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QBE Underwriting Limited (QUL) Syndicate 386 2011 Business Plan Approval and Individual Capital Assessment

Approval has now been received from Lloyd's for Syndicate 386's Syndicate Business Forecast (**SBF**) as submitted on 10 September 2010. Whilst the Syndicate's Individual Capital Assessment (**ICA**) has yet to be finalised, the indicative ICA arising from Lloyd's Member Modelling Software is showing an increase of greater than 10% since the 12th August. As a consequence, Syndicate 386 triggers the criteria for inclusion within Auction 4 as detailed in Auction Rule 4(3)(c)(i). Discussions remain ongoing with Lloyd's, however QUL does not anticipate the ICA for 2011 will change materially from 2010.

The previous auction disclosure highlighted the potential for material change to Syndicate 386's reinsurance programme for 2011. The renewal discussions have now been virtually concluded and the final outcome is expected to be as follows:

- Slightly increased retention to US\$2m (currently £1m i.e. US\$1.6m), with increased monetary costs of approximately 10% across the whole reinsurance programme, up to £100m (US\$160m) compared to the expiring costs.

This increase reflects adverse loss experience over the past three years and the highly competitive nature of the existing programme.

- Equator Re will continue to write 100% of the US\$13m excess of US\$2m layer on a three year deal and;

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Comment: We will advise members once the final impact on the syndicate's ICA is known.

- The layers excess of US\$15m and up to US\$160m (£100m) to be renewed on a three year basis but restructured with Equator Re writing up to US\$50m with the balance covered under a Group external programme led by Munich Re and Swiss Re, the existing long-term core reinsurers for Syndicate 386.

The expected outcome for the Syndicate is considered very satisfactory retaining the benefits of a three year risk attaching programme with a comparatively low retention, providing a strong competitive advantage.

All of the above remains subject to finalisation and regulatory approvals as appropriate.

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