| Price inflation (CPI/RPI for UK) | **2.1/3.1** | **2.0** | **1.9** | **1.3** |
| Expected salary increases – general | **–** | **1.5-2.0** | **1.9** | **2.3** |
| Indexation for active and formerly active employees | **–** | **1.0-1.5** | **–** | **–** |

For the Lloyd's Superannuation Fund, there are no expected salary increases (2013: nil) because the plan participants' salaries have been capped at the date of buy out. They continue to accrue additional years' service but do not benefit from salary increases.

The significant actuarial assumptions used as at 31 December 2013 were:

| | UK % pa | The Netherlands % pa | Belgium % pa | Switzerland % pa |
|---|---|---|---|---|
| Discount rate for pension benefits | 4.4 | 3.7 | 2.5 | 2.3 |
| Price inflation (CPI/RPI for UK) | 2.5/3.5 | 2.0 | 2.0 | 1.5 |
| Expected salary increases – general | – | 2.0 | 2.0 | 2.5 |
| Indexation for active and formerly active employees | – | 2.0 | – | – |

The mortality assumptions used in the 31 December 2014 valuation included the following life expectancies:

| Life expectancy (years) at age 60 for a member currently: | UK | | The Netherlands | | Belgium | | Switzerland | |
|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Aged 60 | **28.2** | **30.0** | **26.8** | **28.0** | **26.7** | **30.9** | **26.4** | **29.0** |
| Aged 45 | **29.7** | **31.6** | **27.9** | **28.8** | **26.7** | **30.9** | **27.7** | **30.3** |

The mortality assumptions used in the 31 December 2013 valuation included the following life expectancies:

| Life expectancy (years) at age 60 for a member currently: | UK | | The Netherlands | | Belgium | | Switzerland | |
|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Aged 60 | 28.0 | 29.4 | 26.8 | 28.0 | 26.7 | 30.9 | 26.3 | 28.9 |
| Aged 45 | 30.0 | 31.0 | 27.9 | 28.8 | 26.7 | 30.9 | 27.7 | 30.3 |

Significant actuarial assumptions – sensitivities

The table below shows the impact on the defined benefit obligation that a change in certain key assumptions would have:

| Assumption change | 2014 £m | 2013 £m |
|---|---|---|
| (Increase)/decrease in discount rate by 0.25% | **(22.9)/25.5** | (18.2)/20.5 |
| (Decrease)/increase in inflation rate by 0.25% | **(9.7)/12.1** | (10.9)/11.3 |
| (Decrease)/increase in salary rate by 0.5% | **(1.3)/1.5** | (0.5)/0.6 |
| (Decrease)/increase in indexation rate by 0.5% | **(9.4)/11.5** | (6.6)/7.6 |
| (Decrease)/increase in life expectancy by one year | **(19.0)/19.0** | (13.6)/13.5 |

The above sensitivities of the significant actuarial assumptions have been calculated by changing each assumption in turn whilst all remaining assumptions are held constant. The limitation of this sensitivity analysis is that in practice assumptions may be correlated and therefore are unlikely to change in isolation.

*Analysis of scheme assets*

The analysis of the scheme assets at the reporting date is as follows:

| | 31 December 2014 | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted £m | Unquoted £m | Total £m | Total % | Quoted £m | Unquoted £m | Total £m | Total % |
| **Cash and cash equivalents** | **–** | **13.7** | **13.7** | **2.6** | – | 15.8 | 15.8 | 3.4 |
| **Equity instruments** | | | | | | | | |
| United Kingdom | **77.0** | **–** | **77.0** | **14.5** | 72.8 | – | 72.8 | 15.6 |
| Europe | **12.0** | **–** | **12.0** | **2.2** | 12.2 | – | 12.2 | 2.6 |
| North America | **30.6** | **–** | **30.6** | **5.7** | 27.0 | – | 27.0 | 5.8 |
| Asia | **6.6** | **–** | **6.6** | **1.2** | 5.5 | – | 5.5 | 1.2 |
| Rest of World | **6.6** | **–** | **6.6** | **1.2** | 8.1 | – | 8.1 | 1.7 |
| **Bonds** | | | | | | | | |
| Government | **167.6** | **–** | **167.6** | **31.3** | 97.8 | – | 97.8 | 20.9 |
| Corporate | **111.8** | **–** | **111.8** | **20.9** | 136.7 | – | 136.7 | 29.1 |
| **Property** | | | | | | | | |
| United Kingdom | **32.1** | **–** | **32.1** | **6.0** | 28.1 | – | 28.1 | 6.0 |
| **Total directly managed scheme assets – United Kingdom** | **444.3** | **13.7** | **458.0** | **85.6** | 388.2 | 15.8 | 404.0 | 86.3 |
| The Netherlands | | | **64.2** | **12.0** | | | 51.7 | 11.1 |
| Belgium | | | **3.6** | **0.7** | | | 3.4 | 0.7 |
| Switzerland | | | **9.3** | **1.7** | | | 9.0 | 1.9 |
| **Insured scheme assets** | | | **77.1** | **14.4** | | | 64.1 | 13.7 |
| **Total scheme assets** | | | **535.1** | **100.0** | | | 468.1 | 100.0 |

The analysis of the scheme assets by asset class are not provided for the Amlin Re Europe and Amlin Europe defined benefit schemes as the investment decisions are at the discretion of the third parties to whom Amlin Re Europe and Amlin Europe have ceded investment risk under the insurance policies taken out to meet their obligations. These scheme assets are shown as insured scheme assets in the table above.

*Asset-liability matching strategies*

In accordance with the governance arrangements set out above, investment strategies are in place to maintain long-term investments which are aligned to the obligations under the defined benefit pension schemes. The Group actively monitors how the duration and expected yield of the investments match the expected cash outflows arising from the pension obligations.

In addition, for the scheme in the UK, a proportion of the Fund's assets are invested in a liability driven investment portfolio. The objective of this portfolio is to match these assets to a proportion of the Fund's liabilities.

The Group has not changed the processes used to manage its risks from prior period.

*Maturity profile of the defined benefit obligations*

The weighted average duration of the defined benefit obligation (years) is as follows:

| | 2014 | 2013 |
|---|---|---|
| UK | **17** | 17 |
| The Netherlands | **26** | 22 |
| Belgium | **13** | 12 |
| Switzerland | **18** | 19 |

### 16. Retirement benefit obligations continued

a) Defined benefit schemes continued

The expected maturity analysis of the undiscounted pension benefits is as follows:

| | UK £m | The Netherlands £m | Belgium £m | Switzerland £m |
|---|---|---|---|---|
| Less than a year | 16.1 | 1.3 | 0.3 | 0.5 |
| Between 1-2 years | 16.5 | 1.4 | 0.3 | 0.6 |
| Between 2-5 years | 51.5 | 4.8 | 1.5 | 1.7 |
| Over 5 years | 905.9 | 213.9 | 14.3 | 34.0 |
| **Total as at 31 December 2014** | **990.0** | **221.4** | **16.4** | **36.8** |

| | UK £m | The Netherlands £m | Belgium £m | Switzerland £m |
|---|---|---|---|---|
| Less than a year | 16.0 | 1.4 | 0.2 | 0.5 |
| Between 1-2 years | 16.4 | 1.5 | 0.3 | 0.5 |
| Between 2-5 years | 51.6 | 4.9 | 1.3 | 1.8 |
| Over 5 years | 1,016.0 | 313.2 | 15.7 | 35.8 |
| Total as at 31 December 2013 | 1,100.0 | 321.0 | 17.5 | 38.6 |

*Expected contributions*

The effect of the defined benefit plans on the Group's future cash flows as a result of the expected contributions for the year ending 31 December 2015 is as follows:

| | UK £m | The Netherlands £m | Belgium £m | Switzerland £m |
|---|---|---|---|---|
| Contributions from the Group | 2.5 | 1.2 | 0.4 | 0.7 |
| Contributions from plan participants | 0.1 | 0.6 | – | 0.3 |
| **Total contributions to the schemes** | **2.6** | **1.8** | **0.4** | **1.0** |

b) The stakeholder defined contribution schemes

The defined contribution schemes operated by the Group are stakeholder arrangements. The total contributions to the schemes for the year ended 31 December 2014 are £8.3 million (2013: £7.8 million).

c) Other arrangements

In addition to the defined benefit schemes and defined contribution schemes, the Group has an occupational money purchase scheme which provides death in service protection for all employees. Regular contributions, expressed as a percentage of employees' earnings, are paid into this scheme and are allocated to accounts in the names of the individual members, which are independent of the Group's finances. There were no outstanding contributions at 31 December 2014 (2013: £nil).

## 17. Capital & reserves

a) Share capital

| | 2014 Number | 2014 £m | 2013 Number | 2013 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid ordinary shares** | | | | |
| At 1 January issued ordinary shares of 28.125p each | **504,799,359** | **142.0** | 502,076,006 | 141.2 |
| Ordinary shares of 28.125 pence each issued in the year | **66,541** | **–** | 2,723,353 | 0.8 |
| **At 31 December issued ordinary shares of 28.125p each** | **504,865,900** | **142.0** | 504,799,359 | 142.0 |

The Company transferred 756,372 shares out of treasury during the year at a cost of £1.9 million (2013: 716,586 shares at a cost of £1.8 million). The shares have been transferred to meet exercises of employee share options, leaving 3,495,713 shares in treasury at 31 December 2014 (2013: 4,252,085 shares). This number does not include shares held by the trustee of the Group's Employee Share Ownership Trust as disclosed in note 7(d).

The Group issued 66,541 ordinary shares on 7 November 2014 in conjunction with the acquisition of Leadenhall Capital Partners LLP, as per note 3(a). The shares issued have the same rights as all other shares in issue. The fair value of the shares issued is £0.3 million (434.115 pence per share).

b) Other reserves

All items of other comprehensive income in 2014 and 2013 are charged to 'Other reserves'. Other reserves are as follows:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Capital redemption reserve | | **123.1** | 123.1 |
| Defined benefit pension reserve | | **(49.9)** | (40.1) |
| Foreign operations translation reserve | | **(8.1)** | (9.6) |
| Employee share option reserve | | **11.3** | 9.3 |
| Hedge accounting reserve | | **(41.1)** | (43.0) |
| Merger reserve | | **87.7** | 87.7 |
| Pre-1999 goodwill write-off | | **(45.7)** | (45.7) |
| Other | | **1.0** | 1.2 |
| Tax relating to components of other reserves | 8 | **30.8** | 29.5 |
| | | **109.1** | 112.4 |

c) Net assets per share

Net assets and tangible net assets per share are as follows:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Net assets | | **1,785.9** | 1,678.6 |
| Non-controlling interests | | **(3.1)** | (0.5) |
| Equity attributable to owners of the Parent Company | | **1,782.8** | 1,678.1 |
| Adjustments for goodwill and intangible assets (excluding non-controlling interest's share) | 15 | **(263.6)** | (239.1) |
| Tangible net assets (excluding non-controlling interests for 2014) | | **1,519.2** | 1,439.5 |
| | | | |
| Number of shares in issue at end of the year (millions) | | **504.9** | 504.8 |
| Adjustment for ESOT and treasury shares (millions) | | **(5.3)** | (6.2) |
| Basic number of shares after ESOT and treasury shares adjustment (millions) | | **499.6** | 498.6 |
| | | | |
| Basic net assets per share | | **356.8p** | 336.7p |
| Basic tangible net assets per share | | **304.1p** | 288.7p |

Note:
The calculation of tangible net assets was amended in 2014 to incorporate an adjustment for Non-controlling interests included in the Equity attributable to owners of the Parent Company.

## 18. Subsidiaries and associates

a) Principal subsidiaries

The principal subsidiaries at 31 December 2014 which are consolidated in these financial statements are detailed below. Unless otherwise stated, the Group owns 100% of ordinary share capital and voting rights in these entities:

| Subsidiaries | Principal activity | Registered in |
|---|---|---|
| Allied Cedar Insurance Group Limited | Intermediate holding company | England and Wales |
| Amlin AG | Reinsurance company | Switzerland |
| Amlin Bermuda Holdings Limited | Finance company | Bermuda |
| Amlin Corporate Member Limited | Corporate member at Lloyd's | England and Wales |
| Amlin Corporate Services Limited | Group service, employing and intermediate holding company | England and Wales |
| Amlin Europe N.V.[1] | Insurance company | The Netherlands |
| Amlin Insurance (UK) Public Limited Company | Insurance company | England and Wales |
| Amlin (Overseas Holdings) Limited | Intermediate holding company | England and Wales |
| Amlin Plus Limited[2] | Lloyd's coverholder | England and Wales |
| Amlin Singapore Pte Limited | Lloyd's service company | Singapore |
| Amlin Underwriting Limited | Lloyd's managing agency | England and Wales |
| Amlin Underwriting Services Limited | Lloyd's coverholder | England and Wales |
| AUA Insolvency Risk Services Limited | Regulated broker | England and Wales |
| JR Clare Underwriting Agencies Limited | Lloyd's coverholder | England and Wales |
| Lead Yacht Underwriters Limited | Lloyd's coverholder | England and Wales |
| Leadenhall Capital Partners LLP[3] | Investment adviser and fund manager | England and Wales |
| RaetsMarine Insurance B.V. | Broker | The Netherlands |

Note:
1. Pursuant to a merger agreement dated 27 March 2014, all the assets and liabilities of Amlin France Holdings SAS were transferred to Amlin France SAS. Following this merger, Amlin France SAS was wound up without liquidation, effective 4 December 2014 and all its business operations and employees transferred into Amlin Europe NV where it now operates as the French branch of Amlin Europe N.V.
2. The non-controlling interest in Amlin Plus Limited (40%) was acquired by the Group on 20 May 2014.
3. Amlin Group has a 75% share in Leadenhall Capital Partners LLP, effective from 23 October 2014, see note 3(a) for more details.

Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or net assets of the Group.

b) Investments in associates

The Group owns interests in two associates: Miles Smith Holdings Limited and Manchester Underwriting Management Limited. The aggregate amount of the Group's share of profit after tax from investments in associates during the year is as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Share of profit after tax of associates[1] | **3.7** | 3.9 |
| Total comprehensive income | **3.7** | 3.9 |
| Investment in associates[2] | **7.0** | 12.5 |
| Total assets | **7.0** | 12.5 |

Notes:
1. Includes the Group's share of profit from its investment in Leadenhall Capital Partners LLP of £3.4 million (2013: £3.6 million) prior to the Group acquiring a controlling interest.
2. Includes the Group's equity accounted investment in Leadenhall Capital Partners LLP of £nil (2013: £5.7 million) prior to the Group acquiring a controlling interest.

At 31 December 2014, the Group had an aggregate balance receivable from associates, excluding loans as detailed below, of £4.2 million (2013: £6.4 million). No amounts were provided for doubtful recovery of outstanding balances and no expense was recognised during the year in respect of bad or doubtful debts due from associates.

The Group's loan to Miles Smith Holdings Limited of £0.2 million was settled during the year (2013: £0.2 million). Convertible loan stock of £0.7 million (2013: £0.7 million) has been issued by the associate to the Group. The conversion date is 31 December 2015. Interest on the convertible loan stock is accrued at 5.0% over five-year gilts.

The Group has a loan to Manchester Underwriting Management Limited of £2.2 million (2013: £2.7 million). The loan is repayable in full on dates between 1 January 2015 and 21 November 2018. Interest is charged at rates between 5.0% and 5.5% above the Bank of England base rate.

c) Interests in unconsolidated structured entities
As per note 12(b), the Group holds financial investments in certain pooled vehicles which are typically sub-funds of umbrella structures. These sub-funds meet the definition of structured entities under IFRS 10 as voting and similar rights are not the dominant factor in determining who controls the entity. Decision making at the sub-fund level is typically restricted to administrative tasks only, and instead it is the voting rights at the umbrella level which determines the control of the sub-funds.

The investments which meet the definition of structured entities are the Group's investments in pooled vehicles – liquidity funds and pooled vehicles – bonds and LIBOR plus funds, as listed in note 12(g). The funds under management with each of the fund managers in these pooled vehicles are also included within the same note. These amounts are recorded within financial assets on the Group's consolidated statement of financial position.

The maximum exposure to loss from the Group's interests in unconsolidated structured entities is 100% of the funds invested in those entities, should the fair value of the assets held deteriorate to nil.

The Group has provided no financial or other support to any unconsolidated structured entities in the period outside of transactions in the ordinary course of investment management, and has no current intentions to do so.

d) Subsidiaries exempt from statutory audit
The subsidiaries at 31 December 2014 which are consolidated in these financial statements but are exempt from statutory audit are detailed below. The Group owns 100% of ordinary share capital and voting rights in these entities:

| Subsidiaries | Principal activity | Status | Registered in |
|---|---|---|---|
| Amlin Netherlands Holdings BV | Intermediate holding company | Active | The Netherlands |
| Amlin Reinsurance Managers Inc. | Reinsurance company | Active | United States of America |
| Haven Knox-Johnston Limited | Lloyd's service company | Dormant | England and Wales |
| Just Law Limited | Service company | Dormant | England and Wales |
| St Margaret's Insurance Services Limited | Intermediate holding company | Dormant | England and Wales |
| Summit Insurance Group | Insurance company | Dormant | England and Wales |

## 19. Contingent liabilities
Aside from the escrow account entered into with the Trustee of the Lloyd's Superannuation Fund defined benefit pension scheme, as described in note 16(a), and the contingent consideration relating to the acquisition of Leadenhall Capital Partners LLP, as described in note 3(a), the Group has no material contingent liabilities at 31 December 2014 (2013: £nil).

## 20. Commitments
a) Capital commitments
The Group has agreed to redeem the US$50.0 million subordinated debt in March 2015 as described in note 12(e). In addition to the commitments made to RaetsMarine Insurance B.V. below and to Leadenhall Capital Partners LLP as described in note 3(a), the Group has a contractual commitment for the construction of a new office building (Victoria Road, Chelmsford) at 31 December 2014 of £3.6 million (2013: £13.5 million).

The Group has also made commitments to subscribe to property funds at 31 December 2014 of £68.6 million (2013: £41.5 million) in the normal course of investment activities.

b) Operating lease commitments
The Group leases various offices under operating lease agreements. The Group is required to give notice for the termination of these agreements. The lease expenditure charged to the consolidated statement of profit or loss during the year is £9.9 million (2013: £9.6 million), as disclosed in note 7(g).

The future aggregate minimum lease payments under the non-cancellable portion of the Group's operating leases are as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| No later than 1 year | **9.0** | 9.5 |
| Later than 1 year and no later than 5 years | **23.6** | 26.6 |
| Later than 5 years | **59.0** | 103.4 |
| | **91.6** | 139.5 |

The basis for calculating the lease commitments relating to The Leadenhall Building has been amended in 2014 to reflect the expected cash flows up until the first break clause.

c) Other commitments
RaetsMarine Insurance B.V. (RMI), which was acquired by Amlin in 2013, remains a guarantor for the liabilities of certain formerly related companies under a credit facility issued by the F. van Lanschot Bank. Amlin has demanded that the seller procure the release of RMI from this obligation as required under the terms of the RMI Share Purchase Agreement and this remains ongoing. RMI's potential financial exposure under this cross-guarantee agreement can vary but should not exceed €3.3 million (2013: €6.0 million). Amlin has withheld US$7.5 million due to the sellers pending resolution of this issue.

### 21. Related party transactions

a) Transactions and balances with related parties

*i) Amlin Plus*

As per note 3(b), the non-controlling interest in Amlin Plus Limited, held previously by Lycetts Holdings Limited, was acquired by Amlin Underwriting Limited on 20 May 2014. As a result Lycett, Browne-Swinburne and Douglas Limited, a subsidiary of Lycetts Holdings Limited and a producer of premium income for Amlin Plus Limited, is no longer a related party of the Group. However, Lycett, Browne-Swinburne and Douglas Limited continue to provide premium income for Amlin Plus Limited following the acquisition.

During the period until acquisition Amlin Plus wrote £3.2 million (2013: £11.5 million) of premium under the binding authority agreement, of which £0.8 million (2013: £3.7 million) was produced by Lycett, Browne-Swinburne and Douglas Limited earning brokerage commission of £0.1 million (2013: £0.5 million) on this business.

*ii) Associates*

The Group enters into transactions with its associates in the normal course of business. The sales to, and purchases from, associates are made at normal market prices. Details of the Group's associates are given in note 18(b).

*iii) Syndicate 6106*

For the 2013 underwriting year of account Special Purpose Syndicate (S6106), managed by Amlin Underwriting Limited, wrote a 10.0% quota share contract of the excess of loss reinsurance account of Syndicate 2001. The transactions provide external members' capital to support 2013 underwriting, enabling Syndicate 2001 to take advantage of opportunities in peak zones in the US, Japan and Europe. All transactions with S6106 are undertaken on an arm's length basis. This quota share contract was not renewed for the 2014 underwriting year of account.

*iv) Funds managed by Leadenhall Capital Partners LLP*

Leadenhall Capital Partners LLP (LCP), a partnership controlled by the Group, is an investment fund manager wholly focused on managing insurance linked investment portfolios for institutional investors. As per note 3(a), the total funds under management at 31 December 2014 were US$1,880.8 million (£1,206.3 million equivalent) (2013: US$1,591.8 million; £961.0 million equivalent). For the period since control in the partnership was established to 31 December 2014, LCP earned £2.4 million in management and performance fees. At 31 December 2014, LCP had net receivables due of £7.6 million from the funds it manages in outstanding management and performance fees.

*v) Transactions by the Funds managed by Leadenhall Capital Partners LLP*

At 31 December 2014, funds managed by LCP held US$5.5 million and US$1.0 million in the catastrophe bonds issued by Tramline Re Ltd and Tramline Re II Ltd respectively. Details of the Group's transaction with Tramline Re Ltd and Tramline Re II Ltd can be found in note 13(h).

Syndicate 2001 and Amlin AG (through its branches in Zurich and Bermuda) participate in fronting arrangements whereby they write inwards reinsurance contracts which are 100% reinsured by Horseshoe Re Limited on behalf of its segregated accounts. Funds managed by LCP have invested within these segregated accounts. During the year Syndicate 2001 and Amlin AG wrote £25.1 million (2013: £15.1 million) of gross premium and received £1.7 million (2013: £0.6 million) of commission through this arrangement. At 31 December 2014, £10.2 million (2013: £5.5 million) was net receivable from Horseshoe Re, of which £4.8 million (2013: £0.2 million) was reinsurance receivables on paid and outstanding claims, £13.0 million (2013: £6.0 million) was reinsurers' share of insurance liabilities and £7.6 million (2013: £0.7 million) was reinsurance payables.

*vi) Transactions with the Funds managed by Leadenhall Capital Partners LLP*

At 31 December 2014, Amlin AG (through its branch in Bermuda) holds investments of £63.7 million (2013: £62.2 million) in funds managed by LCP. The return on this investment is included in note 6.

b) Compensation of key management personnel

Key management personnel are those Amlin plc Board Directors and Amlin Management Committee members responsible for planning and control of the activities of the Group. Key management comprises 13 Executive Directors and employees and six Non-Executive Directors (2013: 12 and seven respectively). Compensation during the year to key management personnel is analysed below:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Short-term employee benefits | **9.4** | 8.9 |
| Long-term employee benefits | **2.7** | 4.1 |
| Post-employment benefits | **0.5** | 0.5 |
| Equity-settled share-based payments | **1.7** | 1.5 |
| Cash-settled share-based payments | **1.0** | 0.4 |
| | **15.3** | 15.4 |

c) Transactions with companies with common directors

Certain Directors of the Company are also directors of other companies, as described in the Directors' biographical details on page 70 of the Annual Report. Such other companies (and/or their subsidiaries) may, and in some cases do, conduct business with companies in the Amlin Group, including Aberdeen Asset Managers Limited (of which Mrs Chakraverty is a non-executive director). In all cases transactions between the Amlin Group and such other companies are carried out on normal arm's length commercial terms.

## 22. Events after the reporting period

No significant events have been identified between the date of the consolidated statement of financial position and the date on which the financial statements were authorised other than stated below:

### Catastrophe bond – Tramline Re II Ltd

During the period, the Group acquired coverage for US earthquake and storm and european windstorm perils of up to US$200.0 million from a Bermudian special purpose insurer, Tramline Re II Ltd, which in turn has placed a catastrophe bond into the markets. This transaction provides the Group with fully collateralised protection over a four-year period with effect from 1 January 2015.

# Independent auditors' report
## To the members of Amlin plc

### Report on the Parent Company financial statements
Our opinion
In our opinion, Amlin plc's Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2014 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
Amlin plc's financial statements comprise:

- the Parent Company statement of financial position as at 31 December 2014;
- the Parent Company statement of cash flows for the year then ended;
- the Parent Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

### Other required reporting
Consistency of other information
*Companies Act 2006 opinion*
In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

*ISAs (UK & Ireland) reporting*
Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
*Directors' Remuneration report - Companies Act 2006 opinion*
In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

*Other Companies Act 2006 reporting*
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 104, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Other matter

We have reported separately on the group financial statements of Amlin plc for the year ended 31 December 2014.

**James Bichard (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2015

# Parent Company statement of financial position
At 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 27(a) | **15.0** | 14.1 |
| Financial assets | 27(b) | **29.8** | 21.6 |
| Loans and receivables | 28 | **11.0** | 2.9 |
| Amounts due from subsidiaries | 28 | **367.9** | 446.1 |
| Current income tax assets | | **10.0** | 7.3 |
| Deferred tax assets | | **7.1** | 3.2 |
| Investments in subsidiaries | 30 | **1,372.5** | 1,265.6 |
| Property and equipment | 29 | **6.8** | 3.6 |
| **Total assets** | | **1,820.1** | 1,764.4 |
| **Equity** | | | |
| Share capital | 17(a) | **142.0** | 142.0 |
| Share premium | | **311.7** | 311.3 |
| Other reserves | | **134.8** | 132.7 |
| Treasury shares | | **(16.1)** | (18.8) |
| Retained earnings | | **703.0** | 634.0 |
| **Total equity and reserves** | | **1,275.4** | 1,201.2 |
| **Liabilities** | | | |
| Other payables | 31 | **9.8** | 12.1 |
| Amounts due to subsidiaries | 31 | **263.7** | 159.9 |
| Financial liabilities | 27(b) | **9.7** | 0.3 |
| Borrowings | 27(c) | **261.5** | 390.9 |
| **Total liabilities** | | **544.7** | 563.2 |
| **Total equity, reserves and liabilities** | | **1,820.1** | 1,764.4 |

The attached notes form an integral part of these financial statements.

The financial statements on pages 198 to 200 were approved by the Board of Directors and authorised for issue on 27 February 2015. They were signed on its behalf by:

**Charles Philipps**
Chief Executive

**Richard Hextall**
Chief Finance & Operations Officer

# Parent Company statement of changes in equity

## For the year ended 31 December 2014

| For the year ended 31 December 2014 | Note | Share capital £m | Share premium £m | Other reserves £m | Treasury shares £m | Retained earnings £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | | 142.0 | 311.3 | 132.7 | (18.8) | 634.0 | **1,201.2** |
| **Profit and total other comprehensive income for the year** | | – | – | – | – | 200.6 | **200.6** |
| Employee share option schemes: | | | | | | | |
| – share-based payment reserve | | – | – | 3.4 | 0.7 | – | **4.1** |
| – proceeds from shares issued | | – | 0.1 | – | 2.0 | (0.4) | **1.7** |
| Net purchase of employee share ownership trust | | – | – | (1.3) | – | – | **(1.3)** |
| Dividends paid | 26 | – | – | – | – | (131.2) | **(131.2)** |
| Issue of new shares | | – | 0.3 | – | – | – | **0.3** |
| **Transactions with the owners of the Company for the year** | | – | 0.4 | 2.1 | 2.7 | (131.6) | **(126.4)** |
| **At 31 December 2014** | | 142.0 | 311.7 | 134.8 | (16.1) | 703.0 | **1,275.4** |

| For the year ended 31 December 2013 | Note | Share capital £m | Share premium £m | Other reserves £m | Treasury shares £m | Retained earnings £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | | 141.2 | 300.4 | 132.8 | (20.8) | 488.4 | 1,042.0 |
| **Profit and total other comprehensive income for the year** | | – | – | – | – | 267.8 | 267.8 |
| Employee share option schemes: | | | | | | | |
| – share-based payment reserve | | – | – | 1.5 | – | – | 1.5 |
| – proceeds from shares issued | | – | 0.1 | – | 2.0 | (0.9) | 1.2 |
| Net purchase of employee share ownership trust | | – | – | (1.6) | – | – | (1.6) |
| Dividends paid | 26 | – | – | – | – | (121.3) | (121.3) |
| Issue of new shares | | 0.8 | 10.8 | – | – | – | 11.6 |
| **Transactions with the owners of the Company for the year** | | 0.8 | 10.9 | (0.1) | 2.0 | (122.2) | (108.6) |
| At 31 December 2013 | | 142.0 | 311.3 | 132.7 | (18.8) | 634.0 | 1,201.2 |

The attached notes form an integral part of these financial statements.

# Parent Company statement of cash flows

For the year ended 31 December 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Profit before tax | | **192.1** | 262.6 |
| **Adjustments:** | | | |
| Depreciation charge | | **–** | 0.1 |
| Finance costs | | **22.0** | 23.1 |
| Dividend income | | **(277.2)** | (291.9) |
| Losses/(gains) on investments realised and unrealised | | **11.3** | (10.5) |
| Foreign exchange losses/(gains) on revaluation | | **0.5** | (0.5) |
| Other non-cash movements | | **0.3** | 0.8 |
| **Movement in operating assets and liabilities:** | | | |
| Net (purchases)/sales of financial investments | | **(8.3)** | 11.0 |
| (Increase)/decrease in loans and receivables | | **(8.3)** | 1.6 |
| Decrease in amounts due from subsidiaries | | **76.7** | 1.1 |
| Increase/(decrease) in amounts due to subsidiaries | | **103.7** | (109.7) |
| (Decrease)/increase in other payables | | **(2.7)** | 8.1 |
| **Cash generated from/(utilised in) operations** | | **110.1** | (104.2) |
| Interest received | | **0.3** | 0.1 |
| Dividend received | | **164.8** | 284.3 |
| Income tax received | | **13.2** | 0.7 |
| **Net cash inflows from operating activities** | | **288.4** | 180.9 |
| **Cash flows from investing activities** | | | |
| Investment in subsidiary | | **(0.1)** | (16.5) |
| Deferred payment for acquired subsidiary | | **–** | (0.1) |
| Purchase of property and equipment | | **(0.5)** | – |
| **Net cash outflows from investing activities** | | **(0.6)** | (16.6) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary shares, including treasury shares | | **1.5** | 12.8 |
| Dividends paid to owners of the Parent Company | 26 | **(131.2)** | (121.3) |
| Interest paid | | **(21.4)** | (22.5) |
| Net (repayment) of borrowings | | **(131.8)** | (24.1) |
| Purchase of ESOT and treasury shares | | **(4.0)** | (5.5) |
| **Net cash outflows used in financing activities** | | **(286.9)** | (160.6) |
| Net increase in cash and cash equivalents | | **0.9** | 3.7 |
| Cash and cash equivalents at beginning of year | | **14.1** | 10.2 |
| Effect of exchange rate changes on cash and cash equivalents | | **–** | 0.2 |
| **Cash and cash equivalents at end of year** | 27 | **15.0** | 14.1 |

The attached notes form an integral part of these financial statements.

## 23. Accounting policies

### Basis of preparation

Amlin plc (the Company), domiciled in the United Kingdom, is the ultimate Parent Company for the Amlin Group (the Group).

The separate financial statements of the Company are prepared as required by the Companies Act 2006. The statement of financial position of the Company has also been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRICs), as adopted for use in the European Union (EU). In accordance with the exemption permitted under section 408 of the Companies Act 2006, the statement of profit or loss and statement of other comprehensive income of the Company are not presented as part of these financial statements. The profit after taxation for the year of the Company was £200.6 million (2013: £267.8 million).

The financial statements have been prepared on the historical cost basis except for financial assets and liabilities, share options and cash and cash equivalents, which are measured at their fair value.

The accounting policies that are used in preparation of these statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

### Investment in subsidiaries

Other financial investments in Group undertakings are stated at cost and are reviewed for impairment when events, or changes in circumstances, indicate the carrying value may be impaired.

### Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

## 24. Parent Company risk disclosures

The business of the Company is managing its investments in subsidiaries. The Company also holds, on behalf of the Group, various instruments to hedge exposures arising from its investments in subsidiaries. In the Company, gains and losses arising from such investments are taken to the profit or loss. Details of such instruments are given in note 9(c).

The Company's risks are considered to be the same as those in the operations of the Group itself. Full details of the risks faced by the Group and the Group's risk management policies are given in notes 9, 12 and 13.

## 25. Employees and Directors

All Amlin employees within the UK are employed by the Group service company, Amlin Corporate Services Limited. Overseas employees are employed by the relevant foreign entities. Therefore, the persons employed by the Company are nil (2013: nil).

The aggregation of the Company's Directors' remuneration is in note 7(e) to the Group financial statements. Details of Directors' remuneration, pension benefits and gains on the exercise of share options, including those of the highest paid Director, are included in the Remuneration report in the Governance section of the Annual Report.

The aggregation of the Company's key management personnel remuneration is in note 21(b) to the Group financial statements.

## 26. Dividends

The amounts recognised as distributions to equity holders are as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Final dividend for the year ended: | | |
| – 31 December 2013 of 18.2 pence per ordinary share | **90.8** | – |
| – 31 December 2012 of 16.5 pence per ordinary share | **–** | 82.4 |
| Interim dividend for the year ended: | | |
| – 31 December 2014 of 8.1 pence per ordinary share | **40.4** | – |
| – 31 December 2013 of 7.8 pence per ordinary share | **–** | 38.9 |
| | **131.2** | 121.3 |

A final ordinary dividend of 18.9 pence per ordinary share for 2014, amounting to £94.4 million, payable in cash, and a special dividend of 15.0 pence per ordinary share, amounting to £74.9 million, payable in cash, were agreed by the Board on 27 February 2015, subject to shareholder approval at the AGM on 21 May 2015, and have not been included as a liability as at 31 December 2014.

### 27. Financial assets and financial liabilities

a) Cash and cash equivalents

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash in hand | **15.0** | 14.1 |

The cash and cash in hand balance includes £14.2 million (2013: £14.1 million) held in an escrow account in accordance with the funding requirements set out in the agreement with the Trustee of the Lloyd's Superannuation Fund defined benefit pension scheme. Details of the arrangement are in note 16(a).

As per the fair value methodology described in note 12(f), cash and cash equivalents above are classified as Level 1 in the fair value hierarchy.

b) Net financial investments

The cost and valuation of the Company's investments are as follows:

| | At valuation 2014 £m | At valuation 2013 £m | At cost 2014 £m | At cost 2013 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets held for trading at fair value through profit or loss** | | | | |
| Debt and other Fixed Income Securities | **0.4** | – | **0.4** | – |
| Derivative instruments | **11.1** | 9.7 | **–** | – |
| **Other financial assets at fair value through profit or loss** | | | | |
| Participation in investment pools | **18.3** | 11.9 | **18.3** | 11.9 |
| **Total financial assets** | **29.8** | 21.6 | **18.7** | 11.9 |
| **Liabilities** | | | | |
| **Financial liabilities held for trading at fair value through profit or loss** | | | | |
| Derivative instruments | **(9.7)** | (0.3) | **–** | – |
| **Total financial liabilities** | **(9.7)** | (0.3) | **–** | – |
| **Net financial assets** | **20.1** | 21.3 | **18.7** | 11.9 |

As per the fair value methodology described in note 12(f), the net financial assets above, excluding derivative instruments, are classified as Level 1 in the fair value hierarchy. Derivative instruments are classified as Level 2.

c) Borrowings

| | 2014 £m | 2013 £m |
|---|---|---|
| Subordinated debt | **261.5** | 289.5 |
| Revolving credit facility | **–** | 101.4 |
| | **261.5** | 390.9 |

The current and non-current portions are expected to be as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **32.1** | 101.4 |
| Non-current portion | **229.4** | 289.5 |
| | **261.5** | 390.9 |

For further details of the Company's borrowings, including fair value information, refer to note 12(e). As per the fair value methodology described in note 12(f), borrowings are classified as Level 3 in the fair value hierarchy.

## 28. Other loans and receivables

| | 2014 £m | 2013 £m |
|---|---|---|
| Loans and receivables | **11.0** | 2.9 |
| Amounts due from subsidiaries | **367.9** | 446.1 |
| | **378.9** | 449.0 |

| | 2014 £m | 2013 £m |
|---|---|---|
| Current portion | **37.2** | 38.4 |
| Non-current portion | **341.7** | 410.6 |
| | **378.9** | 449.0 |

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

## 29. Property and equipment

| | Freehold land and buildings £m | Fixtures, fittings and leasehold improvements £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2014 | 4.1 | – | 4.1 |
| Additions | – | 3.2 | 3.2 |
| At 31 December 2014 | **4.1** | **3.2** | **7.3** |
| **Accumulated depreciation** | | | |
| At 1 January 2014 | 0.5 | – | 0.5 |
| Charge for the year | – | – | – |
| At 31 December 2014 | **0.5** | **–** | **0.5** |
| **Net book value** | | | |
| **At 31 December 2014** | **3.6** | **3.2** | **6.8** |
| At 1 January 2014 | 3.6 | – | 3.6 |

## 30. Investments in subsidiaries

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 January | **1,265.6** | 1,243.9 |
| Additions during the year | **106.9** | 21.7 |
| **At 31 December** | **1,372.5** | 1,265.6 |

During the year, one of the company's subsidiaries, Amlin Bermuda Holdings Ltd (ABHL), issued new ordinary share capital of £100.0 million to the Company in exchange for the assignment of a loan receivable due from a second subsidiary, Amlin Corporate Services Ltd. ABHL also issued preference shares of €320.0 million to the Company in exchange for the assignment of a loan receivable due from the Dutch branch of a third subsidiary, Amlin (Overseas Holdings) Ltd.

The Company increased investments in the following subsidiaries during the year by a total of £6.8 million (2013: £5.1 million) to account for costs in providing share-based payments to employees:

- Amlin Corporate Services Limited;
- Amlin AG;
- Amlin France SAS;
- Amlin Singapore Pte Limited;
- Amlin Europe N.V.;
- Amlin Reinsurance Managers Inc.; and
- RaetsMarine Insurance B.V.

For further details of investments in principal subsidiaries refer to note 18.

### 31. Other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Trade payables and accrued expenses | **9.8** | 12.1 |
| Amounts due to subsidiaries | **263.7** | 159.9 |
| | **273.5** | 172.0 |

The other payables in the above table are all current.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

### 32. Contingent liabilities

The Company has no material contingent liabilities at 31 December 2014 (2013: £nil), other than that in respect of a funding arrangement entered into with the Trustee of the Lloyd's Superannuation Fund defined benefit pension scheme. Further details are provided in note 16(a).

### 33. Commitments

#### Operating lease commitments

The future aggregate minimum lease payments under the non-cancellable portion of the Parent Company's operating leases are as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Later than 1 year and no later than 5 years | **10.7** | 4.6 |
| Later than 5 years | **57.5** | 102.6 |
| | **68.2** | 107.2 |

The basis for calculating the lease commitments relating to The Leadenhall Building has been amended in 2014 to reflect the expected cash flows up until the first break clause.

### 34. Related party transactions

#### Purchases of goods and services

The Company has purchased goods and services at cost from fellow Group company Amlin Corporate Services Limited to the value of £32.8 million (2013: £26.5 million).

#### Year end balance with related parties

Cash resources are held centrally within the Group. This eliminates the need for many of the Group's subsidiaries to maintain bank accounts and optimises the management of cash resources. As a result of this practice, many transactions within the Group are accounted for through intercompany accounts.

The following table shows the balances outstanding at the year end between the Company and fellow subsidiaries of the Group. The balances are all unsecured and no provisions are required for bad or doubtful debts.

| | 2014 £m | 2013 £m |
|---|---|---|
| Balances outstanding at the year end: | | |
| – Syndicate 2001 | **10.4** | (1.2) |
| – Amlin Investments Limited | **(149.0)** | (149.0) |
| – St Margaret's Insurance Services Limited | **1.3** | 1.3 |
| – Amlin Corporate Services Limited | **87.5** | 138.7 |
| – Amlin Corporate Member Limited | **3.1** | 9.5 |
| – AUT Holdings Limited and AUT (1 – 10) Limited companies | **(4.5)** | (4.5) |
| – Delian (A – L) Limited companies | **1.0** | 1.0 |
| – Crowe Livestock Underwriting Limited | **–** | 0.1 |
| – Amlin (Overseas Holdings) Limited | **9.2** | 288.4 |
| – Amlin Bermuda Holdings Limited | **251.3** | – |
| – Amlin Insurance (UK) Limited | **2.0** | 2.0 |
| – Amlin France SAS | **–** | 0.3 |
| – AUA Insolvency Risk Services Limited | **–** | 0.2 |
| – Amlin AG | **(106.7)** | (0.4) |
| – Amlin Europe N.V. | **(1.4)** | (0.2) |
| | **104.2** | 286.2 |

Note:
Pursuant to a merger agreement dated 27 March 2014, all the assets and liabilities of Amlin France Holdings SAS were transferred to Amlin France SAS. Following this merger, Amlin France SAS was wound up without liquidation effective 4 December 2014 and all its business operations and employees transferred into Amlin Europe NV where it now operates as the French branch of Amlin Europe N.V.

With the exception of specific loans which have a fixed repayment date, all of the above intra Group debt is repayable on demand and corporation tax provisions reflect arm's length prices for the transactions between the Company and its subsidiaries.

The Company has redeemable loan stock issued by, Miles Smith Holdings Limited, an associate of the Group. The values of these are disclosed below:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Loan issued to associate | **–** | 0.2 |
| Loan stock issued by associate | **0.7** | 0.7 |
| | **0.7** | 0.9 |

# Information for shareholders

### Financial Calendar

| | |
|---|---|
| 2015 | |
| 17 April | Record date for proposed final dividend |
| 21 May | Annual General Meeting |
| 28 May | Payment of final dividend, subject to shareholder approval |
| 24 August | Expected date of announcement of interim results and interim dividend for the six months ending 30 June 2015 |
| October | Expected payment of interim dividend |
| 2016 | |
| Feb/Mar | Announcement of 2015 results |
| May | Annual General Meeting |

### Electronic communications and voting
The Company has adopted electronic shareholder communication. This enables the Company to circulate hard copies of the Annual Report and other shareholder documents only to those who opt to receive them. Other shareholders may notify an email address to which a link is sent or, failing that, they receive a paper notification informing them as and when such reports become available on our website. If any shareholder wishes to opt back in to receiving printed shareholder documents, or wishes to notify their email address for the first time or amend a previous notification, they should contact our registrar, Equiniti Limited. Alternatively shareholders can register their communication preference online at www.shareview.co.uk.

We also provide electronic proxy voting facilities for shareholders in respect of our AGM (and generally intend to do so for any other shareholders' meetings), for shares held in both CREST and certificated form.

### Dealing in Amlin shares
Amlin's ordinary shares have a premium listing on the London Stock Exchange. The share price is listed daily in The Telegraph, The Financial Times, The Times and other UK newspapers with share price services, as well as being on the Company's and many other websites.

### Shareholder enquiries
Amlin's website is at www.amlin.com. For enquiries concerning share registration, call our registrar, Equiniti Limited, on 0871 384 2383.

### Recent dividend payments to shareholders
Dividend and other payments on Amlin ordinary shares from 1 January 2008 to date have been as follows:

| | Record date | Payment date | Amount per share |
|---|---|---|---|
| 2008 final | 27 March 2009 | 20 May 2009 | 11.0p |
| 2009 interim | 11 Sept 2009 | 8 Oct 2009 | 6.5p |
| 2010 second interim | 19 March 2010 | 31 March 2010 | 13.5p |
| 2010 interim | 10 Sept 2010 | 7 Oct 2010 | 7.2p |
| 2010 final | 25 March 2011 | 19 May 2011 | 15.8p |
| 2011 interim | 9 Sept 2011 | 6 Oct 2011 | 7.2p |
| 2011 final | 10 April 2012 | 24 May 2012 | 15.8p |
| 2012 interim | 7 Sept 2012 | 4 Oct 2012 | 7.5p |
| 2012 final | 12 April 2013 | 23 May 2013 | 16.5p |
| 2013 interim | 6 Sept 2013 | 3 Oct 2013 | 7.8p |
| 2013 final | 22 April 2014 | 29 May 2014 | 18.2p |
| 2014 interim | 5 Sept 2014 | 2 Oct 2014 | 8.1p |

Details of the proposed final dividend in respect of 2014 are set out in the Directors' report on pages 102 to 103.

# Glossary

**Accident year**
The calendar or accounting year in which a loss occurs.

**Actuarial best estimate**
An estimate produced by Amlin's in-house actuarial team using statistical methods overlaid with judgement and intended to represent the probability-weighted average of all possible future outcomes with the exception of unforeseen events and the emergence of new types of claims. The estimate therefore intentionally does not include any "risk margin" to allow for the uncertainties within the claims process. Actual claims experience will not develop exactly as projected and may, in fact, vary significantly from the projections. No allowance is made for discounting except where explicitly highlighted.

**AIR**
Service providing up-to-date information and loss estimates for major natural catastrophes worldwide.

**Beurs**
The Dutch corporate co-insurance market.

**Binders/binding authority**
An authority granted by an active underwriter to an intermediary whereby that intermediary is entitled to accept, within certain limits, insurance business on behalf of members.

**Box at Lloyd's**
Accommodation in the underwriting room at Lloyd's from which business may be transacted with Lloyd's brokers.

**Capacity**
The maximum amount of business which may be accepted by a Lloyd's syndicate.

**Carried reserves**
Management's best estimate of the appropriate amount of reserves to hold at the balance sheet date. The carried reserves take account of specific uncertainties in the reserves and are higher than the actual best estimate.

**Catastrophe bonds**
Risk-based securities that pay high interest rates and provide insurance companies with a form of reinsurance to pay losses from a catastrophe. They allow insurance risk to be sold to institutional investors in the form of bonds, thus spreading the risk. Other financial instruments used to transfer catastrophe risk to capital markets include catastrophe swaps and industry loss warrants.

**Collateralised debt obligations (CDOs)**
Entities owning cash generating assets, which sell the rights to the cash flows from those assets along with associated risks.

**Cede**
To transfer risk from a direct insurer to his reinsurers.

**Claims ratio**
Net claims plus claims expenses divided by net earned premium.

**Co-insurance**
In the context of the European insurance market, co-insurance is the joint assumption of risk between a number of insurers.

**Combined ratio**
Claims ratio plus expense ratio.

**Commercial combined**
Also known as "Package". Policies where several different types of insurance cover are combined into one policy.

**Contingent capital**
Contingent capital arrangements provide the option to raise capital during a defined commitment period based upon the occurrence of a qualifying event, such as a defined insurance loss.

**Coverholder**
A company authorised by a Lloyd's syndicate to enter into contracts of insurance and/or issue insurance documentation on their behalf.

**Dynamic financial analysis (DFA)**
Detailed modelling assessment of the key risks facing an insurer to help assess its financial position. Key areas of use include the assessment of capital requirements and understanding the possible impact of future plans and strategies.

**Direct and facultative**
Direct property insurance and facultative reinsurance of property.

**Earned premium**
Proportion of insurance premium recognised in the income statement based on the estimated risk period falling in the financial year.

**Endorsement**
Any addition to a policy, or addition to the printed wording, which changes or varies terms of, or parties to, the contract.

**Excess of loss reinsurance (XL)**
A reinsurance that covers that part of a loss paid by the reinsured which is in excess of an agreed amount and then pays up to the limit of the policy.

**Expense ratio**
Underwriting expenses divided by net earned premium.

**Facultative**
Where the insurer accepts risks on an individual basis.

**'Gross' and 'net' underwriting**
When referring to premium written or earned, losses or underwriting results, these terms denote before (gross) and after (net) the application of reinsurance.

**Gross written premium (GWP)**
Total premium written before deductions for reinsurance and commission.

**Incurred but not reported (IBNR)**
An estimate of claims or losses which have been incurred but not yet reported to the insurer.

**Insurance linked securities (ILS)**
Insurance linked securities are financial instruments linked to insurance loss events.

**Incurred loss**
Paid claims plus claims advised by a policyholder but not paid. Does not include IBNR.

**Incurred loss ratio**
Incurred losses divided by earned premium.

**Lead/non-lead**
"Lead" denotes an underwriter in the subscription market who sets the terms and price of a policy. Following underwriters accept the policy on the same terms.

**Letter of credit (LOC)**
Written undertaking by a financial institution to provide funding if required.

**Line size**
The monetary limit of a policy for a first claim accepted by an underwriter.

**Line slip**
A facility operated by a Lloyd's broker whereby risks can be bound to a panel of insurers through the agreement of a leading underwriter plus one or two following markets (as specified on the slip at placement).

**Loss ratio**
See "incurred loss ratio" and "ultimate loss ratio".

**Non-life**
General insurance companies which sell policies other than life insurance, annuities or pension products.

**Non-monetary assets & liabilities**
Assets and liabilities that are accounting entries and are not expected to be exchanged for cash, such as unearned premium reserves.

**Outstanding claims**
Losses which have been reported to the insurer but not yet paid.

**Package**
See "commercial combined".

**Personal lines**
Property/casualty insurance products that are designed for and bought by individuals, including homeowners and automobile policies.

**Proportional reinsurance**
A type of reinsurance where the ceding insurer cedes to its reinsurer a predetermined proportion of the premium and liability of those policies subject to the reinsurance agreement.

**Quota share**
A form of proportional reinsurance where the reinsurer receives a percentage of every risk, as defined by the reinsurance contracts, written by the ceding company.

**Rating agency**
Credit agencies which determine insurers' financial strength and company debt ratings.

**Realistic disaster scenario (RDS)**
Modelling of the probable loss which may arise from a defined catastrophic event.

**Reinsurance**
Insurance bought by insurers. A reinsurer assumes part of the risk and part of the premium originally taken by the insurer, known as the primary company.

**Reserves**
Funds that have been set aside to meet outstanding claims and IBNR.

**Retention ratio**
The percentage of the previous year's premium that is renewed.

**Retrocession**
The reinsurance of liability accepted by way of reinsurance.

**Return on capital employed (ROCE)**
After-tax profit divided by opening shareholders' equity plus debt, adjusted for any capital raisings or returns.

**Return on equity (ROE)**
After-tax profit divided by opening shareholders' equity, adjusted for any capital raisings or returns.

# **Glossary** continued

**Return on net tangible assets (RONTA)**
After-tax profit divided by opening net tangible assets, adjusted for any non-controlling interests.

**Risk-based capital**
Risk-based capital is a method used to measure the minimum amount of capital that an insurance company needs to support its overall business operations, taking into account the size and type of risk taken by the insurer.

**Risk Management Solutions (RMS)**
Provider of catastrophic modelling software.

**Service company**
A company set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or policyholders directly.

**Sidecars**
Specialty reinsurance companies designed to provide additional capital to a specific reinsurance company. Investors, such as hedge funds, invest in a reinsurance company, the sidecar, to reinsure specific risks for a specific reinsurance company.

**Solvency II**
A proposed EU-wide regulatory regime which intends to align solvency capital to an insurer's risk profile.

**Special purpose vehicle (SPV)**
Corporate entity designed to isolate financial risk, often to allow other investors to participate in that risk.

**Specie**
The insurance of high value items including deposits, bullion and fine art.

**Subordinated debt**
Subordinated debt is debt that takes a lower priority than other debt. If an issuer is liquidated then subordinated debt holders will only be paid after senior creditors have been fully paid.

**Subscription market**
Insurance market, such as Lloyd's, whereby underwriters subscribe to proportions of risks.

**Surplus**
The amount by which the gross sum insured accepted by the insurance company exceeds its own retention.

**Surplus lines**
A reinsurance where the surplus of the reinsured's retention is ceded up to an agreed amount. Once accepted, both parties pay their proportion of losses arising.

**Total shareholder return (TSR)**
Returns combining share price performance and dividend payments.

**Treaty**
A reinsurance contract covering entire portfolios of risks.

**Ultimate loss ratio (ULR)**
Total forecast claims divided by total forecast premium expected to arise from a policy or class of business. Losses include those paid, those notified and IBNR.

**Underwriting year**
The year to which a policy is allocated and to which all premiums and claims in respect of that policy are attributed. Allocation is determined by the inception date of the policy.

**Unearned premium**
Proportion of insurance premium covering periods after the end of the financial year. Held in the unearned premium reserve.

**Value at Risk (VaR)**
A statistical measure which calculates the possible loss over a year in normal market conditions. As VaR estimates are based on historical market data this should not be viewed as an absolute gauge of the level of risk to the investments.

**Year of account (YOA)**
The year for Lloyd's syndicates to which a policy is allocated and to which all premiums and claims in respect of that policy are attributed. Allocation is determined by the inception date of the policy.

# Directors and advisers

**Directors**
Richard Davey (Chairman)*
Simon Beale (Chief Underwriting Officer)
Brian Carpenter (retired 30 September 2014)
Julie Chakraverty*
Sir Alan Collins* (retired 22 May 2014)
Marty Feinstein+*
Richard Hextall (Chief Finance & Operations Officer)
Shonaid Jemmett-Page*
Oliver Peterken* (appointed 1 September 2014)
Charles Philipps (Chief Executive)
Sir Mark Wrightson Bt*

**Audit Committee**
Shonaid Jemmett-Page (Chairman)
Julie Chakraverty
Marty Feinstein
Oliver Peterken

**Remuneration Committee**
Sir Mark Wrightson (Chairman)
Julie Chakraverty
Shonaid Jemmett-Page
Oliver Peterken (with effect from 1 March 2015)

**Risk & Solvency Committee**
Marty Feinstein (Chairman)
Julie Chakraverty
Richard Davey
Shonaid Jemmett-Page
Oliver Peterken

**Nomination Committee**
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The Strategic Report has been prepared to provide the Company's shareholders with a fair review of the business of the Group and a description of the principal risks and uncertainties it faces. It may not be relied upon by anyone, including the Shareholders of the Company, for any other purpose. The Strategic Report only focuses on material issues and facts and the omission of reporting on any specific topic should not be taken as implying that it is not being addressed. The Strategic Report should be read in conjunction with the Directors' Report which contains information which cannot be included in the Strategic Report on the grounds that it is not material. The Strategic Report, and the other sections of the Annual Report and Accounts, contains certain forward-looking statements which are subject to assumptions, risks and uncertainties; actual future results may differ materially from those expressed in or implied in such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond Amlin's ability to control or estimate precisely. The forward-looking statements reflect the knowledge and information available at the date of preparation of the Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast. Shareholders should note that certain parts of this Annual Report and Accounts have not been audited or otherwise independently verified.

Pages 01 to 63 contain the Strategic Report and pages 102 to 103 contain the Directors' Report in accordance with English law. The liabilities of each director in respect of these sections are subject to the limitations and restrictions of such law. These sections contain additional information required by these laws and regulations to be included by the Directors in the Annual Report.

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