

No. 15 2010/2011 - Class 1 (P&I) Policy Balances and Mid-Year Financial Update

September 2010

Dear Sirs

CLASS 1 (P&I) POLICY YEAR BALANCES AND MID-YEAR FINANCIAL UPDATE

At their meeting on 22 September 2010 the Board reviewed the latest policy year balances as at August 2010 compared with the position at February 2010. The Board also considered the Club's investment performance to date.

CLOSED POLICY YEARS (2007 AND PRIOR)

Since February 2010 there has been no significant movement in the projected cost of claims for all closed years either for the Club's Members or for the Pool.

OPEN POLICY YEARS

2008/2009

The 2008 policy year continues to develop more favourably than any year since 2004. Whilst claims numbers do not appear to be materially fewer than for 2006 and 2007, the incidence of large claims for the Club's Members remains low. At the same time the incidence and values of Pool claims are also low and have shown no movement since February.

No further call is due and the year is scheduled to be closed in May 2011.

The Board has confirmed no change to the 5% release.

2009/2010

At year end claims numbers for 2009 were at least 20% lower than for any recent policy year at the same stage of development. Incurred values for Members' claims overall were also lower than for 2008 despite an upturn in the frequency of larger claims in the last two months of the year. However, claims from the Pool had values approaching the levels of 2006 and 2007 at a similar stage of development with the result that the overall claims projection for the year was set at a higher level at year end than had previously been considered necessary.

Since February Members' claims have continued to develop favourably. Claims numbers have remained lower than for any year since 2000, and values for all claims appear lower to-date than comparable figures for 2008. Development of Pool claims has also been positive; unexpectedly the total incurred value has reduced slightly since February. However, because the year remains so recent further deterioration from the Pool must in time be anticipated. No change has therefore been made to the claims outcome projected for the year at year end.

The Board confirmed that there be no change to the 30% release call.

2010/2011

It is too early to comment in detail about a policy year which has a further six months until year end. Nevertheless some preliminary observations can be made at this stage. The reduction in the number of claims which characterised 2009 appears to have continued in 2010. This is a positive trend which may reflect a continued reduction in the level of world trade, and possibly the effect of higher deductibles that now apply. Less positively the upturn in the frequency of larger claims which was observed in the last weeks of 2009 appears to have continued for the first half of 2010. At the same time, Pool claims notified by Group Clubs to date are also at a high level at an early stage in the year's development. As a result the overall claims projection has now been set at a higher level than for 2008 and 2009 which, if maintained, will result in an underwriting loss before any allocation from investment income.

The Board has made no change to the forecast 30% additional call (due for payment in August 2011) or to the further 30% release.

INVESTMENT PERFORMANCE

As reported in this year's Report and Accounts, the Board concluded in February this year that the Club's investment strategy and asset allocation should remain unchanged. For the first six months of the year the strategy has proved to be effective with a total return of more than \$20 million (4%) earned so far. It is not however possible to predict what the investment experience may be for the remainder of the year as volatility in most investment markets is likely to continue for the foreseeable future.

As usual all the figures will be kept under regular review as the year progresses. Should Members or their brokers have any questions please refer them to the Managers in the usual way.

Yours faithfully

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

P E Spendlove
Managing Director