

No. 1 2006/2007 - Chemical, Biological, Bio-Chemical Exclusion Buy-Back Protection 2006 and Overspill Protection 2006

March 2006

Dear Sirs

CHEMICAL, BIOLOGICAL, BIO-CHEMICAL EXCLUSION BUY-BACK PROTECTION 2006 AND OVERSPILL PROTECTION 2006

(1) CHEMICAL, BIOLOGICAL, BIO-CHEMICAL EXCLUSION ("BIO-CHEMICAL EXCLUSION") 2006

We refer to our Notice to Members No. 12 2005/2006 dated February 2006 in which we referred to the special buy-back reinsurance which has been bought since 2003 for losses which are otherwise excluded by the "Bio-Chemical Exclusion" in both Club cover and Members' individual terms of entry and war risk P&I policies. This reinsurance facilitates the provision of discretionary cover by the Board set out in Rule **14(2) (e)** and **(f)** and summarised in Notices to Members Nos. 4 and 6 dated April and May 2003.

The reinsurance has now been renewed for 2006 but on the basis that the aggregate limit of protection has been reduced to \$45 million. It is also subject to part (2) of this Notice to Members, which explains that the aggregate limit of cover may in the alternative, be available to meet, in part, the Club's obligation to pay an overspill claim arising in 2006.

In all other respects the reinsurance protection is on the same terms and conditions as have applied since 2003, and the extent of Club cover as set out in **Rule 14(2) (e)** and **(f)** will be determined by the Board accordingly.

(2) OVERSPILL REINSURANCE 2006

For several years, up to 2002, the Board considered that the Club should be reinsured in part for its share of an overspill claim as calculated by reference to **Rule 47A**. Since then the Board has considered that the cost of overspill reinsurance on its own has been too high when compared with the probability of an overspill claim occurring.

The question of overspill reinsurance was considered again when the Board met in February this year. The Board decided that the Club should again buy some overspill reinsurance and that such reinsurance as is bought should if possible protect the Club's Members against other risks in the event that no overspill claim occurs.

For 2006 the Board has therefore decided that the aggregate limit of reinsurance of \$45 million which has been bought for bio-chemical risks shall also be applied either for the Club's share of any overspill claim occurring during 2006 up to approximately \$500 million or for any bio-chemical claim which may occur.

Whilst the Board retains its discretion under **Rule 14(2) (e)** and **(f)** to pay up to US\$ 65 million in respect of losses which are otherwise excluded by the "Bio-Chemical Exclusion", it will take into account the lower limit of this

reinsurance and the fact that the cover is now combined with overspill protection. Furthermore, it will consider in May 2006 the approach it is likely to adopt in the event of one or more overspill and/or bio-chemical claims arising in 2006, including, for instance, whether or not priority shall be given to whatever claim occurs first during the policy year.

All Members benefit from the bio-chemical and overspill cover on the basis set out in this Notice and the Rules and no additional premium shall be charged.

Members who have any questions about the way in which the cover will operate should contact the Managers in the usual way.

Yours faithfully

West of England Insurance Services (Luxembourg) S.A.
(As Managers)

P E Spendlove

Managing Director