



THE LONDON

STEAM-SHIP OWNERS'
MUTUAL INSURANCE ASSOCIATION LIMITED

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TO ALL MEMBERS

Dear Sirs

THE LONDON P&I CLUB – 2008/09 FINANCIAL YEAR

The London P&I Club's Annual Report, including Financial Statements for the year ended 20 February 2009 and detailed analysis of events and industry issues arising during that period, will be published as usual, in July. In the meantime, this Circular is to provide Members with an advance summary of the Club's results for the 2008/09 financial year.

Investments

In the year to 20 February 2009, the Club recorded a fall in the value of its investments and cash of US\$39m or 13.4%. In the first part of 2008, the decision had been taken by the quota share reinsurer in Bermuda to de-risk the investment portfolio by switching a significant portion of the equity exposure into fixed income, in view of the uncertain economic environment at that time. However, notwithstanding the change in asset allocation, the mark to market value of the portfolio was negatively impacted by the unparalleled financial turmoil, especially during the latter part of the year and principally on its remaining equity holdings.

Financial Position

The Additional Calls, set by the Committee in October 2008, have resulted in a considerable strengthening of The London P&I Club's financial position. In particular, the action has enabled the Club to achieve a financial year surplus of US\$34.6m and to increase free reserves by 43%, to US\$115.5m. The Additional Calls supplement other measures taken to improve The London P&I Club's financial resilience, including the general increases in premiums set for the year under review and at the last renewal.

Claims

Claims incurred net of reinsurance fell by US\$4m to US\$98.8m in 2008/09, the second successive financial year in which The London P&I Club has reported a reduction in this figure.

Following two successive years in which claims on the International Group's Pooling system had run at record levels, the 2008/09 year saw a welcome return to lower Pool claims activity, at least in terms of cases reported to date. As for claims involving The London P&I Club's own

membership, costs for the last policy year were in line with expectations. Although an increase in the cost of attritional claims - primarily involving crew illness and injury cases - is apparent, it is the frequency and severity of those very few cases exceeding US\$1m which is the primary driver of retained claims volatility from year to year. In 2008/09, at expiry, the frequency of such claims was not unusual; but individual claims severity was favourable, with only one claim estimated to exceed US\$2m.

Membership

In deciding to set Additional Calls last October, the Committee was determined to act decisively to strengthen the position of The London P&I Club. While a difficult decision, particularly in the prevailing climate, it is one which appears to have been largely understood by the Membership, the support of which is greatly valued. New entries into the Club continue mainly to be drawn from existing Members; while a number of new Members in Europe and the Far East entered ships during the last policy year. Overall tonnage now stands at nearly 42m gt, an increase of about 2m gt on the entry following the 2008 renewal.

Yours faithfully
A BILBROUGH & CO LTD
(MANAGERS)