TO ALL OWNERS AND MEMBERS

9 November 2011

Dear Sirs

FINANCIAL POSITION
OPEN POLICY YEARS
INVESTMENTS
RENEWAL 2012

The board reviewed the club's financial position, the open policy years, investments and the requirements for the 2012 renewal at its meeting on 4 November 2011.

FINANCIAL POSITION

The club remains in good financial health. However, with a much more difficult year for investments and with the increased cost of claims this year and last, we expect the club's free reserves to be slightly lower at the end of this club year than they were at 20 February 2011, when they stood at a record level of $317m.

OPEN POLICY YEARS

P&I CLASS

2009/10: Claims remain in line with expectations, and the year continues to perform well with a gross combined ratio of 92%. No call in addition to the Estimated Total Premium is expected, and the board agreed that a 5% release call margin should be applied. The year is expected to close in May 2012.

2010/11: Claims in this year are significantly higher than in previous years. However, taking account of recoveries from the Pool and other reinsurers, the year’s gross combined ratio is 105%. No call in addition to the Estimated Total Premium is expected, and the board agreed that a 10% release call margin should be applied to the year.

2011/12: Although it is very early to forecast the outcome of this policy year, claims are developing in line with expectations, and the year‘s expected gross combined ratio is 106%. No call in addition to the Estimated Total Premium is anticipated, and the board agreed that a 15% release call margin should be applied to the year.

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CTC
CHARLES TAYLOR
CONSULTING

DEFENCE CLASS

Claims in all open policy years remain in line with expectations and no call in addition to the Estimated Total Premium is expected.

The board determined that the release calls for all open policy years should be 10%.

INVESTMENTS

The club has benefited from strong investment returns in the most recent years, but expectations are for considerably lower returns in the future. The club's investment portfolio returned 3.1% in the six months to the end of August. Bonds performed strongly in the period whilst equities were weak. The portfolio is defensively positioned with a high weighting in cash and a low weighting in equities. The board reviewed the latest investment position. As at 19 October, 17.6% of the club's investments were in equities, 13.3% in cash/forwards and 64.8% in bonds, with the balance in alternatives.

RENEWAL 20 FEBRUARY 2012

P&I CLASS

The board considered the approach to the 20 February 2012 renewal. The board looked to reconcile the club's need to achieve an acceptable underwriting result with the very difficult trading conditions facing many owners and members.

The board noted that there continues to be some inflation in claims as well as underwriting deficits in the more recent policy years, and an increase in premium is therefore necessary. The board decided that a general increase of 5% in rates was appropriate in light of the difficult trading conditions. In addition, the board took into account that many owners and members' average premium levels have been eroded over recent years. This erosion is often not matched by a reduction in risk profile. Accordingly, many owners and members' rates will need adjustment to restore correct premium levels. The board is also keen to ensure that deductibles contribute to achieving a balanced underwriting result and therefore it has determined that those up to and including $10,000 will be increased by $1,000 and deductibles above that level will be increased by 5%. As usual, any increase in the cost of the Group excess loss reinsurance programme will be passed on to owners and members.

In addition to moderating the level of the general increase, the board decided that the instalment pattern of premium payments for next year should be adjusted so that, for many owners and members, no additional cash for premiums will be due for payment next year. Instead, 68% (previously 72%) of ETP for 2012/13 will be due during the policy year, with 32% (previously 28%) of ETP payable in November 2013.

The board determined that the release call for the 2012/13 policy year will be set at 15% initially.

DEFENCE CLASS

Claims remain at a high level, and the board determined that an increase in rates of 5% should apply.

The board determined that the release call for the 2012/13 policy year will be set at 10% initially.

A further update will be issued in due course in relation to other renewal matters, such as any possible changes in relation to the club's reinsurances, war and terrorism risks, US voyage surcharges for tankers and limits on cover.

Yours faithfully

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