WEST

Notices to Members

No. 5 2007/2008 - Policy Year Balances and Future Funding Requirements

October 2007

Dear Sirs

CLASS 1 POLICY YEAR BALANCES

At their meeting on 26 September 2007 the Board reviewed the latest policy year balances as at August 2007 for Class 1. Claims projections for all closed and open policy years have been maintained at the same levels as at February 2007 and are as reflected in the latest Report and Accounts at February 2007.

For the open policy years, 2005 and 2006, no change has been made to any of the forecast calls or release figures which remain as set out in the Club's Notice to Members No. 3 dated May 2007.

The original forecast additional call (20%) and the further release (15%) which apply for 2007 also remain unchanged.

The Board noted that since February 2007 incurred claims costs have remained generally stable although for the most recent policy years it continues to be evident that the frequency of large claims is increasing not least in relation to claims involving the Pool. For the International Group as a whole 2006 in particular continues to be the most expensive Pool claims year on record.

FUTURE FUNDING REQUIREMENTS AND SOLVENCY 2

As advised in the Club's Notice to Members No. 5 dated September 2006 the European Commission had given a firm indication a year ago that new solvency rules (Solvency 2) would be implemented by 2010. However, during July this year, the Commission advised that the implementation date will be deferred until 2012. At the same time the Commission also indicated in its draft Solvency 2 Directive that, contrary to expectations a year ago, marine mutuals will now be able to include as qualifying capital for the purposes of meeting their Solvency Capital Requirement (SCR) the contractual right to charge additional calls.

Although the deferral until 2012 makes little practical difference to the position overall, the prospect that the right to charge an additional call might be included as part of a Club's qualifying capital may prove to be of much greater significance if the right is eventually incorporated in the final Directive. The effect may well be that the need to increase the free reserve or capital margin to the levels anticipated a year ago will be moderated.

The Board and Managers will continue to monitor developments in the coming months. Most significantly, if, during the next year or two, the new rules are developed in line with the draft Directive there may be no need to charge all or any of the 35% deferred call set for the 2006 policy year. The Board is not, however, likely to come to any final conclusion or modify any of the decisions that were taken in September 2006 until the final text of the Directive is clear. Further impact studies (QIS 4) are likely to be carried out in 2008, and the necessary legislation has yet to pass through the European Parliament and Council of Ministers.

Should any Members have any queries please do not hesitate to contact the Managers in the usual way.

Yours faithfully
For: **West of England Insurance Services (Luxembourg) S.A.**
(As Managers)

P E Spendlove
Managing Director