

No. 7 2014/2015 - Policy Year Balances and Financial Position

May 2014

Dear Sirs,

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION 20 FEBRUARY 2014

At their meeting on 21 May 2014 the latest policy year balances and year-end figures for the Club as at February 2014 were reviewed by the Board.

The Club's overall financial position has strengthened again as a result of another year of favourable claims results in particular from the Club's Members. At year-end their incurred claims for 2013 were at a similar low level to those recorded for both 2011 and 2012. At the same time earlier policy years improved and Pool claims from other Clubs moderated. The Club's own Pool claims record also improved again so that the Pool contribution rate has now reduced successively over the last eight years to below 6%.

As a result of all these positive claims factors the combined ratio reduced during the year from 102.5% to 100.8%.

The overall return from investments was better than forecast at \$20.2 million (3.4%) despite a difficult investment environment and a continuing conservative asset allocation to reduce the risk of investment losses. An increase in the value of the Club's property contributed more than 1% of the overall return.

The investment return together with the positive claims figures have resulted in a \$18.8 million increase (9.5%) in the Club's free reserve from \$197.4 million a year ago to \$216.2 million at February 2014.

CLASS 1 (P&I)

CLOSED POLICY YEARS (2010 AND PRIOR)

The closed year surplus has increased from \$93.6 million to \$94.5 million largely as a result of improvements in the Club's Members' incurred claims.

OPEN POLICY YEARS

2011/2012

The 2011 policy year has now been closed with no further call. Incurred claims values for the Club's Members for the year remain the lowest since 1999 and have improved from the figures a year ago. The high cost of other Clubs' Pool claims now appears to have stabilised.

2012/2013

Incurred claims from the Club's Members for 2012 are at a similar low level as for 2011 at the same stage of development.

Despite another year of high cost from other Clubs' Pool claims, the cost to the Club moderated during the year to reflect a lower Pool contribution rate than was originally anticipated.

The Board has confirmed that no further call is forecast and that the release is reduced from 15% of the advance call to 5%. The year is scheduled to be closed in May 2015.

2013/2014

Incurred claims values for the Club's Members for 2013 at year-end are lower than the equivalent figures for both 2011 and 2012. Pool claims from other Clubs for the year have also been lower than for 2011 and 2012 at the same stage in development.

The Board has confirmed that the forecast additional call of 35% of the advance call shall be paid by 20 August 2014.

The release has been reduced from 30% of the advance call to 15%.

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2008 AND PRIOR)

Projected claims costs for closed policy years up to and including 2008 have developed positively as anticipated a year ago. The closed year surplus has increased slightly from \$17.1 million to \$17.6 million.

OPEN POLICY YEARS

2009/2010

Incurred claims costs for 2009 have reduced since last year and the year is in surplus. The Board has closed the year without further call.

2010/2011

Incurred claims for 2010 have risen over the past twelve months but the increase is so slight that the Board has confirmed that no further call is anticipated and that the year will be closed in May 2015. A Nil release will in the meantime be maintained.

2011/2012

Incurred claims for 2011 have barely changed over the past year, and are below the figure for 2010 at the same stage of development. The release call of 5% of advance call has been reduced to Nil and no further call is anticipated.

2012/2013

Claims costs for 2012 are significantly lower than for prior policy years at the same stage of development. The Board has confirmed that no further call is expected and that the release be reduced from 15% of advance call to 5%.

2013/2014

It is too early to judge the likely level of claims for 2013 for now, but initial indications are that the year is developing in line with the low level so far observed for 2012. The Board has confirmed that the forecast additional call of 35% of advance call is due for payment by 20 August 2014, and the release has been reduced from 30% of advance call to 15%.

RELEASES

As has now been the practice since May 2013, the Board, in setting the level of release call percentages for each open policy year for Class 1 and Class 2, has assessed in each case the risk that the level of the Club's expected estimated total premiums might be exceeded. In making its assessment the Board has taken into account all the factors that are set out in Clause 8 of the 2013 International Group Agreement. They are the same as or similar to those which make up the Club's risk management framework and which have in previous years already been considered in the setting of release percentages.

Of the factors taken into account the Board considered that the most material are investment market risk (the risk of an investment loss) and reserve risk (the risk that claims estimates and projections may be insufficient). The other factors, premium risk, catastrophe risk, counterparty default risk and operational risk are of less significance, but are also taken into account.

As usual release percentages will be reviewed again in September in the light of the Club's mid-year figures as at August 2014.

Detailed policy year figures for Class 1 and 2 will be published with the Club's Annual Report and Accounts for the year ending 20 February in July.

Yours faithfully

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

P E Spendlove
Managing Director