

No. 3 2007/2008 - Policy Year Balances

May 2007

Dear Sirs

POLICY YEAR BALANCES

At their meeting on 16 May 2007 the Board reviewed the latest policy year balances at 20 February 2007 for Class 1 and Class 2.

CLASS 1 (P&I)

It is now clear that since 2003 there has been a marked increase in claims involving the Club's own Members and the International Group Pool. Based on the latest Pool figures it is likely that 2006 will prove to be the most expensive Pool year ever with 2004 and 2005 being the next most expensive years for the Pool. The trend is likely to continue while the shipping market remains active and strong in an increasingly costly liability environment.

However, the Club's free reserves, in line with last year's forecast, have increased to \$204.7 million at 20 February 2007. Significant progress in meeting the Club's future capital requirements has accordingly been made. The overall investment return for the year was in excess of 12%.

Closed Policy Years

Claims costs for all closed policy years up to 2003 have continued to improve over the last twelve months. Claims costs for the 2003 policy year, which was substantially more expensive than any previous year, stabilised more than a year ago and have since reduced slightly.

Open Policy Years

2004/2005

Forecasts for 2004 for claims involving the Club's own Members remain lower than for 2003, although incurred values have increased slightly over the past twelve months. Pool claims from other Group Clubs have also increased for the year.

The Board decided that the year should be closed without further call. The 5% release call set last September will not be charged.

2005/2006

The projected cost of the year is slightly higher than forecast, but no further call is anticipated. The year is scheduled to be closed in May 2008. The 10% release call set last September remains unchanged.

2006/2007

Incurring claims for 2006 at year end are at similar levels to 2003 and 2005 for Members' own claims, but claims from other Clubs' members which involve the Pool are already at levels well in excess of those at the same stage of development for 2004 and 2005. The overall cost of the year is likely to exceed that of any prior year.

The Board has confirmed that the original forecast additional call of 20% shall be payable by 20 August 2007 together with the 15% further additional call set for the year. The Board has also confirmed that the release call (50%) set for the year last September shall remain unchanged. As previously advised, 35% of the 50% release call is intended to make provision for the Club's future capital requirements as may be needed to meet "Solvency 2" by 2010. Periodic review of the overall financial position will be made to assess whether or not all or part of the release call may be unnecessary.

CLASS 2 (FD&D)

Closed Policy Years

Claims costs for all closed policy years up to and including 2001 have remained stable over the last twelve months with the result that the closed year surplus remains effectively unchanged.

Open Policy Years

2002/2003

Claims forecasts for 2002 have remained stable over the past year. The Board decided that the year should now be closed without further call.

2003/2004 and 2004/2005

Claims forecasts for 2003 and 2004 are unchanged from a year ago. The Board has therefore confirmed that no further calls are anticipated. The 2003 policy year is scheduled to be closed in May 2008. The 15% release call for each year is unchanged.

2005/2006

Claims costs for 2005 are presently at lower levels than for the previous four policy years at the same stage of development, but the ultimate cost of the year is predicted to be similar to previous years.

The Board has confirmed that the forecast additional call of 20% shall be payable by 20 August 2007 and that the release call of a further 15% shall remain unchanged.

2006/2007

As usual it is too early to form conclusions for 2006 at this stage in the development of the year. Notified claims are so far at the lowest level since 1999. No change has been made to the forecast additional call (20%) or to the further release call (15%).

Detailed policy year figures for Class 1 and Class 2 will, as usual, be published with the Club's Annual Report and Accounts for the year ending 20 February 2007 in the next few weeks.

Yours faithfully

For: **West of England Insurance Services (Luxembourg) S.A.**

(As Managers)

P E Spendlove

Managing Director