

No.2 2018/2019 - Class 1 and Class 2 Policy Year Balances and Financial Position 20 February 2018

May 2018

Dear Sirs,

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION 20 FEBRUARY 2018

The Board reviewed the policy year balances and the Club's overall financial position as at 20 February 2018 at their meeting on 16 May 2018.

You can view our Financial Highlights Flyer [here](#).

FINANCIAL POSITION

Underwriting result

Closed policy years continued to develop favourably and within expectations. For 2017, whilst attritional claims remained at similar levels as were recorded for 2012-2016, the number of large claims above \$3m was unprecedented.

At the same time, costs for other Clubs' Pool claims also experienced an increase from the exceptionally low levels reported in 2016 with two large claims notified in the latter half of the year. The Club's share remains at about 7% for the year.

As a result, the Club's combined ratio for the financial year was 116%. However, the Board, accepting that volatility is inherent in the industry, have long maintained an objective to operate the Club to achieve over a three year rolling average a combined ratio below 100%. This continues to be achieved, with the three-year rolling average at 95.6%.

Investment result

The overall net investment return was a positive 4.8% generating \$30.2 million. The Club's conservative investment asset allocation was again effective in delivering a stable result.

Overall Financial Position

The Club's overall financial position remained robust notwithstanding the adverse large claims experience in 2017 and has strengthened again with the free reserve increasing to \$308.5m, its highest level ever.

CLASS 1 (P&I)

CLOSED POLICY YEARS (2014 AND PRIOR)

The closed year surplus for 2014 and prior policy years has increased from \$153.7 million at February 2017 to \$197.0 million, largely as a result of favourable Members' claims developments.

OPEN POLICY YEARS

Both Members' and other Clubs' Pool claims developed within expectations, although the twelve-month Members' incurred claims figures for 2017 are higher than the positive figures reported for previous policy years. Pool costs are also higher than for recent preceding years.

In reviewing the open Policy Years, the Board confirmed that Policy Year 2015/16 will be closed with no further call and the 2017/18 forecast additional call of 35% of the advance call, equivalent to 25.9% of the estimated total call, shall be paid by 20 August 2018.

Although it is too early to comment on the claims development of 2018, the Board has confirmed that the estimated total mutual call of 100% is unchanged.

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2013/2014 AND PRIOR)

Projected claims costs for closed policy years up to and including 2013/2014 have developed positively over the past twelve months and the closed year surplus has increased to \$24.7 million.

OPEN POLICY YEARS

All open years continue to develop within projections. In reviewing the open Policy Years, the Board confirmed that Policy Year 2014/15 will be closed with no further call and the 2017/18 forecast additional call of 35% of the advance call, equivalent to 25.9% of the estimated total call, shall be paid by 20 August 2018.

The Board has confirmed that the estimated total mutual call of 100% for 2018/19 is unchanged.

RELEASE CALLS

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 all the factors that are set out in Clause 8 of the International Group Agreement.

Class 1

2016/17 – 0%
2017/18 – 10% of the advance call (7.4% of the ETC)
2018/19 – 15% of the estimated mutual call

Class 2

2015/16 – 0%
2016/17 – 0%
2017/18 – 10% of the advance call (7.4% of the ETC)
2018/19 – 15% of the estimated mutual call

Yours faithfully

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

T J Bowsher
Managing Director