

No. 3 2008/2009 - Policy Year Balances

May 2008

Dear Sirs

POLICY YEAR BALANCES

At their meeting on 14 May 2008 the Board reviewed the latest policy year balances at 20 February 2008 for Class 1 and Class 2.

OVERVIEW

High levels of claims costs have continued to affect the P & I industry and particularly the International Group Pool. Although 2006 still appears to be the most expensive year ever for the Club and the Pool, the increased incidence of large claims noted since 2004 has generally persisted in 2007 and consequently the Club's free reserve at 20 February 2008 of \$173.6 million is, as expected, some 15% lower than a year ago. The overall investment return for the year was 5.4 %.

It remains to be seen whether or not the recent turmoil in financial markets may in due course moderate the current high level of activity in shipping markets and consequently help to stabilise the high levels of claims. In the meantime, however, there are early indications that the Club's own claims experience may now be changing as a result at least in part of the underwriting strategy implemented at the end of 2006. As reported to Members following the 2007 renewal, that strategy has focused on maintaining required premium rating levels and where necessary allowing for a reduction in tonnage in order to achieve them. Over the last twelve months mutual entered tonnage has, as anticipated, reduced and is now 54 million GT compared with 62.7 million GT at February 2007. This change in the size of the Club already appears to have resulted in some moderation in the number and cost of new claims. For the 2007 policy year the number of new Class 1 claims has reduced by about 15% compared with 2006 without any significant increase in the average cost of individual claims. At the same time outstanding claims for all years in the aggregate have reduced by about 9.3 % over the past year. These are positive developments which, if sustained, will allow the Club to continue to strengthen its financial position and meet its long term goal of steady planned growth underpinned by sound underwriting results.

Decisions for individual policy years for Classes 1 and 2 are as follows:

CLASS 1 (P&I)

Closed Policy Years

Overall claims costs for all closed policy years up to and including 2004 have remained broadly stable.

Open Policy Years

2005/2006

Although the projected cost of the year has continued to be slightly higher than previously forecast, the Board has decided that the 10% release call will not be charged and that the year shall be closed without further call.

2006/2007

The projected total cost of claims both from other Clubs and from Members has also continued to increase since 20 February 2007, but this increase is largely absorbed by the Club's special reinsurances. The Board confirmed that the 50% release call for the year shall remain unchanged. Of that release call, 35% remains as a provision for the Club's future capital requirements to which reference in earlier Notices to Members has already been made. The figures will, as previously advised, be kept under periodic review until the year is closed. Closure is scheduled to take place in May 2009.

2007/2008

Claims continue to be at high levels, although forecast Pool claims appear lower than for 2006. The year is at an early stage of development, but Members' claims are currently projected to be lower than for 2006 although slightly higher than for 2005. The Board has confirmed that the original forecast additional call of 20% shall be payable by 20 August 2008 and that the release call should remain as originally set at 15%.

CLASS 2 (FD&D)

Closed Policy Years

Claims costs for all closed policy years up to and including 2002 have remained broadly stable over the last twelve months. The closed year surplus has increased slightly.

Open Policy Years

2003/2004

Although there was a small increase in the last twelve months in claims costs for the year, the Board decided that it should be closed without further call and that the 15% release call shall not be charged.

2004/2005

The projected cost of claims for the year has increased slightly. The Board confirmed that the 15% release call shall remain unchanged.

2005/2006

Claims costs for 2005 remain 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 confirmed that the release call of 15% shall remain unchanged.

2006/2007

The projected cost of claims is the same as that for 2005. The Board confirmed that the forecast 20% additional call will be payable by 20 August 2008 and the release call of 15% shall remain unchanged.

2007/2008

At this early stage claims for the year appear to be developing in line with 2006. The Board confirmed that the forecast additional call of 20% due in August 2009 should remain unchanged together with the release call at 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 2008 in the next few weeks.

Yours faithfully

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

(As Managers)

P E Spendlove

Managing Director