



Lloyd's Market Disclosures

Pre-Auction 4, 2008

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Auction Four

The fourth and final auction of the year will be held on Thursday 13 and Friday 14 November.

This is a limited auction for capacity released by the death of a member on or after 1 September 2008. It also includes capacity which the Auction Official has declared eligible to be included, usually due to material changes in a syndicate's Business Plan for the succeeding year.

Members may only subscribe for capacity in this auction if they have, or expect to have, sufficient surplus funds at Lloyd's (as at the coming-into-line deadline of 27 November 2008) to support any further capacity which they acquire. No additional funds can be supplied after the coming-into-line date.

The Auction Official has also announced that capacity on the following syndicates is eligible for trading in Auction Four:

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| <i>Syndicate</i> | <i>Managing Agent</i> | <i>Reason</i> | <i>Comment</i> |
|------------------|-----------------------|--|----------------|
| 33 | Hiscox | Late pre-emption | |
| 218 | Equity | Change to Individual Capital Assessment (ICA) | |
| 260 | KGM | Change to ICA | |
| 318 | Beaufort | Consultation on new syndicate finished after Auction 3 | |
| 510 | Kiln | Late pre-emption | Restricted |
| 557 | Kiln | Change to ICA | |
| 609 | Atrium | Late pre-emption | Restricted |
| 623 | Beazley | Late pre-emption, Change to ICA. Change in Underwriter | |
| 958 | Omega | Change to ICA | |
| 1200 | Heritage | Late pre-emption, Change in Underwriter | |
| 2007 | Novae | None given | |
| 2010 | Cathedral | Change to ICA | |
| 2121 | Argenta | Late pre-emption | |

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Syndicates 510 and 609 are “restricted” in so far as members are permitted to sell only their “excess entitlement”, defined as capacity that represents the difference between the amount shown in the syndicate’s business forecast and that of the syndicate’s approved business plan. These amounts are approximately 13.6% of a member’s 2008 capacity (assuming he neither bought nor sold in Auctions One to Three) in respect of Syndicate 510 and 11.6% of a member’s 2008 capacity in respect of Syndicate 609.

The Auction Official has opined that the rules which generally prohibit members from tendering and subscribing for capacity on the same syndicate in the same year will not apply to members for the purposes of the syndicate capacity which is permitted in Auction Four.

Lloyd’s has also given the following indication of the capacity of deceased members that is eligible to be tendered in the fourth auction :-

| <i>Syndicate</i> | <i>Capacity (£)</i> | <i>Syndicate</i> | <i>Capacity (£)</i> |
|------------------|---------------------|------------------|---------------------|
| 33 | 217,614 | 727 | 120,470 |
| 218 | 191,560 | 807 | 75,000 |
| 260 | 142,955 | 958 | 299,350 |
| 318 | 151,875 | 1200 | 77,529 |
| 386 | 107,231 | 2010 | 116,785 |
| 510 | 280,625 | 2121 | 58,362 |
| 557 | 171,061 | 2525 | 112,163 |
| 570 | 74,684 | 2526 | 101,364 |
| 609 | 154,499 | 2791 | 112,349 |
| 623 | 172,211 | | |

Pre-emptions and De-emptions

The following is a summary of the latest position on pre-emptions and de-emptions for the 2009 account, the planned impact of which is reflected in the updated Capacity Allocation Worksheet sent to all clients recently :-

Pre-emptions

| <i>Syndicate</i> | <i>Managing Agent</i> | <i>%</i> |
|------------------|-----------------------|----------|
| 33 | Hiscox | 7.14 |
| 218 | Equity | 7.50 |
| 260 | KGM | 35.01 |
| 510 | Kiln | 7.15 |
| 1176 | Chaucer | 14.51 |
| 2121 | Argenta | 15.56 |
| 3334 | Argenta | 33.33 |

De-emptions

| <i>Syndicate</i> | <i>Managing Agent</i> | <i>%</i> |
|------------------|-----------------------|----------|
| 609 | Atrium | 7.30 |
| 623 | Beazley | 5.45 |
| 1200 | Heritage | 7.83 |

Disclosures by Managing Agents

Since Auction Three on 23/24 September, a number Managing Agents have made auction disclosures, which we reproduce below, with comment as appropriate. Most provide further information as to why individual syndicates are eligible to be included in Auction Four:

KGM Underwriting Agencies Limited (KGM) Syndicate 260 Individual Capital Assessment (ICA)

Comment: This may result in additional FAL requirements

Syndicate 260's ICA has increased from £18.4m in July 2008 to £20.5m in September 2008. This change is due to enhancements to KGM's market and credit risk methodology which have been agreed in discussions with Lloyd's.

Heritage Managing Agency Limited (Heritage) Syndicate 1200 2009 Stamp capacity remains at £325.5m

Comment: De-emption withdrawn. No change to APCL's not recommended status

In response to recent market developments, the board of Heritage has decided to revisit the stamp capacity for Syndicate 1200's 2009 business plan, submitted on 19 September 2008. As a result it is proposed that Syndicate 1200 will retain a £325.5 million stamp capacity, rather than de-empting to £300.0m as originally envisaged. The business plan remains otherwise unchanged at this stage. Should market circumstances improve next year and the outlook change materially, a new business plan and ICA will be submitted for approval. Any resulting additional capital will be requested at the mid-year 'Coming Into Line' (CIL).

Further to Heritage's 22 September 2008 disclosure (D2008020), it is pleased to confirm that, on 24 October 2008, Neil Chapman joined Syndicate 1200 as active underwriter (Property), subject to Lloyd's and FSA approval.

Atrium Underwriters Limited (Atrium) Syndicate 609 Revised De-emption

Comment: De-emption reduced in response to market circumstances

The Syndicate Business Forecast for Syndicate 609 submitted in June proposed a de-emption from £215m to £175m for the 2009 underwriting year of account.

Since June the insurance industry has experienced significant hurricane losses and there has been further turmoil in the worldwide financial markets. These factors have resulted in Atrium re-estimating the level of syndicate capacity required for the 2009 underwriting year of account to

£200m. The Franchise Performance Directorate and supporting capital have approved the revised level of syndicate capacity.

The underlying syndicate business plan remains materially unaltered, however, should the direct and reinsurance markets react as anticipated, Atrium will seek to amend their current 2009 business plan to respond to business opportunities. In the event that a revised business plan is submitted, it is likely that a revised ICA submission will also be required which may result in additional capital requirements at the mid-year CIL exercise.

Hiscox Syndicates Limited Syndicate 33 Revised Syndicate Business Plan and Capacity for 2009 Account and Establishment of Syndicate 3624

***Comment: Late pre-emption.
New Syndicate 3624
approved. APCL will write
with further details shortly***

Hiscox Syndicates Ltd announces an increase in the proposed capacity of Syndicate 33 for the 2009 year of account to £750 million (2008: £700 million). An extract of the approved 2009 Syndicate Business Forecast can be viewed at the following page on the Hiscox corporate website:

<http://www.hiscox.com/Downloads/4b69794b-51f6-413d-a522-106a0842652d.pdf>

Previously Hiscox's intention was to reduce the capacity of Syndicate 33 to £550m in anticipation of a continuing soft market in 2009. As a result of recent dislocations in the financial markets and industry losses arising from Hurricane Ike, Hiscox now anticipates improved underwriting conditions in 2009 and has revised Syndicate 33's business plan accordingly. The revised plan has been approved by Lloyd's.

As a result of the business plan changes the Auction Official has announced that Syndicate 33 will participate in the fourth auction on 13 and 14 November 2008.

Further to the auction disclosures dated 28 August and 9 September Hiscox is pleased to confirm that agreement has been reached with the representatives of third party capital and other interested parties for the establishment of Syndicate 3624, a new fully aligned corporate syndicate for 2009, to underwrite business sourced through the Hiscox owned distribution network.

Syndicate 3624 will write certain business previously underwritten by Syndicate 33 comprising 100% of the US errors and omissions (E&O) account (smaller premium US E&O business) written through the Hiscox underwriting agency in Armonk, New York and a 50% quota share of Syndicate 33's technology, media and telecommunications (TMT) business (E&O insurance for technology and media companies) written by that underwriting agency and other Hiscox owned underwriting agencies. Syndicate 3624 will have a capacity of £60m.

Argenta Syndicate Management Limited (ASML) Syndicate 2121 Increase in 2009 Capacity

*Comment: Late pre-emption
in response to market
circumstances*

In the wake of recent hurricane activity and having regard to the volatile trading conditions in the worldwide financial markets, ASML has reassessed its premium income projections for next year. As a result, it is ASML's intention to increase the capacity of Syndicate 2121 to £130 million for 2009 and both the supporting capital and Lloyd's Franchise Performance Directorate (**FPD**) have approved this increase in capacity.

ASML has also submitted to Lloyd's a revised Business Plan reflecting an increase in estimated premium income from £96.9 million to £114.8 million. The FPD, however, has indicated that it wishes to further monitor developments in trading conditions for next year before it is prepared to approve any such increase in premium volumes.

In the meantime and as a result of the increase in capacity, Lloyd's Auction Official has announced that Syndicate 2121 will trade in the final auction on 13 and 14 November 2008.

R J Kiln & Co Limited (R J Kiln) Syndicate 510 Revised Syndicate Business Plan and Capacity for the 2009 Account

*Comment: Late pre-emption
in response to market
circumstances*

R J Kiln announces an increase in the proposed capacity of Syndicate 510 for the 2009 year of account to £630 million (2008: £588 million).

Previously, R J Kiln intended to de-empt Syndicate 510 by 7% to £550m in anticipation of softer market conditions in 2009. Following the recent turmoil in the financial markets and industry losses arising from Hurricanes Ike and Gustav, R J Kiln are anticipating more favourable underwriting conditions in 2009 and have revised the business plan accordingly. The revised plan has been approved by Lloyd's.

As a result of the business plan changes the Auction Official has announced that Syndicate 510 will participate in the fourth auction on 13 and 14 November 2008.

R J Kiln & Co Limited Syndicate 557 Revised Syndicate Business Plan

R J Kiln have submitted a revised business plan to Lloyd's for the 2009 year of account for Syndicate 557.

Comment: Increase in capacity utilisation from 19.9% to 24.9%

The plan has been revised following the recent turmoil in the financial markets and industry losses arising from Hurricanes Ike and Gustav. Consequently, R J Kiln are anticipating more favourable underwriting conditions in 2009 and the gross premium in the revised plan has been increased by 17%.

As a result of the material change in the indicative risk based capital requirement the Auction Official has announced that Syndicate 557 will participate in the fourth auction on 13 and 14 November 2008.

Beaufort Underwriting Agency Limited (Beaufort) Syndicate 318 Proposal to establish Syndicate 1318 - UPDATE

Comment: Beaufort will be subscribing for up to £2.5m of capacity at the offer price of 27.5p, with the proposed new Syndicate being subject to Lloyd's approval.

On 19 September Beaufort announced that it would be consulting with unaligned members supporting Syndicate 318 on the proposal to establish 1318 for the 2009 year of account, in accordance with the Agency Circumstances procedure. Under this process, members who participate on syndicate 318 for the 2009 year of account were entitled to raise any objections to the proposal within 21 days. A circular, setting out the Board's rationale for the proposal, anticipated benefits to be derived by syndicate 318 members and proposals for managing any conflicts of interest, was issued to all members affected by the proposal via their members' agents.

At the close of this consultation period, objections from members comprising 7.5% of the unaligned capacity were received. Subsequently, Beaufort has entered into correspondence with members who expressed objections to its proposals via their members' agents.

In view of the consultation process concluding after the end of the third auction, the Auction Official has consented to capacity on syndicate 318 being traded generally in the fourth auction. Beaufort Dedicated No 2 Ltd will be subscribing for up to £2.5m of capacity at the same subscriber's premium as it submitted in the first three auctions in 2008, i.e. at 27.5p per £ of capacity.

The application for approval of the new syndicate is due to be considered by the Franchise Board at its November meeting.

Cathedral Underwriting Limited Syndicate 2010 Change to indicative capital ratio

Comment: The ICA has increase by more than 10%

Syndicate 2010 capacity will trade in Auction 4 by reason of there having been a material change (as defined in paragraph 4 (3) (c) (i) of the Auction rules) in its indicative capital ratio for 2009 between that which was indicated in the capital modelling software issued by Lloyd's on

7 August 2008 and that which has been reflected within the capital modelling software issued by Lloyd's on 23 October 2008 and 6 November 2008.

Equity Syndicate Management Limited Syndicate 218 Individual Capital Assessment

Comment: The ICA has increase by more than 10%

The Auction Official has announced that Syndicate 218 will participate in Auction 4 on the 13/14 November due to a material change in the syndicate's 2009 indicative risk based capital ratio.

The final figure (expressed as a percentage of stamp capacity) is no higher than the 2008 figure.

Managing Agency Partners Limited (MAP) Syndicate 2791 & 6103 Reinstatement of Special Purpose Syndicate

Comment: Increase in cession from Syndicate 2791's US catastrophe account from 30% to 40% for 2009

On 19 September, the Board of MAP announced that, in response to recent market circumstances, it had revisited the 2009 business plan for Syndicates 2791 and 6103 and had decided that Syndicate 6103 would continue into 2009 on a limited tenancy basis at its current £39.5m capacity, with a 30% cession from Syndicate 2791's USA catastrophe account. MAP also advised that if circumstances changed materially between then and the year-end, it might be appropriate to pre-empt Syndicate 6103 and/or increase the percentage cession. MAP has now advised that it has increased the cession from Syndicate 2791's US catastrophe excess of loss (**XL**) account from 30% to 40% for the 2009 year of account. MAP states that the effect on Syndicate 6103 will be to produce a more balanced book compared to that of 2008 and that capacity will be used more efficiently. Although dilutive of the catastrophe XL account of Syndicate 2791 (premium income drops by £6.5m) this will free up more Realistic Disaster Scenario (**RDS**) capacity for non-catastrophe XL lines.

