Argenta

2008 Auction Report

Auction Two, 11th/12th September 2008

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Inside This Issue

Highlights

- **Prices ease slightly.**
- **Some bargains amongst favoured syndicates, including 510 and 958.**
- **Twelve syndicates up in price, thirteen fall.**
- **A new high for a single syndicate price at Auction.**

	2008 Auction One	2008 Auction Two	2008 All Auctions	2007 All Auctions
Capacity successfully transferred	£34.0m	£36.2m	£70.2m	£177.7
Subscription (buy) orders	£137.3m	£130.3m	£267.6m	£825.5m
Tender (sale) orders	£105.1m	£66..5m	£171.6m	£268.2m
Capacity transferred in bilateral deals	£25.0m	£0m	£25.0m	£34.3m
Number of syndicates traded	25	25	25	27
Average price paid to acquire capacity	21.0p	18.6p	19.6p	17.2p
Average price of all Lloyd's capacity	20.8p	19.3p	20.0p	22.7p

Auction Two – An overview

Syndicate 1176 set a new record for the highest average price paid for a syndicate at auction. A very small parcel of capacity changed hands at a price of £1.42p

With one auction left, it remains to be seen if some of the unsold capacity will be reduced in price for the final auction. Members who have speculated by tendering capacity at high prices presumably will be content to underwrite next year if they fail to sell. If floor prices for tender capacity are reduced, there will be more capacity for sale in the final auction and the possibility of price falls.

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Syndicate	2008, Auction One price	2008, Auction Two price	Increase in price
	Top Five Price Rises		
4040	0.13	2.02	1,456%
2007	8.30	15.30	84%
260	19.35	25.00	29%
2526	21.14	24.22	15%
1176	125.08	142.00	14%

Sterling specialists in favour

There continues to be considerable enthusiasm for the non-US dollar specialists. Syndicate 386 fell slightly, probably as bidders were better able to target their prices. In both Auctions One and Two, buyers were successful at just over 81p, but unlike Auction One, there were no bidders at prices over £1 in Auction Two. Many bidders place staggered bids for this high valued syndicate, in order to secure at least some capacity at a higher price, and more if the price falls to below a certain level.

Syndicates 2525 and 2526, managed by **Imagine Lloyd's**, were both bid up. Argenta's view is that challenges faced by the Imagine syndicates include the recent acquisition by Max Re, as well as the fiercely competitive UK liability market conditions and the impact of an economy falling into recession. We do not at present recommend participation for our clients. Despite these negatives, the price increased on both syndicates.

The attractions of UK motor, a beneficiary of improving market conditions, were apparent as both motor specialists were bid up. **Equity Syndicate 218** was up 11% to over 35p and **KGM Syndicate 260** up 29% to 25p. Aligned vehicle, Flectat, took the unusual step of selling some of its capacity, possibly as a result of the 35% pre-emption increasing capital requirements for the vehicle.

Aligned bidders have more success in Auction Two

Novae bought all the available capacity on its managed Syndicate 2007, increasing its share to 94.1%. The syndicate (and its predecessor Syndicate 1007) had not traded at auction for two years until Auction One this year.

Beazley upped its bid price for Syndicate 623. In Auction One it had been an under-bidder at 5p. It increased its bid for £10m to 20p and was rewarded with an additional £2m of capacity, increasing its share of the combined Syndicates 623/2623 to almost 82%.

HCC was another to increase its bid price for its own capacity. It has acquired much of the 86.8% of Syndicate 4040 that it currently owns by paying no more than the 0.1p minimum. This time it increased its price to 2p and acquired another £217,000 of capacity.

Syndicate 33 traded at very close to Auction One prices despite the increased de-emption announced between the first and the second auction. **Hiscox** continued its strategy of placing a sizeable sweep-up bid

Hiscox aligned vehicle unsuccessful

well below the strike price. This was unsuccessful and is likely to be so again in Auction Three. The lowest successful buyer in Auction Two paid more than 19p, therefore at 9.2p, there will need to be a substantial increase in selling activity before Hiscox obtains any capacity. A spread of 10p between the highest and lowest successful buyer ensured Auction Two pricing at 23.1p stayed close to that of Auction One's 23.8p.

Top Five Price Falls

Syndicate	2008 Auction One price	2008 Auction Two price	Reduction in price
510	15.55	8.90	43%
557	0.77	0.47	39%
807	3.26	2.35	28%
958	13.00	9.90	24%
2010	38.40	29.83	22%

Capacity on Kiln syndicates available at low prices

Three of the four **Kiln** syndicates were amongst the large fallers. The absence of aligned bidding from Tokio Marine meant that buyers were successful with bids as low as 6p on Syndicate 510. Syndicate 557 was subject to much selling, slightly surprising given the (unfulfilled) potential for Hurricane Ike to prompt a large correction in catastrophe rating levels. A number of buyers were able to pick up capacity at 0.1p. There remains almost £8m of unsold capacity, so it is likely that this syndicate will be available cheaply in Auction Three. Syndicate 807 was recognised by some as another potential bargain, although bids of 0.1p and 0.2p did not secure capacity this time.

Omega 958 also good value for buyers

Another highly regarded syndicate offering good value to buyers was Syndicate 958. **Omega** has rarely sought to acquire capacity through the auctions, and this year is no exception. Sellers will no doubt be disappointed to achieve less than 10p for the syndicate, but the presence of more than £2m of unsold capacity in Auction Two points to another buying opportunity in Auction Three.

Broad range of prices paid for 2010

Cathedral, one of last year's aggressive buyers, was again absent. This caught out many buyers, accustomed to paying more than 30p for the syndicate. The spread between the highest and lowest buyers was one of the largest, some paying more than 40p, others less than 18p. In Auction One, no buyer was successful at less than 34p.

MAP 2791 down

MAP Syndicate 2791, subject to a £25m bilateral deal in Auction One at a 22% discount to the auction price, also saw its price slide 21% from 21.2p to 16.8p, close to the bilateral price. The would-be seller of a £5m share reduced his floor price from 25p in Auction One to 20p in Auction Two, but still failed to find a buyer at his asking price.

Atrium 609 slides

Prices fell on the **Atrium** syndicates. Atrium maintained its bid for £10m at 15p on both Syndicates 570 and 609. Syndicate 570 continued to trade at around 28p, but 609 recorded a fall from 24.2p in Auction One to 20.3p in Auction Two. It is possible that bids of 15p may secure at least some capacity in Auction Three.

Top five buyers of capacity

Syndicate	Capacity	Buyer
318	2,500,000	Beaufort Dedicated
623	2,053,362	Beazley Underwriting Limited
2791	2,000,000	Hampden MAPA
218	800,771	Individual Member
260	740,000	Hampden MAPA

Meacock buys Meacock

Meacock Underwriting, aligned to Syndicate 727, but with a spread portfolio, bought £½million on both Syndicates 727 and 557. Michael Meacock also bought £150,000 in his personal capacity on Syndicate 2791.

Beaufort steady

Beaufort once again bought a tranche at its August capacity offer price of 27.5p. We have been watching to see whether it reaches the 75% trigger point for a Mandatory Offer, when it would be required to repeat this year's offer next summer. As it now sits at 70%, it would need to acquire £10m in the final auction. Given current volumes we think this unlikely. As Beaufort bid for only £2.5m this time, it did not secure all the capacity on offer and one buyer landed a very small parcel at less than 23p.

Top five sellers of capacity

Syndicate	Capacity	Seller
260	1,610,023	Flectat Ltd
609	600,000	Private NameCo
958	544,998	Private NameCo
318	514,630	Private LLP
318	500,000	Individual Member

Hurricane Update

Gustav

No change to Gustav estimates

Further to our coverage in our Auction One Report, there have been no revisions to the preliminary estimates issued by the catastrophe modelling firms. Insured loss estimates resulting from Hurricane Gustav continue to be in the range of \$2.5 billion to \$4.5 billion for onshore losses and \$1.8 billion to \$4.4 billion for offshore according to AIR. RMS is to yet to revise its estimate of \$3 billion to \$7 billion for onshore and \$1billion to \$3 billion for offshore insured losses.

Ike

On 13 September 2008 category two Hurricane Ike made landfall in the US at Galveston, Texas with sustained winds speeds of 110mph. At peak strength Ike reached category four status and caused devastation to several Caribbean Islands. Galveston experienced widespread flooding

Damage over a wide area

as a result of the storm surge, while Houston was hit by strong winds causing damage to high rise buildings. It was a very large storm, with hurricane-strength winds in a path approximately 250 miles wide.

Preliminary estimates of up to $18 billion of insured loss

Preliminary estimates of insured losses released by catastrophe modelling firms range from $6 billion to $18 billion. The storm's large footprint caused damage on a massive scale and it will not be until the residents of evacuated cities return to their homes that a more accurate estimate of losses will be possible. Many private homeowner policies do not include flood cover, which is instead provided by the US National Flood Insurance Programme. Commercial and crop insurance policies, however, do usually include cover for floods.

Conflicting reports on offshore losses

Initial 'flyover' assessments of offshore energy installations in the Gulf of Mexico showed little signs of major damage, however it has recently become apparent that some platforms have been destroyed, capsized or broken free from moorings. Catastrophe modelling firm AIR estimates offshore losses at between $600 million and $1.5 billion.

Ike could be the third largest US hurricane insured loss ever recorded

Overall Ike is expected to have a 'material' impact on insurers and reinsurers, albeit less than Hurricane Katrina in 2005. Within hours of Hurricane Ike making landfall, AIR estimated the insured losses at $8 billion to $12 billion for onshore property, although there has been recent speculation that losses are not as bad as first feared.

If these early loss estimates are accurate and the actual losses are around the mid point of the range, Ike could rank as the third largest US hurricane insured loss after Katrina and Andrew.

2008 will be the highest US catastrophe loss year since 2005

The US Property Claims Services (**PCS**) estimates that catastrophe losses totalled $9.4 billion to 30 June 2008 alone. In what has been an active hurricane season so far, Hurricanes Dolly and Gustav are likely to increase this figure to $13.4 billion. Ratings agency Fitch now expects 2008 US catastrophe losses to reach $25 billion, more than twice the average of $11.4 billion, but well short of the total of $61.9 billion (adjusted for inflation) for 2005.

Hurricane Ike unlikely to be a market changing event

Although many insurers are enduring significant investment losses as a result of the current turmoil in the financial markets and even though 2008 has proved to be costly in terms of catastrophe activity, unless there is an additional capital depleting event, property and casualty rates are expected to continue their decline. However, the storm that has engulfed AIG in the last few days might prove to be a market changing event of a different sort, and this is the subject of a separate report.

All quiet in the Atlantic at present

On a positive note, there are currently no cyclones active in the Atlantic and directors of atmospheric science (the weathermen) are expecting a respite from hurricanes for at least two weeks. Although sea-surface temperatures remain high and therefore conducive to the development of hurricanes, windshear – the cross-winds that inhibit the development of hurricanes - has increased.

Auction Two Summary

The table below is a summary of Auction Two trades against last year's average prices.

Auction Summary

						Auction One		Auction Two	
Synd	Managing Agent	Actual 2007 Average Price	Adjusted 2007 Average Price[1]	2009 Proposed Pre/(De)-Emption	Aligned Capacity	Average Price p/£1	Volume (000s)	Average Price p/£1	Volume (000s)
33	Hiscox	23.29	29.11	-21.43%	72.5%	23.75	2,382	23.16	1,584
218	Equity	29.53	29.53	7.50%	64.0%	31.95	1,912	35.40	1,281
260	KGM	16.49	15.35	35.01%	59.7%	19.35	469	25.00	1,757
308	Kiln	19.01	19.01	0.00%	52.1%	21.69	49	23.47	84
318	Beaufort	21.56	21.56	0.00%	68.7%	27.50	1,150	27.50	2,556
386	QBE	83.57	83.57	0.00%	69.6%	91.85	1,203	85.79	937
510	Kiln	17.86	22.33	-6.46%	53.0%	15.55	5,575	8.90	4,235
557	Kiln	4.00	4.00	0.00%	0.0%	0.77	2,457	0.47	2,693
570	Atrium	29.50	29.50	0.00%	24.7%	28.35	1,360	27.82	741
609	Atrium	31.10	31.10	-18.88%	25.7%	24.23	3,162	20.30	3,899
623	Beazley	17.84	18.97	-12.81%	81.6%	19.02	1,266	20.06	2,557
727	Meacock	21.02	21.02	0.00%	9.3%	24.30	949	23.43	905
779	Jubilee	26.81	33.96	0.00%	13.8%	25.00	239	25.92	333
807	Kiln	6.67	6.67	0.00%	38.8%	3.26	1,561	2.35	1,934
958	Omega	17.11	17.11	0.00%	16.4%	13.00	3,311	9.90	2,974
1176	Chaucer	123.19	123.19	14.51%	56.3%	125.08	187	142.00	3
1200	Heritage	4.81	4.65	-7.83%	77.7%	5.12	1,279	4.90	259
2007	Novae	0.00	0.00	0.00%	94.0%	8.30	1.5	15.30	207
2010	Cathedral	36.82	36.82	0.00%	57.8%	38.40	1,103	29.83	1,550
2121	Argenta	1.93	1.54	0.00%	30.7%	3.00	1,172	2.90	564
2525	Imagine	24.40	24.40	0.00%	2.0%	27.30	253	29.63	369
2526	Imagine	14.15	14.15	0.00%	36.4%	21.14	174	24.22	183
2791	MAP	23.88	27.46	0.00%	36.5%	21.24	2,474	16.78	4,484
3334	Argenta	3.84	3.84	33.33%	67.8%	6.31	129	6.91	22
4040	HCC	0.14	0.14	0.00%	87.0%	0.13	169	2.02	217
Totals/Averages						21.0	33,985	18.62	36,327

[1] *adjusted to reflect any pre-emption or de-emption imposed for the 2008 year of account.*

Connected parties

The table below shows Auction Two transactions that were successfully entered into by Members with Argenta "connected person" status.

Connected Parties

Synd	Type	Capacity	Member	Status
260	Subscription	12,000	E S Harborne	Consultant
260	Subscription	12,000	E S Harborne	Consultant
260	Subscription	12,000	E S Harborne	Consultant
33	Tender	3,917	G L Underwriting	Directors – see note
218	Tender	3,676	G L Underwriting	Directors – see note
318	Tender	2,131	G L Underwriting	Directors – see note
386	Tender	2,921	G L Underwriting	Directors – see note
510	Tender	4,590	G L Underwriting	Directors – see note
570	Tender	1,325	G L Underwriting	Directors – see note
609	Tender	3,225	G L Underwriting	Directors – see note
623	Tender	2,286	G L Underwriting	Directors – see note
958	Tender	3,237	G L Underwriting	Directors – see note
2010	Tender	3,062	G L Underwriting	Directors – see note
2121	Tender	1,876	G L Underwriting	Directors – see note
2791	Tender	1,946	G L Underwriting	Directors – see note
2791	Subscription	20,000	C G Harman	Council Member

Note: GL Underwriting Limited (**GL**) is a NameCo through which Argenta Private Capital Limited directors Andrew Annandale, Trevor Bird, Guy Hudson and James Mackay all participate at Lloyd's. GL's auction sales were in respect of a former director of GL who has left the Argenta group.