

## **UPDATE FOR CAPITAL PROVIDERS**

I write to you now to update you on a number of matters in relation to our two managed syndicates, 570 and 609.

### **2009 revised business plans**

The original 2009 business plan submitted to Lloyd's in May 2008 for Syndicate 609, envisaged a reduction in stamp capacity from £215m to £175m consistent with the planned reduction in 2009 income to £134m. Following hurricanes Gustav and Ike last year we advised you that it was likely that Syndicate 609 would seek to amend its 2009 business plan to respond to new business opportunities post the hurricanes, and that a revised ICA submission would be made which could result in additional capital requirements. Following Hurricanes Gustav and Ike, we anticipated that the planned premium income would increase from £134m to £166m and hence we wished to increase the stamp back up to £200m. Approval was given by the Lloyd's Franchise Performance Directorate and capital to this increased level of stamp capacity. However, Lloyd's did not require a revised business plan at that stage.

In the event we did submit a revised 2009 business plan for Syndicate 609 in February 2009 showing an increase in planned income to £168m. The increase in planned income from £134m to £168m was due largely to anticipated rate increases for upstream energy, previously planned rate reductions on certain classes being changed to "as before" and small rate increases across most remaining classes of business. This revised business plan was approved by Lloyd's in May 2009.

We have today, submitted further revisions for the 2009 business plans for both syndicates as part of the Syndicate Business Forecast approval process. One important change to note is on Syndicate 609 and relates to Aviation Reinsurance business. We are delighted that Mark Hiller will be joining Syndicate 609, with effect from 1 September 2009, to underwrite an aviation reinsurance book. Mark joins us from XL where he had many years experience of writing this business.

### **2009 ICA**

In line with Lloyd's request, Atrium submitted revised 2009 ICA calculations for both managed syndicates in February of this year, reflecting the impact of a significant move in exchange rates and in the case of Syndicate 609, the changes to the business plan referred to above. We have now received confirmation from Lloyd's of the final 2009 ICA and ECA figures which are as follows:

#### **Syndicate 570:**

ICA £46m - ECA of £62m on a stamp capacity of £125m (capital ratio 49%)

#### **Syndicate 609:**

ICA £93m - ECA of £125m on a stamp capacity of £200m (capital ratio 63%)

## **2010 Syndicate Business Plans**

It is our intention that both syndicates pre-empt their capacity for 2010 as follows:

Syndicate 570: From £125m to £145m representing a pre-emption of 16%  
Syndicate 609: From £200m to £275m representing a pre-emption of 37.5%

We will be writing to you in due course with more detailed information on our 2010 plans for your consideration.

## **Atrium Insurance Agency (Asia) Pte Limited**

Atrium Insurance Agency (Asia) Pte Limited ("ASIA") was incorporated on 17th November 2008 as a wholly owned subsidiary of Atrium Underwriting Group Limited ("AUGL"). ASIA carries on for its own account the business of insurance intermediation in Singapore. In that capacity it has been given authority by Atrium Underwriters Limited ("AUL") to bind certain risks (including marine hull, energy, aviation and non-marine property risks) as coverholder for the 2009 year of account of Syndicate 609. As disclosed in the syndicate report and accounts, under the terms of the arrangement with Syndicate 609, ASIA charges fees to Syndicate 609 equal to its operating costs plus a small margin mainly for tax reasons.

## **Atrium Long Term Incentive Plan (LTIP)**

Atrium has operated an LTIP for its senior staff since 2005. These share based incentives were initially restricted to directors and a number of senior line underwriters and were charged to the Group. In 2007 when the Atrium Group was bought by Ariel Holdings Ltd a replacement scheme was set up over Ariel shares. As for the old Atrium scheme, awards are made annually with performance criteria linked to the Return on Capital of the Atrium Group.

Over the last few years it has become clear that share based incentives are an expected element of line underwriter packages, and this has been confirmed on the last few occasions we have recruited underwriters. Consistent with this, Atrium has extended the awards to more syndicate staff as both an incentive and retention mechanism. The implications of this are that the costs of providing share incentives to syndicate staff are an increasing proportion of the total cost and that such costs are an increasing proportion of the overall remuneration and incentivisation costs of the business.

In light of this the board of Atrium has decided that it is reasonable and appropriate to charge the managed syndicates with a proportion of the share based incentive costs of syndicate staff. For 2009 the proportion will be 75%. None of the costs of providing share based incentives to the Active Underwriters and agency directors will be charged to the syndicates.

The re-charge of share incentive costs to the syndicates will apply to awards made during the 2009 and future calendar years. For the avoidance of doubt there will be no charge made in respect of awards made in 2008 and prior years and therefore no costs relating to share incentives provided at the time of the purchase of the Atrium Group by Ariel, will be re-charged. Furthermore, there will be no recharge of share based incentive costs to the 2007 and 2008 years of account.

The cost of calendar year awards will be re-charged to the syndicates over the scheme's three year performance period. The final cost will depend on the extent of vesting which in turn is dependant upon the extent to which the performance criteria are met. On the assumption that the quantum of the awards made in future years is similar to the 2009 award, that all such awards vest and that exchanges rates remain broadly unchanged, we estimate that the additional expenses borne by Syndicates 570 and 609 will not exceed 10% of their current calendar year staff costs.

If you have any queries on any of the above please do not hesitate to contact me or your usual Atrium contact.

Kind regards

Yours sincerely

S. J. Cook  
Chief Executive Officer