

Pooling and Reinsurance

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“The record of the Group's Excess Loss contract continues to improve.”

Pooling

The year has been positive for the development of claims on the International Group Pool. The poor years 2006 and 2007 have reached stability, albeit at a high level. By contrast, the 2008 year, which was already a good one, continues to improve. 2009, which we reported last year as showing a return to normal levels of claim, has behaved most unusually, with the incurred claims position as at February 2011 actually lower than a year before. 2010, at this early stage, looks like an average Pool year. For 2011, the individual Club retention remains at US\$ 8 million, and the Group's retention before the Excess Loss contract has risen from US\$ 50 million to US\$ 60 million each claim (see chart on page 33).

The chart on page 32 illustrates the incurred claims on the Pool “as if” the new entry and exit points for the Pool (starting at US\$ 8 million and ceasing at US\$ 60 million each claim) applied to all prior years.

Excess Loss

The record of the Group's Excess Loss contract continues to improve. The years since 2007 show excellent results for reinsurers, and the back year deterioration noted 12 months ago has now stabilised. Both five and ten year records are now positive.

The world fleet continues to grow, carrying the total tonnage insured to record levels. This growth has resulted in a reduction in the average level of reinsurance premium rates per ton. For the February 2011 renewal, a quotation was obtained for an increase in the Group's per claim retention (which has been set at US\$ 50 million since 2004) to the level

of US\$ 60 million per claim. The saving offered by the market for this change appeared to represent good value, and the quotation was therefore accepted. The additional layer of risk is reinsured into the Group's captive, Hydra at the same premium as was saved from the market, so that the change is cost neutral for Member ratings this year. If the additional claims upon Hydra are less than the premium saved, the benefits will flow through to Member premium in the future.

Hydra's financial strength continues to grow, and it represents a major element in the ability of the Group to retain greater risk where it is worthwhile to do so.

Meanwhile, all types of vessel benefit from an immediate reduction in ratings. As usual, allocation of reinsurance ratings was adjusted to reflect the broad trends of record between vessel types, and tankers have therefore received a somewhat greater reduction than dry cargo vessels. The chart on page 32 shows the development of vessel type ratings over recent years. The structure of the International Group Reinsurance Programme for 2011/12 is set out on page 33.

The Club continues to purchase reinsurance to cover the risk of accumulation of large claims within its retention Pool. Covers are also in place to support non-poolable risks, defence and the Club's book of chartered entries.

Stephen Quartermaine
Head of Reinsurance

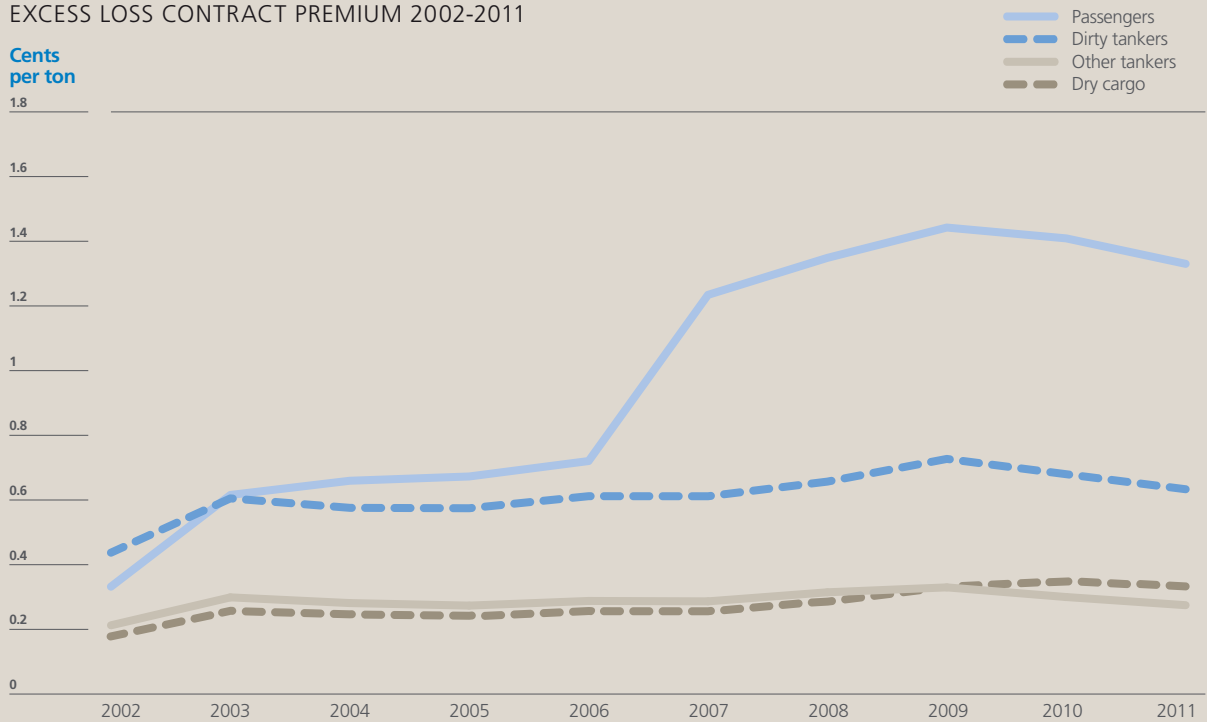


INTERNATIONAL GROUP POOL INCURRED CLAIMS US\$ 52 MILLION EXCESS OF US\$ 8 MILLION
(DATA AS AT 20TH FEBRUARY EACH YEAR)

US\$ 52 million excess of US\$ 8 million

Policy Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
2001	17.7	18.1	18.5	18.1	19.4	17.6	17.7	16.7	19.0	19.2
2002	205.4	204.2	199.3	191.9	200.7	190.8	184.9	172.7	100.5	
2003	173.2	180.7	177.1	183.8	182.7	185.6	179.0	153.2		
2004	256.7	256.6	256.6	254.7	242.8	233.2	157.6			
2005	216.3	213.2	216.1	188.1	183.0	77.8				
2006	426.7	430.6	433.2	398.0	273.4					
2007	384.6	379.0	357.5	277.9						
2008	108.2	117.7	81.6							
2009	213.4	219.3								
2010	189.1									

EXCESS LOSS CONTRACT PREMIUM 2002-2011



LAYERS OF INTERNATIONAL GROUP PROGRAMME 2011/12

	Pollution only	Non-pollution	
		Overspill	
General Excess Loss Contract Layer 4		US\$ 1bn Collective overspill One reinstatement	US\$ 3.06bn
Layer 3		US\$ 1bn	US\$ 2.06bn
Layer 2	US\$ 500m	US\$ 500m	US\$ 1.06bn
Layer 1 25% Reinsured to Hydra	25% US\$ 500m 75%	US\$ 500m 75% 25%	US\$ 560m
Upper Pool Reinsured to Hydra	US\$ 30m		US\$ 60m
Lower Pool	US\$ 22m		US\$ 30m
Club Retention	US\$ 8m		US\$ 8m