West of England

Mid-Year Review

Half Year Financial Highlights

- Free reserves rise to $189 Million
- Combined ratio reduces to below 105%
- Claims frequency lower, continuing the positive trend since 2009
- Closed years improve by more than $10m
- Investment return of over 2% for the year to date
- Mutual GT increases to over 53m
- Strategic reduction in investment exposure

Overview

The first half of 2012 has seen a continuation of the steady financial progress made by the Club over recent years. This is reflected in two key measures. The combined ratio has reduced again (see Fig.1) to below 105% and the Club's free reserve has increased to US$189.1m at the mid-year point compared to US$179.4m in February 2012 (see Fig.2).

This stability is reflected in the Board's decision at their recent meeting in Luxembourg to leave all forecast calls and releases on all open years unchanged.

Support from both existing and new Members remains strong. Mutual entered tonnage has increased since February by some 3m GT in line with the Club's strategy to grow but only on a prudent and conservative basis.

Financial Performance – Improved Combined Ratio

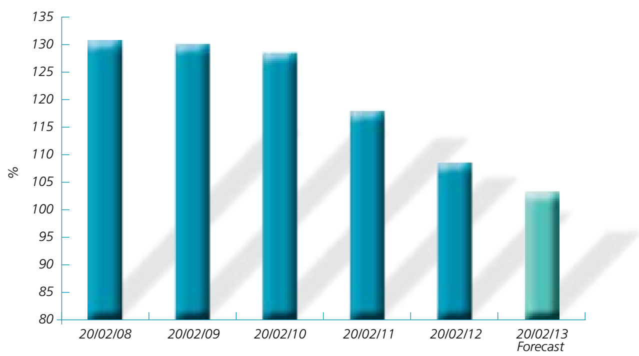

Fig 1.

Financial Strength – August 2012
Increased free reserves

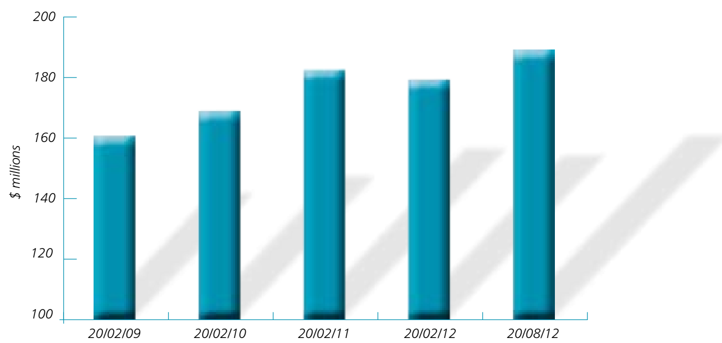

Fig 2.

Claims performance also continues to be positive. Lower incurred claims costs have resulted in further reductions in claims projections amounting to more than US$10m since February. On more recent years, the strategic decision at the 2011 renewal to re-balance the Club's underwriting portfolio and reduce exposure to long tail personal injury liabilities has seen claims in the 2011 policy year develop more fully to lower levels more predictably than in previous years. The current year shows similar signs of stability with claims frequency for our Members at its lowest level for many years (see Fig.3).

During the first six months of the year the Club's strategic investment policy has been further modified, both to lessen the likelihood of an investment loss in the face of continuing economic uncertainty and to optimise the Club's capital structure. Fig.4 reflects changes made over the period, with the portfolio now consisting of approximately 48% fixed income, 38% cash or equivalent and the remainder in equities and absolute return funds.

The investment return for the year to-date is approximately 2%, although it remains as difficult as ever in these turbulent times to predict how the portfolio will perform in the second half of the year.

Financial Performance – August 2012

Reduced Members' claim frequency at 6/12/18 month development points

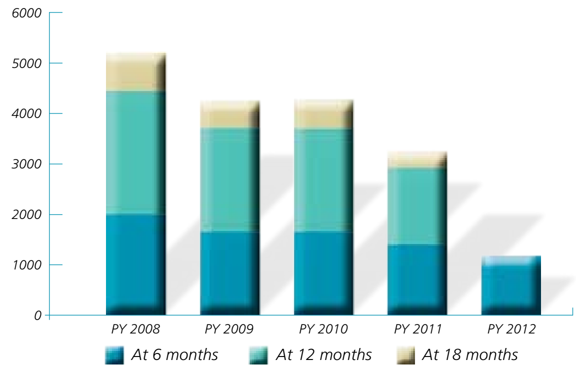

Fig 3.

Investments by asset type

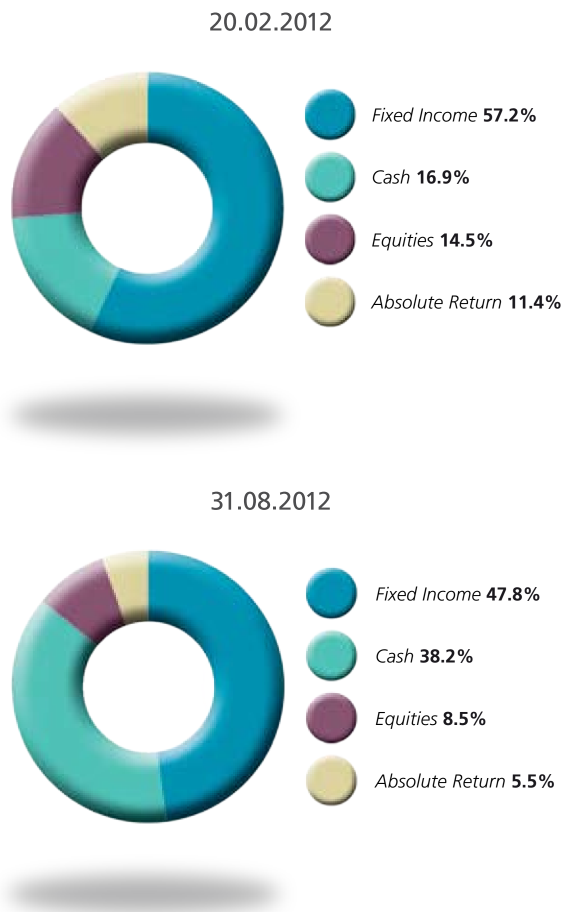

Fig 4.

Looking forward

Improvements in the Club's operating performance are forecast to continue, but volatility in the claims and investment environments are unlikely to moderate in the near term. Claims involving the International Group's Pool for 2012 are, for instance, already at a higher level than usual at the midpoint in the year. However, the steps taken particularly since February 2011 to de-risk our on-going business profile and investment asset allocation put the Club in the best position to manage any volatility effectively.