

No. 7 2010/2011 - Policy Year Balances

May 2010

Dear Sirs

POLICY YEAR BALANCES

At their meeting on 19 May 2010 the Board reviewed the latest policy year balances as at 20 February 2010 for Class 1 and Class 2.

CLASS 1 – OVERVIEW

Over the past twelve months the Club has made steady progress in recovering from the effects of global financial turmoil arising before the beginning of the last policy year, but significant uncertainty remains.

In the first half of 2009 it appeared that the pattern of claims for the Club and the industry as a whole might be changing and that, as for the 2008 policy year, projected total claims for the 2009 policy year both from Members and from other Clubs' in the Pool might be more benign and certainly less than the record totals for 2006 and 2007. However, while Members' claims have so far remained at slightly lower values than for 2008, Pool claims from other Clubs for the 2009 policy year have risen sharply in number and value and are now close to the levels of 2006 and 2007 at a similar stage of development.

On the investment side, the losses of 2008 have been partially offset by investment gains of more than \$55 million on liquid assets in the year to 20 February 2010. However, such gains are unlikely to be repeated and when taken together with the forecast underwriting outcome for the 2009 policy year, the effect of other Club's Pool claims and with broadly unchanged underwriting results for earlier years, the Board has decided that those gains are not sufficient to enable a reduction in any of the additional calls already set for open policy years and particularly for 2008.

The Club's free reserves have increased by nearly 5% during the year to approximately \$170 million at 20 February 2010 with total entered tonnage renewing at February 2010 of 52.0 million GT for owned entries and 16 million GT for the chartered entries.

The results by policy year are as follows:

CLOSED POLICY YEARS (2006 and prior)

As reported in the September 2009 mid-year review there had been a slight increase in the projected cost of claims during the first half of 2009, but there has been no significant movement since then.

OPEN POLICY YEARS

2007/2008

The year currently has a modest surplus and claims projections appear stable. The Board decided that the year should now be closed without a further call and without any further allocation of investment income.

2008/2009

2008 now has an overall surplus of approximately \$30 million. Members' claims numbers and values for the year are similar to 2006 and 2007 but there have been fewer large claims. At the same time, claims from the Pool so far remain lower than for the previous two years. However, as shown by claims movements in 2009 and indeed in most recent policy years, the projected cost of claims by other Clubs on the Pool, and of Members' own claims remains volatile and uncertain.

A 45% additional call on the year was set in order to rebuild the Club's reserves following the investment market collapse earlier in the year to be payable in 2 equal instalments in January and August 2010. Whether or not the second instalment would be charged in full would depend on the Club's overall financial position in May 2010.

In the light of Pool and claims developments generally over the past six months, and evidence that the more benign claims trend observed in the early months of last year is not now likely to be sustained, the Board has decided that the additional call should be maintained and that the second half, at 22.5% of the advance call, shall remain payable by 20 August 2010 as previously advised. However the current release figure of 20% has been reduced to 5% with immediate effect.

2009/2010

At year end, claims numbers are at least 20% lower for 2009 than for any of the past ten years at the same stage of development. The incurred cost of Members' claims is, however, slightly lower than for the 2008 policy year despite an upturn in the frequency of larger claims in the final weeks of the year. At the same time, and as already noted, Pool claims from other Clubs already have values approaching those of 2006 and 2007 at a similar stage of development. This alone may make 2009 more expensive than 2008.

The Board has therefore decided that the forecast additional call of 30% payable by 20 August 2010 should be charged as planned and that the release should remain at a further 30%.

CLASS 2 (FD&D)

CLOSED POLICY YEARS

Claims costs for all closed policy years up to and including 2004 have remained generally stable over the past twelve months. The closed year surplus, including 2004, is now \$15.7 million compared with \$14.2 million a year ago.

OPEN POLICY YEARS

2005/2006

Claims costs for the year fell slightly. The Board decided that the year should be closed in balance after allocation of \$75,000 of investment income with no further call.

2006/2007

Claims costs for the year remain lower than for previous policy years. The Board confirmed that no further call is forecast and that the 15% release call shall remain unchanged. The year is scheduled to be closed in May 2011.

2007/2008

The projected claims cost for the year remains in line with that of other years and is forecast to have a deficit of \$1.0

million before allocation of investment income. The Board confirmed that no further call is forecast and that the 15% release call shall remain unchanged.

2008/2009

Not unexpectedly in view of increased FD&D activity resulting in part from the financial crisis in 2008, claims costs are higher for 2008 than for other years despite an increase in deductibles and may not yet have stabilized. A deficit of \$1.6 million is forecast before allocation of investment income. The forecast additional call of 20% is payable in August 2010 and the release remains at 15%.

2009/2010

The year has also seen an increase in claims activity compared with prior years and the result for the year is predicted to be similar to 2008. A deficit of \$1.8 million is forecast before allocation of investment income. The forecast additional call of 20% is payable on 20 August 2011 and the release remains at 30%.

As usual detailed policy year figures for Class 1 and Class 2 will be published with the Club's Annual Report and Accounts for the year ending 20 February 2010 in the next few weeks.

Yours faithfully

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

P E Spendlove
Managing Director