



WILSON EUROPE  
MASTERS OF P&I

# 2017

## THE WILSON P&I REPORT

International Group Clubs





International Group Clubs



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## THE CHAIRMAN'S ANNUAL ROUND UP

The International Group has reported its 8th successive increase in free reserves. Their surplus increased again, from \$201m in 2016 to \$427m in 2017. This came about as a result of improving investment fortunes and yet another year of very low claims costs. The free reserves rose from a massive \$4.8bn to a reported \$5.3bn. In fact, with very conservative estimating of claims, we believe the free reserves are likely to be considerably higher.

The net estimated annual premium income fell for the 3rd year in succession to \$3.1bn, reflecting the soft underwriting market due to benign claims environment and premium returns and/or discounted future instalments to mutual members. The returns in our view, in some cases at least, are a belated recognition that the Clubs generally are exceptionally well funded, and their "anxiety" over Solvency II has proved mostly unfounded (as highlighted regularly in previous Wilson Reports).

Since 2009 the collective free reserves of the Clubs have risen by some 143%, reflecting the Clubs' financial success in obtaining, in some cases, unjustified levels of premium

from their Members. This has been achieved during a time of almost unprecedentedly tough trading conditions. The past decade has seen a sizeable disequilibrium in supply and demand within the shipping industry. Over-capacity of tonnage in certain sectors, and the worldwide recessionary atmosphere brought about the much reduced trading activity. The resultant consequence has been a sustained period of very low claims. This benign claims environment has also enabled some Clubs to reduce their reliance on reinsurance and therefore the additional associated overhead costs. The IG Pool has both increased its own retention and Hydra's exposure within the first layer of the GXL excess reinsurance contract.

After last year's investment losses, it is pleasing to see (investment) profits across the spectrum, with no Club this year reporting an investment loss. The overall return averaged a modest 3%, with single digit returns being the order of the day for the cautious, risk adverse Clubs. Those adopting a more aggressive policy tended to do better than their more conservative competitors. A general philosophy (quite understandably) seemed to be to 'match' outstanding

claims currency and maturity profile with safer government and highly rated corporate bonds, with the surplus being invested in more adventurous instruments. This surplus would usually be invested in equities, alternatives or hedge funds which all performed well during the year.

The apparent exaggerated concerns around Solvency II have now finally receded. However, the next major challenge for the Clubs registered and regulated in the UK will be how

*"The free reserves rose from a massive \$4.8bn to a reported \$5.3bn. In fact, with very conservative estimating of claims, we believe the free reserves are likely to be considerably higher"*

*"All Clubs' Report and Accounts suggested that they exceeded their Solvency Capital Requirements by at least 50% and some by more than 100% at policy year end"*

to address the, as yet, unknown consequences of 'Brexit'. Contingency plans will likely need to be in place by the end of next year to enable the Clubs to continue to underwrite EU domiciled business.

The Clubs are now required to publish their Pillar III Solvency and Financial Condition Reports. These reports cover areas of governance, risk management, corporate structure and internal audit. The purpose is to quantify the value of the risks retained by the insurer, the Solvency Capital Requirements (SCR), and to compare with the value of the company's own funds to establish a Solvency Ratio. The four main risk categories are underwriting, market, counter party and operational risk. The problem for observers and analysts is that the individual reports only cover those parts of the entity or group regulated within the EU and not the whole Club. Clubs not in the EU i.e. Japan and American are excluded, while Gard and Skuld, being Norwegian based are included. However note, the Standard Club report is only for Standard Europe, Britannia excludes Boudicca and North of England excludes their parallel mutual in Bermuda. As a consequence of this the individual results are not strictly comparable and arguably a bureaucratic waste of time, incurring very heavy costs for the Clubs and their managers. It is also not possible to explain the wide divergence of the results for some Club's risk factors. All Clubs' Report

& Accounts suggested that they exceeded their Solvency Capital Requirements by at least 50% and some by more than 100% at policy year end. This clearly suggests that most Clubs have more than sufficient capital. This will rightly increase pressure on the Clubs to deliver more premium discounts and returns to their Shipowner members, thus clearly demonstrating the true value and importance of the Mutual Club system.

I cannot let my annual review pass without commenting on the new Wilson office in Japan. This is a very important next step in the development of Wilson who already have offices in Hong Kong, South Korea, China, Taiwan and of course London. The Japanese office will service all our local clients, who currently make up 10% of the total Wilson P&I portfolio. The office will be led by Sumie Onai who has vast experience and devoted her career to the shipping industry, especially Shipowners in Japan. She will be supported locally by her staff and by the entire Wilson Group of offices worldwide.

Finally, I would also like to thank all the Wilson Europe staff for their continuing support and hard work as we continue to grow in Europe, Asia Pacific and North America.

**Dudley Taylor**  
Chairman  
Wilson Europe Limited



## MANAGING DIRECTOR'S SOAPBOX

What they don't tell you...

### The IG Reinsurance Contract - Is a Call for Change Justified?

Pressures are being brought to bear from a number of (perhaps vested) parties regarding the IG reinsurance placement. It seems to Wilson Europe at least, that the Lloyd's and other reinsurance markets play a crucial role in enabling the Pandl Clubs to operate successfully, providing relevant cover that is fit for purpose. A representative from one of the world's largest corporate Shipowners is rumoured to have written to the Chairman of the Group, urging for fundamental restructuring of the placement. In our view, the reinsurance placement has been successfully and continuously placed with the Lloyd's market for six decades. One can therefore only assume the Clubs and the Reinsurance Sub-Committee have been content to recommend the product the markets have consistently provided. It has delivered confidence to the Shipowners, Governments and Authorities worldwide.

A number of the largest reinsurance brokers are also said to be leveraging pressure on the Clubs, and indeed some Clubs themselves, it is said, are also adopting a supportive role in challenging the current IG reinsurance structure. This is perhaps to curry

favour with some 'mega' brokers, and to enhance the Clubs' own financial results, by reducing competition and driving smaller Clubs out of the system through mergers, takeovers or extinction!

Miller Insurance have successfully placed this cover since its inception. As a consequence of this contract, Miller are not allowed by the IG to market or handle direct P&I business / clients to avoid placement conflicts. This clearly reduces their own business opportunities! Miller have structured a very comprehensive placement, that has proved over time fit for purpose and at a highly competitive cost.

Senior IG representatives are regularly pronouncing that the IG Reinsurance Sub-Committee has again "achieved significant GXL savings and the Shipowners should be appreciative". Costa Concordia is still fresh in everyone's minds, including no doubt the reinsuring underwriters who paid claims totalling more than \$1.5 billion. However, the reductions achieved from GXL underwriters at the 2017 renewal amounted to a welcome circa \$25 million. Clubs on the other

hand, have been quietly growing their free reserves collectively to at least \$5.3 billion. This represents nearly a doubling / \$2.5 billion growth in their free reserves in a decade. It is not too difficult to see where 'the treasure is buried' and where the real opportunities for savings lie.

Some of the proponents in favour of putting the IG Reinsurance contract out to tender justify their views by arguing that this contract has never been put out to tender previously. The same of course is true of most Club managers for more than 125 years!

So is a call for fundamental change in the IG reinsurance placement and structure justified? We don't think so!

*"The Lloyd's and other reinsurance markets play a crucial role in enabling the Pandl Clubs to operate successfully, providing relevant cover that is fit for purpose."*

### The Consequences of Depriving Members' Loss Records of Premium

The International Group has now accumulated free reserves of \$5.3bn (perhaps significantly more!). The Clubs have been 'squirrelling' away funds over a decade, largely by conservatively reserving their IBNRs (incurred but not reported) claims estimates. These anticipated expenditures are built into the Members' 'acceptable loss ratio' formula. This has the effect of reducing the Members' breakeven figure, and thus assisting the Club Underwriters in holding the (premium requirement) line when being pressed by Brokers and/or Members for premium reductions. Some Clubs are also holding unrealistic estimates for their ultimate Pool contributions, which again pushes up the cost a Member is required to pay for their cover.

The recently released Club Reports and Accounts (analysed in some detail under Section 3 of this report) suggests that most Clubs' underwriting is largely at breakeven. In some cases, substantial investment income has enabled the Clubs to give meaningful discounts or even waive (in the case of Gard) their final instalment / deferred call. This action potentially has an adverse affect on the mutual Members' loss record performance. This is as a result of depriving the record of premium which may result in a need for unexpected penalty rate rises at subsequent renewals. Clubs have always declined to recognise investment income in a member's loss record, but some

*"Surplus funds, particularly achieved by investment income, should be rebated to the mutual membership by capital returns and not by discounting call premium"*

now seem to be adopting this policy, which potentially destabilises the underwriting trend of the records. It should not be forgotten that policy year returns are a 'one off' allowance, whereas rating adjustments are perpetual!

Surplus funds, particularly achieved by investment income, should be rebated to the mutual membership by way of capital returns and not by discounting call premium. These returns can be reflected in the Member's loss record, but as is the case with Steamship Mutual, the loss records should be assessed on the original estimated mutual premium... agreed and charged at the beginning of the policy year, and the underwriting should not be affected by stellar investment income performances!

### Release Calls - Are they Appropriate?

Release calls; should they be applied, are they really necessary, and at what level should they be set?

Following the last European Commission review of the IGA, their only meaningful concern was that of release calls. The Clubs were told to relax their requirements in order to

encourage a more competitive environment and less restricted movement. The individual Club policies are seemingly both inconsistent and lacking in transparency. However they potentially have one aspect in common - to 'lock in' Members. The Shipowners Club sets its release call requirement at nil, which is entirely appropriate given their strong finances. Gard on the other hand, in spite of their enormous free reserves, set their release call requirements at 20%, 15% and 5% respectively for the preceding 3 open policy years. This is in spite of the Club waiving the deferred call requirement for 2016 of 25% and having never exceeded their supplementary call requirements in 25 years!

There is of course an alternative option for members to put in place a bank guarantee, often required to be provided by a first class London bank. This alternative is cumbersome and expensive to arrange. Some large corporates can usually influence Club Managers not to impose their official Club criteria, and perhaps fearing loss of future opportunities allow corporate letters to be provided instead without cost.

*"The Clubs are currently in a very strong financial position and whilst release calls in some cases do have a place and is a principle of the IGA, they should however, be fair and reflective of the true financial situation of the Club at the time of their intended imposition"*



The Clubs are currently in a very strong financial position and whilst release calls in some cases do have a place and is a principle of the IG Agreement, they should however, be fair and reflective of the true financial situation of the Club at the time of their intended imposition. At this time, when no Club (exclusively underwriting P&I) should need additional unbudgeted calls, it is quite wrong in our view to require a release call penalty, and certainly not in excess of say 5% of the Club's genuinely anticipated total mutual premium at the time that the release call is intended to be imposed!

In our view, release calls should only be a genuine tool to protect the Club in uncertain times / circumstances, or to enable a Member wishing to leave, to voluntarily opt out of future Club financial liabilities, by paying a reasonable penalty to do so. Release Calls must not, as is often the case, be used to intimidate or threaten a Member to stay who wants to leave!

### Reduced Competition - Anticipatable Consequences

A few of the largest Clubs in the International Group continue to have ambitions to see the number of Clubs in the Group reduce significantly. Two Clubs now account for 30% of the tonnage in the Group and 3 Clubs 40%. The International Group insures c.90% of the World's merchant fleet. This largely represents the same owners as those making up the Hull & Machinery Insurance market worldwide, where of course more than 60 Hull underwriters compete for the same pot of business. We continually hear how competitive /

cheap the Hull and Machinery insurance market is, and this is perhaps tangible evidence if needed, that competition brings lower rates.

The largest Clubs tend to have more rigid entry and operational policies unlike their smaller brethren, who tend to be more flexible and 'lighter on their feet' when dealing with their members' needs. This is perhaps not surprising, as in most businesses the larger they are the less flexible their operational approach. There is also a growing practice of the largest Clubs all too frequently conducting customer surveys, which perhaps suggests that there is a disconnect between senior Club management and their Members and brokers. Medium sized Clubs do not generally undertake these surveys - perhaps because they have a better understanding of their own strengths and weaknesses, not needing to rely on customer feedback generated from often carefully crafted questions, designed to deliver desired responses for ultimate positive reporting to their Club Boards.

The International Group has nearly doubled in size over the last 10 years (both in free reserves and gross tons). Following the failed merger of the UK and Britannia Clubs, there are again alternative reinsurance structures being proposed, designed to substantially raise the IG Pool retention levels. The covert goal amongst the few pressing for change is to bring about a reduction in the number of Clubs in the Group, and for the 'remainers' to enjoy a larger slice of the IG pie - brought about by much reduced competition.

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A big bugbear for the largest Clubs is that each Club in the group has one vote, regardless of size... one Club one vote! This situation is frustrating for the largest Clubs, who are irritated and somewhat impotent in being able to achieve their domination goals.

The diversity of the Group and indeed the world's merchant fleet is such that there is room for all the current participants... and indeed more players if they were allowed to join the Group. Most Clubs are already significant buyers of facultative reinsurance products, offloading risk in the commercial profit making market, at often significant and in some cases unnecessary additional cost to the Club / its membership. In fact the largest Clubs often have less appetite to absorb risks that other Clubs are comfortable accepting! Reinsurance brokers tend to be very supportive of the call for of a reduction in the number of IG Clubs - as this will inevitably create a greater demand for more lucrative facultative reinsurance contracts. There is no doubt in our mind that a reduction in the number of Clubs will bring about reduced competition

and service. As P&I brokers with a substantial portfolio, we regularly see 'David and Goliath' situations, where smaller and/or perceived weaker Clubs are able to provide more competitive rates and terms, where under other circumstances 'Goliath' would not be willing to provide the same but for the competition!

It may even be the case that larger Clubs' overhead costs are proportionately higher, perhaps spending disproportionate time and resources on new projects and diversification, all of which incur expensive R&D costs - as indeed is the case with last year's failed UK Club and Britannia merger / takeover. Average Expense Ratios, which are an official declared measure of the cost of running a Club, do not evidence that larger Clubs are more cost efficient than their smaller IG partners!

Do we believe the number of IG Clubs should reduce? The answer is no, as long as the Members continue to support their Clubs and the Clubs deliver high levels of service cost-effectively!

### Should Clubs reject 'Interactive Rating' in favour of 'Public Information'?

Standard & Poor's boldly announces in TradeWinds that the "profitability" of the Pandl Clubs is set to fall in the wake of a "soft renewal" (2017) and a resultant decline in premium income. In case no one has told S&P... Pandl Clubs are supposed to be non-profit making organisations! Perhaps it is now time for Clubs to stop their use of the rating agencies and particularly their 'interactive

rating', which is provided by the agencies at great cost to the Clubs both in terms of fees and resources, which has the effect of pushing up premiums! The agencies have been encouraging and often rewarding Clubs with higher ratings if they become multi-line insurance providers.

*"We at Wilson have asked of the Clubs over recent renewals "how much reserves do you really need?" We have never received a coherent answer!"*

Several Clubs have pursued this agenda but unfortunately continue to make considerable underwriting losses from their Lloyd's market activities, which requires the use of members' money / Club reserves to underwrite non-Pandl risks in this highly competitive, alien environment that in truth they don't properly understand. It is the mutual Members of the Club that are the financial guarantors of this diversification. Poor results will adversely impact on Club reserves and ultimately mutual Members' premiums! One 'A' rated Club is rumoured to be experiencing this situation presently, where Lloyd's underwriting losses and other exposures may mean that their Tier 1 capital is deemed insufficient.

Is it not now time for the Clubs to take a long hard look at whether they really need to use these (fee-charging) agencies to provide Clubs with an 'interactive' rating? Solvency II and Pillar III have now largely made the rating agencies' services redundant! Public Information (an analysis of the Clubs audited Report and Accounts)

should suffice!

Interactive rating either overtly or covertly pressurises Clubs into ever increasing their free reserves and upfront premium requirements. We at Wilson have asked of the Clubs over recent renewals "how much reserves do you really need?" We have never received a coherent answer! The combined Clubs' reserves of the IG are now reported to be in region of \$5.3 billion. We believe however the likely sum could be closer to US\$6 billion. All of this has been achieved over a decade of the worst shipping crisis / freight markets in a generation. The over-reserving has largely come about as a result of Clubs over-reacting to perceived pressures from rating agencies and Solvency II requirements.

Interactive rating has created an unnecessary and bureaucratic 'race to the top' of the Pandl financial league table. Given that Solvency II is now the regulatory requirement for European Clubs (only 2 Clubs outside), what real purpose do the agencies serve when they too are focusing on Club capital adequacy?

We therefore believe the Clubs should now reject 'Interactive Rating' and avoid the unnecessary and expensive costs it incurs!



**Julian South**  
Managing Director  
Wilson Europe Limited



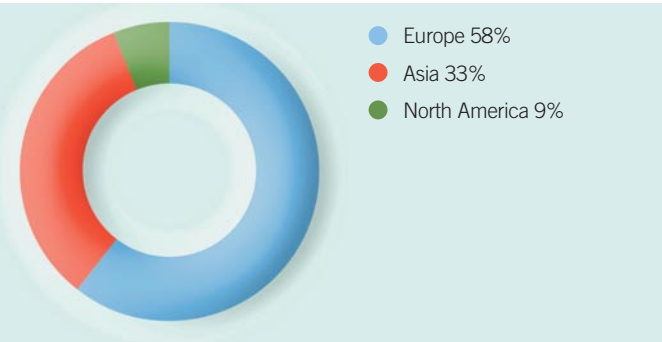


## ABOUT WILSON

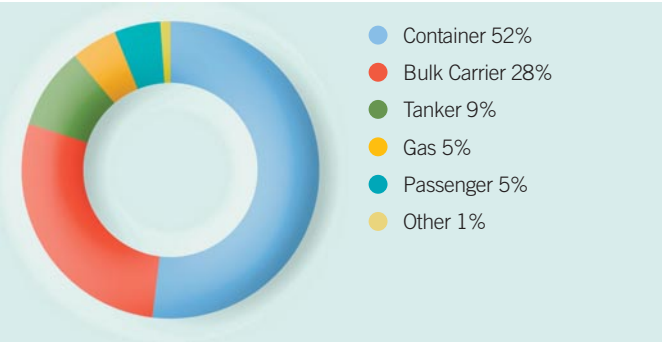
Wilson Europe is now perhaps the largest independent insurance and reinsurance broker, based in the City of London and specialising in the placing and servicing of P&I and other Marine Insurance risks. Wilson Re, our parent company, headquartered in Hong Kong along with offices in Korea, Taiwan and Tokyo, have a long standing and leading presence in the Asian market.

Wilson Europe has built a substantial global client base and today is responsible for placing more than 70 million gross tons of P&I. Being strong supporters of the International Group we favour placing these covers with P&I Clubs but do also work closely with some fixed premium providers.

### Portfolio by Continent (Owned and Time Chartered)



### Portfolio by Ship Type (Owned and Chartered GT)



Our International portfolio demonstrates our industry capability, enabling our highly skilled team of brokers to “tailor make” solutions for clients’ needs. Our portfolio extends from small fleets to some of the world’s largest and most reputable Shipowners and operators. This enables us to place vessels of all sizes, types and complexities. A number of our clients are current or past Club Board Directors.

Wilson Europe has one of the largest and most experienced P&I teams of any Broker and this enables us to provide a highly effective and efficient service to all our clients. We are passionate about the industry and have a very strong service ethos, and are totally committed to operating with transparency and integrity at all times.

### REASONS TO USE WILSON

- **Dedicated teams focused on innovative solutions and delivering first class service**
- **Global client base - strength in depth**
- **Unparalleled knowledge of the Club system**
- **Integrity and transparency in all that we do**
- **Largest independent P&I Broker**
- **P&I Specialist – minimal conflict with other classes of insurance**

## ADDITIONAL COVERS

We can readily place the following:

### Club/Market

- Freight, Demurrage & Defence
- Newbuilding Risks
- Charterer’s Liability
- Slot Charter Insurance
- Charterer’s Interest
- Charterer’s All Inclusive Cover
- Cyber

### Cargo/Property

- Hull and Machinery
- Piracy Loss of Hire
- Kidnap and Ransom
- Terminal Operator’s Liabilities
- Through Transport Liabilities
- Bunker Insurance
- Shipowner’s Liability (S.O.L.)
- Deviation Insurance
- Exxon GA Clause Insurance
- North America Clean-Up Cover
- Cash on Board
- Cargo on Deck
- Ad Valorem: Specie and Valuable Cargo
- Stores and Provisions
- Certificate of Financial Responsibility

### People

- All Inclusive Crew Cover
- Crew Familiarisation Liability Cover
- Pre-Delivery Crew Cover
- Passenger Deviation
- Sea Going Wives and Family
- Passenger Liability Regime (PLR)
- Shore Excursions

### Freight Protection

- Charterer’s Insolvency
- Increased Value/Hull Interest
- Freight Interest
- Freight at Risk
- Loss of Hire
- General Average Insurance
- Innocent Owners Interest Insurance
- Purchaser’s/Seller’s Interest
- Loss of Anticipated Profits
- Mortgagee’s Interest Insurance
- Mortgagee’s Interest Additional Perils
- Quarantine - Loss of Hire (Shipseize) Insurance





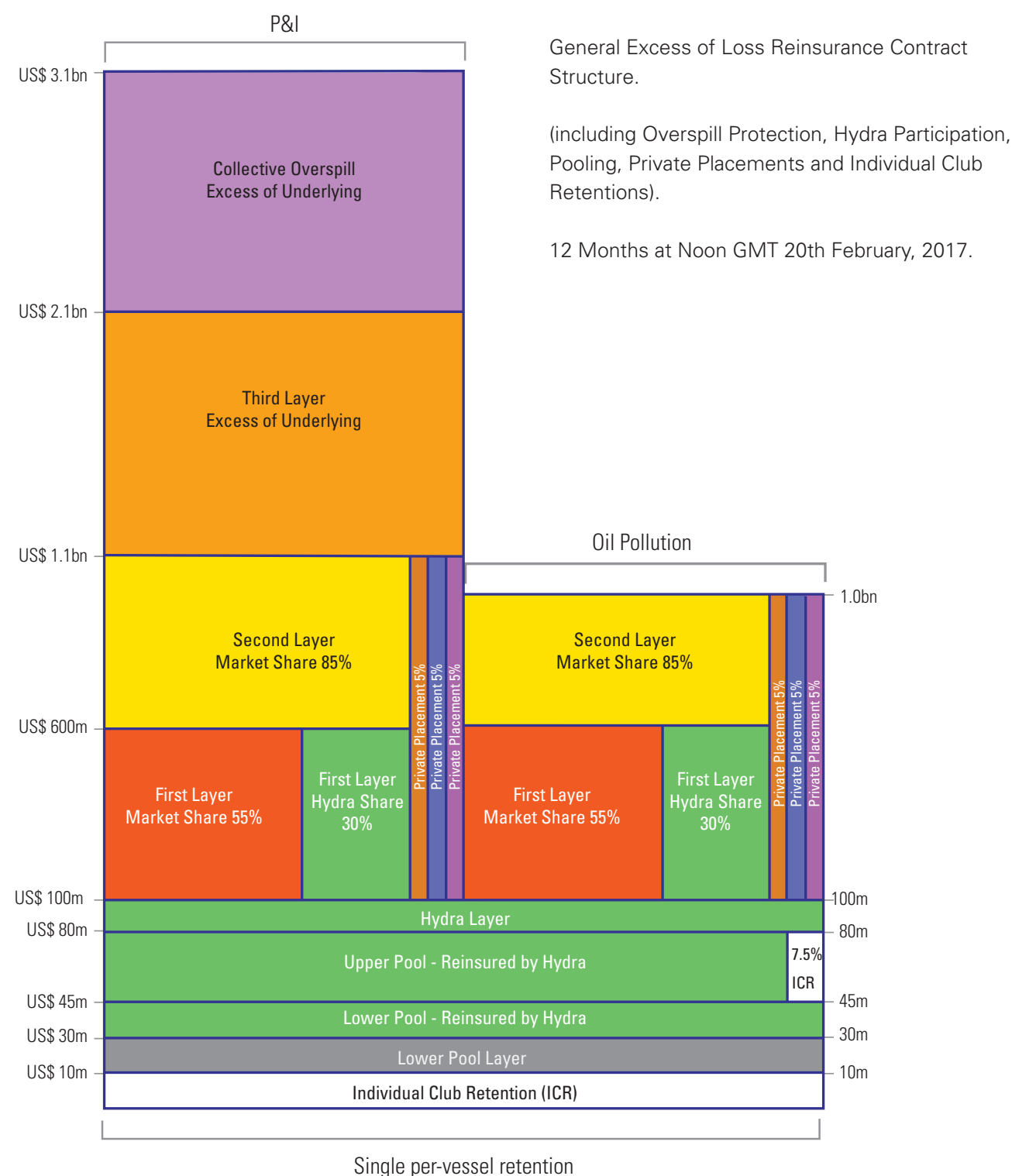
An aerial photograph of a large port area at sunset. The water is a deep blue-green, and the sky is a mix of orange, yellow, and grey. In the foreground, a large oil tanker with a red hull and white superstructure is moving towards the left. In the background, several other oil tankers are anchored or moving. On the left side, there are large offshore structures, possibly for oil drilling or processing. The overall scene depicts a busy maritime hub.

## SECTION ONE

Financial Retention & Reinsurance



## International Group Reinsurance Structure 2017



## 2017 GXL Rates per GT

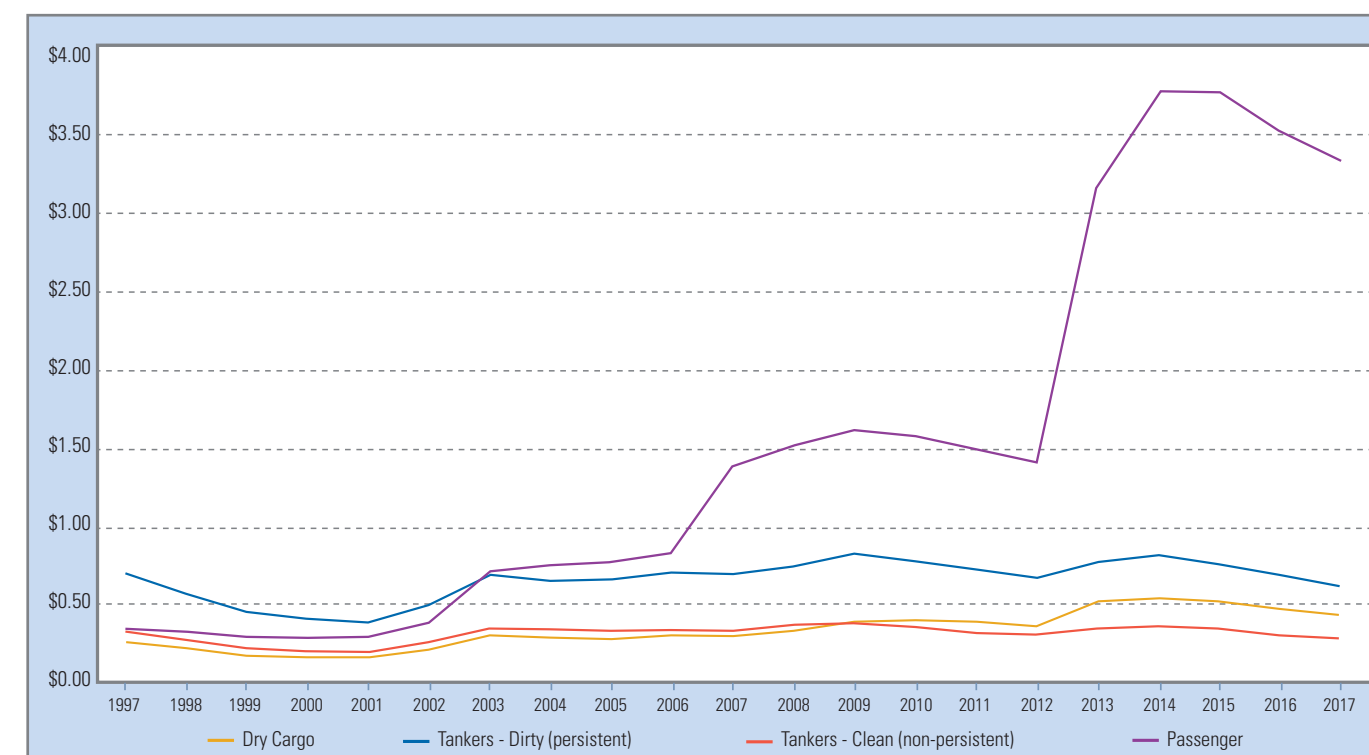
Policy Year	Dry Cargo Ships (US\$)	Dirty Persistent Tankers (US\$)	Clean Non-Persistent Tankers (US\$)	Passenger Carrying Ships (US\$)
2017	0.4114	0.5955	0.2675	3.3319
2016	0.4537	0.6567	0.2816	3.5073
Adj. from 2016	-0.0423	-0.0612	-0.0141	-0.1754
% change from 2016	-9.32%	-9.32%	-5.01%	-5.00%

The International Group Reinsurance Rates - including Hydra, Collective Overspill Cover and Excess War P&I

## GXL Rates per GT 1997-2017 (5 year bands)

Policy Year	Dry Cargo Ships (US\$)	Dirty Persistent Tankers (US\$)	Clean Non-Persistent Tankers (US\$)	Passenger Carrying Ships (US\$)
1997	0.2357	0.6786	0.3031	0.3274
2002	0.1984	0.4859	0.2364	0.3782
2007	0.2837	0.6797	0.3187	1.3714
2012	0.3561	0.6515	0.2798	1.3992
<b>2017</b>	<b>0.4114</b>	<b>0.5955</b>	<b>0.2675</b>	<b>3.3319</b>

## GXL Rates per GT 1997-2017 (fluctuations graph)





## 2017 Renewal Requirements and Policy Year Developments

Club	P&I	Remarks	FDD	Remarks
<b>American</b>	<b>Nil</b>	Expiring deductibles less than \$10,000 to be increased by \$1,000 - A minimum deductible of \$7,500 for all crew claims to be applied.	<b>Nil</b>	No publicised changes.
<b>Britannia</b>	<b>Nil</b>	2014 PY Deferred Call reduced from 37.5% to 35%. 2015 PY Deferred Call reduced from 45% to 40%. Deductibles below \$25,000 to increase by 10%. Minimum deductibles to increase as follows:- Cargo (\$12,500) , Crew (\$3,000) , Other (\$7,000)	<b>Nil</b>	2015 PY Deferred Call (30%) due October 2016.
<b>Gard</b>	<b>Nil</b>	2014 PY - no further Call expected. 2015 PY - no further Call expected.	<b>Nil</b>	No publicised changes.
<b>Japan</b>	<b>Nil</b>	2014 PY - no further Call expected. 2015 PY Deferred Call reduced from 40% to 30%.	<b>Nil</b>	No publicised changes.
<b>London</b>	<b>Nil</b>	2014 PY - no further Call expected. 2015 PY - no further Call expected.	<b>Nil</b>	2014 PY - no further Call expected. 2015 PY - no further Call expected.
<b>North</b>	<b>Nil</b>	2016 PY - 5% return (credit) of mutual premium applied against first instalment of the 2017/18 premium. All cargo deductibles below \$25,000 to increase by at least \$2,000 per deductible. Crew and other deductibles to increase by a minimum of \$1,000.	<b>Nil</b>	No publicised changes.
<b>SOP</b>	<b>Nil</b>	No publicised changes.	<b>Nil</b>	No publicised changes.
<b>Skuld</b>	<b>Selective</b>	Individual adjustments to be applied to ship types according to Club's perception of risk exposure.	<b>Selective</b>	No publicised changes.
<b>Standard (Europe)</b>	<b>Nil</b>	2016 PY - 5% return (credit) of mutual premium applied against first instalment of the 2017/18 premium.	<b>Nil</b>	No publicised changes.
<b>Standard (London)</b>	<b>Nil</b>	No publicised changes.	<b>Nil</b>	No publicised changes.
<b>Steamship</b>	<b>Nil</b>	2014 PY - 10% return of mutual premiums, credits to be issued in November 2016.	<b>Nil</b>	No publicised changes.
<b>Swedish</b>	<b>Nil</b>	No publicised changes.	<b>Nil</b>	No publicised changes.
<b>UK</b>	<b>Nil</b>	2015PY - 3% return of the total mutual premium applied by way of credit to the final instalment. Rules deductible to increase to \$12,000 per event.	<b>Nil</b>	No publicised changes.
<b>West</b>	<b>Nil</b>	Members' individual deductibles below the Rules deductible (\$11,000) increased by 10% or \$1,000, whichever is higher.	<b>Nil</b>	No publicised changes.

N.B. General Excess of Loss (GXL) market reinsurance adjustments also applied to all individual member's premiums after adjustment for loss record performance, unless otherwise stated.

## Abatement Layer Triggers – 2017

Club	Abatement Triggers	
American	\$4.5m	Claims become eligible for abatement when exceeding the stated amounts.
Britannia	N/A	
Gard	\$3m	
Japan	\$5m	* 10% of the claim will be allocated back to the Member's record, whilst the remaining 90% will be allocated across the Membership as a whole.
London	\$2m	
North of England*	\$2m	
Shipowners Mutual	N/A	** 80% of the claim arising in the first layer (from US\$1.8m to US\$5m) will be borne by the membership as a whole. The remaining 20% will form part of the Member's individual loss record.
Skuld	N/A	
Standard	\$2m	
Steamship Mutual**	\$1.8m	
Swedish	\$3m	
UK	\$2.5m	
West of England	\$2m	

## FD&D Club Comparison Table – 2017

Club	Standard Limit	Standard Deductible
American	\$2m	\$5k, then 25% member contribution and a maximum of US\$50k
Britannia	\$10m (\$2m newbuilding/conversion disputes)	1/3 of all costs excess of \$5k
Gard	\$10m (limit for newbuilding must be specifically agreed with the Club prior to attachment of cover)	25%, subject to a minimum contribution by the Member of USD 5,000
Japan	Yen 1.5bn (approx. \$13.8m)	1/3 of all costs in excess of \$1k
London	\$7.5m	25% of all legal costs, charges and disbursement
North of England	Nil (except \$250k newbuilding/purchase/sale disputes)	25% with a minimum of US\$10k and a maximum of US\$150k per claim
Shipowners	\$5m	First \$750 up to \$3k, then 25% member contribution with a maximum of \$30k
Skuld	\$5m (alteration, conversion, building, purchase, mortgage or sale shall be \$300k)	25% of the total costs with a minimum of \$10k per dispute
Standard	\$5m	25% member contribution, minimum of \$10k
Steamship	\$10m	\$5k, then 1/3 of all costs subject to an overall maximum of \$30k
Swedish	\$5m	\$12k, plus 25% member contribution for cost in excess of \$250k
UK	\$15m	Nil, but no cover for disputes less than \$10k
West of England	\$10m	\$5k, then 25% member contribution, maximum of \$50k (\$100k for new building disputes)

## Pool Record Development Tables 2015-2017

### Surplus / Deficit and 3 Year Development

Club	Net position (US\$ m)	2017 %	2016 %	2015 %
UK	152	69	73	77
Skuld	56	72	72	76
North	22	92	95	103
West	11	97	89	94
Steamship	10	97	101	100
Britannia	9	97	99	90
London	5	97	97	99
Gard	-10	102	102	98
Japan	-16	106	106	112
American	-19	116	109	114
SOP	-40	134	152	158
Standard	-66	124	123	110
Swedish	-88	154	145	155

- Good - balanced results within bounds of acceptability
- Satisfactory - just outside Surplus/Deficit margins of acceptability
- Too divergent from break even - suggesting a need for a contribution correction

## Entered Mutual GT by Club by Policy Year (mil) 2007-2017

Club	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Period % Change 2007 - 2017
American	14	13	13	15	15	16	16	16	17	16	16	14
Britannia	82	88	93	98	103	111	113	108	108	106	101	23
Gard	90	127	133	136	145	163	175	187	189	200	200	122
Japan	70	84	90	92	92	90	92	93	93	92	91	30
London	34	39	39	37	40	44	45	43	44	44	43	26
North	48	65	75	86	105	125	127	128	127	131	140	192
Shipowners	12	15	16	17	18	20	22	24	24	25	25	108
Skuld	32	41	45	55	58	70	72	75	74	78	85	166
Standard	47	50	65	80	85	94	97	97	101	103	125	166
Steamship	42	47	50	53	58	63	63	69	74	78	85	102
Swedish	20	25	25	26	31	34	35	37	42	44	47	135
UK	100	112	110	105	105	112	120	124	127	135	139	39
West	60	54	51	52	49	51	53	57	67	72	82	37
<b>IG Total</b>	<b>651</b>	<b>760</b>	<b>805</b>	<b>852</b>	<b>904</b>	<b>993</b>	<b>1030</b>	<b>1058</b>	<b>1087</b>	<b>1124</b>	<b>1179</b>	<b>81</b>

## KPI League Tables – 2017

### Combined Ratios (%)

This is one of the acid tests for an insurer and shows the profitability of the underwriting operations. The ratio is calculated by dividing the Incurred Claims and expenses by the Net Premium Income. The underwriting breakeven is 100%; less than 100% is profitable (good) and more than 100% is a loss (bad).

Steamship	84
Japan	86
West	88
Standard	94
Gard	97
Britannia	98
North	98
Skuld	98
Swedish	99
SOP	100
London	101
UK	107
American	109

### Increase in Net Premiums (%)

This will indicate whether the Club has managed to collect the general increase proposed before the last renewal, whether any additional tonnage has been underwritten on a sound basis and if the Club has been trying to attract new tonnage by offering uncommercial rates (the 'churn' effect).

American	17
SOP	11
Japan	4
Standard	-1
West	-1
UK	-3
London	-5
Skuld	-8
North	-9
Swedish	-9
Steamship	-13
Gard	-15
Britannia	-17

### Entered GT (mil)

This shows the total International Group gross tonnage and serves as a benchmark to indicate an individual Club's market share. The total International Group gross tonnage has been steadily rising and as a consequence, all Clubs' tonnages should have been increasing.

Gard	200
North	140
UK	139
Standard	125
Britannia	101
Japan	91
Skuld	85
Steamship	85
West	82
Swedish	47
London	43
SOP	25
American	16

Above    Industry Average    Below



## Published Investment Returns (%)

This is the acid test for the investment performance. All Clubs publish Investment Return results which are normally prepared by a specialist independent third party. This is a measure of the Investment Managers' performance and a good Investment Return may help overcome a poor underwriting performance. The asset allocation is determined by the Board, which will likely have a material bearing on the annual outcome. Equities will generally perform better in the long term, but the returns will be more volatile equities are penalised by the regulators and ratings agencies.

London	8
Gard	5
UK	5
SOP	4
Skuld	3
Britannia	3
Standard	3
North	3
Steamship	3
Swedish	3
American	2
Japan	2
West	1

## Free Reserves Movement (%)

This is an indicator of the Clubs' annual performance. All the P&I Clubs in the survey are mutual and not-for-profit, but in the current regulatory environment, Clubs should aim to at least maintain the current level of Free Reserves for regulatory purposes and increase their Free Reserves to appropriately accommodate the rising levels of tonnage. Large losses raise concerns over a Club's health and the possibility of unplanned additional calls. Large surpluses raise concerns over a Club's possible aggressive acquisition of tonnage at uneconomic rates and poor claims reserving.

Britannia	17
London	17
Steamship	16
Skuld	12
Gard	12
Japan	11
West	11
Standard	10
Swedish	6
SOP	5
UK	2
North	1
American	-9



## Free Reserves per Gross Ton (US\$)

This is a test of the adequacy of the Free Reserves compared to the International Group Tonnage or the level of business underwritten. The ratio compares the size of the Club's reserves with the volume of business and may indicate whether the Club has the capacity to absorb risks and losses emanating from the business. The result will be overstated for Clubs with major sources of non-P&I income as all the Free Reserves are compared with only the P&I tonnage.

SOP	11.76
Steamship	6.00
Britannia	5.95
Gard	5.67
Skuld	4.61
London	4.37
Swedish	4.13
UK*	4.01
West	3.74
Standard	3.44
UK**	3.30
American	3.21
North	3.08
Japan	2.29

\* Inc. Perpetual Loan      \*\* Exc. Perpetual Loan

## Solvency Ratios (%)

This is the total assets less the creditors, divided by the Outstanding Claims. It is a key ratio that indicates the capability of the Club to meet their future claims. If the ratio falls below 100%, the Club is technically insolvent. However, the UK regulators will almost certainly request a business plan at around 115%, and probably require the Club to cease accepting new business before reaching 100%. The ratios are a general guide and, although some Clubs may demonstrate exceptional results in one test or another, it is always worth checking the conclusions.

Swedish	203
Gard	198
London	191
Steamship	191
SOP	189
Standard	178
UK	178
Britannia	177
Skuld	177
West	177
Japan	171
North	170
American	130




















SECTION TWO  
Performance Comparison Tables



## Revenue and Key Performance Indicators

CLUB	American	Britannia	Gard	Japan	London	North
US\$000's						
<b>Revenue Statement</b>						
Net Premiums	95,325	161,106	618,578	171,994	82,710	329,959
Net Claims Incurred	66,497	130,268	493,045	122,604	69,472	246,013
Management Costs	37,744	27,531	105,893	25,441	13,876	75,698
	104,241	157,799	598,938	148,045	83,348	321,711
Underwriting Surplus/(Deficit)	(8,916)	3,307	19,640	23,949	(638)	8,248
Investment Income Less Tax	3,924	29,639	105,108	(1,789)	27,943	24,505
<b>Surplus/(Deficit)</b>	<b>(4,992)</b>	<b>32,946</b>	<b>124,748</b>	<b>22,160</b>	<b>27,305</b>	<b>32,753</b>
Pension Fund Loss						(30,241)
<b>Balance Sheet</b>						
Investments	204,520	1,089,242	2,153,890	365,040	327,871	922,807
Cash	16,445	173,024	117,376	184,786	50,023	162,125
Debtors	63,350	135,998	205,405	24,122	15,852	94,874
Other Assets	173		36,961	52,886	15,168	40,941
<b>Total Assets</b>	<b>284,488</b>	<b>1,398,264</b>	<b>2,513,632</b>	<b>626,834</b>	<b>408,914</b>	<b>1,220,747</b>
Outstanding Claims	171,706	775,651	1,152,343	293,292	206,284	612,936
Creditors	61,364	21,571	226,426	125,119	14,618	177,036
Total Liabilities	233,070	797,222	1,378,769	418,411	220,902	789,972
<b>Free Reserves</b>	<b>51,418</b>	<b>601,042</b>	<b>1,134,863</b>	<b>208,423</b>	<b>188,012</b>	<b>430,775</b>
<b>Key Performance Indicators</b>						
S&P Rating	BBB-	A	A+	BBB+	BBB	A
Combined Ratio	% 109	98	97	86	101	98
Investment Return	% 2.4	3.0	5.0	2.0	8.4	2.8
General Increase	% 0	0	0	0	0	0
Solvency	% 130	177	198	171	191	170
Net Premium Adjustments	% 17.1	-17.2	-15.0	4.2	-5.4	-8.6
Free Reserves Adjustments	% -8.9	17.2	11.6	11.4	17.0	0.6
Incurred Claims	% 34.7	-22.3	-7.4	-2.2	15.5	25.5
AER (Average Expense Ratio)	% 25.7	9.4	12.0	5.5	9.51	12.0
Increase in GT	% 0.0	-4.7	0.0	-1.1	-2.3	6.9
Average net PR per GT	\$ 5.96	1.60	3.09	1.89	1.92	2.36
Free Reserves per GT	\$ 3.21	5.95	5.67	2.29	4.37	3.08
Surplus /(Deficit)	(\$mil) -5	33	125	22	27	3
Gross Owned Tonnage	(mil) 16	101	200	91	43	140

Skuld	SOP	Standard	Steamship	Swedish	UK	West	Total/Avg.
							All Clubs
326,878	201,053	261,800	249,609	130,530	295,088	181,677	<b>3,106,307</b>
229,143	149,087	200,800	168,455	102,961	273,619	123,772	<b>2,375,736</b>
89,979	51,462	46,600	41,364	25,945	43,595	35,427	<b>620,555</b>
319,122	200,549	247,400	209,819	128,906	317,214	159,199	<b>2,996,291</b>
7,756	504	14,400	39,790	1,624	(22,126)	22,478	<b>110,016</b>
38,088	14,159	25,900	30,179	9,416	32,659	7,445	<b>347,176</b>
<b>45,844</b>	<b>14,663</b>	<b>40,300</b>	<b>69,969</b>	<b>11,040</b>	<b>10,533</b>	<b>29,923</b>	<b>457,192</b>
							<b>(30,241)</b>
692,369	529,764	786,100	855,828	351,506	1,080,612	433,210	<b>9,792,759</b>
247,286	116,778	108,100	192,302	31,580	115,486	187,579	<b>1,702,890</b>
41,369	57,591	134,500	38,349	50,199	105,373	54,257	<b>1,021,239</b>
19,440	11,534	29,900	12,687	7,826		57,493	<b>285,009</b>
<b>1,000,464</b>	<b>715,667</b>	<b>1,058,600</b>	<b>1,099,166</b>	<b>441,111</b>	<b>1,301,471</b>	<b>732,539</b>	<b>12,801,897</b>
507,194	329,975	554,200	562,557	188,244	710,739	396,489	<b>6,461,610</b>
101,756	91,651	73,900	26,319	58,751	32,914	29,538	<b>1,040,963</b>
608,950	421,626	628,100	588,876	246,995	743,653	426,027	<b>7,502,573</b>
<b>391,514</b>	<b>294,041</b>	<b>430,500</b>	<b>510,290</b>	<b>194,116</b>	<b>557,818</b>	<b>306,512</b>	<b>5,299,324</b>
A	A	A	A	BBB+	A	A-	
98	100	94	84	99	107	88	<b>96</b>
3.4	3.5	3.0	2.8	2.7	4.6	1.0	<b>3.0</b>
0	0	0	0	0	0	0	<b>0.0</b>
177	189	178	191	203	178	177	<b>182</b>
-7.5	10.5	-0.9	-12.6	-8.7	-2.9	-1.1	<b>-6.8</b>
12.4	5.2	10.4	15.9	6.0	2.0	10.8	<b>9.8</b>
-5.8	9.6	-2.9	0.3	-10.6	13.4	4.8	<b>0.7</b>
12.8	22.0	12.4	12.1	13.3	10.2	15.2	<b>18.0</b>
9.0	0.0	21.4	9.0	6.8	3.0	13.9	<b>4.9</b>
3.85	8.04	2.09	2.94	2.78	2.12	2.22	<b>2.63</b>
4.61	11.76	3.44	6.00	4.13	4.01	3.74	<b>4.49</b>
46	15	40	70	11	11	30	<b>427</b>
85	25	125	85	47	139	82	<b>1179</b>

## General Increase Percentages 2007-2017

Policy Year	American	Britannia	Gard	Japan	London	North
2007	10	5	5	10	5	7.5
2008	20	15	10	20	10	17.5
2009	7.5	12.5	15	12.5	15	17.5
2010	0	5	0	12.5	0	5
2011	12	5	0	10	0	3
2012	5	5	5	3	5	5
2013	10	12.5	5	5	12.5	15
2014	10	2.5	5	7.5	10	7.5
2015	4.5	2.5	2.5	3	6	4.75
2016	2.5	2.5	2.5	3	5	2.5
2017	0	0	0	0	0	0

\* ND (Non Declared) - Underwriter is selecting risks in accordance with perceived or actual risk exposure/results. Non Declared therefore is not contributing to averages (average based on 12 Clubs)

## Calls – Initial Estimate / Total Called

Policy Year	American	Britannia	Gard	Japan	London	North
2007	0/25	30/30	25/25	30/30	40/89	0/0
2008	0/25	40/40	25/25	30/30	40/75	0/0
2009	20/20	40/32.5	25/10	40/40	40/40	0/0
2010	25/25	40/40	25/15	40/50	0/0	0/0
2011	25/25	40/40	25/20	40/40	0/0	0/0
2012	0/0	40/40	25/15	40/40	0/0	0/0
2013	0/0	45/45	25/15	40/40	0/0	0/0
2014	0/0	45 35	25/15	40 20	0 0	0 0
2015	0 0	45 40	25 15	40 30	0 0	0 0
2016	0 0	45 45	25 0	40 40	0 0	0 -5
2017	0 0	45 45	25 25	40 40	0 0	0 0

NB Clubs with nil original are premium on ETC. Clubs showing an initial % requirement are on advanced basis.

## Release Call Requirements

Year	American	Britannia	Gard	Japan	London	North
2014	0	0	0	5	5	5
2015	10	5	5	5	12.5	5
2016	20	7.5	15	5	15	15
2017	20	15	20	5	15	20

Skuld	SOP	Standard	Steamship	Swedish	UK	West	Average%
2.5	5	5	9	7.5	7.5	5	6
7.5	*ND	15	15	15	17.5	15	15
15	10	15	17.5	15	20	10	14
5	5	3	5	2.5	5	5	4
*ND	0	3.5	0	2.5	5	5	4
*ND	0	5	5	5	3	5	4
*ND	5	7.5	7.5	7.5	7.5	7.5	9
*ND	5	12.5	10	7.5	10	7.5	8
*ND	0	5	0	2.5	6.5	2.5	3
*ND	0	2.5	0	0	2.5	0	2
*ND	0	0	0	0	0	0	0

Skuld	SOP	Standard	Steamship	Swedish	UK	West
0/0	0/0	0/0	0/14	0/35	0/25	20/55
0/0	0/0	0/0	0/20	0/0	0/0	20/65
0/0	0/0	0/0	0/0	0/0	0/0	30/30
0/0	0/0	0/0	0/0	0/0	0/0	30/30
0/0	0/0	0/0	0/0	0/0	0/0	30/30
0/0	0/0	0/0	0/0	0/0	0/0	35/35
0/0	0 0	0/0	0 -10	0/0	0 -2.5	35/35
0 -2.5	0 0	0 0	0 0	0 0	0 -3	35 35
0 0	0 0	0 -5	0 0	0 0	0 0	35 35
0 0	0 0	0 0	0 0	0 -4	0 0	35 35

 Closed Years
  Original
  Current

Skuld	SOP	Standard	Steamship	Swedish	UK	West
0	0	0	0	0	0	0
3	0	0	0	5	0	0
7.5	0	0	2.5	10	10	7.4
15	0	6	12.5	15	15	14.8



## SECTION THREE

Individual Club Spotlights, 2017



## AMERICAN

### HIGHLIGHTS

**New** Hull Venture

**Eagle Ocean** Venture Remains Profitable

**2<sup>nd</sup>** Best Claims Since 2011

- The American Club, in its centenary year, recorded a deficit after their 6th consecutive underwriting loss, following some serious deterioration in the closed policy years. The underwriting deficit was \$9m and after the investment income of \$4m, the overall loss for the year was \$5m, reducing the free reserves to \$51m, delivering a 9% loss for the year.



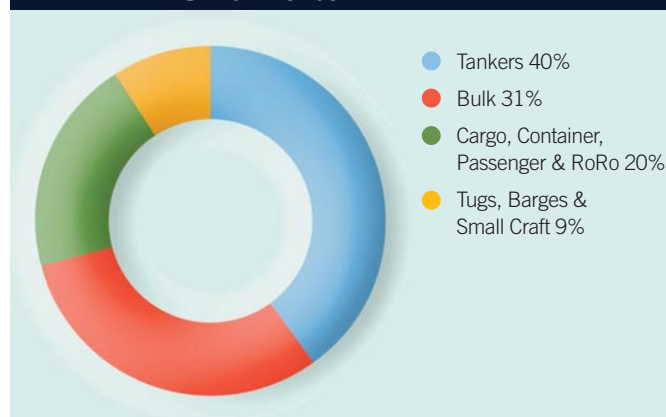
Key Performance Indicators		2017	2016	2015
S&P Rating		BBB-	BBB-	BBB-
Combined Ratio	%	109	102	107
Investment Return	%	2.4	0.3	4.0
General Increase at Renewal	%	0	3	10
Solvency	%	130	133	132
Net Premiums Adjustments	%	17.1	-13.7	5.4
Free Reserves Adjustments	%	-8.9	-3.7	2.2
Incurred Claims	%	34.7	-25.2	1.4
AER (Average Expense Ratio)	%	25.7	24.2	21.6
Increase in GT	%	0.0	-5.9	6.3
Average net PR per GT	\$	5.96	5.09	5.54
Free Reserves per GT	\$	3.21	3.53	3.45
Surplus /(Deficit) (mil)	\$	-5	-2	1
Gross Owned Tonnage	mil	16	16	17



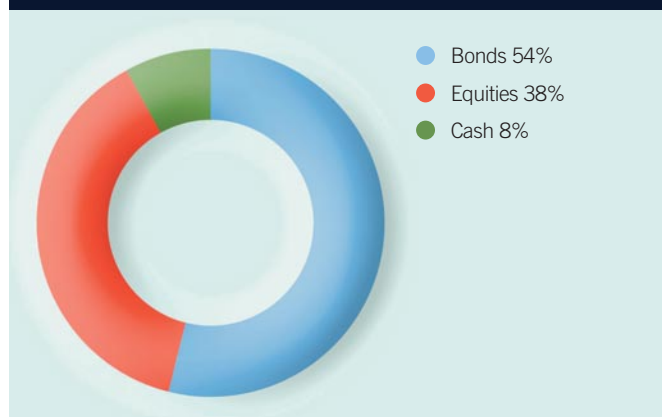
## UNDERWRITING

- The underwriting continued to struggle with a lack of growth in tonnage and premium income. The 2016 general increase of 2.5% produced no increase in income due to the legacy of the churn effect. The overall net loss on the closed years was \$14m.
- The Club renewed its participation in Eagle Ocean Marine, a fixed premium insurer for small vessels operating outside the U.S.. The Club continued to insure 50% of the first \$10m claims exposure of Eagle Ocean's cover. They provide an overall cover limit of \$500m, with the remainder reinsured through Lloyd's. The venture remains profitable.
- American Hellenic Hull Insurance Company Limited, a new venture which acquired the distressed Hellenic Hull Mutual, received an operating license from the Cypriot regulatory authorities in June, 2016. The company was reported to be insuring approximately 1,600 vessels by May, 2017, and to be performing well.
- The current P&I business was reported to be progressing well as the 2016 policy year proved so far to be the 2nd best for claims since 2011 with only 4 claims exceeding \$1m. The personal injury claims accounted for 38% and cargo 20%. The level of attritional claims was lower with only 35 collisions compared with 47 a year earlier and property damage claims fell from 42 incidents in 2015 to 24 in 2016.
- Reinsurance for their retained claims was moved from Hannover Re to Lloyd's with a more comprehensive policy covering different layers of retention with different attachments and subject to an overall annual aggregate deductible. The policy will give a greater degree of cover and include upper IG pool claims.

Entered tonnage by ship type



Asset allocation



## Worldwide offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	95,325	81,376	94,245
Net Claims Incurred	66,497	49,364	65,962
Management Costs	37,744	33,978	34,795
	104,241	83,342	100,757
Underwriting Surplus/(Deficit)	(8,916)	(1,966)	(6,512)
Investment Income Less Tax	3,924	(224)	7,768
<b>Surplus (Deficit)</b>	<b>(4,992)</b>	<b>(2,190)</b>	<b>1,256</b>

Balance Sheet	2017	2016	2015
Investments	204,520	227,020	239,547
Cash	16,445	13,572	14,983
Debtors	63,350	33,969	28,572
Other Assets	173	139	194
Total Assets	284,488	274,700	283,296
Outstanding Claims	171,706	172,572	184,856
Creditors	61,364	45,717	39,840
Total Liabilities	233,070	218,289	224,696
<b>Free Reserves</b>	<b>51,418</b>	<b>56,411</b>	<b>58,600</b>

## IN THE SPOTLIGHT

**\$5m Loss**

**Very High Management Cost**

**Incurred Claims Up 35%**

**New Hull Class**

## INVESTMENTS

- The investment managers recorded a return of 2.4% to produce \$4m income. The return was the result of the continued high equity exposure of 38%. The Club was committed to reducing the equity exposure to meet future proposed regulatory requirements, but it remained the best performing asset class in the portfolio.

## OUTLOOK

- The American Club finds itself in a difficult position, with continuing underwriting losses, with an inability to attract new members and attain a greater mass to achieve economies of scale. The business is also hindered by the mounting management costs which are 40% of the net premium income.
- The venture into the hull market is an attempt to expand the business, but unfortunately there will be little reward for new entrants into the market while the premium rates remain so low.
- The Eagle Ocean Marine remains a successful venture and the managers may seek to expand their operations within the fixed premium market, which may present better opportunities for growth and profitability in the future.
- The Club retains an investment grade credit rating, but the Club must strengthen its finances.



## BRITANNIA

### HIGHLIGHTS

Free Reserves Top

**\$600<sub>m</sub>**

Credit Rating

**S&P A**

Combined Ratio

**98%**

- After last year's setback Britannia have bounced back with a surplus of \$33m and a rise in the assets of their captive reinsurer, Boudicca, of \$55m, achieving an overall increase in combined free reserves of 17% to over \$600m.
- Despite a fall in entered gross tonnage and premium income, there was an improvement in the underwriting as a result of substantially lower claims and major improvements on claims settlements for earlier policy years.

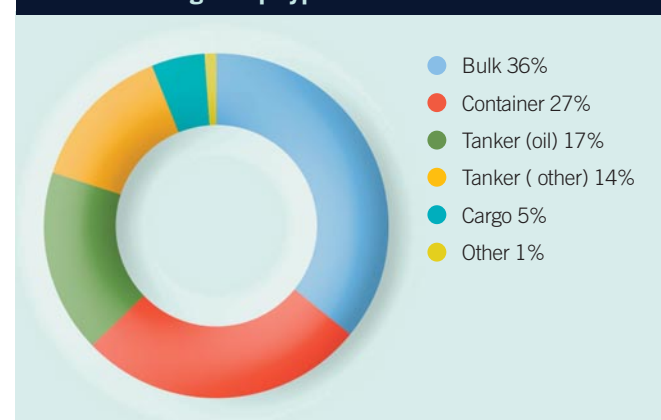


Key Performance Indicators		2017	2016	2015
S&P Rating		A	A	A
Combined Ratio	%	98	101	93
Investment Return	%	3.0	-2.5	0.4
General Increase at Renewal	%	0.0	2.5	2.5
Solvency	%	177	166	168
Net Premiums Adjustments	%	-17.2	-1.0	-6.1
Free Reserves Adjustments	%	17.2	-6.0	15.6
Incurred Claims	%	-22.3	7.3	-23.2
AER (Average Expense Ratio)	%	9.4	9.1	8.4
Increase in GT	%	-4.7	-1.9	0.0
Average net PR per GT	\$	1.60	1.84	1.82
Free Reserves per GT	\$	5.95	4.84	5.05
Surplus /(Deficit) (mil)	\$	33	-25	18
Gross Owned Tonnage	mil	101	106	108

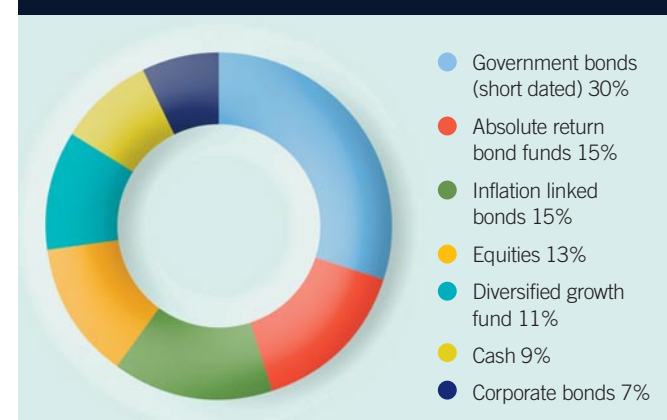
### UNDERWRITING

- The underwriting was hit by a 17% fall in the net premium income following waivers of deferred call estimates on the 2014 and 2015 policy years (which amounted to \$11m) and the failure of one of their large longstanding members - Hanjin. There was also a small rise in the reinsurance premium paid to Boudicca and over half the charterers' class tonnage entry was lost when a member decided to move to other insurers.
- The 2016 policy year is very benign and the cost of claims in the financial year fell by 22%. This improvement was due to a combination of factors, most notably that claims incurred in the first 12 months were the lowest for 13 years.
- The major factor was the costs of claims over \$1m, which were similar in number to earlier years, but the aggregate expected cost was significantly lower. The 2016 policy year had 19 large claims expected to be in excess of \$1m, with an estimated value of \$29m and the most expensive estimated at \$2.4m. However for the 2015 policy year the comparable cost of claims over \$1m was \$84m with 3 claims expected to cost over \$9m.
- There is also a massive improvement on prior policy years amounting to \$53m and the 2016 policy year after 12 months is estimated at \$176m compared to \$226m for the 2015 policy year 12 months earlier.

#### Entered tonnage ship type



#### Asset allocation



### Worldwide offices





Revenue Statement us\$000's	2017	2016	2015
Net Premiums	161,106	194,609	196,535
Net Claims Incurred	130,268	167,654	156,241
Management Costs	27,531	28,350	26,767
	157,799	196,004	183,008
Underwriting Surplus/(Deficit)	3,307	(1,395)	13,527
Investment Income Less Tax	29,639	(23,476)	4,742
<b>Surplus (Deficit)</b>	<b>32,946</b>	<b>(24,871)</b>	<b>18,269</b>

Balance Sheet	2017	2016	2015
Investments	1,089,242	1,071,938	1,093,406
Cash	173,024	107,981	159,921
Debtors	135,998	146,131	113,552
Other Assets			
Total Assets	1,398,26	1,326,050	1,366,879
Outstanding Claims	775,651	781,618	796,938
Creditors	21,571	31,736	24,374
Total Liabilities	797,222	813,354	821,312
<b>Free Reserves</b>	<b>601,042</b>	<b>512,696</b>	<b>545,567</b>

#### IN THE SPOTLIGHT

Free Reserves Up \$88m

Incurred Claims Down 23%

Reduced Deferred Calls

Club Capital Return in May 2017

#### INVESTMENTS

- There was an investment strategy review during the year which resulted in some reallocation of assets. The review led to 50% of the equity portfolio being invested in a diversified growth fund managed by Standard Life and splitting the corporate bonds into actively managed and absolute return bond funds.
- This resulted in an equity allocation of just 13%, which restricted the overall return to 3%.

#### OUTLOOK

- Britannia had a very successful financial year with the best results since 2011 and an increase in the free reserves of \$88m raising the total free reserves to over \$600m.
- This outcome emanated from a) their very conservative claims reserving of previous years which had led to releasing \$53m from the claims reserves and b) the very low claims recorded on the 2016 policy year.
- The Club in this soft underwriting market has been failing to attract new members. However after 2 successive years of falling tonnage and some of the lowest premium rates in the I.G. the Club is now addressing this issue by expanding their Hong Kong office and taking over their correspondents in Japan. This should further increase their Asian membership, which currently accounts for nearly 50% of the entered tonnage.
- There is a lack of transparency concerning Boudicca, which produced over 60% of the increase in free reserves this year and for which virtually no information is provided.
- The Club is exceptionally strong with an S&P 'A' credit rating and the 2nd biggest free reserves in the I.G.

## GARD

#### HIGHLIGHTS

\$125<sup>m</sup> Surplus

Free Reserves \$1.1bn

Credit Rating

S&P A+

- The Gard has delivered its 8th consecutive surplus even after the cancellation of the deferred call. The underwriting surplus reduced to \$20m after the 25% deferred call for the 2016 policy year was waived. The investment return was over 5% and more than made up for the small underwriting surplus. This additional \$125m of income pushed the free reserves to a new IG record of \$1.1bn.



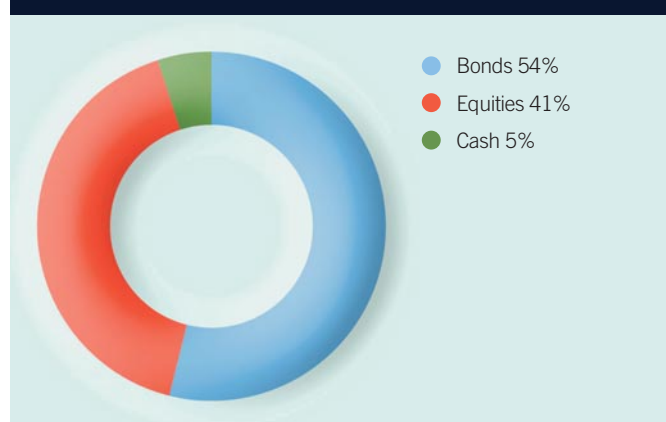
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A+</b>	A+	A+
<b>Combined Ratio</b>	<b>97</b>	85	97
<b>Investment Return</b>	<b>5.0</b>	-3.0	1.8
<b>General Increase at Renewal</b>	<b>0.0</b>	2.5	2.5
<b>Solvency</b>	<b>198</b>	182	177
<b>Net Premiums Adjustments</b>	<b>-15.0</b>	-9.8	10.6
<b>Free Reserves Adjustments</b>	<b>11.6</b>	5.0	2.6
<b>Incurred Claims</b>	<b>-7.4</b>	-15.6	-1.9
<b>AER (Average Expense Ratio)</b>	<b>12.0</b>	11.8	11.4
<b>Increase in GT</b>	<b>0.0</b>	5.8	1.1
<b>Average net PR per GT</b>	<b>3.09</b>	3.64	4.27
<b>Free Reserves per GT</b>	<b>5.67</b>	5.09	5.13
<b>Surplus /(Deficit) (mil)</b>	<b>125</b>	48	50
<b>Gross Owned Tonnage</b>	<b>200</b>	200	189



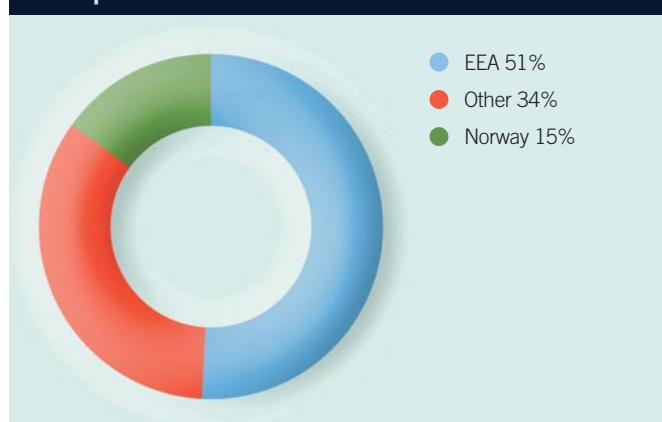
## UNDERWRITING

- The Club has added over \$700m to its free reserves in the last 8 years, but interestingly less than \$100m of that income has come from the underwriting. The Club has reduced the budgeted deferred call estimates over the same period. For the 2016 policy year the reduction equates to almost \$90m.
- This waiver of the 4th instalment seems in marked contrast to the Manager's statement in last year's report that the Club was not there to help its members in times of financial difficulty and that the best interests of the members would be served by a financially strong Club.
- Deferred call reductions do however have the effect of causing many loss records to move from a credit situation to a deficit and thus may result in penalty rises being justified due to depriving the record of anticipated premium. This may actually have the unfortunate effect of increasing the members' premium for future policy years.
- The Club has maintained a policy of balanced underwriting, while using the investment income to strengthen reserves.
- The P&I class had fewer claims, both attritional and large. There was a decline in the severity and frequency of collision claims, but an increase in damage to quays and port installations. The new Maritime Labour Convention led to a rise in crew claims for unpaid wages and repatriation. The P&I claims fell by \$26m in the year to \$325m.
- The net premium income for the Marine and Energy class fell by over 20%, reflecting over-capacity in the Hull market and low activity in Energy. Whilst their Energy class is relatively small it suffered a large number of claims. The surplus for the M&E class before expenses fell by over 50% to \$36m.

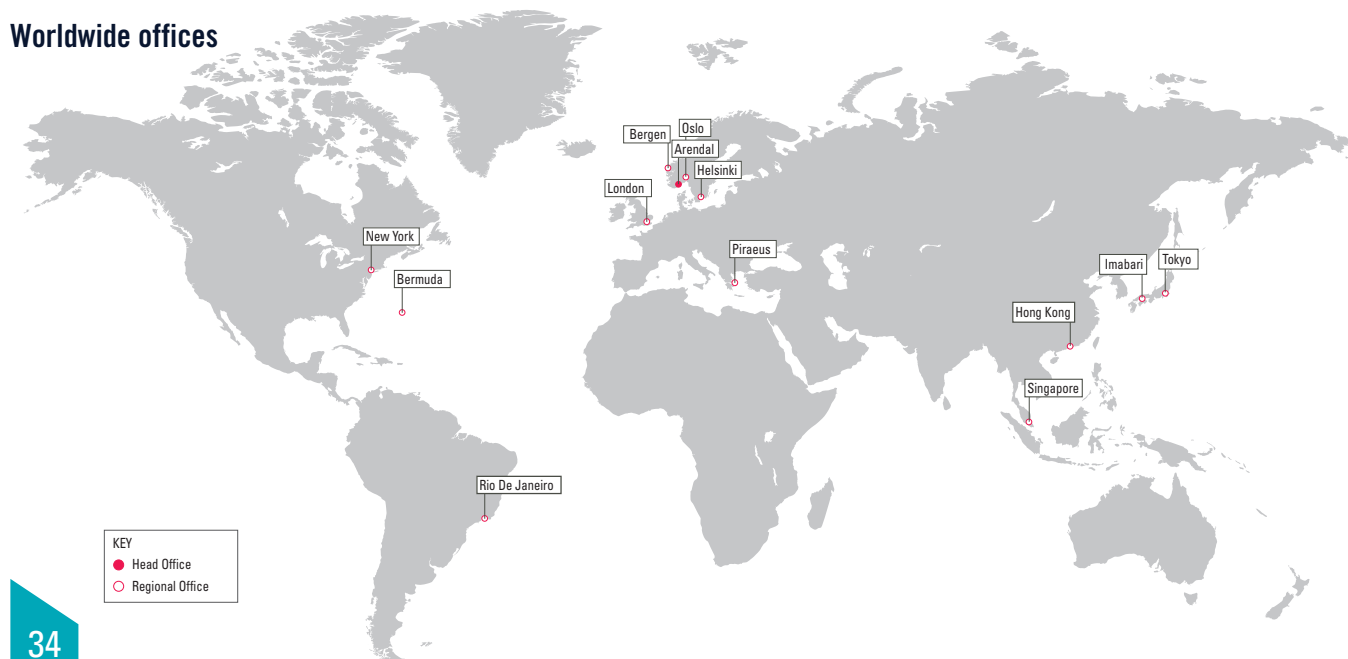
### Asset allocation



### Gross premium underwritten



## Worldwide offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	618,578	727,870	806,598
Net Claims Incurred	493,045	532,259	630,893
Management Costs	105,893	84,943	147,774
	598,938	617,202	778,667
Underwriting Surplus/(Deficit)	19,640	110,668	27,931
Investment Income Less Tax	105,108	(62,560)	21,550
<b>Surplus (Deficit)</b>	<b>124,748</b>	<b>48,108</b>	<b>49,481</b>

Balance Sheet	2017	2016	2015
Investments	2,153,890	2,094,405	2,048,903
Cash	117,376	112,799	137,367
Debtors	205,405	300,541	338,477
Other Assets	36,961	33,849	39,003
Total Assets	2,513,632	2,541,594	2,563,750
Outstanding Claims	1,152,343	1,245,249	1,250,883
Creditors	226,426	279,186	343,814
Total Liabilities	1,378,769	1,524,435	1,594,697
<b>Free Reserves</b>	<b>1,134,863</b>	<b>1,017,159</b>	<b>969,053</b>

## INVESTMENTS

- The investment income has been the main driving force behind the Club's financial success. The equity exposure is/was over 40%, which would probably lead to credit rating and regulatory issues for less well funded Clubs, but with over \$2bn under management, Gard is able to absorb the risk factors.

## OUTLOOK

- The outlook for Gard may only be described as positive. The Club has doubled its free reserves since 2009, while reducing the originally estimated premium income and doubling the P&I entered tonnage.
- The Club maintains a balanced underwriting account and the P&I policy years look well reserved and although the cancellation of the deferred call has left the 2016 policy year in deficit, this will almost certainly diminish in the future.
- The investment performance has been assisted by the large equity exposure, which would deter lesser Clubs due to the negative regulatory or rating consequences.
- The obvious question now is where should Gard go from here? Should the Club use the capital to diversify or just continue to absorb more P&I business? The Club has more than sufficient capital to meet any foreseeable future eventualities and is now almost twice the size of any other P&I Club.

## IN THE SPOTLIGHT

8th Consecutive Discount

8th Consecutive Surplus

5% Investment Return



## JAPAN CLUB

### HIGHLIGHTS

Free Reserves  
**UP 11%**

**\$22m** Surplus

Combined Ratio  
**86%**

- The Japan Club has posted its best underwriting results for 25 years delivering a \$24m surplus and achieving a modest investment gain, which unfortunately was insufficient to cover the income tax liability on the underwriting surplus.
- The free reserves passed the \$200m level for the first time and the results were prior to the supplementary call on the 2016 policy year, which would add an extra \$60m.

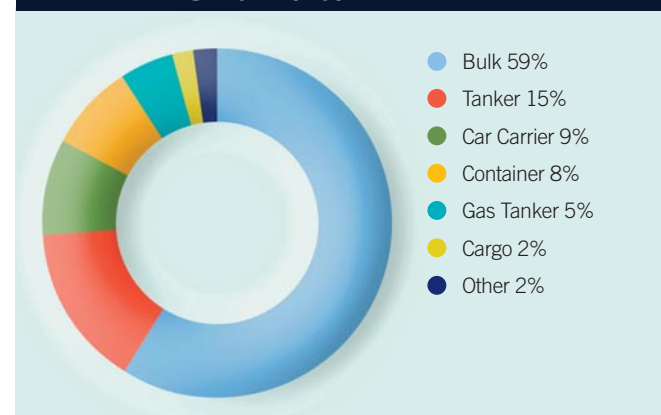


Key Performance Indicators		2017	2016	2015
<b>S&amp;P Rating</b>		<b>BBB+</b>	BBB+	BBB+
<b>Combined Ratio</b>	%	<b>86</b>	91	100
<b>Investment Return</b>	%	<b>2.0</b>	1.4	2.6
<b>General Increase at Renewal</b>	%	<b>0</b>	3.0	3.0
<b>Solvency</b>	%	<b>171</b>	167	167
<b>Net Premiums Adjustments</b>	%	<b>4.2</b>	-6.9	-2.3
<b>Free Reserves Adjustments</b>	%	<b>11.4</b>	8.6	10.5
<b>Incurred Claims</b>	%	<b>-2.2</b>	-19.4	-7.7
<b>AER (Average Expense Ratio)</b>	%	<b>5.5</b>	5.2	5.3
<b>Increase in GT</b>	%	<b>-1.1</b>	-1.1	0.0
<b>Average net PR per GT</b>	\$	<b>1.89</b>	1.79	1.91
<b>Free Reserves per GT</b>	\$	<b>2.29</b>	2.03	1.85
<b>Surplus /(Deficit) (mil)</b>	\$	<b>22</b>	4	37
<b>Gross Owned Tonnage</b>	mil	<b>91</b>	92	93

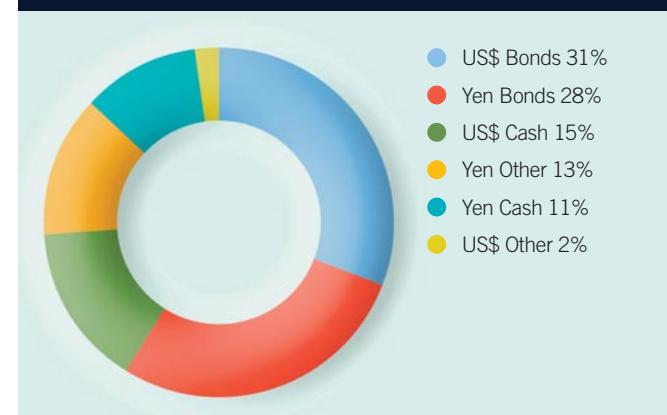
### UNDERWRITING

- The entered tonnage fell marginally during the year, with an additional 6m gt of owned tonnage offset by cancellations and sales. The Club also covers 2m gt of local coastal vessels and 12m gt of chartered tonnage. The good underwriting results enabled the Club to reduce the supplementary call on the 2015 policy year from 40% to 30%, which saved the members approximately \$15m.
- The number of claims have been falling for the last 5 years and the annual total has fallen from over 5,000 to less than 4,000. The cost of claims has also fallen, with cargo claims being the most prevalent, ranging between 50% and 60% of the total number of claims. Crew claims accounted for between 24% and 29%.
- Collision, groundings and pollution claims remain small in number, but some of the most expensive and volatile with annual costs ranging from \$10m to \$30m. The overall low cost of claims was assisted by the low level of IG pool claims.
- There were separate reinsurance programmes for the coastal craft, FD&D class and claims within the Club's retention, which all have been very low in recent years. This has enabled the Club to take full advantage of the soft reinsurance market to improve the cover and reduce the premiums.

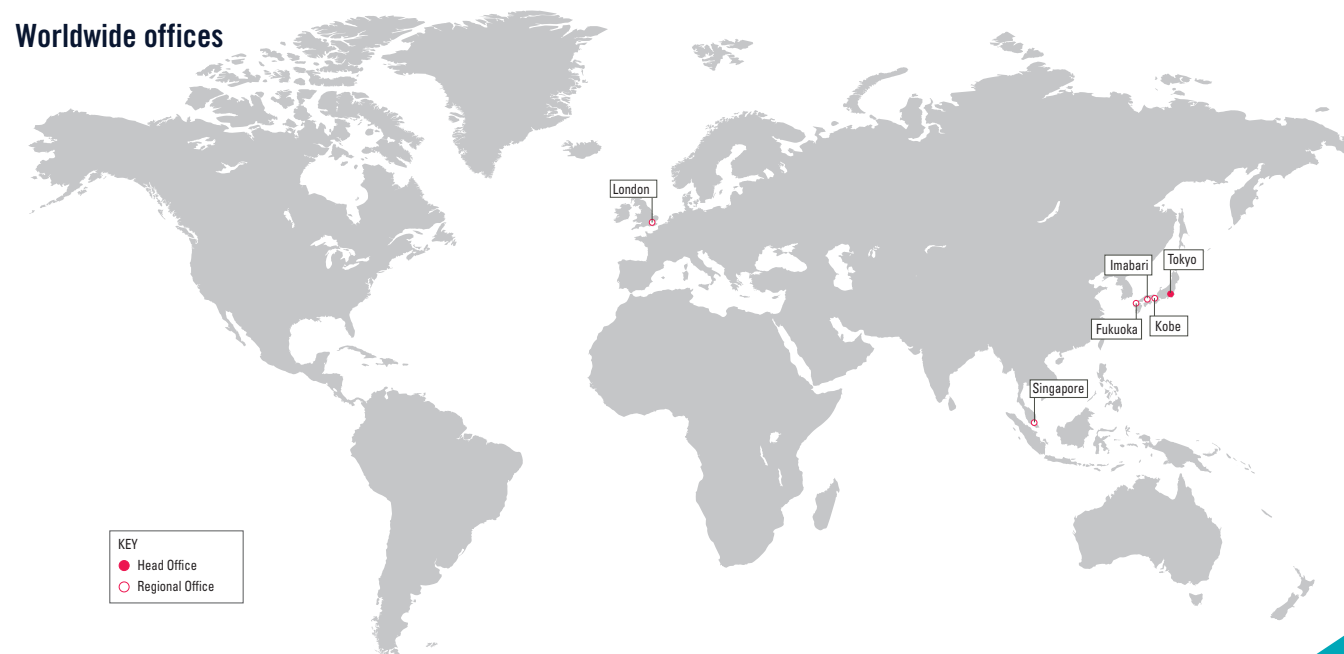
#### Entered tonnage by ship type



#### Asset allocation



#### Worldwide offices





Revenue Statement us\$000's	2017	2016	2015
Net Premiums	171,994	165,029	177,337
Net Claims Incurred	122,604	125,416	155,635
Management Costs	25,441	25,556	21,488
	148,045	150,972	177,123
Underwriting Surplus/(Deficit)	23,949	14,057	214
Investment Income Less Tax	(1,789)	(10,290)	36,664
<b>Surplus (Deficit)</b>	<b>22,160</b>	<b>3,767</b>	<b>36,878</b>

Balance Sheet	2017	2016	2015
Investments	365,040	314,755	327,154
Cash	184,786	211,363	172,107
Debtors	24,122	17,750	23,556
Other Assets	52,886	40,408	34,529
Total Assets	626,834	584,276	557,346
Outstanding Claims	293,292	278,459	255,933
Creditors	125,119	118,687	129,043
Total Liabilities	418,411	397,146	384,976
<b>Free Reserves</b>	<b>208,423</b>	<b>187,130</b>	<b>172,370</b>

## IN THE SPOTLIGHT

### Best underwriting result for decades

AER 5.5%

S&P BBB+

Free Reserves/Ton  
\$2.3/ton

## INVESTMENTS

- The Japanese economy has started to expand and for once the value of the Yen has hardly changed since the previous year and therefore their results have not been obscured by currency fluctuations and large currency exchange gains and losses. The investment return for the year was 2.06%, but the hefty income tax charge on the underwriting surplus turned the figure into a loss.

## OUTLOOK

- The improved underwriting results have led to an 11% increase in the free reserves and a reduction in the combined ratio to 86%. Despite the completion of another 3-year Medium-Term Operational Plan and continued growth in the world shipping market, the Club has been unable to attract any net additional tonnage, which has remained firmly fixed at 90m gt of mutual owned tonnage since 2009.
- A reason for this may be the lack of diversity on the board, comprised wholly of presidents of prestigious local shipping companies. Past reports have alluded to efforts to increase the Asian membership with the establishment of a Singapore branch to handle claims and marketing, but there seems little evidence of achieving this goal.
- This year's results with higher income and lower claims were very satisfactory and enabled the club to retain the S&P BBB+ credit rating.
- The Club still has a very low level of free reserves for the volume of business underwritten and the free reserves per ton are easily the lowest in the IG.

## LONDON CLUB

### HIGHLIGHTS

7<sup>th</sup> Surplus in 9 Years

Investment Return 8.4%

Free Reserves Up 17%

- London has reported their best results for 8 years delivering a surplus of \$27m, compared to just \$3m last year. However, the underwriting deteriorated from a surplus of \$13m last year to a balanced position this year. The star performance came from the investment managers with the best return of the International Group of 8.4%, which yielded \$28m and pushed the reserves up by 17% to \$188m.



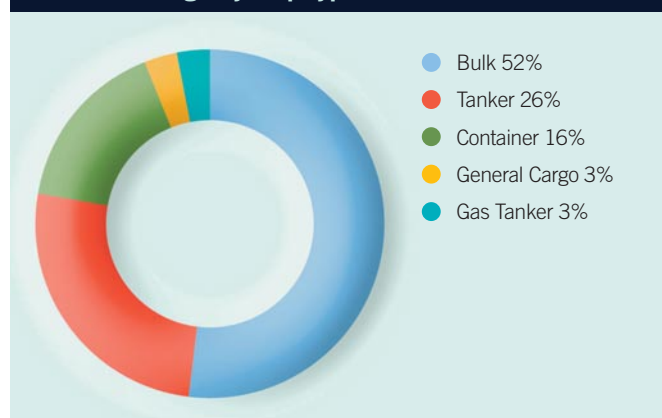
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>BBB</b>	BBB	BBB
<b>Combined Ratio</b>	<b>101</b>	85	137
<b>Investment Return</b>	<b>8.4</b>	-2.5	5.5
<b>General Increase at Renewal</b>	<b>0.0</b>	5.0	6.0
<b>Solvency</b>	<b>191</b>	172	165
<b>Net Premiums Adjustments</b>	<b>-5.4</b>	0.6	0.8
<b>Free Reserves Adjustments</b>	<b>17.0</b>	-0.2	-2.0
<b>Incurred Claims</b>	<b>13.4</b>	2.1	12.2
<b>AER (Average Expense Ratio)</b>	<b>15.5</b>	-42.3	8.80
<b>Increase in GT</b>	<b>-2.3</b>	0.0	2.3
<b>Average net PR per GT</b>	<b>1.92</b>	1.99	1.97
<b>Free Reserves per GT</b>	<b>4.37</b>	3.65	3.58
<b>Surplus /(Deficit) (mil)</b>	<b>27</b>	3	-3
<b>Gross Owned Tonnage</b>	<b>43</b>	44	44



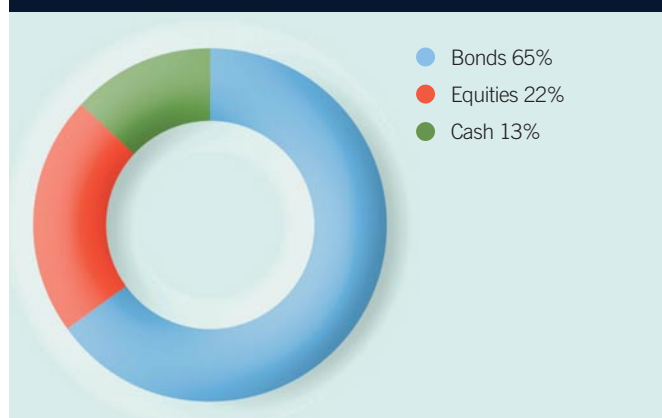
## UNDERWRITING

- The major improvements in the underwriting that were achieved last year have been largely maintained. Although there was some deterioration the overall position was in balance, which is a major achievement after years of underwriting deficits.
- With few underwriting surpluses this century the “controlled” adjustment to the underwriting strategy, involving the spreading of the member base and focusing on the deductibles structure, appears to be delivering stronger results.
- Claims continued to be benign, although not so favourable as last year. There were lower IG pool claims and a reduction in the retained claims in the band of \$500,000 to \$1m. The net incurred claims for the 2016 policy year after 12 months were only \$2m higher than the previous year, which was considered to be exceptionally low.
- There were only 6 claims expected to exceed \$1m after 12 months and 3 of those were collisions. There were approximately 45 collision claims during the year totalling c. \$9m, which was comparable to last year. There was however a big increase in the general average and salvage claims, rising to 22 compared to just 5 claims in the 2015 policy year.
- The net premium income was down on last year principally due to the churn effect. There was however growth in their chartered entries portfolio and the small vessels class - which was introduced in 2015.
- The defence class also had a successful year with the lowest cost of gross incurred claims at expiry for 6 years. There was a steady increase in the frequency of claims, especially in chartering disputes, offset by a substantial decrease in the new build disputes. The group results include a surplus of \$2m on the defence class.

### Entered tonnage by ship type



### Asset allocation



## Worldwide offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	82,710	87,402	86,845
Net Claims Incurred	69,472	60,129	104,277
Management Costs	13,876	14,435	14,919
	83,348	74,564	119,196
Underwriting Surplus/(Deficit)	(638)	12,838	(32,351)
Investment Income Less Tax	27,943	(9,545)	29,121
<b>Surplus (Deficit)</b>	<b>27,305</b>	<b>3,293</b>	<b>(3,230)</b>

Balance Sheet	2017	2016	2015
Investments	327,871	315,527	338,279
Cash	50,023	52,164	42,745
Debtors	15,852	12,815	11,189
Other Assets	15,168	17,502	18,872
Total Assets	408,914	398,008	411,085
Outstanding Claims	206,284	224,566	240,704
Creditors	14,618	12,735	12,967
Total Liabilities	220,902	237,301	253,671
<b>Free Reserves</b>	<b>188,021</b>	<b>160,707</b>	<b>157,414</b>

## IN THE SPOTLIGHT

**Free Reserves  
Twice Net Premium Income**

**A Stellar Investment  
Performance 8.4%**

**S&P BBB Credit Rating -  
Upgrade Likely**

**Best Results for 8 Years**

## INVESTMENTS

- The London investment managers proved to be the most successful in the Group with a return of 8.4% or \$28m, largely as a result of an increase in the value of their portfolio assets. The 22% equity allocation performed well and there were improvements in the bond valuations.

## OUTLOOK

- After a series of poor underwriting results London Club appear to have got their underwriting back on track. Although the last 2 years have witnessed an especially low claims environment, it is evident from the claims development tables that the loss reserving for claims is very conservative and therefore making future problems less likely.
- The increase in deductibles and the diversification of the membership may be aiding the improvement, with a reduction in the bulk carrier entries and an increase in the charterers' entries. The test will come when claims start to rise.
- Although the London Club has the lowest net premium income in the Group, it is well reserved, with a strong solvency margin and good risk based capital ratios and 2 years' net premium income of free reserves. This has earned the Club an S&P BBB credit rating, which could be upgraded in the near future.
- The Club has avoided any unnecessary diversification and instead concentrated on expanding into the charterers' and small vessels markets, which will hopefully have a positive impact on the underwriting, which together with the investment managers should help to grow the Club in the future.



## NORTH OF ENGLAND

### HIGHLIGHTS

**\$33m** Surplus before pension losses

**S&P A** Rating

Total Tonnage **140m**

- North of England had a satisfactory underwriting performance with a surplus of \$8m, after giving a return of call of 5% on the 2016 policy year and investment income of \$25m. Unfortunately, these results were overshadowed by the continuing losses on the employee pension fund, which cost the Club yet another \$30m, reducing the overall surplus for the year to just c. \$3m.

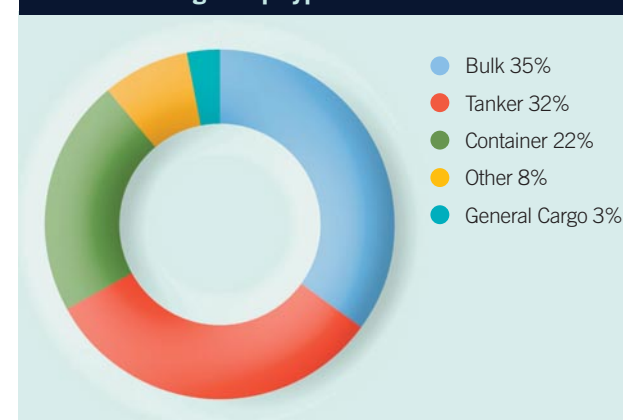


Key Performance Indicators		2017	2016	2015
S&P Rating		A	A	A
Combined Ratio	%	98	77	110
Investment Return	%	2.8	-1.0	4.3
General Increase at Renewal	%	0.0	2.5	4.75
Solvency	%	170	169	148
Net Premiums Adjustments	%	-8.6	4.4	13.2
Free Reserves Adjustments	%	0.6	26.7	8.3
Incurred Claims	%	25.5	-35.9	32.0
AER (Average Expense Ratio)	%	12.0	12.4	12.4
Increase in GT	%	6.9	3.1	-0.8
Average net PR per GT	\$	2.36	2.76	2.72
Free Reserves per GT	\$	3.08	3.27	2.66
Surplus /(Deficit) (mil)	\$	3	76	54
Gross Owned Tonnage	mil	140	131	127

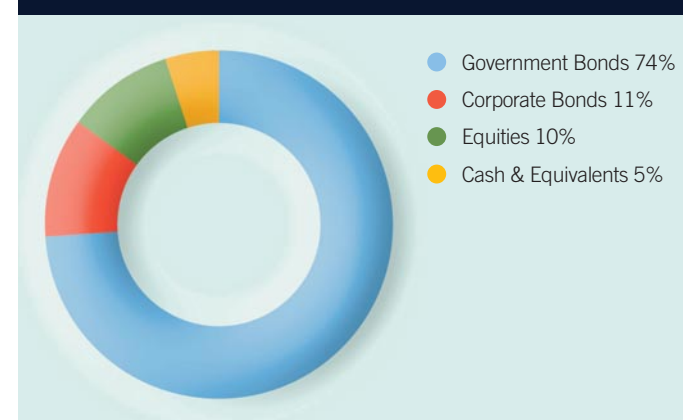
### UNDERWRITING

- Premium income is lower following the 5% return of call, which amounts to \$14m. In addition, the generally weaker trading conditions also caused the net premium income to fall by nearly 9% when compared with last year.
- In contrast to many other Clubs there is a rise in the value of incurred claims of some 25%. This is a consequence of an increased frequency in large claims during the second half of the 2016 policy year.
- 2016 policy year experienced 34 claims in excess of \$1m in the first 12 months, compared to just 19 large claims on the 2015 policy year, a year earlier. The cost of these claims for the 2016 policy year is \$113m, compared to only \$57m for 2015 at the same cut-off date. Fortunately, the attritional claims below \$1m are comparable to the 2015 policy year and totalled circa \$110m.
- Sunderland Marine Insurance (SMI), the small vessels and fish farm insurer (acquired by the North 2 years ago), incurred losses of \$10m, which was primarily due to staff pension fund losses and restructuring costs.
- SMI North America is now conducted through a separate underwriting agency but the plan is to incorporate it directly into the North of England and use it as a platform to expand the Fixed Premium class.
- North also underwrites FD&D risks, which witnessed an upturn in small value attritional claims, but still reported a surplus of \$4m for the year.
- North management annual costs, including claims handling fees but excluding brokerage, were \$75m or 23% of the net premium income.

#### Entered tonnage ship type



#### Asset allocation



#### Worldwide offices





Revenue Statement us\$000's	2017	2016	2015
Net Premiums	329,959	361,053	345,910
Net Claims Incurred	246,013	196,040	305,808
Management Costs	75,698	81,542	74,497
	321,711	277,582	380,305
Underwriting Surplus/(Deficit)	8,248	83,471	(34,395)
Investment Income Less Tax	24,505	(7,175)	87,965
<b>Surplus (Deficit)</b>	<b>32,753</b>	76,296	53,570
Pensions Gain/Loss	(30,241)	14,120	(27,735)

Balance Sheet	2017	2016	2015
Investments	922,807	799,498	737,837
Cash	162,125	284,539	269,343
Debtors	94,874	90,369	171,323
Other Assets	40,941	44,669	49,287
Total Assets	1,220,747	1,219,075	1,227,790
Outstanding Claims	612,936	622,487	703,265
Creditors	177,036	168,187	186,416
Total Liabilities	789,972	790,674	889,681
<b>Free Reserves</b>	<b>430,775</b>	428,401	338,109

## IN THE SPOTLIGHT

Balanced Combined Ratio 98%

Now Second Largest Club 140m GT

Ongoing Pension Funding Issues

Sunderland Marine Losses

## INVESTMENTS

- North is taking a very defensive position with their investment policy and has more than doubled the value of the government bond holdings during the year but reduced the corporate bond portfolio. At the year end, the corporate bond and equity portfolios accounted for only 21% of the investments. This may well reduce financial risk but will almost certainly reduce the income going forward. The equities and corporate bonds are the main contributors to the 2.8% investment income (\$25m) for the year.

## OUTLOOK

- North had a successful year with a surplus of \$33m only marred by the continuing fluctuations in the pension fund liabilities which consumed another \$30m.
- Investment returns may be more modest in the future but there should be less risk of volatility in the investment portfolio.
- SMI will be incorporated within the main Club and be used as a vehicle for expanding the fixed premium non-mutual business. SMI needs to be turned around from a small, unprofitable diverse entity into a viable going concern that is capable of expanding into new marine related activities.
- The Club reports a positive 2017 renewal and attracted an additional 5m gt elevating the Club to 2nd place in the IG tonnage league table. The Risk based capital ratios were average and the Club maintained its S&P A (Stable) credit rating and continues its policy of growth and diversification.

## SHIPOWNERS' CLUB

### HIGHLIGHTS

**\$14m** Investment return

**\$15m** Overall surplus

Free reserves up to **\$294m**

**3** years of nil General Increases

- Shipowners' kicked off the reporting season with another balanced underwriting performance and an improvement in their investment fortunes with an investment profit of \$14m compared to a loss of \$22m last year.
- The overall result was a surplus of \$15m, which takes the free reserves to \$294m, still below the high of \$300m in 2015, but still boosting the free reserves per ton to nearly \$12 - the highest in the survey and earning an S&P upgrade to an A credit rating.



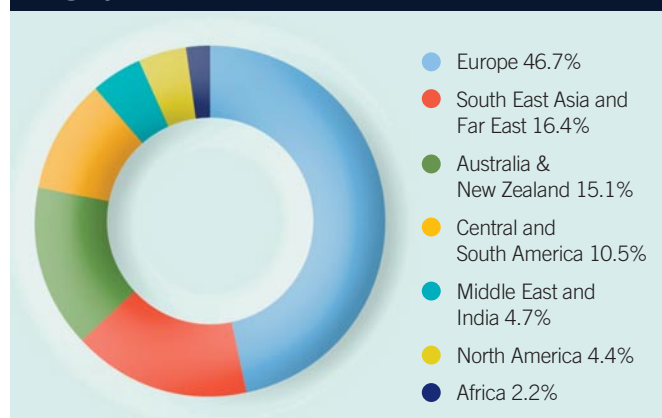
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A</b>	A-	A-
<b>Combined Ratio</b> %	<b>100</b>	99	96
<b>Investment Return</b> %	<b>3.5</b>	-3.0	-0.9
<b>General Increase at Renewal</b> %	<b>0</b>	0	0
<b>Solvency</b> %	<b>189</b>	186	197
<b>Net Premiums Adjustments</b> %	<b>10.5</b>	-13.8	-0.9
<b>Free Reserves Adjustments</b> %	<b>5.2</b>	-7.0	0.5
<b>Incurred Claims</b> %	<b>9.6</b>	-6.5	-8.2
<b>AER (Average Expense Ratio)</b> %	<b>22.0</b>	21.0	20.0
<b>Increase in GT</b> %	<b>0.0</b>	4.2	0.0
<b>Average net PR per GT</b> \$	<b>8.04</b>	7.28	8.80
<b>Free Reserves per GT</b> \$	<b>11.76</b>	11.18	12.51
<b>Surplus /(Deficit) (mil)</b> \$	<b>14.66</b>	-20.90	1.42
<b>Gross Owned Tonnage</b> mil	<b>25</b>	25	24



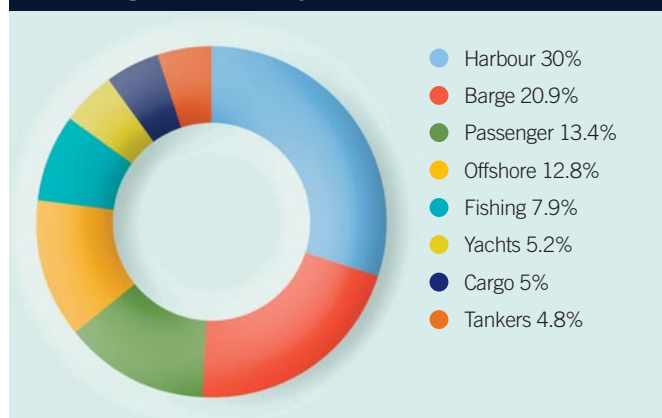
## UNDERWRITING

- The comparative figures for 2016 were slightly misleading as the prior year figures covered the period from February to December, rather than the full calendar year.
- On an annualised basis the net premium fell by 5% and the net claims fell by 6%.
- The Club has not declared a general increase for the last 3 years, which has led to a slow erosion of income.
- Low oil prices combined with a policy decision to reduce exposure to Saudi Arabian claims have impacted on the Club's offshore business.
- The Club offers Members the option of paying in local currency (rather than the IG norm of US dollars). This led to currency translation losses for reporting purposes.
- The overall tonnage remained substantially unchanged; however, the number of offshore units on risk fell by nearly 10%.
- Yachts entered grew by nearly 20% and harbour craft, barges, tankers and passenger vessel numbers all increased. There was however a decline in cargo and fishing vessel entries.
- Circa 3,000 claims were notified in the year valued at \$91m. This was a 6% increase in the frequency but a 14% drop in the claims costs when compared with the previous year, where there was just under 3,000 claims valued at \$106m.
- Claims over \$5m were significantly lower, reflecting the experience of the International Group and the Pool, which enjoyed another exceptionally benign claims year.

### Geographic domicile of members



### Percentage of vessels by numbers



## Worldwide Offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	201,053	182,011	211,099
Net Claims Incurred	149,087	136,060	145,493
Management Costs	51,462	44,720	56,606
	200,549	180,780	202,099
Underwriting Surplus/(Deficit)	504	1,231	9,000
Investment Income Less Tax	14,159	(22,126)	(7,582)
<b>Surplus (Deficit)</b>	<b>14,663</b>	<b>(20,895)</b>	<b>1,418</b>

Balance Sheet	2017	2016	2015
Investments	529,764	526,610	506,894
Cash	116,778	109,326	121,633
Debtors	57,591	48,497	48,895
Other Assets	11,534	9,004	6,510
Total Assets	715,667	693,437	683,932
Outstanding Claims	329,975	325,283	309,856
Creditors	91,651	88,776	73,803
Total Liabilities	421,626	414,059	383,659
<b>Free Reserves</b>	<b>294,041</b>	<b>279,378</b>	<b>300,273</b>

## IN THE SPOTLIGHT

**S&P Credit Rating Upgrade to A**

**Free Reserves \$294m**

**Investment Return 3.5%**

**\$12 per GT Free Reserves**

## INVESTMENTS

- The annual return was 3.5%, compared to a loss of 3% the previous year. The improvement was clearly generated from equity investments which improved by \$16m. The bonds portfolio only managed a modest recovery.
- There were realised losses of \$4m. The Club continued to be beset by currency losses from their non-dollar holdings. These holdings may be a regulatory requirement to match investment assets with the currencies of the outstanding claims, particularly influenced by the Club's 50% tonnage emanating from South East Asia and the Far East.

## OUTLOOK

- The Club has reported its seventh consecutive underwriting surplus and moved the free reserves back up towards their all-time high of \$300m.
- The Club has been awarded an S&P rating upgrade to "A".
- This has been achieved in spite of nil general increases for the last 3 years and a slowdown in the offshore business.
- The Club has a strong capital base, as recognised by S&P. There are however signs that the Club is facing strong competition and therefore is having to work harder to retain its pre-eminent position.
- As premiums generally continue to fall and the possibility of claims rising, this may perversely work in the Club's favour as its competition flounders.
- The Club is financially very strong and is well placed to deal with any future challenges.



## SKULD

### HIGHLIGHTS

**\$45m** Surplus

Entered tonnage up **9%**

**S&P A** Credit Rating

- As Skuld celebrates its 120th anniversary it has produced their 3rd best ever financial result, delivering a \$46m surplus even after returning \$5m to its mutual members. This emanated from a strong investment return (3.4%) producing \$38m, which counteracted the lower underwriting surplus due to weaker premium income.
- Their diversification programme continued and delivered improved returns on the fixed premium P&I, Offshore and Hull and Machinery portfolios. However, the problems besetting the Lloyd's syndicate results remained unresolved with falling premiums and rising losses.



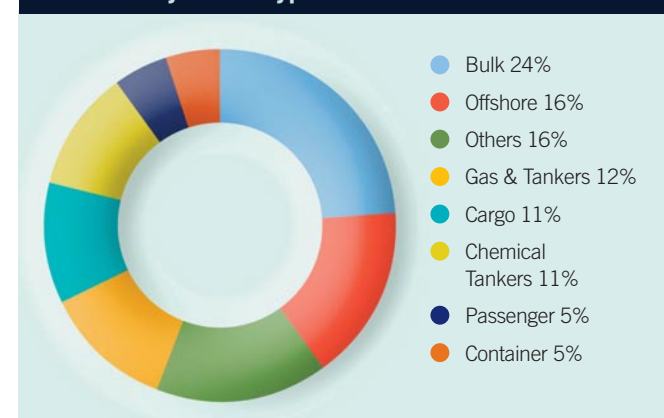
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A</b>	A	A
<b>Combined Ratio</b> %	<b>98</b>	94	100
<b>Investment Return</b> %	<b>3.4</b>	-1.6	1.9
<b>General Increase at Renewal</b> %	<b>n/a*</b>	n/a*	n/a*
<b>Solvency</b> %	<b>177</b>	168	170
<b>Net Premiums Adjustments</b> %	<b>-7.5</b>	1.6	7.7
<b>Free Reserves Adjustments</b> %	<b>12.4</b>	0.2	3.9
<b>Incurred Claims</b> %	<b>-5.8</b>	-6.1	5.5
<b>AER (Average Expense Ratio)</b> %	<b>12.8</b>	12.8	12.9
<b>Increase in GT</b> %	<b>9.0</b>	5.4	-1.3
<b>Average net PR per GT</b> \$	<b>3.85</b>	4.53	4.70
<b>Free Reserves per GT</b> \$	<b>4.61</b>	4.46	4.70
<b>Surplus /(Deficit) (mil)</b> \$	<b>45.84</b>	13.03	13.50
<b>Gross Owned Tonnage</b> mil	<b>85</b>	78	74

\* GI Not publicised - adjustments made depending on members' individual trade type/risk exposure

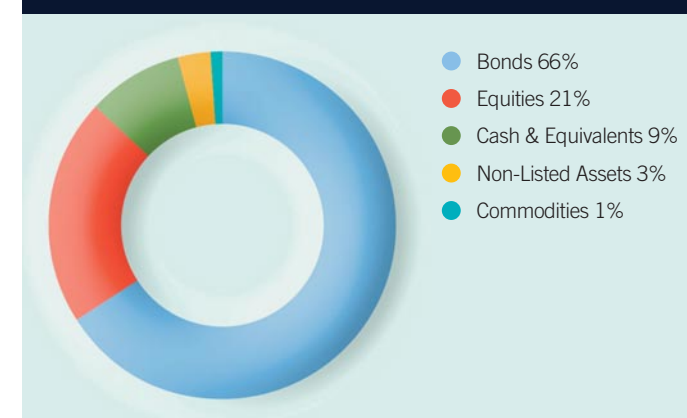
### UNDERWRITING

- The underwriting income fell by 7% resulting from lower mutual P&I premiums, despite a significant 9% increase in tonnage – a clear demonstration of the churn effect and soft market. The Lloyd's syndicate also suffered from continued downward pressure on premium rates and higher reinsurance costs. This negative situation was however mitigated by a lower incidents of retained P&I claims and IG Pool claims. There were also improvements in the back-year results.
- The combined ratio was 98%, the 14th consecutive time the ratio has been 100% or less, which has driven the Club's revival over the last decade. Their diversified divisions seem to add very little to the overall performance of their group.
- It can be deduced from the policy year statements that the mutual P&I business together with the fixed premium charterers' cover are the dominant forces with in excess of 70% of the net premium income and most of the underwriting surplus coming from these classes of activity.
- The strain on the diversification programme remains as the Lloyd's syndicate has yet to show a profit after 6 years of underwriting. In the current review the losses on the open policy years total \$32m compared to \$18m last year. There may be improvements after closure, but cumulative losses upon closure of the earlier years, plus the current results equate to losses of \$50m.

#### Premiums by vessel type



#### Asset allocation



#### Worldwide Offices





Revenue Statement US\$000's	2017	2016	2015
Net Premiums	326,878	353,317	347,624
Net claims Incurred	229,143	243,276	259,057
Management Costs	89,979	89,516	89,435
	319,122	332,792	348,492
Underwriting Surplus/(Deficit)	7,756	20,525	(868)
Investment Income Less Tax	38,088	(7,491)	14,372
<b>Surplus (Deficit)</b>	<b>45,844</b>	<b>13,034</b>	<b>13,504</b>

Balance Sheet	2017	2016	2015
Investments	692,369	696,869	682,830
Cash	247,286	176,085	160,299
Debtors	41,369	35,083	46,984
Other Assets	19,440	10,564	13,590
Total Assets	1,000,464	918,601	903,703
Outstanding Claims	507,194	511,526	497,578
Creditors	101,756	58,847	58,441
Total Liabilities	608,950	570,373	556,019
<b>Free Reserves</b>	<b>391,514</b>	<b>348,228</b>	<b>347,684</b>

## IN THE SPOTLIGHT

**Free Reserves up 12.4%**

**Lloyd's losses rising**

**\$5m return to members**

## INVESTMENTS

- The investment return of 3.4% was driven by the equity portfolio which returned 21% and easily covered the 1.4% loss on the bond portfolio.
- The Club maintained a conservative investment policy with only 21% of the portfolio in equities and 66% in fixed income assets. The remainder of Club funds were in cash with a modest amount invested in non-listed assets and commodities.

## OUTLOOK

- The Club has had a successful year with an increase in their free reserves of 12% and growth in their entered tonnage of 9%, whilst still returning \$5m to members.
- Going forward the Club will face continued pressure on their income, particularly the P&I class which is the dominant force in their overall operation.
- Their new Hull and Machinery class remained relatively small and inconsequential.
- The Skuld syndicate remains a problem area and despite efforts to expand, the crippling overheads (which currently account for over 40% of the net premium income) and losses continue to grow.
- In a post balance sheet development it appears that the Club may have issues with the new Solvency II regulations. The overall solvency appears adequate, but the minor Tier 1 capital ratio does seem to be rather low.
- Meanwhile the P&I business continues to enjoy good health.

## STANDARD CLUB

### HIGHLIGHTS

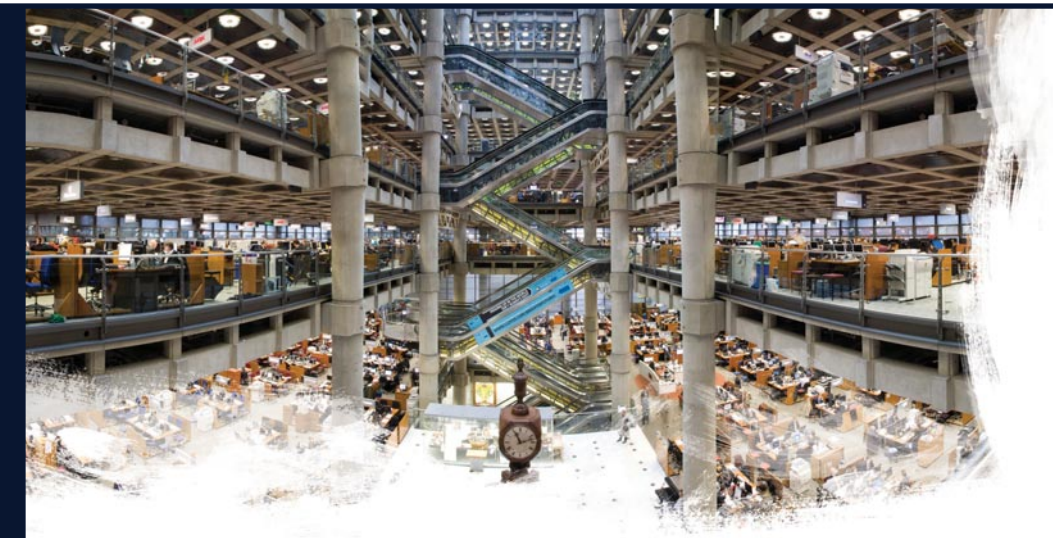
Credit Rating

**S&P A**

**\$40m** Surplus

Free Reserves Up **10%**

- The Standard Club has had another successful year reporting a good underwriting performance, with a combined ratio of 94%, a 5% return to the Mutual members and an investment return of 3% - delivering their best results since 2011, with a surplus of \$40m.
- The Club underwrites P&I, Freight Demurrage and Defence, Small Craft, War Risks, Offshore and has a Lloyd's syndicate.



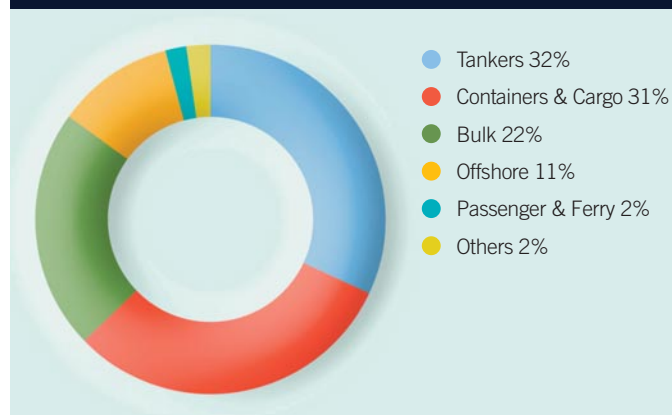
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A</b>	<b>A</b>	<b>A</b>
<b>Combined Ratio</b> %	<b>94</b>	95	102
<b>Investment Return</b> %	<b>3.0</b>	-0.9	1.8
<b>General Increase at Renewal</b> %	<b>0.0</b>	2.5	5.0
<b>Solvency</b> %	<b>178</b>	167	166
<b>Net Premiums Adjustments</b> %	<b>-0.9</b>	0.8	3.5
<b>Free Reserves Adjustments</b> %	<b>10.4</b>	2.6	3.2
<b>Incurred Claims</b> %	<b>-2.9</b>	-11.5	1.3
<b>AER (Average Expense Ratio)</b> %	<b>12.4</b>	12.2	11.4
<b>Increase in GT</b> %	<b>21.4</b>	2.0	4.1
<b>Average net PR per GT</b> \$	<b>2.09</b>	2.57	2.59
<b>Free Reserves per GT</b> \$	<b>3.44</b>	3.79	3.77
<b>Surplus /(Deficit) (mil)</b> \$	<b>40</b>	10	12
<b>Gross Owned Tonnage</b> mil	<b>125</b>	103	101



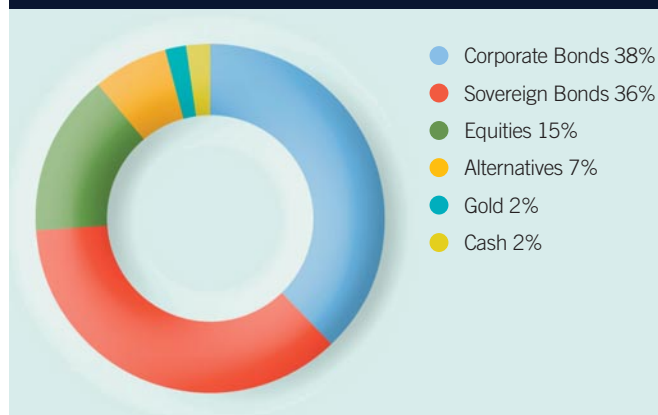
## UNDERWRITING

- The underwriting is now performing well after a number of difficult years. The P&I class announced a 5% return of call for the 2016 policy year whilst covering the \$14m underwriting loss on the Lloyd's syndicate and still delivering an overall underwriting surplus of \$14m.
- There was a small reduction in the cost of claims due to fewer significant casualties and a lower incidence of I.G. pool claims. There has been a "dramatic" reduction in the number of small claims. The consequence is over 60% of the cost of claims is now attributable to a few large claims.
- To assist with the control of such claims the Club has purchased new Stop Loss protection policies for their retained risks.
- There were claims improvements of \$20m on the earlier open policy years and the anticipated costs (including reinsurance and other expenses) on the 2016 policy year were \$72m lower than those of the 2015 policy year after 12 months. This gives a clear indication of the benign claims nature of the 2016 policy year.
- The claims development tables also illustrates a very conservative reserving policy and steady improvements on all the P&I policy years as they mature.
- The Club underwrites a number of classes of business other than P&I and by far the largest of those other classes is the Lloyd's syndicate. This was the 2nd year of its operation and now has increased its capacity with additional capital, providing an expanded number of insurance covers, including a range of non-marine risks e.g. Political Violence, Terror, Political Risk and Specie lines.
- Last year the syndicate's loss was \$11m, principally as a result of the operating costs which consumed over 60% of the net premium income. It can only be hoped going forward that with the additional capacity and capital the syndicate will be able to underwrite sufficient good business to return a profit.

### Owned tonnage by ship type



### Asset allocation



### Worldwide offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	261,800	264,200	262,000
Net Claims Incurred	200,800	206,900	233,800
Management Costs	46,600	43,600	32,600
	247,400	250,500	266,400
Underwriting Surplus/(Deficit)	14,400	13,700	(4,400)
Investment Income Less Tax	25,900	(3,800)	16,200
<b>Surplus (Deficit)</b>	<b>40,300</b>	<b>9,900</b>	<b>11,800</b>

Balance Sheet	2017	2016	2015
Investments	786,100	750,400	773,000
Cash	108,100	114,800	84,600
Debtors	134,500	130,400	130,200
Other Assets	29,900	36,900	35,700
Total Assets	1,058,600	1,032,500	1,023,500
Outstanding Claims	554,200	582,700	576,200
Creditors	73,900	59,700	67,000
Total Liabilities	628,100	642,400	643,200
<b>Free Reserves</b>	<b>430,500</b>	<b>390,100</b>	<b>380,300</b>

## IN THE SPOTLIGHT

**Tonnage Up 21%**

**Combined Ratio 94%**

**Free Reserves \$430m**

## INVESTMENTS

- The investment return was a modest 3%, reflecting the Club's conservative investment policy with only 15% of the portfolio in equities and over 70% in short dated bonds. The main changes in asset allocation during the year were a decrease in the allocation of government bonds and an increase in corporate bonds and equities, with a reduction in non-dollar currencies.

## OUTLOOK

- Standard had a good year, driving their free reserves up by over 10% in the year and by over 35% in the last 6 years to over \$400m. The Club achieved an underwriting surplus of \$14m despite lower premium income (after the return of call) and lower reinsurance and claims costs. The more established small classes also recorded good results.
- The diversification programme now includes a P&I subsidiary in Singapore, which also underwrites War risks, an Offshore business, a small vessels facility, a Norwegian joint venture offering Marine and Energy covers for the Lloyd's syndicate, a small vessels reinsurance cover for Korea P&I and the Lloyd's syndicate.
- The Club retained an S&P 'A' credit rating and had good risk based capital ratios with a sound underwriting base. The Lloyd's syndicate remains a challenge with currently high level overheads and a soft Marine Market. The injection of additional outside capital and the increase in underwriting capacity should accelerate the growth of the syndicate and hopefully its profitability.
- The Club has had a good year and consolidated its position within the I.G., but the Lloyd's syndicate needs to move into profit.



## STEAMSHIP

### HIGHLIGHTS

Credit Rating

**S&P A**

**\$70<sub>m</sub>** Surplus

Combined Ratio

**84%**

- Steamship has reported another amazing surplus of \$70m to conclude an unprecedented 3 consecutive years which has seen the free reserves rise by 70% from \$301m to \$510m. The underwriting surplus fell from \$74m last year to \$40m, but the fall was more than made up by the investment managers delivering an income of \$30m. The year also included a \$26m return of call to the mutual members for the 2014 policy year and was followed by a successful renewal.

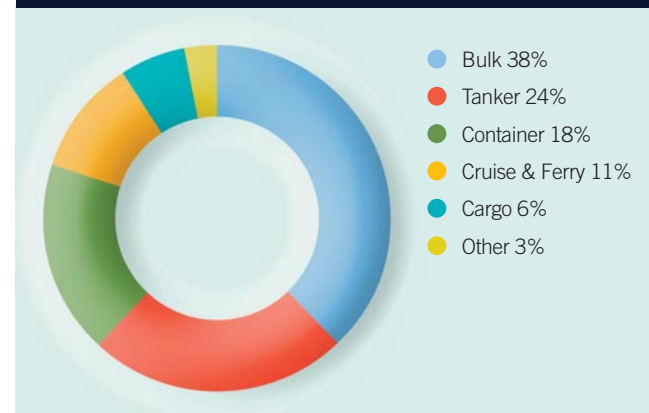


Key Performance Indicators		2017	2016	2015
S&P Rating		A	A	A-
Combined Ratio	%	84	74	79
Investment Return	%	2.8	-0.9	1.3
General Increase at Renewal	%	0	0	0
Solvency	%	191	172	158
Net Premiums Adjustments	%	-12.6	-3.7	4.1
Free Reserves Adjustments	%	15.9	17.0	24.9
Incurred Claims	%	0.3	-10.5	-19.3
AER (Average Expense Ratio)	%	12.1	12.1	11.8
Increase in GT	%	9.0	5.4	7.2
Average net PR per GT	\$	2.94	3.66	4.00
Free Reserves per GT	\$	6.00	5.65	5.08
Surplus /(Deficit) (mil)	\$	70	64	75
Gross Owned Tonnage	mil	85	78	74

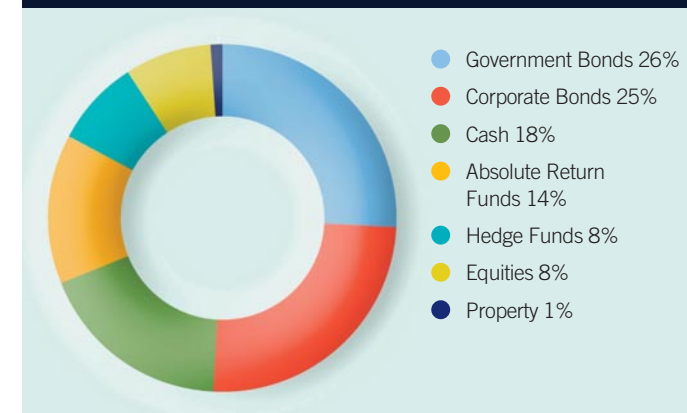
### UNDERWRITING

- The Club's recent underwriting revival has been as a direct consequence of the loss reserving and claims management within the Club. Earlier in the decade and following several costly underwriting years, the Club introduced a very conservative approach to claims loss reserving which saw the total of outstanding claims rise by \$150m in 3 years. The more recent policy years have improved and the conservative provisions have been slowly released. In the last 3 financial years, the outstanding claims have fallen by over \$120m.
- In the 2016 policy year, the cost of claims was 20% lower than the for the previous year, although the number of claims is almost identical. Attritional claims below \$250,000 by number remained static, but the expected total cost is 20% lower, which is comparable to the drop in the cost of large claims over \$250,000.
- In the 2016 policy year, there are 49 large claims over \$250,000 with an expected cost of \$63m, compared to 54 large claims in 2015, with an estimated cost of \$133m. The largest category of claim is passenger, which represent 39% of the total large claims and costing \$25m. The 2nd largest claims category is cargo, representing 22% of the overall total at a cost of \$14m. The 3rd largest category is crew (15 large claims costing \$9m) which mostly related to passenger ships operating from the US. The cost of collision claims remained very low.
- The tonnage entered increased by some 10m gt during the year to 85m gt. The claims management costs were \$25m, bringing the total management costs to 18% of the net premium income.

#### Entered tonnage ship type



#### Asset allocation



### Worldwide offices





Revenue Statement us\$000's	2017	2016	2015
Net Premiums	249,609	285,499	296,339
Net Claims Incurred	168,455	167,930	187,614
Management Costs	41,364	43,337	47,499
	209,819	211,267	235,113
Underwriting Surplus/(Deficit)	39,790	74,232	61,226
Investment Income Less Tax	30,179	(10,098)	13,762
<b>Surplus (Deficit)</b>	<b>69,969</b>	<b>64,134</b>	<b>74,988</b>

Balance Sheet	2017	2016	2015
Investments	855,828	788,363	768,499
Cash	192,302	241,233	257,625
Debtors	38,349	33,826	30,509
Other Assets	12,687	14,551	15,741
Total Assets	1,099,166	1,077,973	1,072,374
Outstanding Claims	562,557	613,022	651,173
Creditors	26,319	24,630	45,014
Total Liabilities	588,876	637,652	696,187
<b>Free Reserves</b>	<b>510,290</b>	<b>440,321</b>	<b>376,187</b>

## IN THE SPOTLIGHT

9% Growth in GT

Impressive Combined Ratio 84%

A Meaningful 10% Return of Call

Massive Increase in Free Reserves

## INVESTMENTS

- The overall return, including the Trust and the subsidiaries was 2.8%. The Trust reported a return of 4%, with returns of 2% on the bond portfolio, 18% on equities and 8% on the hedge fund.

## OUTLOOK

- Steamship has had an unprecedented run in the last 3 years, with combined ratios under 85%, an increase in free reserves of 69% and an increase of 25% in their entered tonnage. Although tonnage has increased net premium income has fallen and the net claims paid have remained constant.
- The Club adopted a very conservative claims loss reserving policy which is evident from the net claims development table. This showed that policy years tend to be heavily over-reserved in the earlier years and then the surpluses are slowly released into the subsequent financial years. This should have a beneficial effect on future financial years and reduce the impact of any unexpected surge in claims.
- There are plans to expand their Asian operations with new offices in Singapore and Tokyo. The Club has however decided to avoid any unnecessary diversification.
- Interestingly the Club was the first to publish part of the "Solvency and Financial Condition Report" which was a Solvency II requirement. The capital requirement was determined by the Bermuda standard formula and the result was that the Club exceeded their requirement by 169%.
- The Club has had 3 marvellous years and now finds itself in a very strong financial position with an S&P A credit rating and very high risk based capital ratios and with an unprecedented opportunity to expand and continue to prosper.

## SWEDISH

### HIGHLIGHTS

\$11<sup>m</sup> Surplus

Record High Free Reserves \$194<sup>m</sup>

\$9<sup>m</sup> Investment return - best for 3 years

- The Swedish Club have managed to navigate the vagaries of the Hull market, while enjoying a benign claims year, with a balanced underwriting performance and their best investment return for 3 years.
- The net premium income and the incurred claims both fell by \$12m, but the investment return of \$9m resulted in an overall surplus of \$11m, pushing the free reserves to a new record high of \$194m.



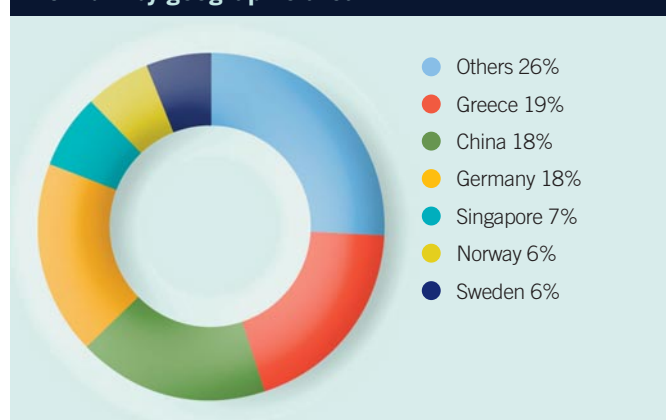
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>BBB+</b>	BBB+	BBB+
<b>Combined Ratio</b>	<b>99</b>	99	87
<b>Investment Return</b>	<b>2.7</b>	-1.6	1.6
<b>General Increase at Renewal</b>	<b>0</b>	0	2.5
<b>Solvency</b>	<b>203</b>	195	202
<b>Net Premiums Adjustments</b>	<b>-8.7</b>	2.5	10.9
<b>Free Reserves Adjustments</b>	<b>6.0</b>	-0.6	11.8
<b>Incurred Claims</b>	<b>-10.6</b>	23.7	3.0
<b>AER (Average Expense Ratio)</b>	<b>13.3</b>	13.3	13.0
<b>Increase in GT</b>	<b>6.8</b>	4.8	13.5
<b>Average net PR per GT</b>	<b>2.78</b>	3.25	3.32
<b>Free Reserves per GT</b>	<b>4.13</b>	4.16	4.38
<b>Surplus /(Deficit) (mil)</b>	<b>11.04</b>	(1.06)	19.37
<b>Gross Owned Tonnage</b>	<b>47</b>	44	42



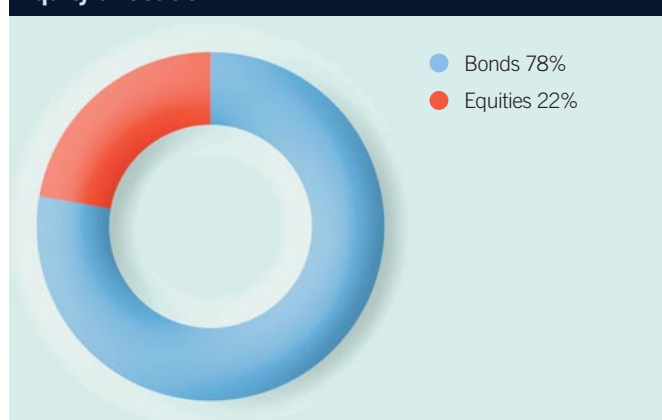
## UNDERWRITING

- Once again the underwriting is a tale of two halves - a struggling Marine and Energy business but a steadier P&I class. The M&E volume remains stable, but the market is flooded with capacity, leading to a fall in income.
- The P&I class attracted an additional 3m gt of business during the year, which led to a small increase in net premium income. There has been a rise in the frequency of claims, particularly cargo, but the severity of claims have fallen, which is in line with the experience of the IG.
- 2016 saw a record number of 7 total losses, which dropped to just 1. The number of claims exceeding \$500k also fell from 27 to 18, of which 2 exceeded \$2m (compared to 6 the previous year), which helped bring the overall cost of claims down by 11%.

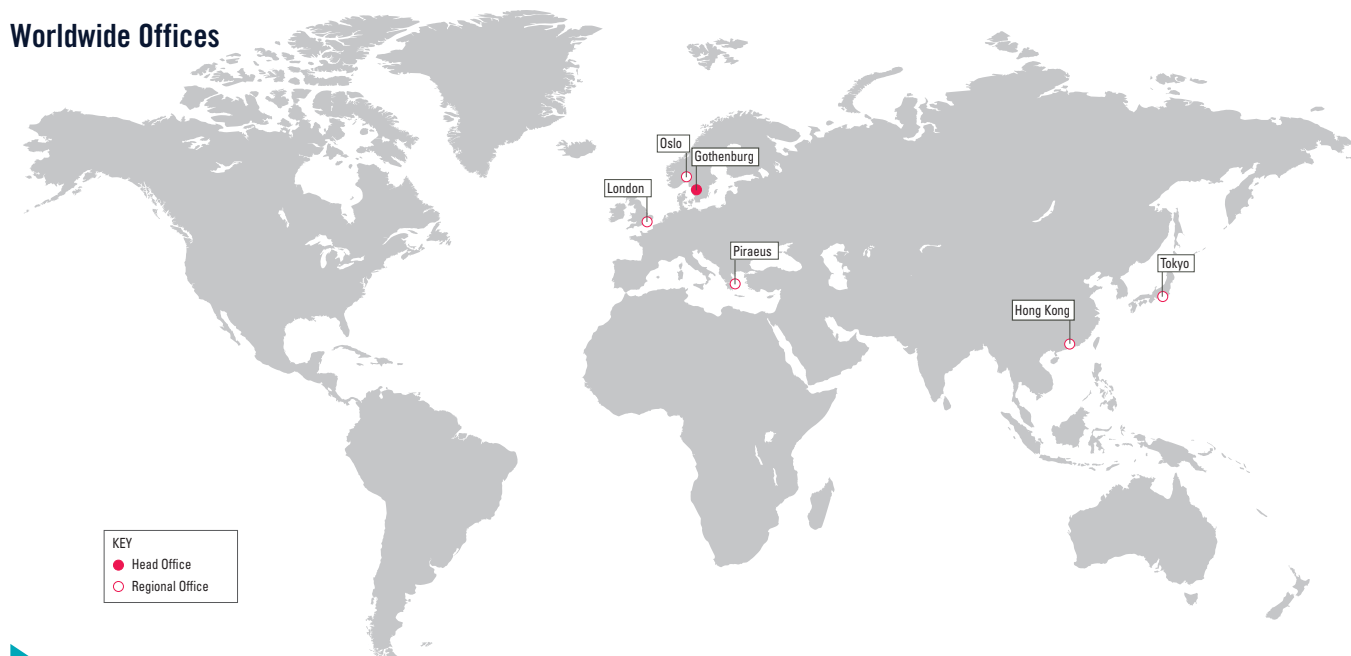
Premium by geographic area



Equity allocation



Worldwide Offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	130,530	142,950	139,448
Net Claims Incurred	102,961	115,187	93,151
Management Costs	25,945	26,535	28,718
	128,906	141,722	121,869
Underwriting Surplus/(Deficit)	1,624	1,228	17,579
Investment Income Less Tax	9,416	(2,288)	1,798
<b>Surplus (Deficit)</b>	<b>11,040</b>	<b>(1,060)</b>	<b>19,377</b>

Balance Sheet	2017	2016	2015
Investments	351,506	349,372	343,370
Cash	31,580	44,146	31,808
Debtors	50,199	55,722	63,987
Other Assets	7,826	11,392	1,811
Total Assets	441,111	460,632	440,976
Outstanding Claims	188,244	192,181	180,836
Creditors	58,751	85,377	76,006
Total Liabilities	246,995	277,558	256,842
<b>Free Reserves</b>	<b>194,116</b>	<b>183,074</b>	<b>184,134</b>

## INVESTMENTS

- The Club has seen the best investment return for 3 years, amounting to \$9m and reversing the \$2m loss last year.
- The previous year's losses arose from the decline in the value of the bonds, but this year both the bonds and the equity portfolios appreciated in value and there were further realised gains on disposals. The equities were held in global market or exchange traded funds, while the bonds were almost exclusively held in funds.

## OUTLOOK

- The Club underwrites both P&I and Marine and Energy business which have complemented each other as their relative performances have a degree of negative correlation. For the last 2 years the M&E division has suffered from overcapacity and small underwriting deficits, while the P&I has prospered as a result of a steadier level of income and a low incidence of claims.

- This situation may reverse as P&I premiums look likely to continue to decline but the M&E market harden.

- The Club has refrained from branching into new classes of business but has increased the number of products available to its members to 20, including a new Collision Recovery Insurance.

- The free reserves are now \$194m, which the Club states amounts to 182% of its Solvency Capital Requirements under Solvency II regulatory requirements, indicating the strength of the Club's finances which have attracted an S&P BBB+ credit rating. The Club is relatively small, financially strong and its multiple lines of insurance provide it with a level of stability.

## IN THE SPOTLIGHT

**Record Free Reserves \$194m**

**S&P BBB+ Credit Rating**

**Capital 182% of Regulatory Requirement**

**Free Reserves Up 6%**



## UK CLUB

### HIGHLIGHTS

Credit Rating

**S&P A**

Investment Return

**4.6%**

Free  
Reserves

**\$558m**

- The UK Club has reported an overall surplus of \$11m, after a deficit of \$1m last year. The underwriting deteriorated following a small number of high value claims towards the end of the year resulting in a \$22m underwriting deficit. Fortunately, there was a strong performance from the investment managers with a return of 4.6% which produced income of \$33m after paying the interest charges on their perpetual loan and foreign exchange losses.



Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A</b>	A	A
<b>Combined Ratio</b>	<b>107</b>	94	105
<b>Investment Return</b>	<b>4.6</b>	-1.0	5.0
<b>General Increase at Renewal</b>	<b>0.0</b>	2.5	6.5
<b>Solvency</b>	<b>178</b>	178	177
<b>Net Premiums Adjustments</b>	<b>-2.9</b>	-4.7	5.4
<b>Free Reserves Adjustments</b>	<b>2.0</b>	-0.2	3.7
<b>Incurred Claims</b>	<b>13.4</b>	-16.8	7.8
<b>AER (Average Expense Ratio)</b>	<b>10.22</b>	10.17	9.66
<b>Increase in GT</b>	<b>3.0</b>	6.3	2.4
<b>Average net PR per GT</b>	<b>2.12</b>	2.25	2.51
<b>Free Reserves per GT</b>	<b>4.01</b>	4.05	4.31
<b>Surplus /(Deficit) (mil)</b>	<b>11</b>	-1	19
<b>Gross Owned Tonnage</b>	<b>139</b>	135	127

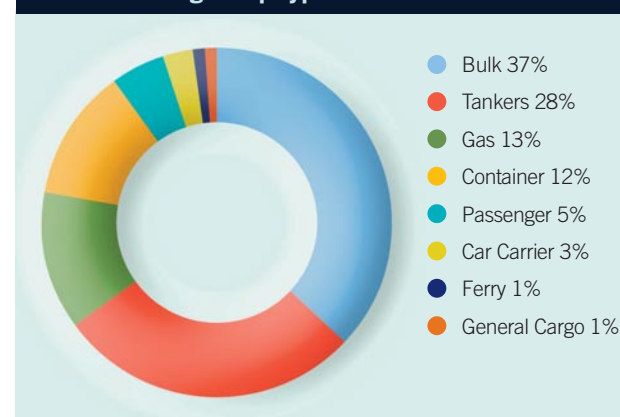
### UNDERWRITING

- The underwriting continued to disappoint with a 4th deficit in five years. The reason was an increase of 13% in incurred claims caused by a small increase in the number of claims over \$2m which had a significant impact on the outcome for the year.
- In the last ten years the cost of claims over \$2m within the retention has varied from as little as \$5m to over \$70m with the obvious resultant increase in volatility of the total cost of incurred claims.
- In 2015 policy year there were 4 claims over \$2m which cost an estimated \$18m, but in 2016 policy year the total rose to 12 such claims at an estimated cost

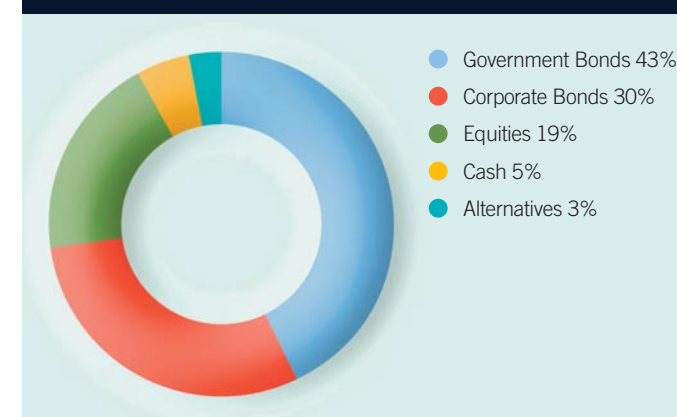
of around \$55m. This was reflected in the total cost of claims and expenses on the 2016 policy year which were \$30m higher than expected costs on the previous year.

- The analysis of claims by category shows that the most volatile category was casualty and in particular collisions which increased in the year, while cargo and personal injury claims remained broadly stable.
- Elsewhere, the cost of attritional claims below \$500,000 remained steady despite a fall in the number of claims and the IG pool experienced a particularly benign claims year with fewer reported claims.

#### Entered tonnage ship type



#### Asset allocation



### Worldwide offices





Revenue Statement us\$000's	2017	2016	2015
Net Premiums	295,088	303,946	319,090
Net Claims Incurred	273,619	241,252	289,936
Management Costs	43,595	44,874	43,961
	317,214	286,126	333,897
Underwriting Surplus/(Deficit)	(22,126)	17,820	(14,807)
Investment Income Less Tax	32,659	(19,045)	33,872
<b>Surplus (Deficit)</b>	<b>10,533</b>	<b>(1,225)</b>	<b>19,065</b>

Balance Sheet	2017	2016	2015
Investments	1,080,612	1,078,944	1,135,625
Cash	115,486	87,242	48,762
Debtors	105,373	116,313	106,714
Other Assets			
Total Assets	1,301,471	1,282,499	1,291,101
Outstanding Claims	710,739	701,342	715,079
Creditors	32,914	34,244	28,256
Total Liabilities	743,653	735,586	743,335
<b>Free Reserves</b>	<b>557,818</b>	<b>546,913</b>	<b>547,766</b>

## IN THE SPOTLIGHT

### Lacklustre Underwriting Performance

**107% Combined Ratio**  
(104% Before Return of Call)

**99% Membership Retention**  
at 2017 Renewal

**5% Increase in Entered GT**

## INVESTMENTS

- The investment managers had a successful year with a return of 4.6% before currency losses as the year turned out to be a strong year for risk assets. The equity portfolio produced a return of 20% and the alternatives reported a return of 10%, which helped ease the disappointment of the fixed income assets. The majority of the investments were held in mutual funds. The overall investment income was net of the \$7.5m interest on the subordinated loan capital.

## OUTLOOK

- The UK Club had another steady year of consolidation with the 8th surplus in 9 years which has seen the free reserves rise by over 65% to \$558m.
- The Club has excellent risk based capital ratios and an above average solvency margin. The balance sheet is strong and judging from net claims development tables it was obvious that the loss reserving for the claims was very conservative with the potential for further surpluses to arise on past policy years in the future.
- The concern is that in a low claims environment the Club was unable to take advantage and build up the free reserves more substantially to prepare for adverse trading conditions. The underwriting results were weaker than their rivals which could put them at a disadvantage when the claims start to rise.
- The other concern is the Club's perpetual loan designed to bolster its free reserves, which could prove a mixed blessing as whilst delivering the necessary regulatory capital, could undermine the Club's financial competitiveness. It would be surprising if the Club didn't attempt to pay off at least some of this loan in 2018, when it is up for its 5 yearly review.

## WEST OF ENGLAND

### HIGHLIGHTS

**S&P A-** Credit Rating

**\$30m** Surplus

Free Reserves **UP 11%**

- West of England reported their 5th consecutive increase in free reserves and their 3rd consecutive surplus - \$30m compared to \$33m last year. The underwriting result was lower following an increase in claims, but the investment return improved after a strong performance from equities.



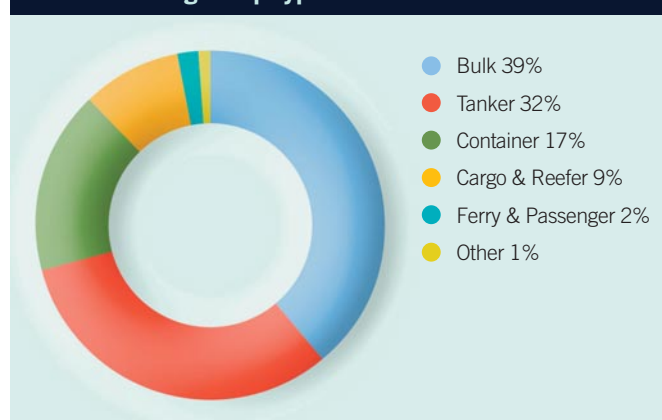
Key Performance Indicators	2017	2016	2015
<b>S&amp;P Rating</b>	<b>A-</b>	BBB+	BBB+
<b>Combined Ratio</b> %	<b>88</b>	84	98
<b>Investment Return</b> %	<b>1.0</b>	-0.8	4.3
<b>General Increase at Renewal</b> %	<b>0</b>	0	2.5
<b>Solvency</b> %	<b>177</b>	169	159
<b>Net Premiums Adjustments</b> %	<b>-1.1</b>	4.3	5.5
<b>Free Reserves Adjustments</b> %	<b>10.8</b>	13.5	12.7
<b>Incurred Claims</b> %	<b>4.8</b>	-13.4	2.1
<b>AER (Average Expense Ratio)</b> %	<b>15.2</b>	15.5	14.9
<b>Increase in GT</b> %	<b>13.9</b>	7.5	17.5
<b>Average net PR per GT</b> \$	<b>2.22</b>	2.55	2.63
<b>Free Reserves per GT</b> \$	<b>3.74</b>	3.84	3.64
<b>Surplus /(Deficit) (mil)</b> \$	<b>30</b>	33	27
<b>Gross Owned Tonnage</b> mil	<b>82</b>	72	67



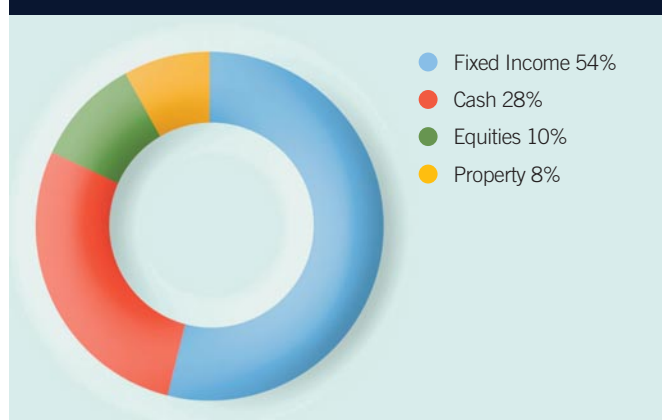
## UNDERWRITING

- The underwriting surplus fell from \$29m last year to \$22m this year, primarily as a result of a small increase in incurred claims. The combined ratio was still a very positive 88% (one of the best in the IG).
- The net premium income fell by 1% despite an increase in the mutual tonnage of 14% and an additional 10m gt of charterers' business. The managers are warning that although claims levels are currently very low, it is now more difficult to maintain underwriting discipline and that current market P&I rates are likely to prove unsustainable in the event of an upturn in claims.
- The rise in the incurred claims is caused by the 2015 policy year, which had previously followed a pattern similar to earlier policy years, but unexpectedly continued to increase and deteriorate by \$9m.
- Fortunately this additional cost was absorbed by improvements on the 2014 policy year, the closed policy years (of circa \$36m) and the low cost of IG pool claims. However the Club's IG pool percentage may increase in the future as they reported the largest claim of the year and have achieved significant growth in membership.
- The cost of claims within expenditure ranges was informative. Attritional claims up to c.\$500,000 cost less than \$50m per annum whilst claims below \$2m cost less than \$20m. Unsurprisingly those claims over \$2m provided the volatility, varying anything between nil and \$40m.

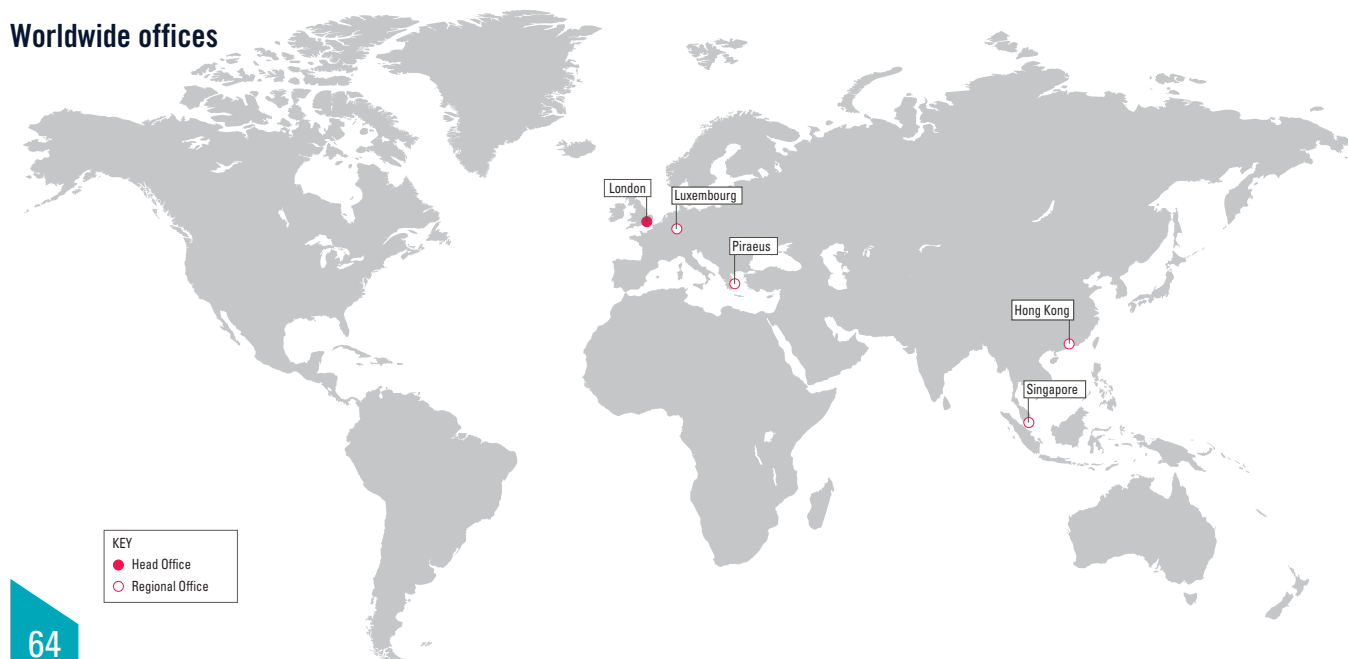
### Entered tonnage ship type



### Asset allocation



### Worldwide offices



Revenue Statement US\$000's	2017	2016	2015
Net Premiums	181,677	183,687	176,179
Net Claims Incurred	123,772	118,072	136,280
Management Costs	35,427	36,519	36,605
	159,199	154,591	172,885
Underwriting Surplus/(Deficit)	22,478	29,096	3,294
Investment Income Less Tax	7,445	3,824	24,202
<b>Surplus (Deficit)</b>	<b>29,923</b>	<b>32,920</b>	<b>27,496</b>

Balance Sheet	2017	2016	2015
Investments	433,210	400,150	382,907
Cash	187,579	192,647	184,590
Debtors	54,257	53,422	60,650
Other Assets	57,493	69,935	62,970
Total Assets	732,539	716,154	691,117
Outstanding Claims	396,489	403,505	410,286
Creditors	29,538	35,988	37,139
Total Liabilities	426,027	439,493	447,425
<b>Free Reserves</b>	<b>306,512</b>	<b>276,661</b>	<b>243,692</b>

## INVESTMENTS

- The overall investment return was \$7m (before investment management costs and after a \$7m currency loss arising on the £ valuation of their Tower Court offices). The remainder of the portfolio returned a gain of 3%, driven by equity returns of 20% and a fixed income return of 2%. The Club maintained a very conservative investment policy with only a 10% equity exposure.

## OUTLOOK

- West of England have enjoyed a very successful run of 5 years which has seen their free reserves increase by 70% and the entered tonnage by 50%, whilst overcoming their previous underwriting problems that beset the Club at the start of the decade.
- The Club has been able to minimise reductions in net premium levels, but there was a further 3.5% reduction on gross premiums at the last renewal which is certainly manageable. The healthy state of their underwriting, with a combined ratio of 88% gives the Club a real competitive advantage in this soft market.

- The recent somewhat unexpected increase claims cost on the 2015 policy year raises concerns that the loss reserving for claims, which has been very conservative in the past, may be witnessing a change in claims development pattern. Hopefully this is an exception and that it will not be repeated for 2016.
- The Club's performance has been recognised by S&P who upgraded its credit rating to A-. The Club has a good solvency margin and risk based capital ratios and although not entirely ruling out diversification, it will doubtless be concentrating on expanding the existing P&I activity, not least through their new Singapore branch.

### IN THE SPOTLIGHT

**Impressive Combined Ratio 88%**

**5th Consecutive Surplus**

**Free Reserves Up 70% in 5 Years**

**Upgraded S&P Rating A-**



## The Wilson Europe Team

### Directors



**Dudley Taylor** - Chairman  
dudley@wilson europe.com  
M: +44 (0)7590 775 559



**Julian South** - Managing Director  
julian@wilson europe.com  
M: +44 (0)7590 963 275



**Ben Wong** - Director  
ben@wilson europe.com  
M: +44 (0)7590 775 556

### Associate Directors



**Colin Gray**  
Associate Director  
colin@wilson europe.com  
M: +44 (0)7590 775 558



**Andy Bayman**  
Associate Director  
andy@wilson europe.com  
M: +44 (0)7808 773 089



**Paul Marketis**  
Associate Director  
pmarketis@wilson europe.com  
M: +44(0)7702 867 171

### Brokers



**Robin Eltringham**  
Senior Broker & Manager  
robin@wilson europe.com  
M: +44 (0)7973 796 522



**Paul Park** - Broker  
paul@wilson europe.com  
M: +44 (0)7720 968 355



**Kassie Lewis** - Broker  
kassie@wilson europe.com  
T: +44 (0)7702 565 395



**Matthew Bragger** - Junior Broker  
matthew@wilson europe.com  
T: +44 (0)7548 223 532



**Bradley Pearce** - Junior Broker  
bradley@wilson europe.com  
T: +44 (0)7590 775 557

### Finance



**Julie Newby** - Accounts Manager  
julie@wilson europe.com  
T: +44 (0)20 7626 9888



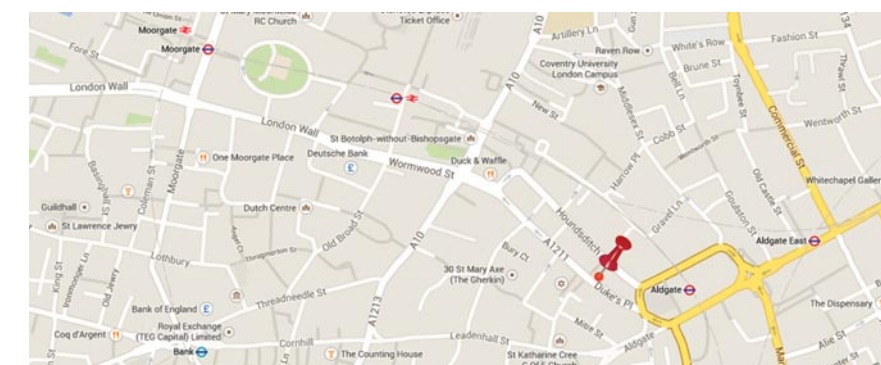
**Gemma Root** - Accounts Administrator  
gemma@wilson europe.com  
T: +44 (0)20 7626 9888

## Wilson Offices

### Wilson Europe Limited

#### London

2nd Floor, Dukes House  
32-38 Dukes Place  
London EC3A 7LP  
United Kingdom  
**T** +44 [0]20 7626 9888  
**F** +44 [0]20 7626 9898  
**W** www.wilson europe.com



### HONG KONG

#### Wilson Re Limited

25/F, Park Avenue Tower  
2-5 Moreton Terrace  
Causeway Bay  
Hong Kong

**Contact: Mr Cyrus Chan**  
cchan@wilsonre.com.hk  
**T** +852 2882 3633

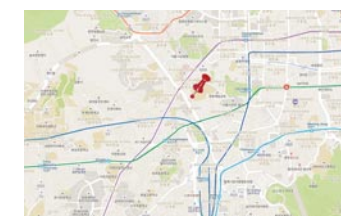


### KOREA

#### Wilson Korea Limited

9th Floor, Woori Building  
Bongrae-Dong 1-Ga, 10  
Jung-Gu, Seoul,  
Korea

**Contact: Mr BY Kim**  
bykim@wilsonkorea.co.kr  
**T** +82 (0)2-775-0708

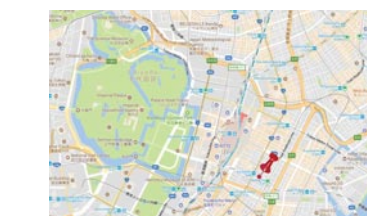


### JAPAN

#### Wilson Japan Co Limited

301 "55-1 Kyoashi" Building  
2-12-9, Kyobashi, Chuo-ku,  
Tokyo 104-0031,  
Japan

**Contact: Ms Sumie Onai**  
sumie.onai@wilsonjp.com  
**T** +81 (0)3 5579 9465





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WILSON EUROPE  
MASTERS OF P&I

**Wilson Europe Limited**

2nd Floor, Dukes House  
32-38 Dukes Place  
London EC3A 7LP  
United Kingdom

**T** +44 [0]20 7626 9888

**W** [www.wilstoneurope.com](http://www.wilstoneurope.com)