

Lloyd's Members Agency Services Limited

LMAS/JAM/«MEMBER_CODE»

1 February 2008

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MEMORANDUM

SYNDICATE 535 – RUN-OFF YEARS OF ACCOUNT 1999, 2000 & 2001

I have been advised by Capita Syndicate Management Limited (CSM), the managing agent of Syndicate 535 that they wish to recommend to participating Names a Reinsurance to Close (RITC) for the above run-off years of account through Centrewrite. I enclose a copy of the letter we have received from CSM which outlines the proposal in greater detail.

Closure of the syndicate will result in a surplus which will see releases of 6.4%, 18.6% and 17.7% on the 1999, 2000 and 2001 accounts respectively. The release will be made on **30th June 2008** and will form part of this year's distribution process.

Also attached to this memorandum is a schedule detailing your share on each year of account, as appropriate, and the release based on the above percentages of stamp capacity.

We believe that the RITC quotation is worthy of your consideration as the RITC premium has been contained within the reserves and the syndicate has achieved an overall improvement to the predicted losses. Names have a consultation period in which to consider the position during which there is an opportunity to raise objections or questions on the proposal. **If you have any objections or questions please let me know by no later than Wednesday 20th February 2008** and I will do my best to answer them for you or raise them with the managing agent.

«LetterName»

Encs.

RECEIVED 28 JAN 2008

Mr C Talbot
Lloyd's members Agency Services Ltd
Fidentia House, Walter Burke Way
Chatham Maritime
Chatham
Kent ME4 4RN

25th January 2008

Dear Cliff

Syndicate 535 – Reinsurance to Close Quotation

I am pleased to advise you that after inviting reinsurance to close (RITC) quotations from a number of reinsurers, Capita Syndicate Management Limited (CSM) has received the lowest priced quotation from Centrewrite Ltd for the reinsurance to close of the 1999, 2000 and 2001 years of account of Syndicate 535, effective 31st December 2007.

The reinsurance to close premiums quoted by Centrewrite for the 1999, 2000 and 2001 years are £11,950,000, £7,645,000 and £15,924,000 respectively. The final cumulative results for the closed years of account are currently being calculated and are likely to be losses of approximately £40.6m, £41.3m and £48.9m respectively, after personal expenses. The risk premiums as a percentage of the net reserves as included in the draft December figures below are 23%, (1)% and 17% respectively. A comparison of this result and results previously reported are set out in the table below, together with the resultant balance due to/from members.

	1999 Year of account		
	Annual return	QMR Q307	Indicative
	At 31/12/2006		result*
	£m	£m	£m
Allocated capacity	50.0	50.0	50.0
Cumulative (loss) after personal expenses, but before members' agents' fees	(41.3)	40.7)	(40.6)
Cumulative (loss) as a percentage of capacity	82%	81%	81%
Cash calls to date	43.8	43.8	43.8
Due to members	2.5	3.1	3.2

	2000 Year of account		
	Annual return	QMR Q307	Indicative
	At 31/12/2006		result*
	£m	£m	£m
Allocated capacity	75.0	75.0	75.0
Cumulative (loss) after personal expenses, but before members' agents' fees	(45.2)	(44.4)	(41.3)
Cumulative (loss) as a percentage of capacity	60%	59%	55%
Cash calls to date	55.3	55.3	55.3
Due to members	10.1	10.9	14.0

Capita Syndicate Management Ltd

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	2001 Year of account		
	Annual return	QMR Q307	Indicative
	At 31/12/2006	QMR Q307	result*
	£m	£m	£m
Allocated capacity	85.5	85.5	85.5
Cumulative (loss) after personal expenses, but before members' agents' fees	(53.1)	(51.9)	(48.9)
Cumulative (loss) as a percentage of capacity	62%	61%	57%
Cash calls to date	64.1	64.1	64.1
Due to members	11.0	12.2	15.2

* The indicative result which is subject to finalisation and audit, assumes acceptance of the RITC quote and closure as at 31 December 2007.

I must draw attention to the interests of Capita Group companies. Since CSM took on the management of the run off of Syndicate 535 in 2001 the administrative run off functions have been outsourced to another Capita subsidiary, initially Capita London Market Services Limited (CLMS) and now Capita Commercial Insurance Services Limited (CCIS) under the terms of a run-off administration and management agreement. Certain executive directors of CSM are also directors of CCIS.

A condition placed by all reinsurers who provided firm quotations to CSM was that CCIS continues to provide run off services to the syndicate post RITC. CCIS has confirmed to CSM that it released the same pricing for such run-off administration services to all quoting reinsurers.

In view of the interest of CCIS and because one of the companies invited to tender for the RITC contract is also a Capita subsidiary, arrangements approved by the non-executive directors of CSM were put in place to ensure that there have been throughout the quotation process appropriate procedures to identify and manage conflicts of interest and to maintain the confidentiality of competing quotations.

Account has also been taken of the different interests of the participants for the different years of account. All reinsurers submitting quotations for the syndicate did so on the basis that the three open years would be closed together and none offered to reinsure a single year of account on a stand-alone basis although invited to do so. Nonetheless the CSM Board has considered whether the premium for each year of account is, taken separately, reasonable.

The Board of CSM including the non-executive directors (who have taken account of the interests declared above) are minded to accept this quotation at their next meeting on 22nd February 2008. If you have any questions relating to the quotation please contact me prior to then.

Yours sincerely



Philip Dietz
 Managing Director – Capita Syndicate Management Ltd
 Direct Tel: 0870 402 7658