

MARKET BULLETIN

REF: Y4407

| | |
|----------------------|---|
| Title | Q2 2010 QMR – major losses, exchange rates and other information |
| Purpose | To provide managing agents with information required for the completion of the Q2 2010 Quarterly Monitoring Returns including the list of major losses to be reported and suggested exchange rates. |
| Type | Scheduled |
| From | Robert Smith, Manager, UK Reporting, Market Finance Contact details: 020 7327 5459 robert.smith@lloyds.com |
| Date | 1 July 2010 |
| Deadline | QMA – 2:00pm Thursday 12 August 2010 unaudited QMB – 2:00pm Thursday 12 August 2010 unaudited QMA – 2:00pm Thursday 26 August 2010 audited |
| Related links | |

The purpose of this bulletin is to provide the list of major losses for QMA800u (see Appendix 1) and the suggested exchange rates (see Appendix 2) for the return, together with other information relevant to the completion of the returns.

SBFs

The 30 June period end exchange rates must be used for 2011 year of account SBFs submitted on or after 1 August 2010, with provisional exchange rates being used for all submissions prior to this date (please see Market Bulletins Y4388 and Y4394 for additional information).

QMR deadlines

The submission dates are as noted above. All submissions are due by no later than 2:00pm on the relevant date. The 2008 and 2009 forecasts as a percentage of capacity will be released to the Stock Exchange and included on Lloyds.com on Wednesday 18 August.

Forms and instructions

The software for Q2 is in available in Production There have been no major changes to the forms and instructions for Q2 2010 and the relevant version of the instructions remains 2010 version 1.0. However, there are some minor changes summarised below and discussed in more detail in Appendix 3.

QMA212u – concentration of investment holdings.

It is proposed that the number of counterparties to be reported will rise from 10 to 20 at Q4 2010: for Q2 and Q3 2010, agents are asked to extend the list from the 10 largest to the 20 largest if possible. Furthermore, credit exposure to AA and below rated government securities, government agency and supranationals should now be included on this form.

QMA219u – Investment analysis – credit classification.

Syndicates that have hedge funds or alternative assets that comprise more than 5% of their investments should consider whether they have sufficient information on the underlying assets to enable them to reanalyse the amount into other more appropriate credit classifications on the form.

QMA260

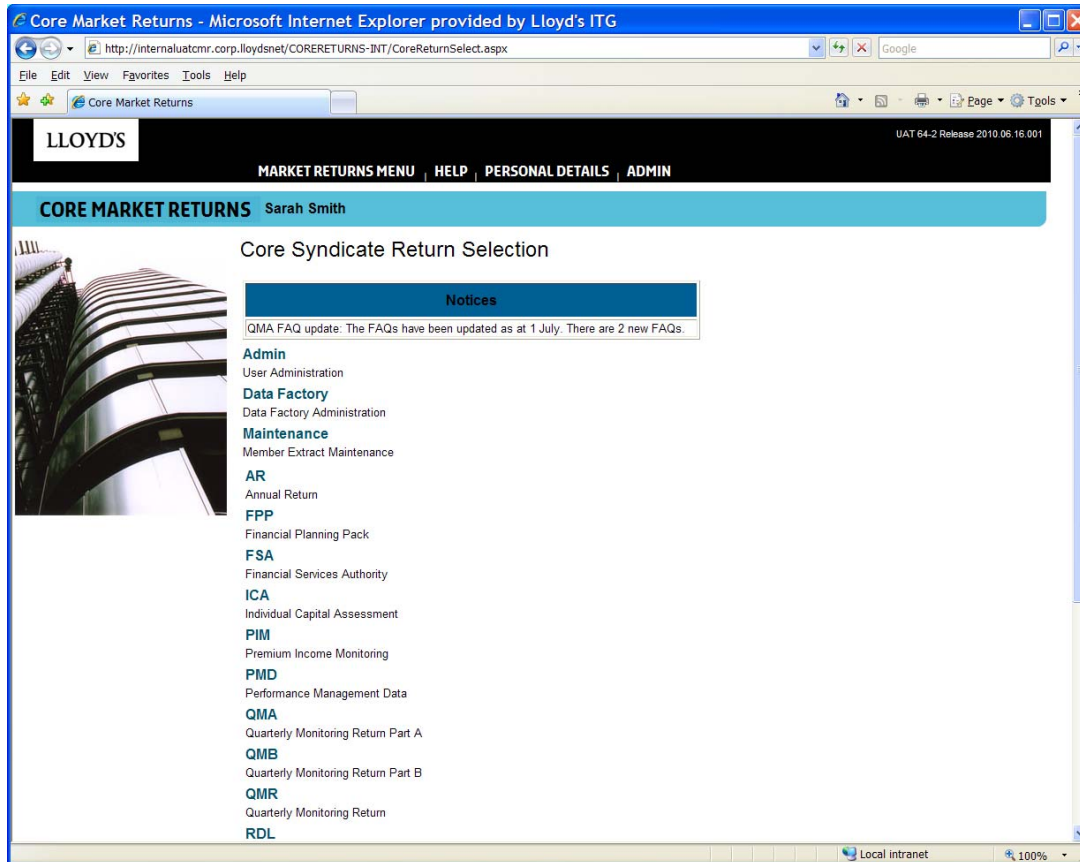
For syndicates that have members funds in their PTFs (Funds In Syndicate) the QMA260 validation now includes assets reported on QMA202.

QMA360.

The derivation on QMA360 line 6 has been corrected. The forecast result net of cash calls and distributions to date derives from QMA109u B51 + QMA360 4a and 4b.

FAQs

We will continue to publish weekly FAQs on a Friday, normally by 2:00pm. The first FAQs will be published on Friday 9 July. When the FAQs are published a notice will be included on the initial CMR page (example below) stating whether or not the latest version includes any new items.



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: ITGApplicationSupport2@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

Major losses

The XIS catastrophe codes which must be reported in the Q2 2010 QMA800u are:

| | | |
|----|------|---|
| 1 | 05H | Hurricane Katrina |
| 2 | 05L | Hurricane Rita |
| 3 | 05M | Hurricane Wilma |
| 4 | 08E | Hurricane Gustav |
| 5 | 08F | Hurricane Ike |
| 6 | 09A | Windstorm Klaus – 23 & 34 January 2009 |
| 7 | 09D | Air France A330 200 lost over Atlantic Ocean 1 June 2009 |
| 8 | 10A | Ethiopian Airlines – B737-800 25 January 2010 |
| 9 | 10B | US Snowstorms – 5 to 11 February 2010 |
| 10 | 10C | Chilean Earthquake – 27 February 2010 |
| 11 | 10D | European Storm Xynthia – 27 February 2010 |
| 12 | 10E | Transocean MODU Deepwater Horizon – 22 April 2010 |
| 13 | 10F | A330 Afriqiyah Airways Tripoli crash – 12 May 2010 |
| 14 | 10G | Aban Drilling, loss of Rig off the coast of Venezuela – 13 May 2010 |
| 15 | EKOF | Losses arising from impact damage to 2/4 W Platform following collision by “Big Orange XVIII” in Ekofisk oil field, 8 June 2009 |
| 16 | FINC | Turmoil in financial markets post Lehman Brothers |
| 17 | MADO | Collapse of Madoff Investment Securities LLC |
| 18 | SUBS | Losses arising from sub prime |
| 19 | STAN | Stanford financial corporation alleged fraud |

Agents are reminded that if they have any major loss to be reported on QMA800u 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 can be found in an attachment to a message posted to Core Market Returns on 1 July 2010. The attachment includes a full list of current catastrophe and major loss codes to date. The deadline for submission of requests for new major loss codes to Market Finance is Friday 30 July.

Major loss codes assigned for 2010 to date are:

| | | |
|---|------|--------------------------------------|
| 1 | 10ZA | Perth Hailstorm |
| 2 | 10ZB | Haiti Earthquake |
| 3 | 10ZC | Kleen Energy Explosion |
| 4 | 10ZE | Furness Melbourne |
| 5 | 10ZF | Codename Newcastle |
| 6 | 10ZG | Edison SPA Turbine |
| 7 | VOLC | Volcanic Ash – Air travel disruption |

Please note:

Major loss codes relating to 2009 and prior are still maintained in the database. Syndicates are asked to report on major losses in accordance with the QMA800u instructions, repeated within the memo attached to the Core Market Returns message posted on 1 July 2010.

Rates of Exchange

The settlement currency rates as at 30 June 2010 (balance sheet) and the average currency rates (profit and loss account) for the six month period to 30 June 2010 are as follows (to the £):

| | Period end | Average |
|--------------------|------------|---------|
| US dollars | 1.50 | 1.53 |
| Canadian dollars | 1.59 | 1.58 |
| Euro | 1.22 | 1.15 |
| Australian dollar | 1.77 | 1.71 |
| Danish krone | 9.10 | 8.56 |
| Hong Kong dollar | 11.65 | 11.86 |
| Japanese yen | 132.39 | 139.42 |
| New Zealand dollar | 2.18 | 2.17 |
| Norwegian krone | 9.73 | 9.22 |
| Singapore dollar | 2.09 | 2.13 |
| South African rand | 11.47 | 11.48 |
| Swedish krona | 11.64 | 11.26 |
| Swiss franc | 1.61 | 1.65 |

It is not a requirement that the above rates are used in your QMR submission but they may be used in the absence of another source for these indices.

Chilean earthquake - Reminder

The list of major losses in Appendix 1 includes February's Chilean earthquake. When assessing the level of claims relating to this loss managing agents do need to be careful that they identify the unit in which the loss is being reported. Chilean losses may be reported in one of two ways:

1. The Chilean Peso (CLP) is the official currency of Chile, conventionally quoted against the US Dollar (USD). All payments are made in CLP. On 26 February 2010, 1 USD = 524.55 CLP.
2. The Chilean Unidad de Fomento (UF) (may also be coded as "CLF") is a monetary reference unit which is linked to Chilean inflation and used in many financial transactions. It is fixed daily by the Central Bank of Chile and is not a settlement currency. The UF exchange rate may be quoted in terms of the CLP (on 26 February 2010, 1 UF = 20,912.91 CLP) or the USD (on 26 February 2010, 1 UF = 39.8797 USD).

Appendix 3

Changes to the forms and instructions for the Q2 2010 QMA

QMA212u – concentration of investment holdings.

The instructions require that syndicates report their **10** largest aggregate credit exposures to individual investment counterparties. As agents will appreciate, we are receiving more frequent and more detailed requests for asset risk information from stakeholders, including the FSA. To improve the information we can provide, it is proposed to increase the minimum number to **20** for Q4 2010 and beyond. However, it would be helpful to collect the additional information earlier so for Q2 and Q3 2010 all syndicates are asked to provide the 20 largest if possible.

The instructions also state that “as the purpose of this form is to assess market counterparty risk, credit exposure to government, government agency and supranationals should be excluded from this form. In light of recent government guarantees of certain issues, any issues which are explicitly guaranteed by a government may also be excluded from the 212u”.

However, in light of the current economic conditions credit exposure to AA and below rated government, AA and below rated government agency and supranationals must now be included on this form. For information, the following governments are rated AAA and should be excluded:

| | | | |
|---------------|-------------|-------------|-------------|
| Australia | Austria | Canada | Denmark |
| Finland | France | Germany | Isle of Man |
| Liechtenstein | Luxembourg | Netherlands | Norway |
| Sweden | Switzerland | UK | US |

QMA219u – Investment analysis – credit classification.

The instructions in relation to Alternate Assets & Hedge funds currently require syndicates to provide additional information on the nature of these funds including a split of investments and strategies. Where we have required further analysis from syndicates it has become apparent that they hold sufficient information on the underlying assets to be able to analyse those assets to other more appropriate lines on QMA219u. If the amount reported on the hedge fund line represents more than 10% we will ask for more information on the nature of the underlying investments and may do so where the amount is 5% of the total. It would be helpful, therefore, if you have hedge funds or alternative assets to consider whether you have information to enable you to report the classifications of the underlying assets up front rather than simply entering them on the hedge funds line.

QMA260

The QMA260 is designed to monitor syndicates’ compliance with the matching and localisation of assets to liabilities, specifically assets held in premiums trust funds versus net technical provisions. With the increase in the number of syndicates retaining Funds at Lloyd’s within the syndicate PTF’s, QMA260 has been updated to capture those assets as reported on QMA202. Therefore, when completing line 2, if the syndicate has reported assets on QMA202, they must ensure that the breakdown by currency includes these assets.

QMA360.

The derivation on QMA360 line 6 has been corrected. The forecast result net of cash calls and distributions to date derives from QMA109u B51 + QMA360 4a and 4b.