

No. 13 2011/2012 - Class 1 and 2 Policy Year Balances

June 2011

Translations: Chinese  Vietnamese 

Dear Sirs

CLASS 1 AND 2 POLICY YEAR BALANCES

The Board reviewed the latest policy year positions as at February 2011 at their meeting on 25 May.

The clear financial progress reported a year ago has continued strongly during 2010.

Positive cash flow and a substantial investment return of more than \$45 million (8.7%) on liquid assets have contributed to an 11% increase in the Club's total net assets at year end to nearly \$700 million, the highest level in the Club's history.

Reflecting an improving combined ratio and reduced claims projections for 2008 and 2009 the free reserve has increased by 8% to \$183 million.

There has also been a further strengthening in the overall provisions adopted a year ago for unreported claims. The margin for IBNR as a percentage of total net outstanding claims estimates has again been increased.

The Board noted that in order to sustain this improved performance in future years, Members with high risk exposure and persistently adverse records were not renewed where required premium levels for 2011 were not met. This has resulted in a reduction in the size of the Club's entered mutual tonnage to approximately 49 million g.t. but as a consequence the Club's capital position and overall risk profile have been significantly strengthened.

CLASS 1

CLOSED POLICY YEARS (2007 AND PRIOR)

There has been no movement on claims for closed policy years for either the Club's Members or for the Pool during the last twelve months. The closed year surplus is unchanged at \$35 million.

OPEN POLICY YEARS

2008/2009

The 2008 policy year has now been closed with no further call. The projected net claims cost for the year has reduced by approximately \$3 million since February 2010.

2009/2010

Incurring claims for the 2009 policy year have developed more positively than anticipated a year ago. A sustained reduction in claims numbers and a low frequency of claims of more than \$500,000 have resulted in an improvement of nearly \$14 million in the projected net claims cost for the year which is now projected to be in surplus.

The Board confirmed that no further call is forecast and that the release shall be reduced from 30% to 15% of the advance call. The year is scheduled to be closed in May 2012.

2010/2011

Incurring claims for 2010 are higher than at the same stage of development for 2009 for the Club's Members and for other Club's Pool claims. The frequency of claims remains low but the number of larger claims is greater than for 2009. For the time being the underwriting loss projected for the year remains unchanged since it is too early to determine whether the development pattern will in time prove to be similar to 2009.

The Board has confirmed that the forecast additional call of 30% of the advance call shall be paid by 20 August 2011. The release remains unchanged at 30% of the advance call.

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2005 AND PRIOR)

Projected claims costs for closed policy years up to and including 2005 have remained generally stable over the past twelve months. The closed year surplus is now \$15.2 million compared with \$15.7 million a year ago.

OPEN POLICY YEARS

2006/2007

The Board has confirmed that the 2006 policy year should be closed with no further call.

2007/2008

Projected claims for 2007 have increased since February 2010, but no further call is anticipated. No change has been made to the 15% release. The year is scheduled to be closed in May 2012.

2008/2009

As noted last year, claims projected for 2008 are higher than for previous years in view of increased FD&D activity resulting from the banking and credit crisis. However, no further call is anticipated. No change has been made to the 15% release.

2009/2010

The projected claims outcome for 2009 was similar to 2008 a year ago, but in the meantime incurred claims have not developed to the same level as for 2008. The Board has confirmed that the forecast 20% additional call shall be paid by 20 August 2011. The Board has also decided that the release call shall be reduced from 30% to 15% of the advance call.

2010/2011

It remains too early to predict the likely outcome for 2010 at this stage in the year's development. Incurred claims are similar to 2009. The Board has confirmed that the forecast additional call of 30% shall remain unchanged and shall be due for payment in August 2012. No change has been made to the further 30% release.

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 2011 in August.

Yours faithfully

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

P E Spendlove
Managing Director