

No. 4 2015/2016 - Policy Year Balances and Financial Position

May 2015

Dear Sirs,

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION 20 FEBRUARY 2015

At their meeting on 20 May the Board reviewed the policy year balances and the Club's overall financial position as at 20 February 2015.

FINANCIAL POSITION

Following another year of positive claims figures, in particular from the Club's Members, and a better than forecast investment return, the overall financial position has again strengthened with free reserves up by 12% as follows:

\$ million

Free Reserve at 20 February 2014	216.2
---	-------

Net Underwriting Result	4.5
-------------------------	-----

Investment Result (including revaluation) net of tax	23.0
--	------

Free Reserve at 20 February 2015	243.7
---	-------

Underwriting result

Members incurred claims for policy year 2014 at year-end were at a similar low level to those recorded at the same stage of development for 2011, 2012 and 2013. Claims for earlier policy years also improved whilst other Clubs' Pool claims moderated compared with the previous three years. The Club's own Pool contribution remains at about 6% for the year, well below the level for earlier policy years.

As a consequence of these positive and sustained claims trends, the Club's combined ratio reduced for the seventh year running to 97.4%.

Investment result

The overall net return from investments was better than forecast at \$23.0 million (\$27.0 million before tax) despite a

challenging environment. The Club maintained a conservative investment asset allocation to reduce the risk of an investment loss, and benefitted from a further increase in the value of the Club's property which contributed about 1.5% of the overall net return (3.7%).

CLASS 1 (P&I)

CLOSED POLICY YEARS (2011 AND PRIOR)

The closed year surplus has increased from \$94.5 million at February 2014 to \$109.7 million largely as a result of improvements in the Club's Members' incurred claims.

OPEN POLICY YEARS

2012/2013

The 2012 policy year has now been closed with no further call. At this stage of development 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 cost of other Clubs' Pool claims, although higher than a year ago, appears to have stabilised.

2013/2014

Incurred claims from the Club's Members for 2013 are at a similar level as for 2011 and 2012 at the same stage of development. The cost to the Club of other Clubs' Pool claims moderated during the year and the Club's own Pool contribution rate is also lower than originally anticipated. Although the year shows a small loss to be balanced from investment income, the Board has confirmed that no further call is forecast and that the release is reduced from 15% of the advance call to 5%, equivalent to 3.7% of the estimated total call (ETC).

2014/2015

Incurred claims values for the Club's Members for 2014 at year-end follow the pattern of, but are lower than, the equivalent figures for 2011, 2012 and 2013. Pool claims from other Clubs for the year have also been lower than for the previous three years at the same stage in development.

The Board has allocated \$5 million from investment income to balance the year and has confirmed that the forecast additional call of 35% of the advance call (equivalent to 25.9% of the ETC) shall be paid by 20 August 2015. The release has been reduced from 30% of the advance call to 10% (equivalent to 7.4% of the ETC).

2015/2016

The Board has reconfirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) shall be paid by 20 August 2016 but, exceptionally at this stage of the current policy year, it has also decided to reduce the release from 25% of the advance call to 20% (14.8% of the ETC) to reflect the further strengthening in the Club's capital position.

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2009 AND PRIOR)

Projected claims costs for closed policy years up to and including 2009 have developed positively with the result that the closed year surplus has increased slightly from \$17.6 million a year ago to \$18.2 million.

OPEN POLICY YEARS

2010/2011

Incurred claims costs for 2010 have remained generally stable since last year. The Board has closed the year without further call after allocating \$2.7 million of investment income to balance the year.

2011/2012

Incurred claims for 2011 have risen slightly over the past twelve months and the year is forecast to end in deficit. However, the Board has confirmed that no further call is anticipated. A Nil release is maintained.

2012/2013

Incurred claims for 2012 have reduced over the past year, and are now well below the figure for 2011 at the same stage of development. A small surplus is forecast for the year. The release call of 5% of advance call has been reduced to Nil and no further call is anticipated.

2013/2014

Claims costs for 2013 are higher than for 2012 at the same stage of development but are nonetheless similar to previous policy years. The Board has confirmed that no further call is expected and that the release be reduced from 15% of advance call to 5% (equivalent to 3.7% of the estimated total call (ETC)).

2014/2015

Projected claims for 2014 at this early stage of development carry a high degree of uncertainty but initial indications are that the year is developing in line with prior policy years. The Board has confirmed that the forecast additional call of 35% of advance call is due for payment by 20 August 2015, and the release has been reduced from 30% of the advance call to 10% (7.4% of ETC).

2015/2016

The Board has reconfirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) shall be paid by 20 August 2016 but, exceptionally at this stage of the current policy year, it has also decided to reduce the release from 25% of the advance call to 20% (14.8% of the ETC) to reflect the further strengthening in the Club's capital position.

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 taken account of 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 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 2015.

Detailed policy year figures for Class 1 and Class 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