

No. 7 2008/2009 - Policy Year Balances

September 2008

Dear Sirs

CLASS 1 (P&I) POLICY YEAR BALANCES

At their meeting on 24 September 2008 the Board reviewed the latest Class 1 policy year balances as at August 2008.

CLOSED POLICY YEARS (2005 and prior)

Claims projections for all closed policy years have generally been maintained.

OPEN POLICY YEARS (2006, 2007 and 2008)

As noted in earlier Notices to Members both the 2006 and 2007 policy years continue to be the most expensive years so far experienced by the Club and indeed by the industry as a whole. Claims involving the International Group Pool in particular are the highest on record, with new notifications from other Group Clubs still being advised for 2006. It remains to be seen whether or not the 2008 policy year will prove to be as expensive as the previous two policy years. Early indications are inconclusive.

For the 2006 and 2007 policy years, the Board has made no change 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 2008.

The original forecast additional call (20%) and the further release (15%) which apply for the 2008 policy year also remain unchanged.

In reviewing the figures the Board is mindful of the extraordinary events that are affecting investment markets and of the risk that no investment income may be earned in the current year. If this proves to be the case and if claims levels continue to be as high as for recent policy years, there will be a reduction in the Club's reserves at February 2009.

The Board will be taking these factors into account in the coming weeks in assessing the level of premium to be applied at renewal for the 2009 policy year.

These factors will also be taken into account in relation to the closure of the 2006 policy year. A final decision is due to be made in May 2009 as to what amount if any of the 35% deferred call set for 2006 may be charged. Furthermore, they will clearly be of relevance in the review of all other forecast calls and releases for open policy years.

SOLVENCY 2 UPDATE

Any decisions will also take account of developments in relation to the new Solvency Rules (Solvency 2) which are set to

apply from 2012. During the course of this summer the European Commission has carried out a further quantitative impact study (QIS 4) which indicates that the Club's future capital requirement may not be as high as was envisaged by the QIS 3 study conducted during 2007. However, as previously advised, the Directive giving effect to the new rules has yet to pass through the European Parliament and Council of Ministers and with it the key modification to the effect that Clubs will be able to include the contractual right to charge additional calls as qualifying capital for the purposes of meeting their Solvency Capital Requirement (SCR).

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