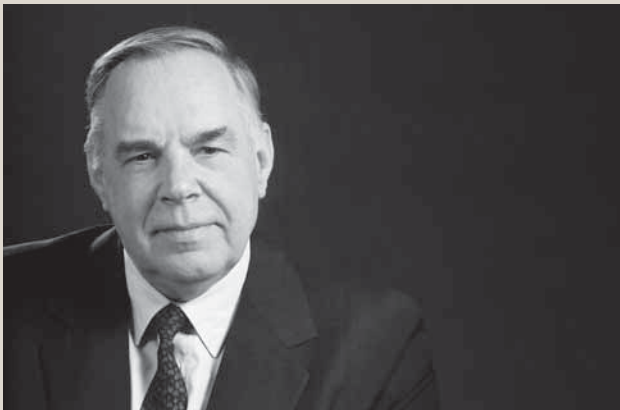


Chairman of the Board's Introduction

“A successful year for the Club sees strategic objectives being achieved.”



Overview

I am delighted to report that the past year has been a successful one for the Club. The Club's free reserves have increased by 20% and now stand at US\$ 303 million. This provides the Club with a strong capital base and puts the Club in a good position to meet the capital requirements of Solvency II. It is particularly pleasing that this has been achieved in large part by means of sound underwriting; the Board sets as one of the strategic objectives that premium should cover outgoings by way of claims and administration costs and I am happy to report that this objective is being met. The Board is encouraged to see the growth in the Club's entered tonnage but at the same time lays great emphasis on growth not being at the expense of good underwriting performance. The upgrade of the Club's financial strength rating from Standard & Poor's (S&P) to "A-" marked the achievement of another of the Club's strategic objectives.

A notable feature of the year was the subdued claims environment both for the Club and also for claims arising on the International Group Pool. Undoubtedly, this was in substantial part due to the level of activity in the shipping market and the factors affecting the world economy as a whole. However, it might not be amiss for shipowners for once to take some of the credit. The introduction and application of the ISM Code and ISO 2001, the effect of Quality Management Systems, have undoubtedly raised the standard of ship management. Shipowners have invested enormously in the training of officers, crew and shore

personnel. One example has been the investment in bridge and engine simulators and there is no doubt that these are making a valuable contribution to the avoidance of incidents. Many problems of course remain. There continues to be a shortage of well qualified and experienced officers and crew. It will be a challenge to recruit and retain the right calibre of person to pursue a career at sea. There is a concern that these pressures lead to an overly rapid promotion of officers and a consequent lack of experience in the vital area of seamanship. Perhaps just as worrying is the level of expertise amongst pilots in many ports of the world. Shipowners too often are dismayed by the quality and experience of the pilots they have to employ. This concern applies equally to the crew on board tugs. Despite all the efforts of shipowners to make their ships as operationally safe as they can, they remain at the mercy of factors outside their control. Then again, that is why insurance and P&I insurance in particular is of such importance to us.

The manner in which the Clubs and the International Group provide insurance has once again come under the scrutiny of the European Commission (EC). We have provided the Commission with a great deal of information and now wait to see if they have any matters on which they wish to take issue with the International Group Clubs. As a Board, we remain convinced of the benefits of the International Group Pooling and reinsurance system; the level and breadth of cover that they afford, and the security they provide both to the shipowner and the community at large are far too valuable to be put at risk.

I cannot finish this report without mentioning the issue that concerns me and all shipowners above all – piracy. Our concern is primarily for the seafarers and their families who find themselves at the mercy of this terrible scourge. The sheer economic cost is also very considerable indeed. We will continue to press for increased government action to address the issue of piracy and investigate and monitor what action can be taken to prevent or control the activities of those who would engage in piracy.

Heinrich Schoeller
Chairman of the Board