

No. 6 2017/2018 - Class 1 and Class 2 Policy Year Balances and Financial Position 20 February 2017

May 2017

Dear Sirs,

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION 20 FEBRUARY 2017

The Board reviewed the policy year balances and the Club's overall financial position as at 20 February 2017 at their meeting on 24 May 2017.

FINANCIAL POSITION

The Club's overall financial position has strengthened again, mainly as a result of another year of positive claims figures, in particular from the Club's Members but also from claims involving the Pool.

The free reserve has increased by 11% as follows:

	\$ million
Free Reserve at 20 February 2016	276.7
Net Underwriting Result	23.2
Investment Result (including revaluation) net of tax	6.6
Free Reserve at 20 February 2017	306.5

Underwriting result

Incurred claims costs for the Club's Members for policy year 2016 at year end were at similar low levels as were recorded for 2011- 2015 at the same stage of development. Claims for policy year 2014 also continue to be at an unusually low level compared with other recent years. With the exception of 2015, which increased slightly, earlier policy years' claims all improved.

At the same time, costs for other Clubs' Pool claims were again moderate overall, with Pool claims for 2016 at the lowest level for more than a decade. The Club's share has remained at about 7% for the year.

As a result, the Club's combined ratio is now at 87.2%.

Investment result

The overall net investment return was a positive \$6.6 million. The Club's conservative investment asset allocation was again effective in generating a stable result despite a reduction in the value of the Club's London office building mainly reflecting the adverse effect of 'Brexit' on sterling assets.

CLASS 1 (P&I)

CLOSED POLICY YEARS (2013 AND PRIOR)

The closed year surplus for 2013 and prior policy years has increased from \$129.9 million at February 2016 to \$153.7 million, largely as a result of improvements to Members' incurred claims.

OPEN POLICY YEARS

2014/2015

2014 was closed at this meeting with no further call, in line with forecast. As noted, claims values for the year are lower than for any recent year and have reduced from the figures a year ago for both Members' and Pool claims.

2015/2016

A year ago, incurred claims for 2015 were at a similar level to recent policy years but since then have increased slightly. The Club's share of Pool claims is, however, low and Pool costs remain stable.

The Board has confirmed that no further call is forecast and that the release call shall be reduced from 10% of the advance call to Nil. It is anticipated that further investment income will be allocated to the year prior to its closure in May 2018.

2016/2017

The twelve-month Members' incurred claims figures for 2016 are similar to the positive figures for 2011-2015 at the same stage of development. Pool costs are also significantly lower than for recent policy years.

The Board has initially allocated \$5 million from investment income and has confirmed that the forecast additional call of 35% of the advance call, equivalent to 25.9% of the estimated total call (ETC), shall be paid by 20 August 2017.

The release has been reduced from 20% of the advance call to 10% (7.4% of the ETC).

2017/2018

Although it is too early to comment on the claims trend for 2017, the Board has confirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) is unchanged and shall be paid by 20 August 2018.

The release shall also remain unchanged at 20% of the advance call (14.8% of the ETC).

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2011 AND PRIOR)

Projected claims costs for closed policy years up to and including 2011 have developed positively over the past twelve months, so that the closed year surplus has increased to \$20.8million.

OPEN POLICY YEARS

2012/2013, 2013/2014

Incurred claims costs for 2012 and 2013 have reduced from the figures a year ago. The Board has now closed both years with no further call and without an allocation of investment income since each year is in surplus.

2014/2015, 2015/2016

Claims costs for both these years have remained stable since February 2016. No further calls are due for either of them and Nil releases have been set for each.

2016/2017

Although at an early stage of development, 2016's claims values look similar to the 2015's at year end with the result that the Board has confirmed that the forecast additional call of 35% of advance call will remain unchanged and will be due for payment by 20 August 2017. The release was reduced from 20% to 10% of advance call (7.4% of the ETC).

2017/2018

The Board has confirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) is unchanged and shall be paid by 20 August 2018 with the further release remaining at 20% (14.8% of the ETC).

RELEASES

In setting the level of release call percentages for each open policy year for Class 1 and Class 2, the Board has taken into account the Club's overall capital position and 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 considered all the factors that are set out in Clause 8 of the 2013 International Group Agreement. These factors are similar to those that make up the Club's own risk management framework.

The Board's view is that the most material factors remain the risk of an investment loss and the risk that claims estimates and projections for incurred but not reported losses may be insufficient.

Other less significant risks relating to the non-payment of premiums, catastrophe claims and counter party default risk have also been included in the Board's assessment.

As usual all releases and forecast calls will be reviewed again in September in the light of the Club's mid-year figures as at 20 August 2017 and the overall level of the Club's reserves.

Detailed policy year figures for Class 1 and Class 2 will be published within the Club's Annual Report and Accounts for the year ending February 2017 in July.

Yours faithfully

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

P E Spendlove
Managing Director