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Highlights

- **Prices again increase to a new high in illiquid trading**
- **New MAPAs behind much of the buying**
- **Volumes on core syndicates exceptionally thin**
- **Only one successful aligned bid**
- **New highs for Syndicates 386 and 1176**
- **Sixteen syndicates record price increases, seven record price falls**

Auction Two – An Overview

Auction Two prices scaled new heights as new members fought over the scraps of capacity existing members were prepared to tender. Although the absolute level of subscriptions fell, down from £274m to £246m, the high prices achieved in Auction One failed to tempt out more sellers.

Many members have elected to accept all of their pre-emption offers, so the market has become very illiquid. A good example is Syndicate 33, which is a core syndicate for many. It has almost £200m of capacity supplied by third party capital, who between them have a pre-emption entitlement of over £65m. Less than £875,000 of capacity was tendered, and £200,000 of this was at more than twice the Auction One price. **Hiscox** placed its usual “sweeper” bid for £25m at 9.2p, but there were £15m of other buyers chasing just £675,000 of capacity. Even a bid of 47.2p (one third higher than Auction One) was unsuccessful.

The story was similar on many other key syndicates. For Atrium 570, bids for £20m, including £10m from **Atrium** itself, chased just £240,000 of capacity tendered for sale, while the numbers for sister Syndicate 609 were similar with over £21m of subscriptions chasing just £1.3m of tender capacity.

Although Atrium was an unsuccessful bidder for its managed syndicates, it was successful in unloading almost £20m of **MAP** Syndicate 2791, to add to almost £7.5m sold in Auction One. This capacity, together with a share on the MAP Sidecar 6103, is the last remnant of Atrium’s spread portfolio (originally Lomond Underwriting) and has long been considered a non-core part of the business and for sale at the right price. We calculate that Atrium still has a share of almost £20m on Syndicate 2791, which may be sold in Auction Three. Hampden MAPAs and the spread fund, ICP, both entered into bilateral deals to secure the

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capacity. Syndicate 2791 accounted for more than one-third of all capacity traded in this auction.

Beazley Syndicate 623 again was subject to a large bid from the aligned vehicle. In Auction One, Beazley had trumped most other bidders by coming in at 25p and securing 96% of the capacity traded. In Auction Two its bid for £50m was some way off the 33p minimum to secure any capacity.

While some sellers hang on for the 40p **Omega** offer price for Syndicate 958 to be available in the auction (over £2m was left unsold at prices of 39p to 40p), the auction price inched closer to the offer price, with £1.5m changing hands at close to 35p. Omega continues not to bid for further capacity.

Kiln syndicates remained in strong demand. Tokio Marine has shown no appetite for increasing its share of any of the four managed syndicates; nevertheless, each syndicate recorded a price increase. The most notable was Kiln Reinsurance 557, up to more than 10p despite sharing many characteristics with the Catastrophe Sidecars expected to be allocated for free once the auctions have been completed. Syndicate 510, a core component of almost all third party portfolios was targeted by the Hampden new client MAPA, which bought its total purchases on the syndicate for the year to almost £5m (which equates to more than £7m assuming the full pre-emption is approved). 807 rose in price, and was one of only seven where the volume traded was higher in Auction Two than Auction One. Popularity of 308 also continues, with the differential between this and the other third party life Syndicate, 779, increasing to more than 8p as the latter surprisingly fell back to less than 15p.

There was some semblance of two-way trading on **KGM** Motor Syndicate 260. Auction One had been marked by a mis-match between buyers' and sellers' expectations. Most buyers looking to pay no more than 10p, but many sellers were hoping for double that. This is one instance where the buyers won, as the sellers dropped their floor prices; although the price did not fall much, the volume traded shot up from £649,000 to over £3m.

With KGM out of favour, many Members look to the larger Motor Syndicate, **Equity** 218, for portfolio balance. Again, it seems that all the £12m of subscriptions emanates from non-aligned members. The price was pushed higher by 4.3p to more than 46p.

Beaufort was the sole successful aligned buyer, picking up £1m of Syndicate 318 at 10p, although third parties were also active, outbidding Beaufort to secure the remaining £3.3m traded at prices of up to 21p, giving an overall average of 13.6p.

Cathedral, often a buyer of its own capacity at higher prices, looks to be sitting this one out. Nonetheless, Syndicate 2010 was traded at a substantial premium to Auction One, up almost 8p at nearly 45p per £1.

Scarcity of supply also drove prices at the luxury goods end of the spectrum, Both Syndicates 1176 and 386 scaled new highs on small volumes. There were a number of bids for small amounts of capacity on Syndicate 1176 at prices in excess of 180p per £1, but just £25,000 changed hands. The seller holding out for more than £2 must wait. On **QBE** Syndicate 386, the price has been pushed up to more than £1.20 for a £1 share.

At the lower end of the scales, Syndicate 1200 was the only syndicate where capacity was left unsold even if it was tendered at the minimum 0.1p. Despite the free availability of capacity, **Argo** was not a bidder. **Argenta** Syndicate 2121 dipped slightly from 2.1p to 1.7p, and there was capacity left unsold with a floor price of 0.5p.

Auction Two – In Numbers

	2009 Auction One	2009 Auction Two	2009 All Auctions	2008 Auction 1 to 3
Capacity successfully traded	£56.2m	£54.5m	£110.7m	£109.1m
Subscription (buy) orders	£274.1m	£246.3m	£520.4m	£472.6m
Tender (sale) orders	£91.6m	£71.5m	£163.1m	£203.8m
Bilateral trades	£7.0m	£7.3m	£14.3m	£25.0m
No. of syndicates traded	23	23	23	25
Average paid to acquire capacity	19.6p	21.9p	20.7p	16.9p
Average of all Lloyd's capacity	26.9p	33.3p	29.0p	19.7p

Top Five Price Rises

	Auction One	Auction Two	Price Rise
0557 Kiln	4.46	10.10	126.36%
0609 Atrium	30.28	43.20	42.68%
0570 Atrium	34.78	48.97	40.80%
0033 Hiscox	34.52	47.31	37.05%
0623 Beazley	25.17	32.95	30.90%

Top Five Price Falls

	Auction One	Auction Two	Price Fall
3334 Sportscover	2.67	1.72	(35.59%)
0779 Jubilee	19.90	14.90	(25.13%)
1200 Argo	2.93	2.29	(21.90%)
2121 Argenta	2.14	1.69	(20.98%)
0318 Beaufort	14.33	13.27	(7.45%)

Top Five Buyers

Syndicate	Capacity	Buyer
2791	4,500,000	Insurance Capital Partners
0623	3,220,354	Hampden Agencies MAPA 7210
2791	2,873,073	Hampden Agencies MAPA 7210
0318	1,800,000	Hampden Agencies MAPA 7210
0510	1,800,000	Hampden Agencies MAPA 7210

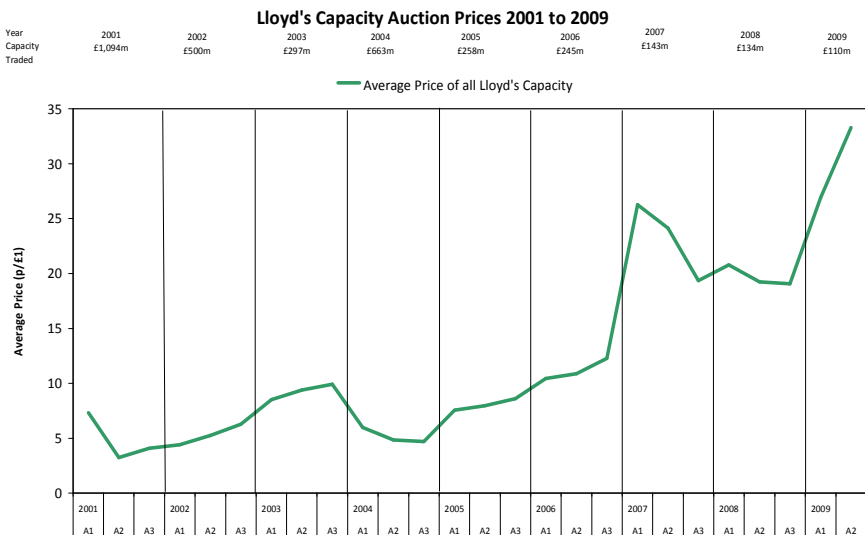
Top Five Sales

Syndicate	Capacity	Seller
2791	19,162,000	Atrium 5 Limited
0510	1,500,000	Argenta SLP
0807	1,484,912	Hampden Nameco
2525	1,200,000	Insurance Capital Partners
0623	1,000,000	Argenta SLP

What do we expect in Auction Three?

The most significant factor affecting prices is the reluctance of existing members to sell, even at the highest prices we have ever seen at auction. With the exception of Syndicate 2791, heavily sold by Atrium, the supply of syndicate capacity to the auction was down. Where there are very large pre-emptions, such as Kiln 510 and Beazley 623, there is some liquidity, but for good quality capacity such as 33 and 218, there is a mismatch of supply and demand. All three agents are attempting to fill orders for new clients, and notably active in the first two auctions have been new client MAPAs for both Hampden and Argenta. There is little reason to expect a change.

Chart I shows the movement of the weighted average price of all capacity since the Auctions took their present form in 2001.



Aside from the obvious and dramatic increase in the value of capacity, it is interesting to note how trends emerge in different years. In years where Auction Two shows an increase over Auction One (such as 2002, 2003, 2005 and 2006), the prices tend to continue to rise in Auction Three. Similarly, when prices fall, as they did in 2004, 2007 and 2008, they tend to plateau in Auction Three. While it seems that the new money MAPAs still have demand to fill, the availability of capacity and liquidity of the auction will depend on the degree to which sellers are tempted in given the high values achieved. In the past, sellers have had little opportunity to impact pricing, and would be forced to tender at 0.1p in the final auction, as often they had decided not to support the syndicate next year. This year, it is likely that many will only be selling if the price reaches their floor price and otherwise they will be perfectly happy to support the syndicate.

Auction Two Summary

The table below is a summary of Auction Two trades against Auction One and 2008 average prices, as well as the most recent aligned capacity share.

Syndicate	Managing Agent	Unadjusted 2008 Average Price	Adjusted 2008 Average Price ¹	2010 Proposed Pre/(De)-Emption	Aligned Capacity	Auction One Price p/£1 ²	Auction One Volume (£000s) ²	Auction Two Price p/£1 ²	Auction Two Volume (£000s) ²
0033	Hiscox	23.04	21.51	33.3%	72.5%	34.52	2,272	47.31	674
0218	Equity	34.21	31.82	7.5%	64.0%	41.79	1,415	46.11	1,067
0260	KGM	24.19	17.91	7.4%	56.7%	7.23	649	7.20	3,058
0308	Kiln	21.24	21.24	36.4%	52.1%	21.42	638	23.00	159
0318	Beaufort	27.50	27.50	11.5%	72.5%	14.33	2,070	13.27	4,373
0386	QBE	88.40	88.40	7.4%	69.6%	98.55	968	120.77	166
0510	Kiln	11.99	11.19	46.0%	52.9%	15.00	11,032	18.86	5,238
0557	Kiln	0.52	0.52	0.0%	<25%	4.46	3,654	10.10	1,364
0570	Atrium	28.21	28.21	15.6%	<25%	34.78	461	48.97	140
0609	Atrium	21.81	23.52	37.7%	25.8%	30.28	3,344	43.20	956
0623	Beazley	20.37	21.54	62.3%	82.5%	25.17	4,562	32.95	3,592
0727	Meacock	23.66	23.66	8.4%	<25%	38.10	598	43.97	195
0779	Jubilee	25.02	25.02	(10.0%)	<25%	19.90	653	14.90	388
0807	Kiln	2.80	2.80	16.2%	51.1%	3.75	1,820	4.86	2,585
0958	Omega	10.80	10.80	12.0%	34.8%	27.31	502	34.98	1,618
1176	Chaucer	128.58	112.29	0.0%	55.1%	149.26	32	171.34	25
1200	Argo	4.92	4.92	7.5%	83.6%	2.93	4,322	2.29	3,769
2010	Cathedral	31.53	31.53	16.7%	57.8%	36.97	851	44.71	421
2121	Argenta	3.10	2.68	34.6%	26.6%	2.14	4,621	1.69	2,132
2525	Max	29.06	29.06	0.0%	2.0%	29.19	1,520	31.29	1,816
2526	Max	22.75	22.75	0.0%	36.4%	24.84	400	26.41	644
2791	M A P	16.91	16.91	23.8%	21.1%	25.00	9,354	27.00	19,915
3334	Sportscover	6.78	5.09	25.0%	67.8%	2.67	440	1.72	239

Notes

¹ 2008 auction price adjusted to reflect any pre-emption or de-emption approved for the 2009 year of account.

² Average prices and volumes include bilateral deals

Connected Party Trades

The table below shows Auction Two transactions that were successfully entered into by Members with Argenta Private Capital Limited (APCL) “connected person” status.

Synd	Type	Capacity	Connected Parties	
			Member	Status
0386	Subscription	£7,500	E S Harborne	Consultant
0386	Subscription	£7,500	E S Harborne	Consultant
0386	Subscription	£7,500	E S Harborne	Consultant
0510	Tender	£19,088	E S Harborne	Consultant
1176	Subscription	£3,000	E S Harborne	Consultant
1176	Subscription	£3,000	E S Harborne	Consultant
1200	Subscription	£93,000	Aardvark Underwriting Ltd	Third party advisor
0510	Tender	£6,130	Monksfield LLP (David Monksfield)	Director
2121	Tender	£7,349	Monksfield LLP (David Monksfield)	Director
3334	Tender	£1,772	Monksfield LLP (David Monksfield)	Director
0318	Subscription	£25,000	Talisman Corporate Underwriting 2000 Ltd	¹
0318	Subscription	£50,000	Talisman Corporate Underwriting 2000 Ltd	¹
0318	Subscription	£25,000	Talisman Corporate Underwriting 2000 Ltd	¹
2791	Subscription	£100,000	Talisman Corporate Underwriting 2000 Ltd	¹
2791	Subscription	£50,000	Talisman Corporate Underwriting 2000 Ltd	¹
2791	Subscription	£50,000	Talisman Corporate Underwriting 2000 Ltd	¹
0033	Tender	£19,285	Kling Investment Limited	²
0510	Tender	£47,532	Kling Investment Limited	²
0623	Tender	£38,812	Kling Investment Limited	²
2121	Tender	£45,395	Kling Investment Limited	²
3334	Tender	£28,819	Kling Investment Limited	²
0318	Tender	£7,516	Rechter Underwriting Limited	²
0807	Subscription	£65,091	BHC Winton Underwriting II Limited	²
0510	Subscription	£100,000	BHC Winton Underwriting III Limited	²
0318	Subscription	£180,000	BHC Winton Underwriting III Limited	²
0807	Subscription	£430,128	BHC Winton Underwriting III Limited	²
2791	Subscription	£182,046	BHC Winton Underwriting III Limited	²
2121	Tender	£984,177	Ransome's Underwriting Limited	³
0557	Tender	£89,609	Kensington U/writing Ltd (Lady Delves Broughton)	Council or Board Member
2010	Tender	£100,000	Kensington U/writing Ltd (Lady Delves Broughton)	Council or Board Member
0218	Tender	£36,686	The Michael Deeny LLP	Council or Board Member
0386	Tender	£28,818	The Michael Deeny LLP	Council or Board Member
0570	Tender	£35,906	The Michael Deeny LLP	Council or Board Member
0609	Tender	£32,485	The Michael Deeny LLP	Council or Board Member
2791	Subscription	£24,138	The Michael Deeny LLP	Council or Board Member
2525	Tender	£200,000	The Silent Scorpion LLP (Lady Delves Broughton)	Council or Board Member
2791	Subscription	£200,000	The Silent Scorpion LLP (Lady Delves Broughton)	Council or Board Member

Notes

¹ David Monksfield and Paul Sandilands (respectively executive and non-executive director of APCL) are directors and shareholders in Talisman Corporate Underwriting 2000 Ltd.

² Alan Tucker (executive director of APCL and non-executive director of Argenta Syndicate Management Limited) is a director of Rechter Underwriting Limited, Kling Investment Limited and the BHC Winton corporate members.

³ Andrew Annandale (non-executive director of APCL and Chief Executive Officer and Managing Director of Argenta Holdings plc and Argenta Syndicate Management Limited respectively) is a director of Ransome’s Underwriting Limited.

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