

No. 4 - Policy Year Balances

June 2005

Dear Sirs

POLICY YEAR BALANCES

At their meeting on 18 May 2005, the Board reviewed the latest policy year balances at 20 February 2005.

Over the last twelve months there appears to have been a general increase in the cost of claims and in particular claims on the International Group Pool. At the same time, an investment return of 5.1% for the year did not match the extraordinary investment gain in 2003. As a result, although net assets before outstanding claims have increased to more than \$540 million the Club's free reserves have reduced to \$134 million.

If this increase in the cost of claims is indicative of a continuing trend, further increases in premiums in future will be necessary.

CLASS 1 (P&I)

Closed Policy Years

Claims costs for all closed policy years have remained stable over the past twelve months with the result that the closed year figures overall are unchanged.

Open Policy Years

2002/2003

Claims costs for 2002 remain higher than for 2001, and have increased slightly when compared with the figures a year ago. The Board has nevertheless confirmed that the year is to be closed without further call.

2003/2004

As noted a year ago, claims costs for 2003 are substantially higher than for any previous policy year, in particular because the Club experienced an unusually large number of high value claims including five which involve the Pool. Many of the more significant claims appear to be random, but the general claims experience for the year suggests that the cost of marine liability claims is again rising. Whether or not this is in part attributable to more buoyant freight markets since 2002 remains unclear. However, the year benefits from higher premium income and substantial recoveries from the special reinsurances which have been placed for retained claims. The year is due to be closed in May 2006 and the original release call (15%) remains unchanged.

2004/2005

Claims costs for 2004, although at an early stage of development, are not as high as for 2003. Whilst the Club has so far no claims which are estimated to involve the Pool, the incidence and cost of Pool claims from owners entered in other

International Group Clubs suggests that the total cost of claims on the Pool will be higher than for any previous policy year. As a result, the cost to the West of England of other Clubs' Pool claims for the year is likely to be significantly higher than originally forecast. At the same time, although the number of claims up to \$500,000 is stable the average cost has risen by nearly 10%.

The Board has confirmed that the forecast additional call of 20% shall be payable by 20 August 2005 and that the original release call of a further 15% shall remain unchanged.

CLASS 2 (FD&D)

Closed Policy Years

Claims costs for all closed policy years including 1999 have remained stable over the past twelve months with the result that the overall figures are effectively unchanged.

Open Policy Years

2000/2001

The 2000 policy year a year ago had a moderate shortfall before investment income. This continues to be the case but the Board has now closed the year without further call after allocating investment income to bring the year into balance.

2001/2002 and 2002/2003

Claims forecasts for both the 2001 and 2002 policy years have increased and the years now show small shortfalls before investment income of about \$100,000 each. The release call of 15% for each year remains unchanged.

2003/2004

Claims forecasts for 2003 have also increased with the result that the year shows a shortfall before investment income. The Board has decided to call the forecast 20% additional call to be payable by 20 August 2005. No change has been made to the 15% release call.

2004/2005

It remains too early to form meaningful conclusions for 2004 at so early a stage of development, but in line with the most recent policy years overall claims costs appear to be increasing. No change has been made to the forecast additional call (20%) or to the further release (15%).

As usual, detailed figures for both Class 1 and Class 2 will be published with the Club's Annual Report and Accounts for the year ending 20 February 2005 in the next few weeks.

Yours faithfully

West of England Insurance Services (Luxembourg) SA
(As Managers)

P E Spendlove
Managing Director