

MARKET BULLETIN

From Head Market Reporting (extn 5129)

Date 2 February 2006

Reference Y3738

Subject **Open Year Profits at 31 December 2005**

Subject areas Transfer of open year profits to member level personal reserve funds

Attachments Transfer Statement

Action points

Deadlines **Notification by 13 March 2006**

The purpose of this bulletin is to advise managing agents of the procedure to be followed for the transfer of open year profits determined at 31 December 2005 (including from life syndicates and run-off years) for all syndicates from Sterling premiums trust funds (PTFs) and / or Lloyd's Dollar Trust Funds (LDTFs) to members' personal reserve sub-fund (PRF).

Open year profits determined at 31 December 2005 and transferred to the PRF that are not applied to meet cash calls and / or loss payments may be used towards meeting members' capital requirements and will be available for release to members subject to the Release Test calculations to be conducted this year.

Methodology to be utilised

The maximum available for transfer is the syndicate solvency result as per AR5 within the Annual Return ie. cumulative annual accounting result plus cash calls less transfers made to members in previous years (CSTs) less solvency provisions eg. disallowed assets as at 31 December 2005 (ie. AR5 line 14). However, where the solvency result has been improved by a positive adjustment to reflect exchange differences on technical provisions for solvency in respect of non monetary items (AR5 line 9) then this element of the result is not available for release.

Next Steps

Transfers will be subject to managing agent's sign-off that they have no liquidity or other concerns eg. fundamental uncertainty regarding the ultimate outcome of the open year of account. In making

the decision to transfer monies from syndicate PTFs, managing agents will be exercising powers conferred on them by clause 14(b)(iv) of the PTD and clause 14(a)(ii) of the Lloyd's American Instrument to direct the managing agent's trustees or the managing agent's dollar trustees to transfer funds from the syndicate PTFs and/or LDTFs. An agent must therefore act prudently and should ensure that it retains sufficient assets to cover its reasonable estimate of the liabilities. It should therefore be reasonably satisfied in making its decision that the retained assets will allow it to meet all liabilities as they are expected to fall due. In addition by approving the cash transfer managing agents are providing a negative assurance that no material development has occurred since 31 December 2005.

Where a managing agent proposes to make a transfer it must:

- i) prepare cash flow projections for the business of the syndicate in order to satisfy itself that the transfer of syndicate funds will not cause cash flow difficulties in the future;
- ii) complete and return the attached cash transfer statement to Market Reporting by 13 March 2006;
- iii) use a rate of exchange of \$1.72 : £1 in order to calculate the sterling equivalent of any cash transfer to be effected in US dollars.

Any cash to be transferred from syndicate PTFs or LDTFs will be included for payment via Central Accounting Settlement for value on 18 April 2006 (same date as the closed year results are collected). Managing agents should ensure that any open year profits transferred are in accordance with the profits in the underlying currency. Agents should not remit funds directly but ensure that their Central Settlement Accounts have sufficient funds to support settlement on 18 April 2006. The usual notifications will be issued.

Managing agents are requested to note that transfers from the Lloyd's American Trust Fund (LATF) for syndicate open years are not be permitted as under the requirements of the LATF instrument releases from the LATF to the member are only permitted when the year of account closes.

Effect on solvency

Members will have received the benefit of open year profits within the solvency calculations set out in the solvency statements to be issued during early April and, therefore, open year profits cannot be used towards clearing solvency shortfalls.

If you have any queries relating to this bulletin, please address them to Kevin Nethersell extension 6253 (kevin.nethersell@lloyds.com) or Mike Steer extension 5709 (mike.steer@lloyds.com). This bulletin is being sent to all managing agents, members agents, direct corporate members, recognised accountants, and market associations for information.

John Parry
Head
Market Reporting

CASH TRANSFER STATEMENT
OPEN YEAR PROFITS

SYNDICATE NO. _____(the Syndicate)

MANAGING AGENT _____

YEAR(S) OF ACCOUNT		
1. Cumulative Annual Accounting Result (AR5 line 14)		
2. Any positive adjustment made to reflect exchange difference arising on non monetary items for solvency, on AR5 line 9		
3. Total cumulative Annual Accounting result available to be transferred (Lines 1 minus 2)		
4. Transfer from Sterling Premiums Trust Fund		
5. Transfer from Lloyd's Dollar Trust Fund *		
6. Total transfer in sterling (*converted at 1.72) Must not exceed line 3 above		

In accordance with the market bulletin dated 2 February 2006 entitled Open Year Profits at 31 December 2005 ref [.....] the Board of Directors has prepared cash flow projections for the business of the open years of account of the Syndicate and based upon these projections, has decided to transfer the amounts above into the Personal Reserve Sub-Funds of the members who underwrote through the Syndicate for that year of account. These monies will be debited to the Syndicate's respective years of account respectively on **18 April 2006**.

The Board of Directors confirms that on the basis of the information available to it as at the date of this statement, the Board is satisfied that the above transfer is unlikely to result in a cash call on members of the Syndicate for the respective years of account, that sufficient liquid resources exist to fund the transfer and that no material adverse development has occurred since 31 December 2005.

Approved by the Board on _____

Signed _____(Compliance Officer)

_____(Director)

PLEASE RETURN TO KEVIN NETHERSELL BY FAX TO 020 7327 6178 BY 13 MARCH 2006.