

No. 4 2006/2007 - Policy Year Balances

May 2006

Dear Sirs

POLICY YEAR BALANCES

At their meeting on 17 May 2006 the Board reviewed the latest policy year balances at 20 February 2006 for Class 1 and Class 2.

As noted a year ago, there has been a general increase in the cost of claims in recent policy years. The trend has continued during 2005. As a result, although overall net assets before outstanding claims have increased to \$552 million reflecting a satisfactory investment return for the year, the level of free reserves has reduced from \$134.3 million to \$132.5 million.

The Board is concerned that in future the increase in claims can be expected to continue in line with a strong and active shipping market. Future investment returns cannot however be expected to be as positive. The Board is also concerned that future capital and regulatory requirements particularly in Europe are increasing significantly together with the prospect of increased liabilities worldwide. The Board will therefore review in the coming months the level of required future reserves and will take the appropriate steps to ensure that the Club is well placed to meet these future challenges.

In the meantime, the latest position in relation to the individual policy years is as follows:

CLASS 1 (P&I)

Closed Policy Years

Claims costs for all closed policy years up to 2002/03 have reduced slightly over the past twelve months with the result that the closed year position overall has improved.

Open Policy Years

2003/2004

As noted from the outset, claims costs for 2003 are substantially higher than for any previous policy year. In particular the Club experienced an unusually large number of high value claims including five which involve the Pool. However, over the past twelve months the claims position has been stable with little movement in incurred losses. The Board has therefore confirmed that the year is to be closed without further call.

2004/2005

As advised last year, claims forecasts for 2004/2005 for claims involving the Club's own Members are not as high as for 2003. However, claims on the Pool from owners entered in other Group Clubs are at record levels with the result that the year overall will not be significantly better for the Club than 2003. Whilst the latest figures are slightly higher than

anticipated a year ago, the Board expects to close the policy year in May 2007 after allocation of investment income without further call.

In the meantime, the original release call (15%) remains unchanged.

2005/2006

Claims costs for 2005 are initially running at levels at least as high as for 2003 for claims involving the Club's own Members, although total claims on the Pool are so far less expensive than for 2004. As was the case for 2003 and 2004, the incidence of claims in excess of \$500,000 is high. The year nevertheless benefits from higher premium income and reinsurance recoveries from the special reinsurances which are in place for retained claims.

The Board has confirmed that the forecast additional call of 20% shall be payable by 20 August 2006 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 up to 2000/2001 have reduced slightly over the past twelve months with the result that the closed year balance has increased slightly.

Open Policy Years

2001/2002

The claims forecasts for 2001 have remained stable since last year. The Board has now closed the year without further call after allocating investment income to bring the year into balance.

2002/2003 and 2003/2004

Claims forecasts for both 2002 and 2003 have not materially changed from the figures a year ago. The Board has therefore confirmed that no further calls are anticipated. The release call of 15% for each year remains unchanged.

2004/2005

Although there are signs that claims costs for 2004 are higher than for previous policy years, the projected outcome for the year is similar to the figure for 2003. As a result the Board has decided to call the forecast 20% additional call to be payable by 20 August 2006. No change has been made to the 15% release call.

2005/2006

As usual with Class 2 risks, it remains too early to form conclusions for 2005 at this stage in the development of the year. Incurred claims at 20 February are slightly higher than the equivalent figures for 2004. No change has been made to the forecast additional call (20%) or to the further 15% release.

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 2006 in the next few weeks.

Yours faithfully

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

P E Spendlove

