



2011 Auction Report

Auction One, 13th/14th September 2011

Highlights

- Overall prices down by around 10%
- Prices hold up well for many sought after syndicates
- Kiln purchase catches non-aligned buyers by surprise
- Volumes traded and tendered up on 2010 levels
- At £85m of capacity successfully traded, volumes exceeded the entire 2008 throughput
- Auction One was the largest auction by volume since 2006
- Uncertainty over ownership at Omega prompts massive price drop

Auction One – an overview

The auction season opened with active trading on almost all syndicates. Of the tradeable syndicates, only Nuclear Syndicate 1176 did not trade as uncertainty over the reinsurance arrangements (see separate comment) caused it to be suspended from this auction.

There was evidence of a continuing preference for the higher quality syndicates, with many of the perceived core entities such as Hiscox 33, Atrium 609 and Cathedral 2010 trading at well above 30p.

QBE 386 led the way, with more than £1m changing hands at an average 92.7p. Once again, all buyers of this syndicate were non-aligned. There was no sign of QBE seeking to increase its share, which has now remained static at 69.6% since 2007. Given the matching process used in the auction, canny buyers were able to buy capacity at under 83p, while others paid more than 110p.

The spread for **Meacock 727** was equally broad. Michael Meacock did not add to his sizeable share through any of his vehicles and successful bids ranged between 24p and 55p for an average of 42.3p.

Aligned buyers were in evidence. **Kiln**, owned by Tokio Marine & Nichido Fire, has not been a buyer of **510** since 2007, and was expected not to participate again this year. As this syndicate enjoys the largest third party support of any at Lloyd's, most members are on it, so purchasing was largely predicted to be restricted to new members and pricing was expected to be thin. More than £9m of

buyers placed bids at 10p or less, some £2.5m at the lowest possible price of 0.1p. All left empty handed as Kiln's surprise 12.5p bid for £20m nearly scooped the pool, picking up £14m of the £15.8m traded. Conversely, **Kiln 557** was a faller. Kiln's strategy has long been to provide no capital to this quota share reinsurer, a Special Purpose Syndicate (**SPS**) in all but name. Although some paid as much as 10p, it was widely available at 0.1p, with tender volumes outweighing subscriptions.

Beazley enjoyed less success than Kiln. Whilst seeking £50m on its managed **Syndicate 623** at 25p, it bagged only £3.5m to keep the aligned share ticking up. **Argo** continued where it left off last year, paying just over 7p to take 97% of the £10.6m capacity traded on managed **Syndicate 1200** and bring its own share to more than 86%.

Members are continuing to express a preference for **Kiln 308** over **Jubilee 779** in the life market. A single unaligned seller supplied 97% of the capacity traded on the tightly held 308, which went for almost 17p, while 779 fell back to an average 0.7p.

Argenta 2121 and **Apollo 1969** were both available at nominal cost, although there was more interest in the former with less than 1% of the tendered capacity on 1969 finding a buyer. Prices were also down on the two **Whittington** syndicates **2525** and **2526**. There was a very wide spread of buyers on both. The average of 15.3p fails to convey that some bidders paid as much as 23p for 2526, while others were successful at 0.1p. The difference was less pronounced for stable mate 2525, but the average of 9.7p masks a 20p band between the highest and lowest successful bid price.

Canopus fulfilled its obligation to make a Mandatory Offer to the remaining non-aligned capacity on **Syndicate 260**, offering the minimum possible 0.1p per £1. Take up was high, with Canopus increasing its aligned share by almost 7 percentage points to more than 88%. Of the £5.3m traded, third party buyers trumped Canopus for £665,000.

Hiscox, a traditional under-bidder, again was some way off the action, looking to pick up £20m of **Syndicate 33** at 10p, the lowest successful buyer paying 36p. Hiscox's aligned share has remained unchanged at 72.5%, 2.5% shy of the Mandatory Offer threshold, since 2006.

Non-aligned members demonstrated their enthusiasm for the newly merged **Atrium 609**, bidding between 33p and 43p to beat off a £20m bid from the aligned vehicle pitched at 20p. Last year, the pre-merged Syndicate 609 traded at an average 35.8p and Syndicate 570 at an average 45.3p.

After Syndicate 510, **Equity 218** was the most actively traded. With no sign of IAG as an aligned buyer, the field was clear for third party capital. The views on UK motor run the entire gamut between "off" and "double up", and there was good two-way trading, albeit at very low prices. While all tenders at less than 1p were satisfied, a total of £6.5m at higher reserve prices remained unsold. All bids of 0.2p or more were matched, leaving just under £1m of speculative purchasers empty handed. It will be interesting to see whether most buyers are now satisfied and if the sellers, one of whom was hoping for 40p, are prepared to reduce their expectations in the remaining auctions.

Omega 958 was the most significant faller. The syndicate had traded as high as 37p in 2009 and up to 30p in 2010. Uncertainties over the future ownership of the parent, Omega Insurance Holdings Limited (see separate article below), coupled with some lacklustre open year forecasts, saw almost all buying interest dry up. Unusually, no buyer showed his hand on Day One. All buy orders, even those at 0.1p, were satisfied but £23m of sellers were left still seeking an exit.



What to expect in Auction Two?

Auction Two starts on Tuesday, 20 September. With such a short period of time between auctions, we do not expect a significant change in strategy for the participants. Non-aligned buyers are broadly preferring the higher quality syndicates to those that are either newer or that have less impressive track records. Of the unsold capacity, more than 75% is on those syndicates that traded at less than 10p in the £1, while 90% of the unsatisfied purchasers were for syndicates trading at 10p or more. It is possible that some of the new members have begun to fill their portfolios for 2012, so some demand may slacken off, possibly easing some of the pricing. Kiln's appetite for more capacity will be key, as it is such a major part of new members' portfolios and the unexpected Kiln bid for 510 meant few members were able to secure a line. We still expect to find greater disparity between the perceived core and the rest, although we would not be surprised to see opportunistic buyers for 958.

Auction One – In Numbers

	2011 Auction One	2010 Auctions One to Three
Capacity successfully traded	£85.1m	£178.2m
Subscription (buy) orders	£274.2m	£556.3m
Tender (sale) orders	£162.4m	£307.1m
Bilateral trades	£1.1m	£18.0m
No. of syndicates traded	21	23
Average paid to acquire capacity	16.9p	17.9p
Average of all Lloyd's capacity	23.8p	26.6p

Top Five Price Rises		Auction One Price	Adjusted Average 2010 Price	Price Increase
0318	Beaufort Managing Agency	10.01	5.27	89.84%
1200	Argo Managing Agency	7.12	5.90	20.77%
0308	RJ Kiln & Co	16.84	15.00	12.25%
2791	Managing Agency Partners	25.44	24.18	5.20%
0609	Atrium Underwriters	37.28	35.83	4.05%

Top Five Price Falls		Auction One Price	Adjusted Average 2010 Price	Price Reduction
0958	Omega Underwriting Agents	1.55	27.54	(94.36%)
1969	Flagstone Syndicate Management	0.10	0.74	(86.49%)
0218	Equity Syndicate Management	1.10	7.46	(85.22%)
0779	Jubilee Managing Agency	0.69	4.64	(85.18%)
0557	RJ Kiln & Co	3.11	19.88	(84.33%)

Top Five Buyers

Syndicate	Capacity	Buyer
0510	£14,107,061	Kiln Underwriting Ltd
1200	£10,412,447	Argo (No 604) Limited
0318	£6,994,880	Beaufort Dedicated No 2 Limited
0260	£4,738,381	Flectat Ltd (Canopus)
0623	£3,517,578	Beazley Underwriting Limited

Top Five Sellers

Syndicate	Capacity	Seller
2791	£5,000,974	Walsham Corporate Capital Ltd
0623	£4,634,920	Walsham Corporate Capital Ltd
0033	£2,700,000	Argenta member
0260	£2,028,010	Argenta member
0510	£2,000,000	Argenta MAPA 7009

Auction One Summary

Syndicate	Managing Agent	Unadjusted 2010 Average Price	Adjusted 2010 Average Price¹	Proposed Pre/(De)-emption	Aligned Capacity	Auction One Price p/£1	Auction One Volume (£000s)
0033	Hiscox	40.6	45.1	11.11%	72.5%	42.34	5,124
0218	Equity	7.5	7.5	(10.0%)	64.0%	1.10	10,875
0260	Canopus	0.2	0.2		88.3%	0.11	5,393
0308	RJ Kiln	15.0	15.0	12.50%	52.1%	16.84	217
0318	Beaufort	5.3	5.3		84.7%	10.01	7,179
0386	QBE	104.0	104.0	13.15%	69.6%	92.66	1,180
0510	RJ Kiln	14.8	14.8		54.1%	12.59	15,855
0557	RJ Kiln	10.0	19.9		0.0%	3.11	920
0570	Atrium	45.3	45.3		Merging with Syndicate 609		
0609	Atrium	35.8	35.8		25.4%	37.28	4,003
0623	Beazley	33.0	33.0		82.8%	28.82	8,495
0727	SA Meacock	47.3	47.3		<25%	42.27	557
0779	Jubilee	4.6	4.6		18.1%	0.69	752
0807	RJ Kiln	2.3	2.3		Merging with Syndicate 510		
0958	Omega	27.5	27.5		40.5%	1.55	1,955
1176	Chaucer	228.2	228.2		54.8%	Not traded	
1200	Argo	5.9	5.9		86.1%	7.12	10,672
1969	Flagstone	0.9	0.7	14.09%	30.9%	0.10	87
2010	Cathedral	38.8	38.8		57.8%	39.30	1,605
2121	Argenta	1.1	0.9		34.5%	0.20	470
2525	Whittington	33.8	33.8		<25%	9.67	229
2526	Whittington	30.1	19.2	18.88%	<25%	15.31	689
2791	MAP	24.2	24.2		20.9%	25.44	8,832
3334	Sportscover	-	-	28.57%	86.3%	0.30	40

¹ 2010 prices adjusted for pre-emptions and de-emptions applied for the 2011 account.

There was also a bilateral deal for Syndicate 623 capacity, transferring a total of £1,182,500, including £380,000 interaction with the auction, at a price of 36p per £1.



Syndicate 958 – Omega Insurance Holdings Limited (OIHL)

OIHL, parent company of Omega Underwriting Agency Limited (which manages Syndicate 958), has been the subject of merger speculation for most of this year. On Monday, 12 September, it announced that it has agreed terms for Haverford (Bermuda) Limited (**Haverford**) to acquire up to 25% of OIHL's issued share capital at a price of up to 83p per share, with existing shareholders invited to tender their shares in response to Haverford's offer. Haverford is a Bermuda Class 3A insurer and reinsurer, although it currently does not have any active insurance business. The business was founded by Flagstone Re founder and former Chairman Mark Byrne in 1993.

Assuming the offer is successful, Haverford has revealed some plans for OIHL, promising simplification and a focus on core business. Mark Byrne will join the Board as Chairman, with the current Chairman, John Coldman, remaining a non-executive director. John Byrne (Mark's father), a longstanding insurance industry executive, will also join the Board. Richard Pexton will be asked to continue as Chief Executive.

Invesco, the largest shareholder in OIHL, has stated that it does not intend to tender its shares in response to Haverford's offer, unless doing so will ensure the success of the offer.

The offer is expected to be made in the final quarter of the year. It values OIHL at very close the net asset value of 84.5p per share as at the company's mid year report.

On 13 September, Canopus Group Limited, a privately held insurer based at Lloyd's and parent of the managing agent of Syndicates 4444 and 260, announced that it had submitted a rival proposal to the Board of OIHL to acquire the entire share capital of the company at a cash price of 83.0p per share. It is seeking a short period to complete due diligence, and any offer will be dependent on the outcome of that exercise.

Argenta Comment: *After several months of suitors assessing OIHL's books, but none making a formal offer, this week's news is welcome in that it marks the beginning of finding some form of clarity for Omega's future. While the Board and some shareholders seem to prefer an independent future, it is still possible that either other bidders will enter the fray or that Canopus will increase its offer. Uncertainty over future ownership was one of the reasons that we downgraded the syndicate to C+, with a "watch" outlook this year. We will continue to monitor developments at the managing agent and report as appropriate when there is greater clarity on the future ownership of the business.*

Syndicate 1176 – Omega Insurance Holdings Limited (OIHL)

Capacity in Syndicate 1176 was not traded in Auction One. Chaucer has announced that the syndicate no longer plans to buy reinsurance protection. This increases both the prospective maximum loss arising out of a nuclear event (from approximately 350% of capacity to 660%) and also the undiversified capital requirement (to around 400% of capacity). The business plan, including the capital requirement, remains subject to approval by Lloyd's Performance Management Division.

Chaucer buys a reinsurance protection for its underwriting member, including the participation on the nuclear syndicate, which it expects to renew. In addition, Michael Dawson, Active Underwriter of Syndicate 1176, has indicated that he wishes to explore the possibility of purchasing reinsurance to protect his own limited liability underwriting vehicle.

Argenta Comment: *We classify this Syndicate as Very High risk, and currently recommend that Members do not take a share of more than 2.5% of their overall premium income limit on the syndicate. At this level, and based on the revised 1176 business plan, the nuclear Realistic Disaster Scenario (RDS) is commensurate with some of the larger US catastrophe projections (typically 15-17% of capacity after reinsurance) which, given the low premiums attributable to this class of business, we consider is too high. We are in continuing discussions with Chaucer and presently we are minded to make a reduction in the maximum recommended line to 1.5%.*

We are aware that a number of Lloyd's syndicates have participated on Syndicate 1176's outward reinsurance programme, so the net increase in nuclear exposure to an individual underwriting member across his entire portfolio may be slightly less than otherwise would be the case. Only a small number of our clients underwrite on the syndicate and we encourage these members to discuss their nuclear business exposure with their normal contact at Argenta.



Connected Party Trades

The table below shows Auction One transactions that were successfully entered into by Members with Argenta Private Capital (APCL) connected person status.

<i>Syndicate</i>	<i>Type</i>	<i>Capacity</i>	<i>Member</i>	<i>Status</i>
218	Subscription	£122,223	Aardvark Underwriting Ltd (David Newton)	Connected third party adviser
218	Tender	£53,875	Antelope Underwriting Ltd	Body corporate, common control
318	Tender	£62,718	Antelope Underwriting Ltd	Body corporate, common control
33	Tender	£28,801	ASLP116 (Alison Follis)	Connected third party adviser
510	Tender	£32,841	ASLP116 (Alison Follis)	Connected third party adviser
609	Tender	£25,000	ASLP116 (Alison Follis)	Connected third party adviser
623	Tender	£21,402	ASLP116 (Alison Follis)	Connected third party adviser
2010	Tender	£23,334	ASLP116 (Alison Follis)	Connected third party adviser
2791	Tender	£20,000	ASLP116 (Alison Follis)	Connected third party adviser
33	Tender	£166,500	BHC Winton Underwriting II Ltd	Director ¹
260	Tender	£300,000	BHC Winton Underwriting II Ltd	Director ¹
510	Tender	£300,017	BHC Winton Underwriting II Ltd	Director ¹
623	Tender	£185,000	BHC Winton Underwriting II Ltd	Director ¹
2791	Tender	£175,000	BHC Winton Underwriting II Ltd	Director ¹
218	Tender	£207,584	BHC Winton Underwriting III Ltd	Director ¹
260	Tender	£250,000	BHC Winton Underwriting III Ltd	Director ¹
510	Tender	£826,122	BHC Winton Underwriting III Ltd	Director ¹
2791	Tender	£125,042	BHC Winton Underwriting III Ltd	Director ¹
727	Subscription	£25,000	C G Harman	Lloyd's Council member
623	Subscription	£75,000	CM Real Alternatives Ltd	Director ²
958	Subscription	£75,000	CM Real Alternatives Ltd	Director ²
2121	Subscription	£75,000	CM Real Alternatives Ltd	Director ²
218	Tender	£57,242	Dearborn Underwriting Ltd	Body corporate, common control
318	Tender	£73,171	Dearborn Underwriting Ltd	Body corporate, common control
218	Tender	£65,000	Edgar Harborne	Consultant
386	Subscription	£2,000	Edgar Harborne	Consultant
386	Subscription	£2,000	Edgar Harborne	Consultant
510	Tender	£30,000	Edgar Harborne	Consultant
218	Subscription	£25,000	Jennings Underwriting Ltd (Guy Heald)	Director
386	Tender	£22,388	Kling Investment Ltd	Director ¹
510	Tender	£87,858	Kling Investment Ltd	Director ¹
609	Tender	£43,740	Kling Investment Ltd	Director ¹
2010	Tender	£32,726	Kling Investment Ltd	Director ¹
623	Subscription	£75,000	Ludwig Fuchs London Ltd	Director ²
958	Subscription	£50,000	Ludwig Fuchs London Ltd	Director ²
2121	Subscription	£50,000	Ludwig Fuchs London Ltd	Director ²
218	Tender	£28,059	Minhotex LLP (David Harrison)	Director
318	Tender	£30,000	Minhotex LLP (David Harrison)	Director
779	Subscription	£246,608	Rona Delves Broughton	Lloyd's Committee member
218	Subscription	£50,000	Silver Lining 55 Ltd (Guy Heald)	Director
260	Tender	£126,902	Sumac Underwriting (UK) Ltd	Director ³
218	Tender	£121,219	Wren Properties Underwriting Ltd	Body corporate, common control
318	Tender	£135,890	Wren Properties Underwriting Ltd	Body corporate, common control

Notes

¹ Alan Tucker (executive director of APCL and non-executive director of Argenta Syndicate Management Limited) is a director of this corporate member.

² Guy Hudson and James Mackay (executive directors of APCL) are directors of this corporate member.

³ Graham White (Deputy Chairman of Lloyd's, Chairman of APCL, director of Argenta Holdings plc and non-executive director of Argenta Syndicate Management Limited) is a director of this corporate member.

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