Club: UK P&I
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Policy Year Review and Financial Year Highlights at 20th February, 2005

Outline

- 2004 policy year claims experience one of the highest in recent years.
- Adverse development on 2004 policy year largely offset by favourable development on prior policy years.
- Investment returns down on strong performance in previous year, but nonetheless providing over 5% return.
- Free reserves down by $13m to $206m.
- During the year Standard and Poor's maintained the rating at A (stable).
- Revision to reinsurance contract with Swiss Re at 5-year review point. Revised contract now provides excess of loss cover for large claims in addition to existing balance sheet protection.

May, 2005 Ref: 8/05

TO THE MEMBERS

Dear Sirs

POLICY REVIEW AND FINANCIAL YEAR HIGHLIGHTS AT 20TH FEBRUARY, 2005

Review of Open Policy Years

2002 Policy Year
As was noted in last year's Directors' Report & Financial Statements, the 2002 policy year saw a marked increase in claims compared with previous policy years. At their meeting in May, 2005, the Directors decided to close the 2002 policy year without any supplementary premium being required.

2003 Policy Year
It was noted last year that the 2003 policy year was not following the sharp upward trend in the cost of claims that was experienced in the 2002 policy year. In fact, over the last year the claims provisions have reduced markedly and the year is now virtually in balance. No supplementary premium is estimated for this policy year and the Board expects to close the year in May, 2006.

2004 Policy Year
Although the 2004 policy year is only 12 months old, it is abundantly clear that the claims on this policy year are at an equal level with the 2002 policy year, if not higher. It is difficult to predict accurately the outcome of a policy year at the 12 month stage, but notified claims on the Pool by all clubs in the International Group are running at a record level and within the Association's retention notified claims are close to matching the 2002 policy year at the same stage. No supplementary premium is estimated for this year.

Financial Year Highlights
The Directors have approved the financial statements for the year ended 20th February, 2005.

The Club's free reserves have dropped this year to $206 million from $219 million. The principal factor behind this has been the high level of incurred claims for the 2004 policy year. At the outset of the year, the Club had predicted a small drop in the free reserves and, despite the adverse claims experience on 2004, the actual fall in the free reserves is only $6 million more than was predicted last October. The higher claims reserves on the 2004 policy year have been offset to a large extent by favourable development in the more recent policy years. It remains the Club's practice to take a prudent approach to reserving in the early development of the policy year. This reflects the longer term nature of liability claims, as well as delays in notification and initial uncertainties on setting reserves on specific cases. It is nevertheless still encouraging to be able to record an improvement in the anticipated deficit for the 2002 policy year, as well as a significant decrease in the claims provision for 2003.

Investment income has produced a return of 5.2 per cent over the year, resulting in investment income of $39 million. This was due to the strong performance in the equity markets towards the end of the year, and a decision to position bond portfolios to the shorter end of the yield curve in anticipation of increasing interest rates in the United States.

Once again, the Club has seen a steady growth in its tonnage during the last financial year. Over this period, the Club's tonnage grew by around 7 per cent.

The Club's full financial statements, together with the Directors' Report and Review of the Year will be published, as usual, in July. The key financial figures are reproduced in the table below:

During the year, Standard & Poor's have confirmed their A rating (stable) of the Association.

Financial highlights

Year to February US $ million	**2005**	**2004**		**2005**	**2004**
Gross premium income	340	305	Total Funds	965	952
Reinsurance premium	(19)	(75)	Outstanding claims	759	733
Net premium income	**321**	**230**	**Free reserves**	**206**	**219**
Incurred claims	332	283	Ratio		
Other costs	43	33	Funds/ outstanding	127%	130%
Total expenditure	**375**	**316**	claims		
Investment income	39	129			
(Deficit) / Surplus after tax	**(13)**	**40**			

Swiss Re contract

Under the ten year reinsurance contract with Swiss Re, the Association is able to make a reinsurance recovery of outstanding claims if the ratio of total funds to outstanding claims at the year end falls below a pre determined level.

The Club notified a claim under this reinsurance policy at 20th February, 2003 in respect of the then outstanding claims in all policy years up to and including the 2002 policy year. The recovery was quantified at that time at $42 million, which was then increased at 20th February, 2004 to $47 million. However, over the year to 20th February, 2005 development of the outstanding claims has improved significantly, particularly in the recent policy years. This improvement is sufficient to eliminate the reinsurance recovery. As a result, there is an equivalent increase in the amount of commutation premium which will be returned to the Club in the event of no further claims on this reinsurance. (This is credited to the reinsurance premium line in the table above and explains the reduction in reinsurance costs for the year to 20th February, 2005.)

The contract had built into it a five year review clause. Following this review, the contract has been adapted to reflect the requirements of the Association during the latter five years of the contract. The second five years of the contract retains the trigger based on the ratio of total funds to outstanding claims and will now also include a new excess of loss protection cover for high level claims. The revised contract was signed on 8th April, 2005.

Yours faithfully

THOMAS MILLER (BERMUDA) LTD.