

April 4<sup>th</sup>

## Refund Discussion

As you can see from the responses we have received from other mutuals so far, we may not have a lot of help in terms of “working formulas”.

Since a refund would occur at yearend, we have time to develop an HTM solution. My thoughts for discussion at the board meeting are:

1. The formula does not determine whether we give a refund or not, or how much the refund should be, the directors do.
2. The formula gives guidance to the directors that a financial criteria has been met that allows for the possibility of a refund and a discussion should happen.
3. The formula could dictate how the declared refund would be allocated to individual policyholders.

One of the challenges are with the auditors. The timing of when we would know the final financial results which would lead us to the decision could have the appearance of tax avoidance. Deciding ahead of time, based on an estimate has an inherent risk. A thought I had to address this dilemma is this:

1. The formula triggers a discussion @ December’s board meeting
2. The board decides the minimum underwriting profit the company must make and the criteria for the amount to be given

For example, the board passes a motion that a refund of any underwriting profit in excess of \$1,000,000 be provided to policyholders, subject to the excess being equal to or greater than \$1,700,000 (about 5% refund).

At year end, we compare the final results with the directors’ motion and automatically apply the refund if all the criteria is met.

Just some thoughts and ideas for your consideration as we work towards the ultimate solution.

Alec