

Market Bulletin

LLOYD'S

One Lime Street London EC3M 7HA

FROM: Manager, Settlement and Trust Fund Operations
LOCATION: STFO/CH/L4
EXTENSION: 2098
DATE: 4 May 2004
REFERENCE: Y3307
SUBJECT: INSURANCE LETTERS OF CREDIT

ACTION POINTS: **To note contents**
DEADLINE: **Friday 30 July 2004**

The current Citigroup Letter of Credit Scheme is operated via Citibank, N.A., London. In order to improve the efficiencies of the scheme Citigroup are moving the operation to Citibank Ireland Financial Services plc. In order for this move to take place a new set of Legal documentation needs to be completed by the Market. In order to facilitate a cost-effective review of the new documentation, the LMA, on behalf of the Market, have had the documentation independently reviewed. A more detailed explanation from Citigroup is attached.

In consideration of this effort we have been able to negotiate a reduction in the cost of scheme LOCs by 5 basis points. In order for Managing Agents to benefit from this reduction, they need to complete the new documentation that will be sent out by Citigroup and return it by 30th July at the latest. Any Managing Agent not completing the new documentation will not benefit from the reduced fees.

If any Managing Agent has not signed up to the existing scheme but would like to benefit from the new arrangements they need to contact Keith Coutinho on Lloyds extension 5762

If you have any queries regarding this change please contact either Gary Budinger, at the LMA on Lloyds extension 4735, Monica Bridge at Citigroup on +353 1 622 7816 (email: monica.bridge@citigroup.com) or myself on Lloyds extension 2098.

This bulletin has been sent to all Lloyd's Managing Agents.

Ian Wootten
Manager
Settlement & Trust Fund Operations

Insurance Letters of Credit

In December 2003, Citibank Ireland Financial Services plc ("CIFS") became the Citigroup provider of Insurance Letters of Credit. This is in line with Citigroup strategy to concentrate products and services in centralised processing centres. Such a strategy takes advantage of synergies and achieves maximum efficiency from which our customers will benefit and which we expect will further enhance and grow Citigroup's position as the leading provider of Insurance Letters of Credit. As a result, we are asking that all Syndicates complete new documentation in the name of CIFS for future Letters of Credit and the supporting collateral.

CIFS is an European Union licensed credit institution regulated and supervised by the Irish Financial Services Regulatory Authority and offers the full range of banking services (including corporate lending, treasury and investment services) for its European corporate and institutional client base. A wholly owned subsidiary of Citibank, N.A.; it is credit rated AA (which is the same rating as Citibank, N.A.). Citigroup expanded into the Republic of Ireland in 1966 and established CIFS in May 2001, utilising key members of the existing Citigroup team based in Ireland and others from the wider group or externally. With 1,100 members of staff, Citigroup's Ireland office is integral to Citigroup strategy and is the fourth largest Citigroup operation in Europe by employee number with 450 of these employees working directly for CIFS. CIFS has "passported" its services on a non-branch basis throughout the European Union pursuant to the provisions of the Second Banking Coordination Directive. Regulatory approval has been granted to the migration of the Letter of Credit product to CIFS.

Syndicates will see no difference on a day-to-day transacting basis as Letter of Credit numbers, Electronic Banking and Help Desk numbers for both Customer Service and Electronic Banking will remain unchanged. However, as the collateral accounts will remain with Citibank, N.A. in London but instead be pledged to CIFS, the structure of the documents, although remaining substantively the same as those currently in place, will need to change. With our lawyers, we have looked very closely at novating the existing documents or to find an alternative to entering into the new documents. Unfortunately, because of this change in structure, it is not possible to simply novate the existing documents and entering into new documents is the most simple and efficient way forward.

Following discussions with Lloyds and the Lloyds Market Association ("LMA"), the LMA has retained CMS Cameron McKenna ("CMS") to review the documents on the Syndicates'/Managing Agents' behalf and from the Syndicates'/Managing Agents' perspective. CMS has completed its review and compiled a report, having negotiated changes to the documentation. The LMA will be emailing its members with a copy of CMS' report on 5th May to confirm to the Market that the documents are acceptable and that they are prepared to recommend them for use by the Market. For this one-off review, the legal cost has been borne by CIFS. In addition, provided that the documents in original form have been completed, signed and returned to CIFS by no later than Friday 30 July 2004, we have agreed with Lloyds and the LMA to reduce the Letter of Credit fee at such time. Fees will continue to be reviewed on an annual basis.

We will be distributing the documentation to Syndicates (via their Managing Agents) by the end of week ending Friday 7th May.

We are grateful for your support in completing this matter but should you have any questions please do not hesitate to contact your usual representative.

Citigroup Inc