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**Equity Syndicate Management Limited (ESML)
Syndicate 218
Update on Developments**

We have received the following update on Syndicate 218 from Ian Foy, Chief Executive Officer, IAG UK:

“As you will be aware, over the last six months, we have embarked actively on a remedial action plan to restore underwriting profitability to Syndicate 218. In addition, on 7 September 2010 we received from Lloyd's a letter setting out a number of directions and conditions that it imposed as part of its ongoing review of ESML's policies, processes and systems and controls relating to claims and reserving management as mentioned in our Auction Announcement dated 1 September 2010.

Set out below, therefore, is a detailed update as to what action has been taken and what is planned to take place over the coming months:

Board Structure

The Equity Syndicate Management Board has been enhanced by the following appointments and pending appointments:

- Two IAG Group representatives have been appointed to the Board: Messrs. Mike Wilkins (IAG Group Chief Executive Officer) and Nick Hawkins (IAG Group Chief Financial Officer).
- In addition, I was appointed to the Board with effect from 1 October following the receipt of the required FSA approvals.

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Comment: Our Special Bulletin on Syndicate 218, sent to members in November, included a summary of and comment upon the remedial action being taken to restore the syndicate to profitability.

This update sets out the action taken and what is planned over coming months with regard to Board structure and management information, as well as rating actions, broker relationships, aggregators and the transformation of claims practices. Further appointments are in progress as regards underwriting, actuarial work and pricing. None of these more recent developments lead us to alter our rating or recommendation of support for Syndicate 218.

- Two further Independent non-executive Directors have recently been offered positions on the Board (both subject to Lloyd's and FSA Approval). A further announcement providing full details will be made shortly.
- The Head of Risk and Compliance, Ms. Lisa Siggery, has formally accepted appointment to the Board, and now attends all board meetings. Formal appointment to the Board is awaiting FSA approval.
- Mr. Peter Gallagher has been appointed to the Group as Claims Director, and will join the Board following receipt of the necessary approvals. Mr. Gallagher has over 20 years experience in both the insurance and reinsurance markets, including senior roles most recently with LV, Highway and Hastings Direct. Mr. Gallagher joined the business on 1 December and is now focusing on the claims transformation programme that is underway.
- Earlier this year, Mr. John Josiah, Syndicate 218's Active Underwriter, confirmed to the Board his intention to retire during 2011. However, following his recent ill-health, Mr. Josiah has decided to bring forward his retirement to December 2010.
- As previously announced a successor to Mr. Josiah, Mr. Mark Bacon, has already been identified and will join ESML in January 2011. Mr. Bacon was previously Chief Underwriting Officer, Motor at Zurich Insurance where he had responsibility for global motor operations. Mr. Bacon's appointment is subject to FSA approval. In the interim period, Mr. Andy Hill (Senior Deputy Underwriter) continues to lead the Motor Underwriting Operations, and Mr. Andrew Gibson (Finance Director), Property Underwriting.
- Mr. Gibson has also been asked by the Board to take overall responsibility for the oversight of management information.
- Mr Morgan and Mr Utley have both left the business and resigned their positions on the ESML Board.

Management Information

Our Data Warehouse development project has been upgraded and is proceeding according to the revised plan. Lloyd's are being provided with regular Interim updates on progress.

Board documentation and reporting has been reviewed and enhanced in a number of areas.



A review of internal policy documentation has also taken place in the areas of claims management and claims reserving along with the establishment of a separate Reserving Committee.

Other Areas

A significant number of other remedial actions have been completed or are in progress. These include:

- Immediate rating actions to implement increases of up to 20% across most classes of business.
- Exiting unprofitable relationships - of our 2,900 broker relationships, almost 10% of them have been cancelled and others have been identified for specific underwriting action.
- Cessation of the vast majority of external aggregator sourced business of a non-bike nature.
- We no longer write private car or van business with the four largest aggregator brokers.
- A strategic review has been completed of our property account and we have begun to implement a wide range of underwriting and operational improvements.
- Recruitment to strengthen the following key areas has been completed or is in progress:
 - Underwriting - recruitment of senior underwriters;
 - Actuarial - recruitment of two additional actuaries and an actuarial assistant;
 - Pricing - Head of Motor Pricing due to join in early 2011.
- We have completed a rigorous review and transformation of our claims practices including:
 - Changes to claims estimating philosophies to provide more detailed and transparent procedures for bodily injury estimating and ensure alignment of estimating practices across all classes of motor business;
 - Changes to claims closure procedure to include clearer guidelines on bodily injury claims and to extend the closure period for non-movement claims from 2 to 3 years to create a more cautious approach;

- Work to apply new claims philosophies is underway for the 2007 & prior underwriting years of account and expected to complete by 31 December. Once complete work will start on the more recent underwriting years of account.
- Other Claims Transformation activities include:
 - Restructuring of the bodily injury units to create a larger number of teams and enhanced shared expertise;
 - Appointment of a new senior bodily injury specialist who will have greater oversight and responsibility for philosophies, practices and governance in this area;
 - Implementation of a revised regime for rolling audits of bodily injury claims reserves;
 - Deployment of a new computer facility to better manage Credit Hire claims;
 - Establishment of a new accidental damage unit to access a new resource pool, spread expertise and provide a development feed into the bodily injury units;
 - Data improvements to allow the creation of better accident period information;
 - MI improvements to allow enhanced reporting on claims developments and IBNR utilisation;
 - Large Loss Committee upgraded with new terms of reference, new management information and the inclusion of an independent lawyer to ratify decisions;
 - Selection of a General Damages assessment tool to be delivered in Q1 2011;
 - Implementation of Hunter 2, an enhanced fraud detection tool;
 - Appointment of a Claims Transformation Programme Manager to oversee the programme of change.



Comment: There was no change to the forecast results for the 2008 and 2009 years of account in the recent updated forecasts as at 30 September 2010.

The continuing claims inflation and further review of reserves by Towers Watson clearly increases the possibility of further deterioration in the forecasts for the open years and, as this update suggests, makes it more likely that the 2008 year of account will be left open at 31 December 2010.

Comment: This disclosure was posted prior to Auction 4 but is repeated in this document for completeness.

The forecast results as at 30 September 2010 showed a deterioration in the mid-point forecast for the 2008 and 2009 accounts of respectively 3.3% to a loss of 39.2% and 5.2% to a loss of 29.1%.

Business Performance

The Syndicate continues to benefit from premium rate strengthening and remedial actions across many of its business lines. However, claims inflation also continues especially in the area of smaller bodily injury claims where, in-line with the wider market, we continue to see a rise in the number of claimants per claim. Consequently, claims payments have remained strong and we have asked our new consulting actuaries, Towers Watson, to undertake a further review of the Syndicate's claims reserves. We will update you on progress as further information becomes available.

It is worth noting, however, that the uncertainty surrounding the development of the Syndicate's claims reserves remains and this is likely to be a significant area of focus for the Board when it considers the closure of the 2008 underwriting year in early 2011."

Canopus Managing Agents Ltd Syndicate 260 Various

Revised Syndicate Business Forecast

Further to the Auction Disclosure dated 27 September, a revised Syndicate Business Forecast (**SBF**) for 2011 has been agreed by Lloyd's. The final SBF includes higher ultimate loss ratios than those previously indicated, including an increase in the net ultimate loss ratio from 71% to 75%. This reflects the fact that Lloyd's believes it is inappropriate to take credit for all of the identified underwriting improvements at this stage and changes the forecast result from a profit of £1.2m into a loss of £0.7m.

2008 - 2010 Years of Account

As previously disclosed, Canopus Managing Agents Limited has commissioned an independent actuarial review of the reserves of Syndicate 260. In the light of the preliminary findings of the draft report, the forecast ultimate loss ratios for the open years of account will be increased when the third quarter QMA/B returns are submitted. This increase is expected to be in the region of 3.5%, 5.0% and 5.0% of gross written premiums (Lloyd's basis) for the 2008, 2009 and 2010 years of account respectively.

QBE Underwriting Limited (QUL) Syndicate 386 2011 Business Plan Approval and Individual Capital Assessment

Approval has now been received from Lloyd's for Syndicate 386's Syndicate Business Forecast (**SBF**), as submitted on 10 September 2010. Whilst the Syndicate's Individual Capital Assessment (**ICA**) has yet to be finalised, the indicative ICA arising from Lloyd's Member Modelling Software is showing an increase of greater than 10% since the 12th August. As a consequence, Syndicate 386 triggers the criteria for inclusion within Auction 4 as detailed in Auction Rule 4(3)(c)(i). Discussions remain ongoing with Lloyd's, however QUL does not anticipate the ICA for 2011 will change materially from 2010.

The previous auction disclosure highlighted the potential for material change to Syndicate 386's reinsurance programme for 2011. The renewal discussions have now been virtually concluded and the final outcome is expected to be as follows:

- Slightly increased retention to US\$2m (currently £1m i.e. US\$1.6m), with increased monetary costs of approximately 10% across the whole reinsurance programme, up to £100m (US\$160m) compared to the expiring costs.

This increase reflects adverse loss experience over the past three years and the highly competitive nature of the existing programme.

- Equator Re will continue to write 100% of the US\$13m excess of US\$2m layer on a three year deal; and
- The layers excess of US\$15m and up to US\$160m (£100m) will be renewed on a three year basis but restructured with Equator Re writing up to US\$50m, with the balance covered under a Group external programme led by Munich Re and Swiss Re, the existing long-term core reinsurers for Syndicate 386.

The expected outcome for the Syndicate is considered very satisfactory, retaining the benefits of a three year risk attaching programme with a comparatively low retention, providing a strong competitive advantage.

All of the above remains subject to finalisation and regulatory approvals, as appropriate.

Comment: This disclosure was posted prior to Auction 4 but is repeated in this document for completeness



Argenta MAPAs for 2011

Argenta will operate two MAPAs for 2011: MAPA 7009 and “new money” MAPA 7222.

MAPA 7009

We indicated that the MAPA would de-empt by 5% for 2011 unless there were changes to syndicates’ business plans. This was driven by the de-emptions of underlying MAPA syndicates. Following the deadline for the approval of business plans, at the end of October, the 5% de-emption was confirmed and applied to MAPA members’ Premium Income Limits (**PIL**).

Some changes to the portfolio were made, both due to the pre-emptions and de-emptions on individual syndicates and selective auction activity reflecting Argenta’s view on each for 2011, as detailed in our “*Lloyd’s Syndicate Profiles 2010*”.

Auction prices remained high in 2010 and as a consequence the purchase cost of the MAPA was in excess of 30p per £1 of capacity.

In addition, members will be aware of the provision for an “enhancement” fee (of up to 0.6% of PIL) on MAPA 7009. An element of this was utilised during this year’s auctions, the final amount of which represented 0.17% of PIL.

MAPA 7222

In addition to Argenta’s main MAPA, a new MAPA was formed for the 2011 account to buy capacity for new members joining Lloyd’s. The 2010 auctions were characterised by a mismatch in demand versus supply and the prices that some sellers were trying to achieve. However, we were able to secure 90% of the capacity required on a spread of syndicates and at a cost of 26.9p per £1 of capacity.

The overall final 2011 capacity, number of syndicates and members for each of the MAPAs are as follows:

MAPA	Capacity	Number of Syndicates	Number of Members	Average MAPA Member’s Share
7009	£119,612,496	14	161	£ 742,935
7222	£ 16,605,000	13	16	£1,037,813

Note: Group SLPs are treated as a single member.

For information, the final portfolios for each MAPA, together with their comparative Realistic Disaster Scenario (**RDS**) exposures and split of account are shown on the following pages. The Agency’s policies on capacity allocation, auction strategy and fee structure remain unchanged.

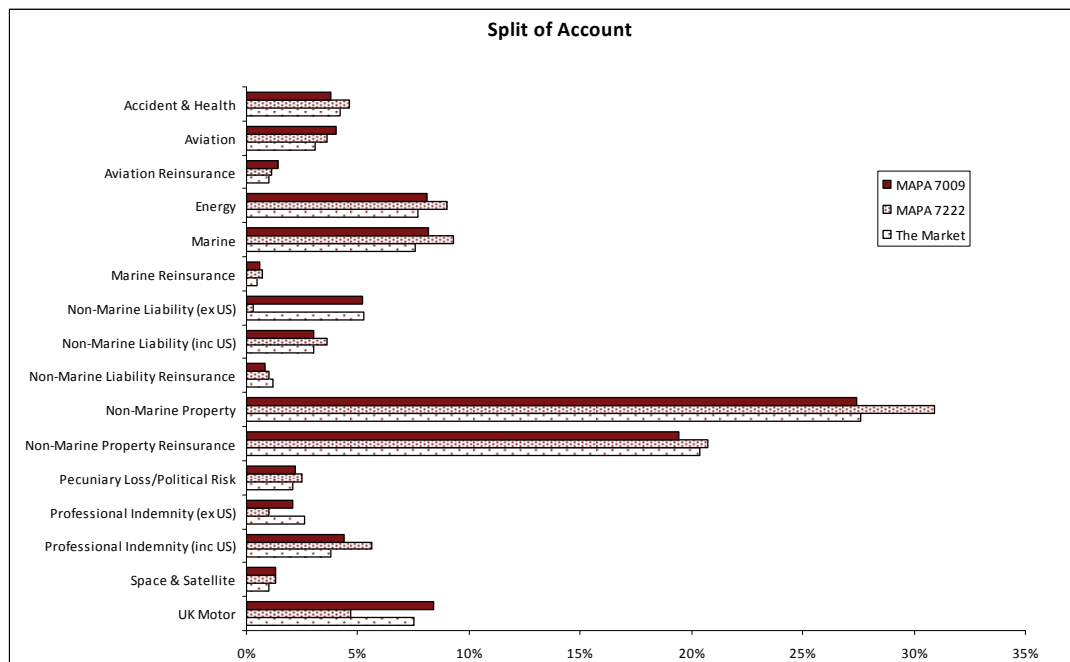
Part II Syndicate Lists, detailing the proportionate allocation of MAPA capacity to each participant, will be sent to all MAPA members under separate cover in the New Year.

MAPA Portfolios for 2011

Syndicate	Managing Agent	Underwriter	MAPA 7009 %	MAPA 7222 %
33	Hiscox	Merrett	12.10	15.40
218	Equity	Bacon	7.46	3.61
318	Beaufort	Pritchard	4.00	2.41
386	QBE	Bathia	5.12	-
510	RJ Kiln	"Kiln"	16.02	18.07
557	RJ Kiln	Huckstepp	2.35	-
570	Atrium	Wilkins	4.25	4.78
609	Atrium	Harries	8.50	5.83
623	Beazley	Maidment	8.41	10.70
807	RJ Kiln	Tunncliffe	3.80	5.42
958	Omega	Vanous	8.14	9.03
2010	Cathedral	Hamblin	8.15	5.91
2121	Argenta	Hunt	3.97	5.51
2791	Managing Agency Partners	Trubshaw	7.33	9.88
4020	Ark	Bonnar	-	3.45
			100.00	100.00

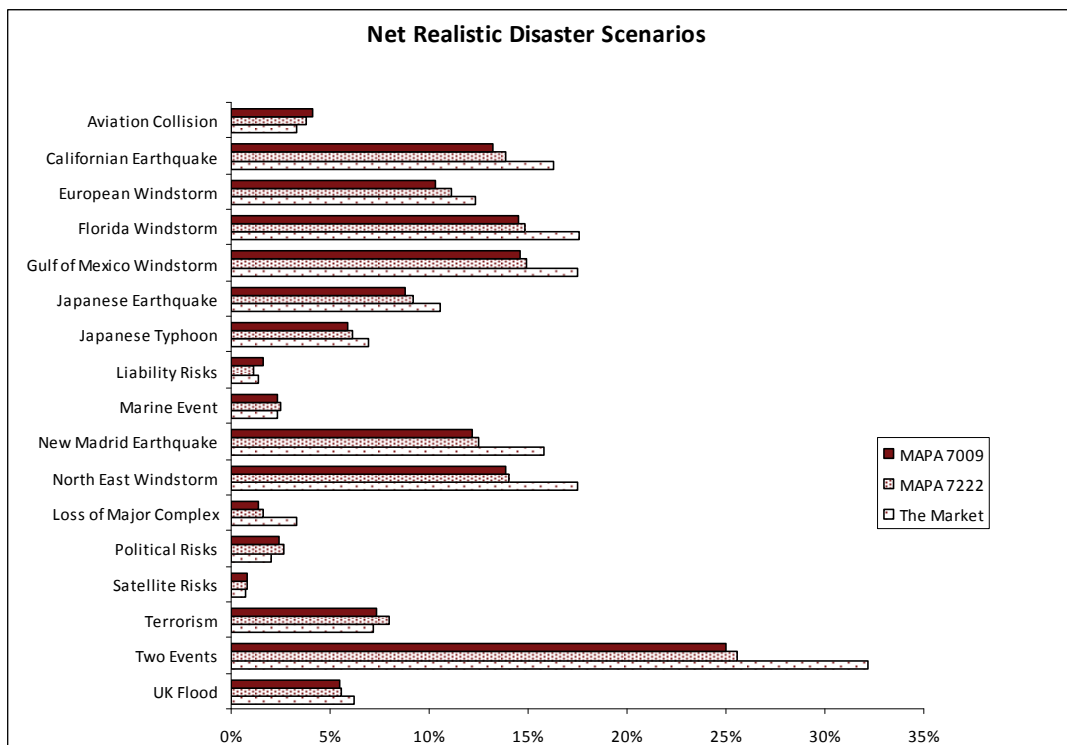
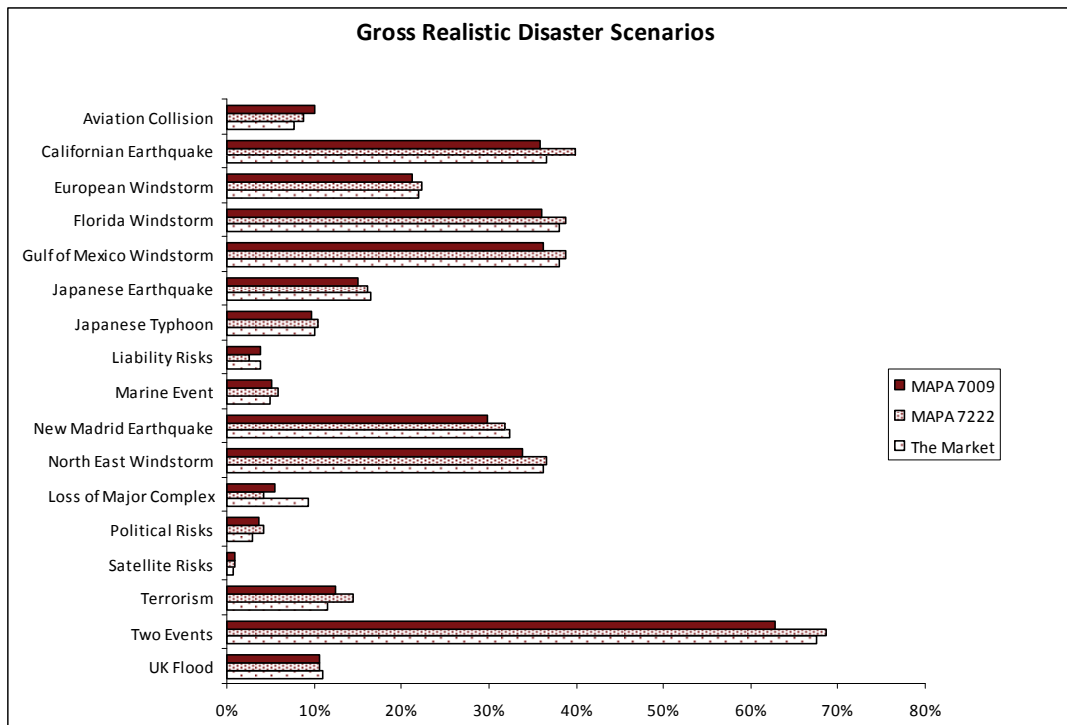
Note: A detailed description of the underwriting business of each syndicate, along with the Argenta Private Capital Limited (APCL) rating attributed to each, is included within the APCL Syndicate Profiles Book, published in August 2010. Syndicate 2121 is managed by Argenta Syndicate Management Limited, a wholly-owned subsidiary of Argenta Holdings plc, which is also the parent company of APCL.

Class of Business Split





Realistic Disaster Scenarios



Directors' / Client Directors' Underwriting for 2011 (update)

Full details of all actively underwriting Agency Directors' and Client Directors' syndicate / Special Purpose Syndicate (**SPS**) / MAPA participations for the 2011 underwriting account were included in our pre-Auction Three issue of Lloyd's Market Disclosures. With the exception of David Harrison (who acquired a new participation of £30,000 on Syndicate 623 and additional capacity of £10,000 on Syndicate 570, while reducing his allocation on (**SPS**) 6106 to zero in order to maintain his LLP's PIL at a similar level of £529,313 for 2011), there have been no material changes to the underwriting arrangements previously disclosed.

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