

20 October 2008

October has been a month of extraordinary uncertainty within all market places. The dislocation and volatility has been such that all forms of security have been challenged. The financial landscape has changed irrevocably, and necessarily every assured must be asking themselves and their brokers some searching questions.

- What is the financial position of my Insurer today?
- To what extent does my Insurer rely on investment income to assist the financial result?
- How is my premium rating likely to be affected by the turmoil in the financial markets?
- Am I confident that my position is secure going forward? Are there any other potential external volatilities?

British Marine, as you know, is a core company of QBE. We no longer have a separate balance sheet or independent financial results. We are embedded within QBE as an integral operation and we therefore carry QBE's Standard and Poor's rating of A+ (Stable). QBE is in the top 25 Insurance Companies in the world and quoted on the Australian Stock Exchange. The QBE share price today is A\$26.60 per share, which compares to a price of A\$25.85 one month ago. Market capitalisation as at today stands at US\$34BN.

A telling reason for QBE's continuing strength is the conservatism of the Company's investment policy, driven by the principle that the Company will not take risk on both sides of the balance sheet. The investment objective of the QBE Group is to generate a pre-determined absolute return over the calendar year that is superior to cash, but its very low appetite for downside market risk demands a lower level of volatility than peers or short-term fixed income indices. Thus there is no need to chase relative return benchmarks; the focus is on preserving the capital of the company intact. QBE's investment portfolio had no direct exposure to Lehman Brothers, Merrill Lynch or AIG. Investment income therefore is not underpinning or influential to the insurance results.

British Marine has always made it clear that we will underwrite every assured in the light of their own performance. It is the individual performance of each owner that drives the premium that we request. We do not ask for a standard increase or contributions to a Group pool. The premium that every owner pays is directly attributable to their own performance alone, together of course with the cost of reinsurance and administration. We believe that this is an incredibly powerful and significant consideration in a time of uncertainty and recession, and the consequent spillover into the shipping markets. The premium that we charge you is fixed and certain.

Looking forward, there will be no change in our underwriting approach. We do expect to pay an increase in our reinsurance costs in 2009, partly because we have experienced a number of historically large losses allied to a poorer reinsurance climate generally through 2008. We will advise you of this increase in due course,

but you can rest assured that it will not materially impact upon rating. We continue to keep a close control of administration costs.

Forgive the metaphor, but British Marine remains 'a safe port in a storm'. Your premium is certain and unaffected by the performance of the investment markets. We look forward to continuing to be of service to you.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Johnston", with a stylized flourish at the end.

Robert Johnston