Energy & Marine Insurance Newsletter

January 2011

Lloyd & Partners Limited

Expertise • Commitment • Service

Exceeding our clients' expectations

Lloyd & Partners Limited

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We are pleased to provide our existing, and potential clients with our 1st Quarterly Newsletter of 2011.

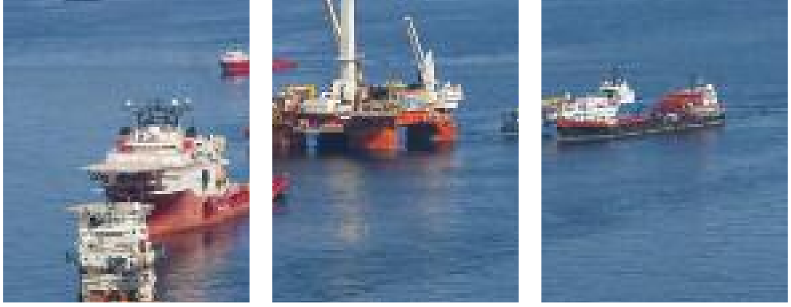
In addition to our regular features, in this edition we have a 'focus on' 2010 Atlantic Hurricane Review/2011 Forecast.

We hope that readers will find this newsletter interesting and informative and would welcome any feedback you may have, positive or negative, which you can email to: jcooper@lloydandpartners.com or pass on to any of your usual LPL contacts.

If you are reading this in hard copy or have been forwarded it electronically, and would like to be added to our electronic mailing list please email jcooper@lloydandpartners.com.

REGULAR FEATURES

SPECIAL ARTICLES



General State of the Market Update

ENERGY

Upstream

The catastrophic upstream energy losses in 2010 have focused attention on the Energy market once again. There are a number of variables in play that may suggest some rate firming in 2011, but on balance we believe the upstream sector will be broadly flat in 2011.

Although the hype surrounding the Macondo loss resulted in an abrupt halt to the 2010 softening trend and some premium increases at the beginning of the third quarter, it was a relatively short-lived opportunity for the market, as most Underwriters had written the vast majority of their portfolio by July 1st.

Renewals during the last few months have generally resulted in flat to modest rating increases, but in view of the relatively small volume, this is unlikely to have a significant impact on the overall book.

There are a number of factors that will influence where the market goes in 2011:

Macondo

The Macondo loss is the poster child for the expectation of toughening market conditions in 2011, but its only real impact to date in terms of rating changes is in the liability market. The portion of the Physical Damage and OEE loss paid by the commercial market, although significant, was digested relatively easily as much of the loss is not insured by conventional markets.

Liability pricing is increasing, but at a slower pace than anticipated as the expected capacity crunch in this area manifests itself more slowly than predicted. As underwriters continue to limit their participations due to perceived worst case aggregate clash, pricing at the top end of the towers will continue to climb. We estimate the available limit has halved post Macondo.

Its most meaningful impact on the market is likely to be if and how the oil and gas industry and the government respond to the shock of the event.

There has been endless speculation about the imposition of draconian regulation and whether this may present opportunities for the insurance market to respond to the new regulatory driven demand. The results of the mid-term elections make such extreme legislation look less likely, but no final bill has been presented or passed.

The other Macondo related issue is how the oil companies respond to the potential perils highlighted by the disaster, and whether this will drive a demand for higher limits, or whether it will make the deepwater become the exclusive preserve of the majors.

Reinsurance Renewals

We had been anticipating modest changes in the treaty renewals but early signs suggest that many Underwriters are experiencing some spiky premium increases in their reinsurance programmes.

Additional costs will also be incurred if some are forced to buy separate towers to support the liability accounts.

Much larger than expected reinsurance costs will necessarily influence the pricing of the direct book; the only variable is to what extent the market can pass these costs on to the direct clients.




Investment Income

With roughly half of historical underwriting profit coming from investment income, the current investment climate will strengthen Underwriters' resolve to concentrate on underwriting profit.

Lloyd's Performance Management Directorate (previously Franchise Board)

The Lloyd's Performance Management Directorate has taken a high profile in the market, reminding Underwriters of previous loss-making results, threatening increased capital loading for irresponsible business plans, and encouraging a robust approach to aggregate management in the liability market.

Conclusion

All the above factors are material reasons why this market may be expected to rise in 2011, but the 800 pound gorilla remains the supply of capacity. Other than in the liability arena where supply is already shrinking, and deepwater exploratory drilling where rates are likely to remain robust throughout 2011, there remains plenty of capacity in the energy market and in a general insurance market experiencing sinking rates, it appears to be the sole potential safe haven for capital. In the absence of any significant withdrawals, supply is likely to be the most important variable, with 2011 likely to see rates continue on the flat to softening trend.

Midstream/Downstream

Although there are signs of an upturn in refining and processing margins a number of Energy companies are looking to strategically divest assets or merge operations. Such strategies, however, are meeting with only limited success and this mainly where profitable assets are being marketed to reposition capital into other strategic investments. In the main there remains too much refining and processing capacity and therefore little appetite for potential buyers. With short and mid term concerns over the global economic recovery and the profitability of a number of plants there remains a concern among insurers that some operators may slow capital expenditure on maintenance with the resultant impact on mechanical reliability.

Through the 4th Quarter there has been little deviation from the downward trend of Midstream and Downstream rates. The Gulf Windstorm season finished without meaningful impact on clients and whatever concerns insurers harbour over tightening fiscal expenditure general loss experience remains benign. Some peripheral capacity has been withdrawn from the market due to refocusing of capital and consolidation through mergers and acquisitions, however the impact on supply is negligible. At this time the threatened increase in reinsurance treaty costs looks relatively mute and unlikely to make a significant impact on direct rating. However, there are signs that insurer discipline on maintaining retention levels and conditions is weakening and this is likely to further stress results going forward. Noticeably there appears to be a number of clients looking to come to market with long term (multi year) agreements which is indicative of where the market is today.

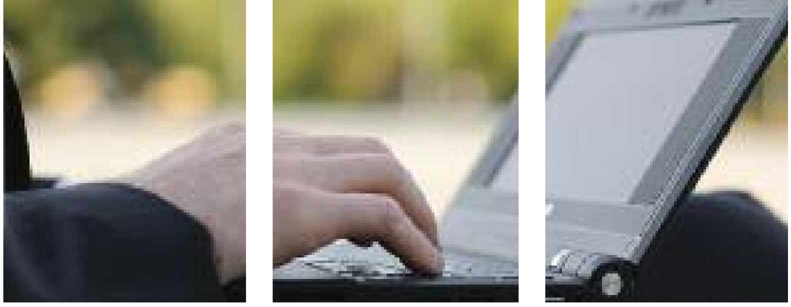
MARINE

The main feature and commentary surrounding the marine insurance market has been dominated by the sharp increase in additional capacity that has continued to flood the market. Observers will be watching eagerly to see whether the anticipated de-stabilization of the market will in fact materialize as a result of this fresh new capacity. There will no doubt be further pressure on incumbent insurer's to sharpen their pencil's for those accounts which have performed well and those which they are keen to retain. Whilst most of the market has talked up the discipline of the new entrants not competing on price alone, only time will tell whether they manage to stay true to their word and resist the temptation of buying their way onto good business with attractive terms.

With pressure on marine rates, there is a worry that some Insurers may well seek to place increased scrutiny on claims presented with the unfortunate effect of the possibility of delayed claims payments. The London Market has always prided itself upon its ability to pay valid claims within fast timescales, however as margins become tighter it may well witness an increased reliance upon lawyers and a resultant slow down in the payment of claims.

Unfortunately the topic of Piracy still looms large over the shipping community with an estimated claims payment to date exceeding some USD 300 million. There appears to be no immediate solution and with this in mind there is a real threat of War Risk Insurer's increasing the scope of their 'restricted areas' in the coming months to assist with building up reserves to pay the escalating claims costs resulting from piracy incidents.

Turning to the P&I market, the February renewal date will undoubtedly throw out some surprises with the annual high profile switch of Clubs that will inevitably result. The General Increases for 20 February 2011 have been announced, with most Clubs ranging from flat to plus 5%, with the notable exception of the Japan Club, who are seeking a 10% rise. The Clubs have witnessed a dramatic turnaround of fortunes with investment income bouncing back to assist most Clubs in being able to offer more attractive renewal terms. Gard, Skuld, Steamship, Shipowners are all examples of this with them all opting to post no general increase, instead preferring to focus on the performance of individual members records to decide upon any increases due at renewal. The ongoing European Commission anti trust investigation which is investigating restrictions on competition in the P&I market continues. The much debated issue of release calls, often regarded as being set unrealistically high and restrictive to those owners seeking alternative P&I clubs, may be a prominent feature of the investigation.



Recent Quotes

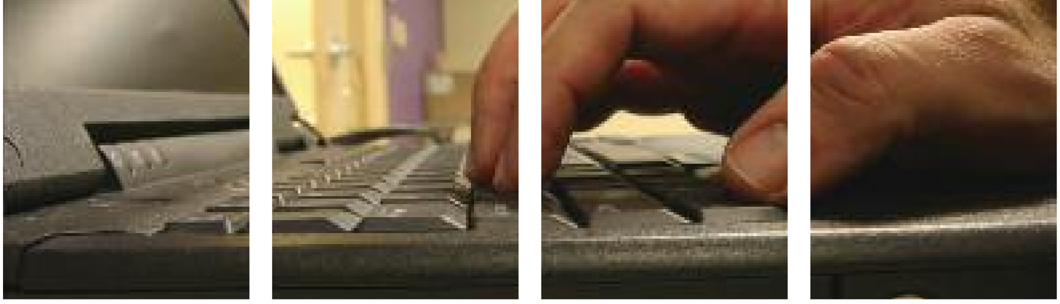
The following are 'sound bites' taken from speeches, statements or articles by prominent market figures about the insurance market and whilst we have tried not to take their words out of context, the excerpt may not be the entire speech or article.

Tom Bolt, Lloyd's Performance Management Director

"If you're in the bottom quartile in claims reserving then you are shortly going to be paid a visit by some new friends, led by Kent [Chaplin, head of Lloyd's claims] and myself. A number of different factors will identify the managing agents in this quartile. Claims will be just as organised as the underwriting side at Lloyd's."

Dominick Hoare, Joint Active Underwriter at the Watkins Syndicate

"The Offshore Energy sector over recent years has provided underwriters with a rollercoaster ride of performance, with adjacent years of significant loss and profit. The market performance has demonstrated the volatility of a class that has to deal with a portfolio imbalanced by large values and a concentration of risk in areas of catastrophe activity. For this reason, the business model for Offshore Energy insurance, with its estimated worldwide premium base of USD3bn, looks both fragile and under threat. Since 2005, the market has witnessed significant loss-making years, in particular, 2005 and 2008, which were both affected by hurricane losses in the Gulf of Mexico. Furthermore, following the sinking of the Deepwater Horizon drilling unit and the subsequent blowout of the Macondo well in April 2010, it is anticipated that 2010 will now join this roll-call of significant loss years. It is accepted that these loss-making years have been punctuated by years of reasonable profit; however, 2006 has been the only star performer. Furthermore, the marginal profit made in 2009 was largely propped up by a very benign Gulf of Mexico windstorm season, which managed to just offset the losses elsewhere in the portfolio. It is evident that Offshore Energy underwriting since 2000 has been an exercise in capital destruction. To achieve an acceptable return in this class of business, there has to be a fundamental change in the underwriting dynamics. It is possible that the market has resolved the issue of Gulf of Mexico hurricane insurance. The re-engineering of the account in 2009, with significant price and retention increases, coupled with coverage restriction, has created the theoretical (and hopefully to remain untested in 2010) position of account sustainability in the Gulf of Mexico. However, the problem now appears to lie elsewhere – that being in the balance of the portfolio. During 2009, the two largest insured risk losses since Piper Alpha in 1988 occurred: the Ekofisk collision (USD 1bn) and the WestAtlas/Montara well (USD0.75bn) blowout. This was compounded earlier this year with the Deepwater Horizon/Macondo well loss, with an



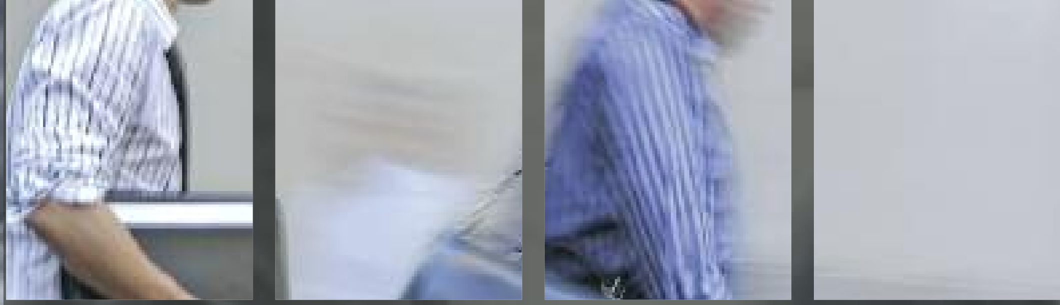
insured loss forecast of between USD1.5bn and USD3.5bn. It is expected that the reinsurance market, driven by these losses and the likely increase in retrocessional costs, will be uncompromising during the 2011 renewal negotiations, with significant increases in both pricing and retention levels. In some cases, it is anticipated that the double pressure of the increasing severe loss frequency, coupled with the demands of the reinsurance market, will force withdrawals from the class of Offshore Energy insurance. Taking all this into account, underwriters are facing a crossroads. Failure to act in a decisive and robust manner will drive away the capital providers. The Offshore Energy sector requires a significant increase in worldwide premium base to ensure that the increasing loss frequency and severity is managed, and that an appropriate and sustainable return on capital is delivered. In the immediate aftermath of the Deepwater Horizon/ Macondo well loss, it does appear that the market is grasping the severity of the situation. Rate increases are being applied across the portfolio, with areas of significant risk such as deepwater drilling attracting further rating loads. The timing of the loss, occurring before the busy mid-year renewal season, has ensured that a significant element of the 2010 portfolio has been impacted by these rates rises. It is imperative that this market momentum is maintained into 2011 and beyond. If the market hesitates in its resolve, it is quite possible that the bond between capital providers and underwriters will be broken for good."

Ted Kelly ,CEO of Liberty Mutual

"In this business you eat what you shoot. The problem in long-tail lines is you don't eat it for a few years, and by then it can be pretty rotten."

Richard Ward, Lloyd's Chief Executive Officer

"As we enter 2011, we must expect that challenging market conditions will continue. In the wider world, economic recovery remains slow, with many of our clients still facing daunting times ahead. The prevalence of catastrophes in 2010 has not led to significant rate increases and it remains difficult to make strong returns on investments. The Corporation's [Lloyd's] responsibilities for market oversight will become more visible and more robust."



Market Moves/ People in the News

Mike Onslow has left HCC where he was Chief Underwriting Officer.

Mike Reynolds has been promoted to Class Underwriter for the marine hull and marine liability account, at ACE Global Markets.

James May, previously with Hiscox Underwriting, has joined ACE Global Markets as Deputy Marine Hull and Liability Underwriter.

Peter Jerman, previously with broker RFIB and earlier Besso, has joined ACE Global Markets as Yacht Underwriter in their marine hull team.

Sarah Warren is leaving Novae to join Argenta.

Steve Hazell is leaving Argenta to join Novae.

Phil Furlong has left Novae where he underwrote their energy liability book.

James Scott is leaving Chartis to join the newly formed Skuld Lloyd's syndicate to underwrite their energy book.

Lee Gammon has left Miller to join the Novae syndicate as a marine and energy liability underwriter.

Charles Fernandez has left Brit where he underwrote marine and energy liability and marine hull business, to join Canopius as Marine Property and Deputy Marine Liability Underwriter.

The Energy Team that resigned from Omega in July (**Philip Thorpe-Apps**, **Seb Weaver** and **Bruce Rogers**) are joining the Argo Syndicate at Lloyd's to write an offshore energy book.

Chris Charlton has joined Saudi Arabian Insurance Co. BSC(C) (SAICO) in Bahrain.

Simon Engelen has resigned from QBE to join W.R. Berkley.

Frances Lobo has resigned from Berkley Offshore Underwriting Managers in London where he is Chief Engineer & Head of Claims to join Catlin.

Steve Giles has resigned from Zurich Global Energy to join Chartis.

What's New?

(NEW PRODUCTS AND MARKET DEVELOPMENTS)

Effective 1 January 2011, **JLT Limited's US wholesale Energy team** of 28 people and their associated business are transferring to Lloyd & Partners, subject to client approval. This transfer to LPL's Energy & Marine and Property teams strengthens our offering to clients in all areas of our Energy business including upstream and downstream Oil and Gas, Power, Mining and Energy Casualty.

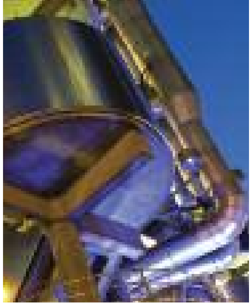
Lloyd & Partners have launched a new **Terrorism Facility** available for all industry sectors and can be used to cover Property, Inventory and Business Interruption for up USD 100,000,000 any one location. It can include War on Land for a limit of up to USD 20,000,000 any one location. There are no territory restrictions and so unlike TRIA, can cover international locations. The facility's security is 100% Lloyd's. LPL have been able to negotiate an enhanced commission, which allows us to pass back up to 15 points commission to a retailer or wholesaler. With full underwriting information, the facility provides a fast and efficient service that ensures quotes can be obtained and binding completed within 24 hours of LPL receiving your request/instructions. For more details please contact Paul Adam (padam@lloydandpartners.com), Gordon Longley (glongley@lloydandpartners.com) or your usual Lloyd & Partners Account Executive.

The **Swedish P&I Club** have announced a plan to enter the global property and loss of hire insurance market for drilling rigs, accommodation rigs, service rigs and floating production/storage units. The new business line will be coordinated and marketed from a new representative office in Oslo, with underwriting to commence in early 2011. During the initial years business will be written based on a maximum capacity of USD 50 million per unit.

Assuranceforeningen **Skuld** (Gjensidig), Oslo (SKULD) and Danske Rederes Retsværn/Danish Defence Club (DDC) have announced that they have reached an agreement to amalgamate the activities of the two parties into one, and continue as SKULD. DDC will prepare for voluntary liquidation which is expected to be completed by 30th June 2011.

Beazley have combined their experience in the marine insurance sector with their expertise in professional indemnity risks, creating a **Marine Professional Indemnity** policy focused on the needs or marine related professionals from a wide range of organizations involved in marine trade. The policy with a limit of up to USD 20mm protects against financial liability arising from a breach of their professional duties committed in the conduct of their business, including the costs and expenses of defending such claims. Target professionals include: Marine engineers, Marine surveyors, Crew agents, Crew managers, Naval architects, New building supervisors, Oceanographers, Ship managers, Offshore consultants, Marine consultants, Ship yards and the like.





'Briefly'

Lloyd's have added two new additional **Realistic Disaster Scenarios** (RDS) for syndicates to complete. The first one is titled "Gulf of Mexico Hurricane multiple Total Losses" and requires syndicates to stress test their exposures to wind physical damage, first party removal of wreck, sue & labour and OEE, where all such limits are exhausted by a single loss, taking into account multiple Insured clash, wreck removal in liability towers, reinsurance of P&I clubs/special operations clash and OPA pollution. The second is titled "Major Energy Loss Scenario" where syndicates are asked to report their exposures to their "top complex/unit" in the Gulf of Mexico taking into account a "Deepwater Horizon scenario" with physical damage, control of well/OEE, contingent control of well/OEE, loss of life, pollution liability under OPA, rig landing on third party pipeline, removal of wreck, sue & labour reinsurance of P&I Club risk/special operations clash, multiple Insured and D&O implications.

According to initial estimates from **Swiss Re's sigma** team, worldwide economic losses from natural catastrophes and man-made disasters were USD 222 billion in 2010, more than triple the 2009 figure of USD 63 billion. The cost to the global insurance industry was USD 36 billion, an increase of 34% over the previous year. Natural catastrophes cost the global insurance industry roughly USD31 billion in 2010, and man-made disasters triggered additional claims of approximately USD 5 billion. By way of comparison, overall insured losses totalled USD 27 billion in 2009. Despite notably higher than average earthquake losses, overall claims in 2010 were in line with the 20-year average due to unusually modest US hurricane losses. In the first 11 months of 2010, eight events each triggered insurance losses in excess of USD 1 billion. The costliest event in 2010 was the earthquake in Chile in February, which cost the insurance industry USD 8 billion, according to preliminary estimates. The earthquake that struck New Zealand in September cost insurers roughly USD 2.7 billion. Winter storm Xynthia in Western Europe led to insured losses of USD 2.8 billion. Property claims from the BP Deepwater Horizon explosion in the Gulf of Mexico are estimated at over USD 1 billion.

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has confirmed that **Solvency II** go-live date has been moved back from 31st October 2012 to 1st January 2013.

Lloyd's have issued Strategy paper for 2012-13 that is available to download from www.Lloyds.com. Within it it identifies faces a number of different pressures facing the global insurance industry, being:

- Impact of economic conditions (Ramifications of Economic turmoil)
- Impact of underwriting conditions (Underwriting conditions remain soft with no strong drivers for change)
- Regulatory change (Solvency II)
- Changing business flows (regional insurance hubs)
- Insurers' Business Models (multiplatform model)
- Brokers' Business Models pressure on their revenues. (mergers and acquisitions/rationalisation of insurer panels/initiatives designed to raise revenue from insurers)
- Changing Risks and Products (changes in the underlying risk landscape/increase in severity of both natural and man-made events)

According to the latest CityUK insurance report **London market premiums** saw a significant rise in 2009. Gross premiums in the London market rose 29% to £31.9bn (USD 50.31 bn), largely due to the growth in non-marine treaty reinsurance. The report said Lloyd's generated 61% of known London market premiums, with the company market generating 36%, and Protection and Indemnity clubs the rest. The 20.7% of marine insurance premiums transacted in London in 2009 was up from 19.5% in 2008 and was higher than any other country. Japan was the next largest marine market with 10.3% of global premiums.

Update on Losses

2010 Energy losses of USD 10 million or more that we are aware of at the time of writing are as follows.

We also show the total of all claims under USD 10 million (with a minimum claim USD 1mm) to give an overall total for the year so far.

2010 MAJOR ENERGY LOSSES (IN EXCESS OF USD 10,000,000 GROUND-UP)			
Jan	Fire & Explosion	Gulf of Mexico Well	USD 20,000,000 (est)
Jan	Fire	Ghana Refinery	*
Jan	Mechanical Failure	Costa Rica Power Plant	USD 10,250,000
Jan	Mechanical Failure	Italian Power Plant	USD 42,278,800
Jan	Mechanical Failure	Qatar Power Plant	USD 13,500,000
Jan	Mechanical Failure	Argentinean Power Plant	USD 25,000,000
Jan	Mechanical Failure	Louisiana Power Plant	USD 11,562,500
Jan	Blowout	Iraqi Onshore Oil Well	USD 75,000,000
Jan	Fire & Explosion	Polish Power Plant	USD 10,000,000
Jan	Fire	North Sea Platform	USD 25,700,000
Feb	Fire & Explosion	Connecticut Gas Power Plant (Under construction)	USD 145,000,000
Feb	Fire & Explosion	Canadian Upgrader plant	USD 84,200,000
Feb	Design/Workmanship	Brazilian FPSO	USD24,000,000
Feb	Fire	Semi-sub under construction in Singapore yard	*
Feb	Earthquake	Chilean Refinery	USD 160,000,000
Feb	Earthquake	Chilean Power Plant	USD 50,000,000
Feb	Earthquake	Chilean Power Plant	USD 27,366,000
Feb	Earthquake	Chilean Power Plant	USD 52,000,000
Feb	unknown	Texas Power Plant	USD 20,000,000
Feb	Mechanical Failure	Kentucky Power Plant	USD 10,000,000
Feb	Blowout	Gulf of Mexico Well	USD 51,000,000
Feb	Blowout	Canadian onshore gas well	USD 17,061,660
Feb	Blowout	Gulf of Mexico Well	USD 27,500,000
Mar	Mechanical Failure	Turkish Power Plant	USD 14,300,000
Mar	Blowout	Gulf of Mexico Well	USD 27,500,000

2010 MAJOR ENERGY LOSSES (IN EXCESS OF USD 10,000,000 GROUND-UP)

Apr	Collapse	Thai Power Plant	USD 45,000,000
Apr	Anchor Trawl/ Jacking	Gulf of Mexico Pipeline	USD 20,000,000
Apr	Design/Workmanship	Trinidad Offshore Pipeline Construction	USD 80,000,000
Apr	Fire & Explosion	Washington US Refinery	*
Apr	Fire & Explosion	West Virginia US mine	*
Apr	Fire & Explosion	Washington Refinery	USD 50,000,000
Apr	Fire & Explosion	Gulf of Mexico Semi Submersible drilling rig	USD 560,000,000**
Apr	Blowout	Gulf Of Mexico Oil well (being drilled by above rig)	USD 250,000,000 (est)***
May	Mechanical Failure resulting in sinking	Semi-Sub drilling unit offshore Venezuela	USD 235,000,000
May	Mechanical Failure	German Power Plant	USD 15,000,000
May	unknown	Indian Refinery	USD 78,000,000
May	Blowout	Louisiana Onshore Well	USD 11,000,000
May	Blowout	Libyan Onshore Well	USD 15,000,000
May	Fire & Explosion	Angolan Offshore Platform	USD 102,000,000
May	Mechanical Failure	Taiwan Power Plant	USD 34,116,555
May	Mechanical Failure resulting in sinking	Mono-buoy offshore Brazil	USD 70,000,000 (est)
June	Mechanical Failure	Texas Power Plant	USD 12,000,000
June	Fire & Explosion	Texas onshore pipeline	*
June	Fire & Explosion	Semi-sub under construction onshore Italy	USD 68,000,000
July	Fire & Explosion	Oil pipeline at Chinese port	*
July	Mechanical Failure	Columbian Land Rig	USD 10,000,000
July	Impact	French FPSO	USD 29,150,000
July	Windstorm	Russian Production Facility	USD 13,227,200
July	Fire & Explosion	UK Power Plant	USD 22,631,400
July	Fire & Explosion	Pennsylvania Refinery	*
July	Blowout	Barge hit subsea wellhead in GoM	*

2010 MAJOR ENERGY LOSSES (IN EXCESS OF USD 10,000,000 GROUND-UP)			
July	Anchor Trawl	Malaysian Offshore pipeline	*
July	Leak	Michigan Pipeline	USD 300,000,000 (est)
Aug	Supply Interruption	Texas Gas Plant	USD 21,000,000
Aug	Supply Interruption	Arizona Power Plant	USD 12,000,000
Aug	Mechanical Failure	Colombian Power Plant	USD 12,000,000
Aug	Blowout	Onshore Louisiana well	*
Aug	Impact	Malaysian Petrochem Pant	USD 11,000,000
Aug	Fire & Explosion	Gulf of Mexico Platform	USD 32,000,000 (est)
Sept	Fire & Explosion	Californian Onshore gas pipeline	*
Sept	Fire & Explosion	Mexican Refinery	*
Sept	Fire & Explosion	Netherlands Antilles Oil Terminal	*
Sept	Fire & Explosion	Venezuelan Oil Terminal;	*
Sept	Fire & Explosion	Ghana Gas Terminal	*
Sept	Fire & Explosion	Kansas Chemical Plant	USD 17,825,000
Sept	Corrosion	New Jersey Power Plant	USD 16,000,000
Sept	Fire & Explosion	Michigan Power Plant	USD 14,500,000
Oct	Mechanical Failure	Malaysian Power Plant	USD 16,800,000
Oct	Fire & Explosion	Texas Chemical Plant	USD 100,000,000
To date	Total under USD 10,000,000	(Minimum of USD 1mm)	USD 112,896,210
		Total (known) for year (excess of USD1mm)	**USD 3,551,447,233**

Source: Market database/LPL market knowledge (as of 7 December 2010)
Figures shown as "(est)" are estimates from various press or market sources.
Figures do not take into account the effect of any self insured retention, deductible or policy limit and therefore losses are not necessarily those which insurance markets have actually suffered but give a rough guide to the overall magnitude of industry loss.
* Reports would suggest in excess of USD 10 million
** Plus any Sue & Labour/Removal of Wreck claims
*** Does not include BP uninsured share.

The following are some Marine Losses that have made the press this year.

2010 MARINE TOTAL LOSSES		
Jan	Ocean Lark	Anchor handling tug sank off Singapore
Jan	Orcun C	Cargo ship grounded & broke up on Turkish Coast
Jan	Sea Angel	Cargo ship sank off Taiwan
Jan	Eagle Otom,	Oil Tanker collision with a barge in Port Arthur USA, causing a significant oil spill (around 10,000 bbls of crude)
Jan	Calypso	Cargo ship sank off Colombia
Feb	Angeln	Containership sank offshore St Lucia
Mar	Nisshin Maru	Cargo ship sank off Japan
April	Shen Neng	Bulkers ran around on the Great Barrier Reef offshore Australia.
April	Qingjiang No. 8	Vessels capsized in Chinese dock
April	Bright Century	Capesize bulker sank offshore China
May	Dubai Moon	Ro Ro sank off Yemen
May	Sun Gen Bing	Cargo ship sank off Vietnam
June	Bilal Cavusoglu	Cargo ship sank off Turkey
June	Fu Ping Yuan	Cargo ship sank off Korea
July	Zenith Winner	Box ship sank off China
Aug	Medy	General Cargo ship sank in Black Sea
Oct	Xin Yi	Multi-purpose vessel sank in Typhoon off Taiwan
Oct	Dili Star	Multi-purpose vessel sank in Typhoon off Taiwan
Oct	Jian Fu Star	bulker capsized and sank off Taiwan
Oct	Mystic	General Cargo vessel sank off US
Oct	Vasiliyc	General Cargo vessel sank in Black Sea
Oct	Apollo S	USD25mm fishing vessel sank in Australian Port
Nov	Jianmao 9	Bulker sank off Vietnam
Nov	Nasco Diamond	Bulker sank off China
Nov	Jian Fu Star	Bulker sank off Taiwan
Nov	Maryam	Cargoship sunk at Port Tawfiq, Suez,
Nov	Karam I	General Cargo vessel sank in Black Sea
Nov	Huiying 168	General Cargo vessel sank off China
Dec	Hong Wei	Bulker sank off China

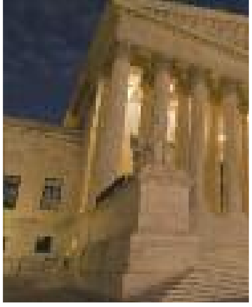
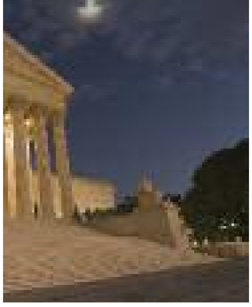
Security Rating Changes

The following rating changes affecting Insurers writing Energy & Marine business have occurred in the past three months or so.

Insurers Name	Previous Rating	Upgrade/ Downgrade	New Rating	Effective Date
Kuwait Reinsurance Company	S&P BBB	Upgrade	S&P BBB+	24 September 2010
Zurich Insurance Company	A.M. Best A	Upgrade	A.M. Best A+	19 November 2010
Oil Casualty Insurance Limited (OCIL)	N/A	New Rating	A.M. Best A-	22 November 2010
Ace Group	S&P A+	Upgrade	S&P AA-	10 December 2010

Note: The above are rating moves we thought warrant mention but are not necessarily all rating changes that have occurred in the past three months effecting Insurers that write Energy and Marine business and do not include changes in individual Lloyd's syndicate's rating (as Lloyd's as a whole continues to be rated as an overall entity).



Legal Roundup

UK INSURANCE LAW REFORM

The English and Scottish Law Commission have published their ninth issues paper in their contract law reform project entitled "The Requirement for a Formal Marine Policy: Should Section 22 be Repealed?", looking at whether there is still a need for formal "policies" in marine insurance. Under section 22 of the Marine Insurance Act 1906, a marine insurance contract is inadmissible in evidence "unless it is embodied in a marine policy". This was introduced in the days of stamp duty, and now that stamp duty has been abolished, appears obsolete. The Law Commission tentatively propose the repeal of section 22 and four other related sections and asks for responses by 17th January 2011.

"SEEPAGE AND POLLUTION" COVERAGE DEEMED TO COVER PREVENTATIVE MEASURES

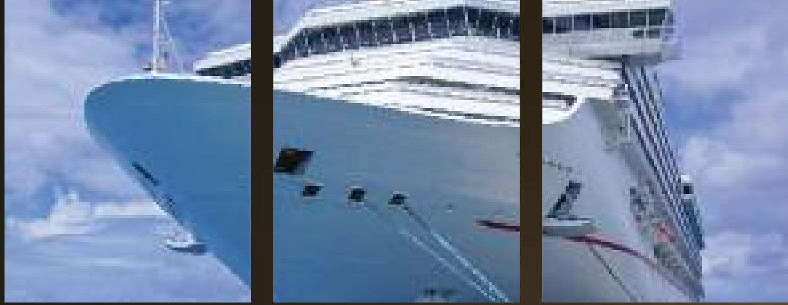
In Taylor Energy Company LLC v Underwriters at Lloyd's, a US District Court issued its summary judgment rulings, addressing Underwriters' position that the Insured's Energy Package Policy's "Seepage and Pollution" coverage (under the Operators Extra Expense section) was limited to covering costs for actual pollution removal, not preventative measures.

The case was in respect of a platform that collapsed during Hurricane Ivan and the subsequent plugging and abandoning of its associated subsea wells. The overall mitigation programme ultimately involved drilling intervention/relief wells (after the Control of Well/Redrilling limit had been exhausted) which the Insured claimed were carried out as a "remedy" to pollution (for which they had purchased a separate limit).

Underwriters contested that "relief wells" were covered by the "Control of Well" section (for which the available limit was exhausted) and not the "Seepage and Pollution" section. However the Court agreed with the Insured, denying Underwriters' motions for summary judgment, and taking the further step of granting summary judgment in favour of the Insured on coverage, on the basis that the policy language was clear that it covered "remedial costs" under the pollution section and the drilling of relief wells was in the court's opinion a remedial action.

CLIMATE CHANGE LITIGATION

The US Supreme Court has agreed to consider ending a federal lawsuit by eight states (California, Connecticut, Iowa, New Jersey, New York, Rhode Island, Vermont and Wisconsin), New York City and others, seeking a court order to reduce carbon dioxide emissions in plants in 20 states. A federal judge initially threw out the case, but the 2nd U.S. Circuit Court of Appeals in New York said it could continue. Similar lawsuits are pending in California and North Carolina. The power companies argue that only the Environmental Protection Agency can set emissions standards .The Supreme court said the EPA has the authority to regulate those emissions from new cars and trucks under the landmark environment law, so the same reasoning applies to power plants. The case will be heard in early 2011.

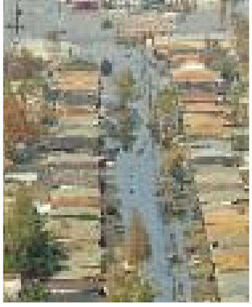
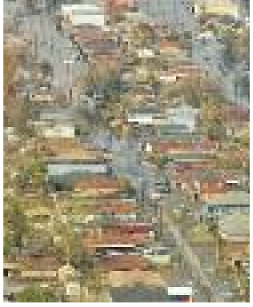
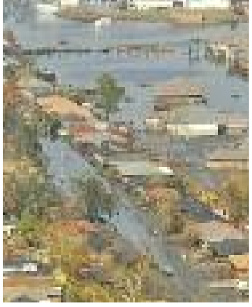
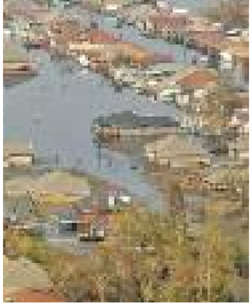


P&I Clubs 2011 Renewals

The average change in 2011 advance calls (premiums) for mutual P&I entries in the individual P&I Clubs that form the 13 strong International Group of P&I Clubs' (before adjustment for individual loss records, changes to risk profile, or for changes in reinsurance costs) is approximately 4.5% as an average of those imposing general increases (rather than focusing entirely on individual members performance) or just over 3% as an average across the whole group.

The overall theme of the reasoning for those imposing rises has been continued claims inflation coupled with an uncertain investment environment. The individual changes are as follows:

American	2%
Britannia	5%
Gard	No general increase
Japan	10%
London	5%
North of England	3%
Shipowners	No general increase
Skuld	No general increase
Standard	3.5%
Steamship	No general increase
Swedish	2.5%
UK	5%
West of England	5%

Focus on: 2010 Atlantic Hurricane Season Review/2011 Forecast

2010 REVIEW

2010's Atlantic Basin Hurricane season was forecast to be above average, and in terms of storm numbers lived up to that expectation – see chart below comparing two of the major commentator's, Tropical Storm Risk (TSU) and Colorado State University (CSU), 2010 forecasts against a 60 year average.

However for the second year running the oil and gas industry escaped any major destruction or damage, demonstrating that although forecasters may be able to predict storm numbers with reasonable accuracy, whether or not a storm will take a destructive path through the concentration of offshore oil and gas assets in the Gulf of Mexico is impossible to predict.

According to the experts, 2010's hurricane season saw above average hurricane activity due to the combination of a record warmth of Atlantic basin sea surface temperatures and a rapidly developing La Nina event. Both of these led to favourable cyclone enhancing conditions resulting in increased storm formation and intensification. As a result there were 19 named storms, 12 hurricanes and five major hurricanes.

Unusually for a year with such a high number of storms forming there were no U.S. landfalling hurricanes and only one named storm making landfall (Bonnie). This is the first year in recorded history that 12 hurricanes have formed in the Atlantic basin without a U.S. landfalling hurricane. All previous seasons on record that have had at least ten hurricanes in the Atlantic basin have had at least two landfalling hurricanes.

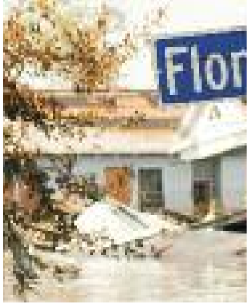
Since 1944 there have only been two other seasons that have had nineteen or more named storms (1995 and 2005), two other seasons that had twelve or more hurricanes (1969 and 2005) and seven other seasons that have had five or more major hurricanes (1950, 1955, 1961, 1964, 1996, 2004 and 2005).

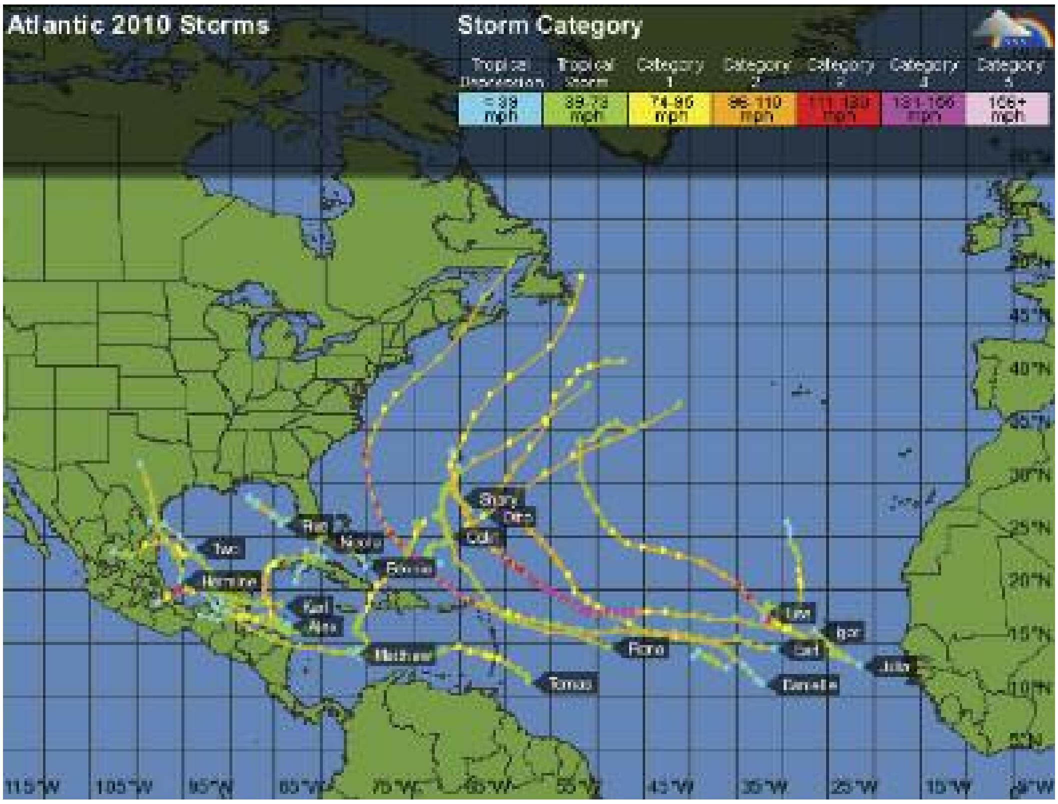
Other significant characteristics of 2010 include:

- No Category 5 hurricanes developed in 2010. This is the third consecutive year with no Category 5 hurricanes. The last time that two or more years occurred in a row with no Category 5 hurricanes was 1999-2002.
- Igor, Julia and Karl were all at hurricane strength at the same time. This has only occurred in eight years prior to 2010, with the most recent occasion being in 1998.

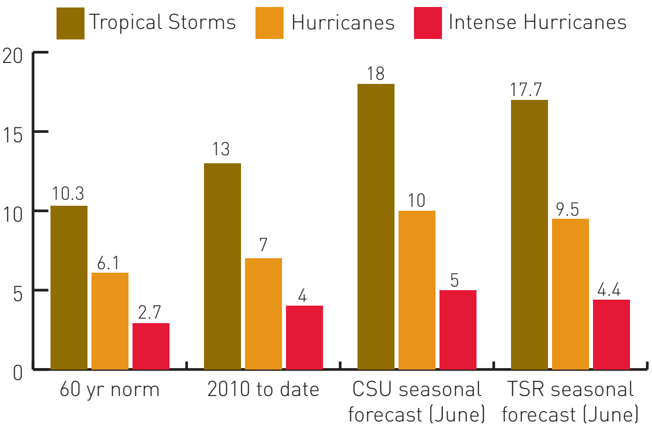
2010 ATLANTIC NAMED WINDSTORMS (MAXIMUM STRENGTH REACHED)

Alex Hurricane (category 2 hurricane)	Karl (category 3 hurricane)
Bonnie (tropical storm)	Lisa (category 1 hurricane)
Colin (tropical storm)	Matthew (tropical storm)
Danielle (category 4 hurricane)	Nicole (tropical storm)
Earl (category 4 hurricane)	Otto (category 1 hurricane)
Fiona (tropical storm)	Paula (category 2 hurricane)
Gaston (tropical storm)	Richard (category 1 hurricane)
Hermine (tropical storm)	Shary (category 1 hurricane)
Igor (category 4 hurricane)	Tomas (category 2 hurricane)
Julia (category 4 hurricane)	





2010 predictions vs 60 year norm and activity to date



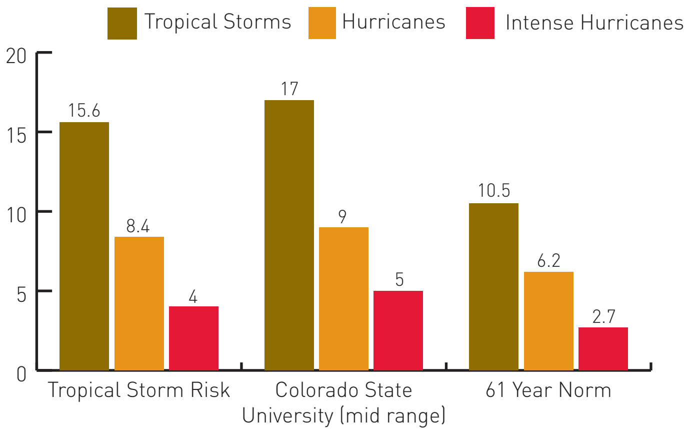
2011 FORECAST

Forecasters are again predicting 2011 will be an above average year for tropical cyclone development in the Atlantic Basin.

Colorado State University stated "One of the important questions for the upcoming hurricane season is whether El Niño [conditions that are not conducive for tropical storm development] will re-develop for the 2011 hurricane season. At this point, we think that this is a very unlikely scenario, given the current upper ocean heat content structure across the tropical Pacific. El Niño events occur when there is an anomalous build-up of warm water in the western tropical Pacific, which then is transferred to the eastern and central Pacific. The current anomalies of upper ocean heat content across the tropical Pacific indicate that more time is needed for a build-up of the warm pool in the western tropical Pacific before another El Niño event will occur."

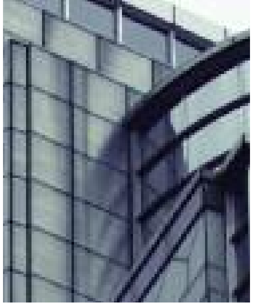
Below are the December predictions from Tropical Storm Risk and the Colorado State University plotted against a 61 year average.

2011 Atlantic Hurricane Predictions



2011 Atlantic basin storm names to watch for

Arlene	Harvey	Ophelia
Bret	Irene	Philippe
Cindy	Jose	Rina
Don	Katia	Sean
Emily	Lee	Tammy
Franklin	Maria	Vince
Gert	Nate	Whitney



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