

MARKET BULLETIN

REF: Y4190

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| Title | Q3 2008 QMR – exchange rates, major losses and other information |
| Purpose | To provide managing agents with information required for the completion of the Q3 2008 Quarterly Monitoring Return including suggested exchange rates and the list of major losses to be reported. |
| Type | Scheduled |
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| Date | 1 October 2008 |
| Deadline | Thursday 20 November 2008 |
| Related links | |

The purpose of this bulletin is to provide the suggested exchange rates (Appendix 1) and the list of major losses (Appendix 2) together with other information relevant to the completion of the quarter 3 QMR.

Deadlines

The submission date for the Q3 2008 QMR is 20 November. QMRs are to be submitted by 2:00pm on that date.

Software and instructions

The software for the Q3 2008 QMR is available on the CMR system. The instructions are also on the CMR system, ie they are those issued for Q2 2008, but only the instructions for “all quarter forms” apply (ie ignore any instructions that are Q2 specific such as the reporting timetable at para. 1.2 and the need to submit hard copies).

Changes since Q2 2008

QMR460 - exposures

This form had to be completed by certain syndicates with a run-off year of account. The form is to be discontinued in the Q4 2008 version of the QMR. While the form is included in the current version of the software there is no requirement for it to be completed by any syndicates at Q3.

QMR800 – major losses

On major losses to the syndicate, the instructions advise that a loss would be regarded as material if the "Incurred Gross Loss" or the "Estimated Ultimate Net Loss" exceeds 5% and 1% respectively of the syndicate's capacity for the relevant reporting year of account. In the majority of cases the Managing Agent's judgement will determine whether the loss is material to the syndicate, i.e. losses below this level can also be reported on QMR800. However, we have had instances where syndicates have reported no other major losses other than those that we list for inclusion in QMR800. It may be that in these cases the syndicates did not have losses that exceeded the 5% and 1% limits but we would emphasise that we would normally expect any loss above these levels to be reported.

There have been a number of large single risk losses that have occurred this year including BHP Billiton (08ZM, Australasia - January), and the Imperial Sugar explosion (08ZQ, Georgia - Feb). Where such events do impact the syndicate, we would encourage you to report them on QMR800.

Note in QMR990 on write down of investments

In light of the ongoing turmoil in the financial markets, Lloyd's is dealing centrally with a number of data requests from our external stakeholders including the FSA and the rating agents. It is critical, therefore, that we have up to date information and agents must advise us as soon as possible of any material write downs of investments or exposures to institutions in default. This will help avoid misstatements and later misunderstandings.

In addition to this, please would you provide the following information on QMR990:

- (1) Details of investments with any material subprime exposure (greater than 5% of financial assets in aggregate) **or** confirm that you have no investments with exposure greater than 5%.
- (2) Please provide further information on individual or groups of related securities where the original value (or the value as at 31 December 2007) is more than 2% of total assets and where impairment has;
 - 2.1 led to a loss of more than 25% of the original value (or the value as at 31 December 2007) or
 - 2.2 led to a loss of more than 1% of capacity (most recent year of account).

Please provide the following details:

- issuer
- currency
- current market value in original currency
- loss taken to the P&L in original currency (including all realised and unrealised losses)

- (3) Please provide the above information for all holdings in Lehman Brothers or in default irrespective of size or whether in default after the reporting date.

Please note, further requests for information may be required and if so will be communicated in the FAQs.

Concentration limits for solvency

For the purposes of clarification under current market conditions, Managing Agents are directed that in order to assess eligible assets for solvency, a maximum limit of 10% per counterparty should be applied to approved counterparties even if they have explicit guarantees, for example Freddie Mac & Fannie Mae. This position will be reviewed when the current financial market conditions have settled and the national governments have indicated how they intend to treat these agencies going forward.

The 10% limit per counterparty is applicable as long as the total value of securities above 5% per counterparty does not exceed 40% in total in accordance to INSPRU 2.1.22-3b ii. Any holdings for approved counterparties exceeding 40% market value must adhere to the 5% per counterparty concentration limit.

No disclosure is required for Q3, however syndicates should acknowledge these limits for the purpose of assessing solvency disallowances for Q4 2008.

Reporting performance issues

We would encourage all agents to report any issues they have with the performance of the software and accessing the systems as soon as they arise. This will enable the ITG help desk to help resolve the issue earlier in the process and enable us to monitor service levels in real time and respond quickly as issues emerge. The contact details for the Data Management team 020 7327 5252 (e-mail: ITGDataManagement@Lloyds.com).

Queries

Any queries or comments on the return should be submitted via e-mail to Market Reporting (Lloyds-MRD-ReturnQueries@lloyds.com).

Robert Smith

Rates of Exchange

The settlement currency rates as at 30 September 2008 (balance sheet) and the average currency rates (profit and loss account) over the nine month period to 30 September 2008 are as follows (to the £):

| | Period end | Average |
|--------------------|------------|---------|
| US dollars | 1.78 | 1.95 |
| Canadian dollars | 1.90 | 1.98 |
| Euro | 1.27 | 1.28 |
| South African rand | 14.76 | 14.99 |
| Australian dollar | 2.26 | 2.14 |
| Japanese yen | 189.23 | 206.09 |
| Swiss franc | 2.00 | 2.06 |
| Hong Kong dollar | 13.84 | 15.19 |
| Swedish krona | 12.43 | 12.05 |
| Danish krone | 9.47 | 9.55 |
| Norwegian krone | 10.54 | 10.23 |

You are not required to use the above rates in your QMR submission but you may use the rates set out above in completing the return.

Major losses

The XIS catastrophe codes which must be reported in the Q3 QMR800 are:

| | | |
|----|-----|--|
| 1 | 05H | Hurricane Katrina |
| 2 | 05L | Hurricane Rita |
| 3 | 05M | Hurricane Wilma |
| 4 | 07A | Windstorm Kyrill |
| 5 | 07C | UK Floods - 21 to 29 June 2007 |
| 6 | 07E | UK Floods - from 20 July 2007 |
| 7 | 07J | California Fires – October 2007 |
| 8 | 08A | BA undershot runway at Heathrow – 17 January 2008 |
| 9 | 08B | Explosion at Severstal furnace, Dearborn USA – 5 January 2008 |
| 10 | 08C | Pipe failure & fire at Varanus Island, Western Australia – 3 June 2008 |
| 11 | 08D | Spanair, crashed on takeoff, Madrid - 20 August 2008 |
| 12 | 08E | Hurricane Gustav |
| 13 | 08F | Hurricane Ike |

Agents are reminded that if they have any loss to be reported on QMR800 that does not have an XIS catastrophe code they need to ensure that the loss has been allocated a major loss code. Details of the procedure for obtaining a major loss code will be issued in an e-mail today. The deadline for submission of requests for new major loss codes to Market Reporting is Friday 31 October.

Major loss codes assigned for 2008 to date are:

| | | |
|----|------|--|
| 1 | 08ZA | Hon Hai (Brazil) |
| 2 | 08ZB | Australia Floods (January 2008) |
| 3 | 08ZC | Australia Floods (February 2008) |
| 4 | 08ZD | Kolon Chemical (Korea) |
| 5 | 08ZE | Fonterra Icepak (New Zealand) |
| 6 | 08ZF | Satellite AMC 14 |
| 7 | 08ZG | Lehman Brothers – Japanese loan fraud only |
| 8 | 08ZH | US Tornadoes (Feb 2008) |
| 9 | 08ZI | China Earthquake |
| 10 | 08ZJ | Taca Airlines crash (Honduras) |
| 11 | 08ZK | Damage to Subsea flowline pipe |
| 12 | 08ZL | Princess of Stars capsized (Philippines) |
| 13 | 08ZM | BHP Billiton (Queensland) |
| 14 | 08ZN | SAG Mill outage (Peru) |
| 15 | 08ZP | Alon Refinery fire (Texas) |
| 16 | 08ZQ | Imperial Sugar explosion (Georgia) |
| 17 | 08ZR | Universal Studios fire (California) |

Please note:

Major loss code 08ZB has previously been assigned to the Australia floods in January 2008, to also include losses relating to BHP Billiton. However, can you now please use code 08ZM for specific

BHP losses, and continue to use 08ZB for any other losses relating to the floods.

Code 08ZG should only be used for losses relating to Lehman Brothers/Marubeni Corp Japanese loan fraud.