

FROM: Head, Market Reporting
LOCATION: MR\86\G5
EXTENSION: 5129
DATE: 10 November 2003
REFERENCE: Y3177
SUBJECT: 2003 SYNDICATE RETURNS – Annual Accounting

ACTION POINTS: **Managing agents to complete attached return**
DEADLINE: **Thursday 11 December 2003**

The purpose of this bulletin is to provide the form and instructions for the restatement of the technical account of the 2002 year of account as at 31 December 2002.

In the market bulletin Y3166 titled 2003 Syndicate Returns, the section on annual accounting noted that the 31 December 2003 return uses average exchange rates for the profit and loss account which represents an accounting policy change from the 31 December 2002 return which used year-end rates. The pro-forma annual accounting statement as at 31 December 2003 will therefore need to include a note on the change in accounting policy and its impact.

Managing agents of syndicates that traded in the 2002 year of account are therefore being required to provide a revised version of the 2002 year of account only annual accounting result as at 31 December 2002, restating the US dollar figures using the average US\$ exchange rate for 2002 of £1:\$1.50. The bottom line result will remain the same but the component parts, eg net earned premiums and grossed up claims, will change with the aggregate change in exchange rate movements being reflected in the line for profit/(loss) on exchange.

The instructions for completion of the form are attached as Appendix 1 to this letter with the form attached as Appendix 2. For example, if it is assumed that all original transactions were in US\$, in column 2 all figures will be increased by a factor of 1.61/1.50 except line 23, profit/(loss) on exchange. The figure in column 2 line 23 is equal to column 1 line 23 plus the aggregate of the exchange differences in column 3.

The version of this form for completion will be placed on the Market Returns web-site later this week and certainly not later than Wednesday 12 November. The completed form, which does not need to be audited, must be submitted electronically by Thursday 11 December

2003. The completed form should be filed via the Market Returns web-site. There is no requirement to provide a hard copy of the completed form.

Any queries concerning completion of this return should be submitted via e-mail to Market Reporting (lloyds-MRD-ReturnQueries@lloyds.com). Queries will be responded to by the end of the following working day. Please contact me by e-mail (john.parry@lloyds.com) if a response remains outstanding at that time.

This bulletin is being sent to the compliance officers of all managing agents and to recognised accountants.

John Parry

ANNUAL ACCOUNTING RETURN -31 DECEMBER 2003
INSTRUCTIONS FOR THE COMPLETION OF AAcomp

1. The purpose of this form, AAcomp, is to enable Lloyd's to assess the impact on the 31 December 2002 technical account of the change in accounting policy from using year-end rates to using average exchange rates.
2. To fully assess the impact of the change in policy would require the resubmission of the 31 December 2002 technical accounts of all syndicates with the retranslation of all relevant non-sterling currencies. However, to reduce the burden on managing agents it has been decided that sufficient information can be obtained by requiring the resubmission of technical accounts of just the 2002 year of account and with only US dollars being retranslated at average rates.
3. While AAcomp must be completed by all syndicates with a 2002 year of account it can be completed on one of two bases, reporting revised figures for either:
 - (i) just the 2002 year of account (ie as per col 19 of the 31.12.02 AA2(2002) and AA1(2002)): or
 - (ii) the syndicate as a whole (ie as per col 6 of the 31.12.02 AA2sum and AA1sum).
4. The only cells in AAcomp requiring entries from managing agents are those shaded light green.
5. The syndicate number must be entered in the box at the top right of the form.
6. If the form is to be completed for the 2002 year of account (per 3(i) above) delete the reference to "Whole syndicate" in the title lines. If the form is to be completed for the syndicate as a whole (per 3(ii) above) delete the reference to "2002 year of account" in the title lines.
7. The figures to be entered in column 1 are those from the 31 December 2002 annual accounting return, ie using the original period end rates. Lines 1 to 29 are equivalent to the lines in AA2 except that, where applicable, only the net RITC and run-off reserves received/paid are required. Line A of AAcomp is the aggregate of AA1 lines 2 + 3 – 4 – 5. Line B of AAcomp is the aggregate of AA1 lines 7 + 9. The final total at line C of column 1 must agree with AA1(2002) line 10 of column 19, unless completing on the whole syndicate basis in which case it must agree with AA1sum line 10 of column 6.
8. The figures to be reported in column 2 of AAcomp are the equivalent total converted sterling amounts but with US dollar transactions translated using the 2002 calendar year average rate of exchange, £1:US\$1.50, rather than period end rates. No other currencies should be retranslated. The figure at line C of column 2 must agree with that at line C of column 1.

9. Column 3 automatically generates the impact for the syndicate of the move to translating US\$ at the average rate of exchange (column 2) from using year-end rates (column 1). Line C of column 3 must be zero. Line 23, profit/(loss) on exchange will be equal but opposite to the aggregate of the movements reported in the other lines of column C, ie line 23 = $(9-21-28+A-B)*-1$.
10. The completed form, which does not need to be audited, must be submitted electronically by noon on Thursday 11 December 2003. The completed form should be e-mailed to robert.smith@lloyds.com. There is no requirement to provide a hard copy of the completed form.
11. Any queries regarding submission of this form should be submitted via e-mail to Market Reporting (lloyds-MRD-ReturnQueries@lloyds.com).

31 DECEMBER 2003 ANNUAL ACCOUNTING RETURN

Syndicate Number:

2002 Year of account*
Whole syndicate*

annual accounting figures as at 31 December 2002
retranslating US\$ at average exchange rates

	AA2 line ref	Figures submitted at 31 December 2002	Revised figures using average US\$ rate	Movement
		1	2	3
		£000	£000	£000
Gross premiums	1			0
Reinsurers' share	2			0
Net premiums (1-3)	3	0	0	0
Movement on gross provision for unearned premiums	4			0
Reinsurers' share	5			0
Net earned premiums (3-4+5)	6	0	0	0
Reinsurance to close received - net	7c			0
Run-off reserves received - net	8c			0
Sub-total (6+7c+8c)	9	0	0	0
Gross claims paid	10			0
Reinsurers's share of paid amount	11			0
Net claims paid (10-11)	12	0	0	0
Grossed up claims reserves	13			0
Unexpired risk provision	13a			0
R/I element of grossing up	14			0
R/I element of URP	14a			0
Reinsurance to close paid - net	19			0
Run-off reserves retained - net	20			0
Sub total (12+13+13a-14-14a+19+20)	21	0	0	0
Profit/(loss) on exchange	23			0
Administrative expenses	24			0
Commissions	25			0
Other acquisition expenses	26			0
Reinsurers' commissions and profit participations	27			0
Total operating expenses (24+25+26-27)	28	0	0	0
Balance on the technical account (9-21+23-28)	29	0	0	0
Net investment return = AA1 lines 2+3-4-5	A			0
Personal expenses = AA1 lines 7+9	B			0
Result after all personal expenses (29 + A - B)	C	0	0	0