WILSON EUROPE
Masters of P&I

The Wilson Report
International Group Clubs
2013

Contents

Chairman's Comment

These remain very difficult times for Shipowners and Clubs alike. The global economy is starting to show signs of recovery and freight rates, in some sectors are beginning to rise. The number of Shipowners taking delivery of new builds has slowed, which can only assist in an industry which has a surplus of tonnage and is still struggling. The majority of Clubs on the other hand are reporting an increase in claims and rising deficits for the 2012 policy year. The latter issue will certainly have to be addressed by those Clubs showing significant underwriting losses. Investment income cannot be relied upon to cover repeated deficits! In this respect we draw your attention to the "combined ratios" shown within the "Key Performance Indicators" for each Club, contained within this financial analysis report. This measure provides an "at a glance" assessment of each Club's underwriting accuracy. Only the Shipowners Mutual P&I Club succeeded in achieving an underwriting profit or surplus at 97%, although Skuld were reported to be at breakeven at 100%. Notwithstanding the Clubs' overall poor underwriting results, collectively they succeeded in boosting their free reserves; the total free reserves across the International Group has surpassed $4bn and is double the level of three years ago.

Readers of our newsletters *P&I INSIGHT* will have noted a trend in Clubs' Report and Accounts in identifying the rising cost and frequency of IG Pool claims as a driving force behind their failure to balance their underwriting. The International Group has recently reassessed the calculation of individual Club pool contributions in a bid to speed up the rate that Club contributions are adjusted. A full list of these changes can be found on page 8.

The 2013 policy year will again be challenging for the industry, with the large increases in reinsurance costs imposed by the commercial market at last renewal taking effect. The "Costa Concordia" and the "Rena" are but two of the more serious claims presented in recent years. A criticism often levelled at the Clubs, and particularly at last renewal, was their failure to notify Brokers and Shipowners of proposed increases in a timely manner. The size of the last increase was a real shock. It is hoped that lessons will have been learned and in future more notice of reinsuring Underwriters' requirements be advised to Members and their Brokers in order to ensure that Members can budget accurately for the future costs of their P&I insurance. It is widely anticipated that the reinsuring Underwriters will again seek further increases for the 2014 policy year as there is still real concern at the escalating costs of recent wreck removal claims.

We believe that the 2014 renewal season will again be a difficult renewal for the industry but as always we will be seeking fairness from the Clubs in establishing renewal terms that properly reflect our clients' records and trading conditions.

Wilson Europe has a truly dedicated team of Brokers and support staff, which continues to grow in number and expertise and is focused on delivering efficient and personal service. We are extremely well placed to deal with any and all industry challenges that lie ahead and remain committed to delivering the very best renewal terms available for all our clients!

On the following pages we have included this year a brief history of Wilson, our current client base by region and ship type and reasons demonstrating why we believe we should be your first choice to handle your marine insurance risks.

Dudley Taylor
Chairman
Wilson Europe Limited

About Wilson

Wilson Re was founded in 1992 and is an independent insurance and re-insurance broker with a varied portfolio of clients and insurance disciplines. Wilson Europe, based in the City of London and Wilson Korea both specialise in the placing and servicing of P&I and other Marine Insurance risks.

Wilson has built up a substantial global client base and is now responsible for placing some 65 million gross tons of P&I insurance. These covers are primarily placed in the International Group of P&I Clubs and also in other recognised reputable markets.

The geographical split of our client portfolio demonstrates our international operation, enabling our experienced team of placing brokers in London to tailor make solutions to our clients' needs. Our portfolio extends from single ship owners to some of the world's largest and most prestigious fleets, operating all sizes and types of ship. In addition to placing covers for ship operating clients we also place re-insurance, both in London and the Far East for two non IGA P&I Clubs.

Wilson Europe has the largest dedicated P&I broking team of any London broker, consisting of nine brokers dedicated to providing the best possible service to our clients. We maintain a strong service ethos and commit to operating with transparency and integrity at all times.

Our team has been predominantly selected from individuals who have connections with the marine insurance field. Three of our most senior people previously held high level positions in P&I Underwriting disciplines in two of the major P&I Clubs. This experience provides us with a unique and unrivalled knowledge of the workings of the P&I Clubs and their managers, both from an internal and external perspective and often proves to be of unparalleled importance when negotiating renewals, new fleets, new ship additions and/or changes in terms.

Since Wilson Europe's core discipline is P&I, we invest considerable effort building strong relationships with Club personnel (at all levels of seniority), who for the most part are on our "doorstep".

Reasons to use Wilson

- **Strength in depth - an international client base, residing on three continents**
- **Unparalleled knowledge of P&I and vast experience in placing covers for all ship types**
- **Dedicated team - focused on securing our clients' needs**
- **Considerable influence and engagement with P&I Club personnel at all levels**
- **Strong service ethos – ensuring we deliver prompt service**

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

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

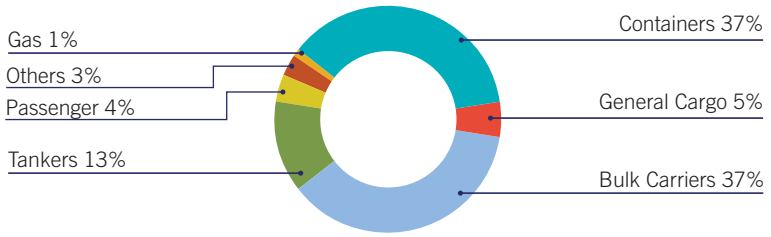
People

- All Inclusive Crew Cover
- Crew Familiarisation Liability Cover
- Pre-Delivery Crew Cover
- Passenger Deviation
- Sea Going Wives and Family

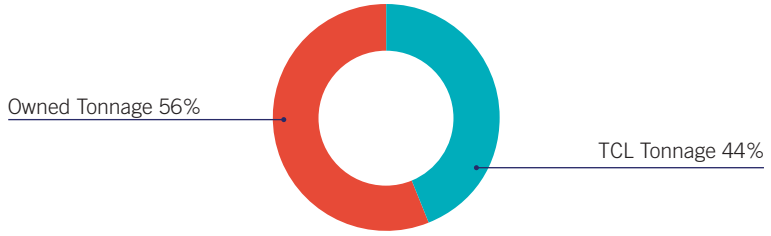
Freight Protection

- Increased Value/Hull Interest
- Freight Interest
- Freight All Risk
- Loss of Hire
- General Average Insurance
- Innocent Owners Interest Insurance
- Purchaser's/Seller's Interest
- Loss of Anticipated Profits
- Mortgagee's Interest Insurance

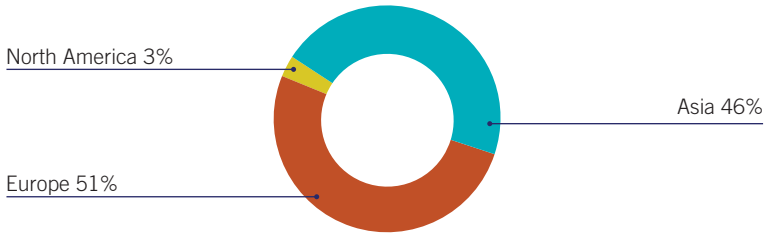
Wilson portfolio by ship type (owned gt 2013)



Wilson portfolio by owned and time chartered 2013



Wilson portfolio by continent (owned and time chartered)



Section One

Financial, Retention and Reinsurance

Financial Highlights 2013

The overall industry position this year remains largely unchanged from last year, with surplus ship capacity and subdued global demand keeping freight rates low. However, increased activity has led to a rise in the both the cost and number of claims. The level of attritional claims remains largely unchanged, but the cost of a few large claims falling on the International Group Pool is having a disproportional impact on all clubs' financial results.

The delivery of newbuildings is slowing and with it the "churn" effect. As a result a number of clubs decided to impose substantial general increases at the 2013 renewal. This is in part due to the erosion of premium rates (to varying degrees) that most clubs have incurred due to enthusiastically chasing new business, often at rates and terms that are unsustainable. In the last five years just four clubs have acquired approximately 75% of all new tonnage entering the International Group. Last year tonnages rose by 10%, net premiums by 3% and claims by 13%.

The interim club reports were mixed, with most clubs reporting an increase in claims and rising deficits for the 2011 and 2012 policy years. Investment returns were generally modest and the outcomes for the full year will almost certainly be dependent on the ultimate investment income achieved.

The 2014 policy year will be challenging with the large increases in reinsurance costs and premium rates which will doubtless encourage brokers to negotiate hard to achieve the most competitive terms from the clubs.

It should be noted that the combined free reserves of all the clubs are now at an all time high at over $4bn. Much of individual club's focus this year has been on combined ratios. A number of the clubs' premium income is proving insufficient to achieve balanced underwriting at a level of 100-104%. It can already be anticipated that those clubs with higher combined ratios will be seeking more significant general increases in an effort to raise their premium income, notwithstanding that in most cases the clubs are very comfortably funded. During these challenging times for the industry and particularly shipowners, where such a practice is built more on desire than need, imposes a further unnecessary burden on an already struggling shipping industry.

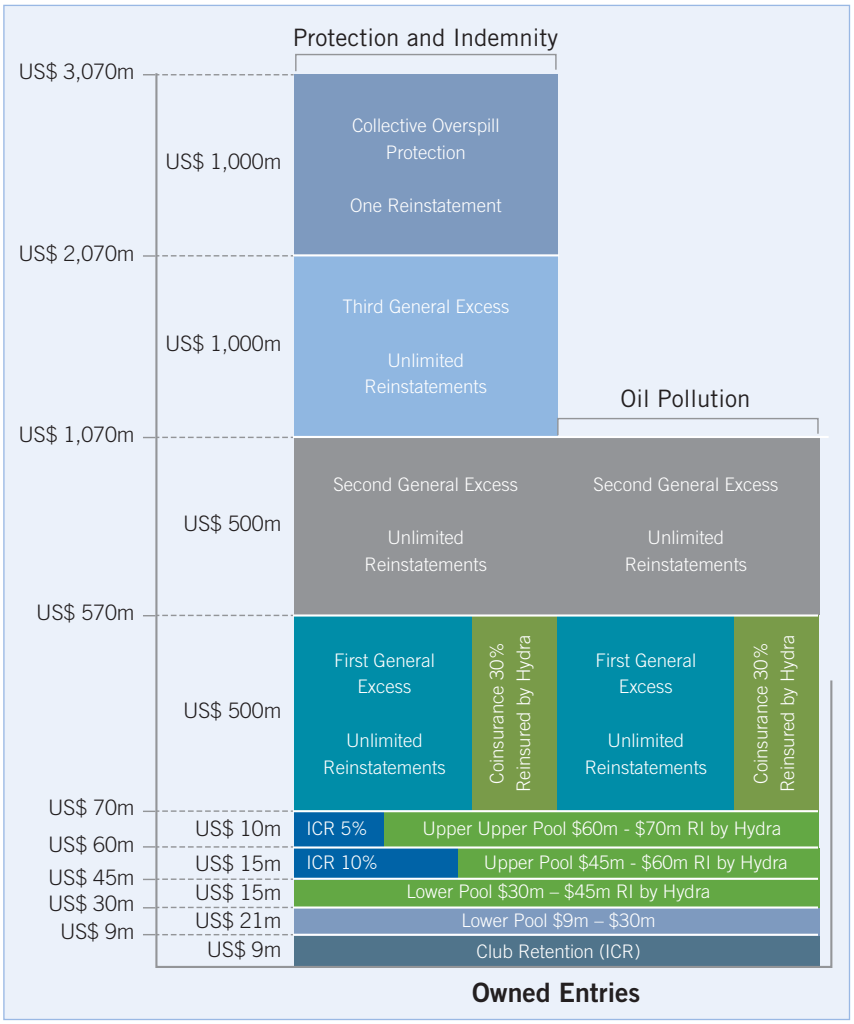
The Solvency II issue has receded ever further into the future, but the latest International Accounting Standards Board requirements on insurance contracts will require substantial reporting changes in the future.

The global economic outlook remains positive with world growth at around 3%. Although growth in the West is being limited to approximately 2%. Much of the eurozone is in recession - mired in political turmoil caused by the conflict between reluctant creditors in the North, increasingly impoverished debtors in the South and disenchanted electorates in both camps.

The resolution of the US "fiscal cliff" and "sequestration" should help to settle financial markets, whilst Quantitative Easing looks set to continue although the US debt ceiling remains a concern. In the short term interest rates on government bonds should remain low and with strong corporate earnings, equity markets should remain buoyant. The recent return of an appetite for risk should also help the corporate bond markets.

The major risks for the clubs in the future continues to be the escalating cost of claims and the failure of underwriting to keep pace. Investment managers will be under pressure to deliver a strong positive contribution to cover underwriting deficits and help bolster the clubs' free reserves.

Reinsurance Structure



Structure of International Group Retention, Pool and Excess of Loss Reinsurance 2013.

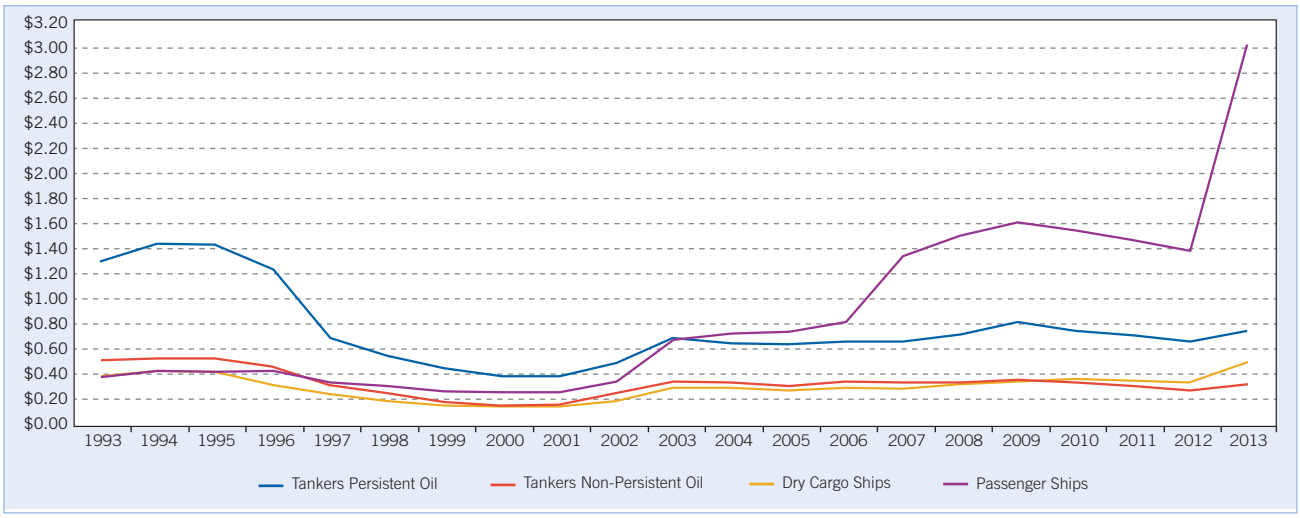
Notional overall limit on Club cover $7billion.

Reinsurance Costs 2013

Ship category	¢ rate per GT	¢ inc per GT	% inc 2012/13
	49.42	13.81	38.78
	75.65	10.5	16.12
	32.45	4.47	15.98
	314.93	175.01	125.08

Dry Cargo
Tankers Non-Persistent Oil
Tankers Persistent Oil
Passenger

The International Group Excess Reinsurance Rates per GT 1993-2013



Pool Record and Development

Current Profit / Loss Record of each Club

Club	Net position (US$ m)	Loss ratio
UK	145.4	71.0%
Skuld	41.9	77.9%
North	27.9	84.9%
Britannia	9.2	97.1%
Standard	5.9	97.6%
West of England	3.6	98.9%
London	-1.9	101.0%
Japan	-12.0	105.9%
Steamship	-19.3	106.2%
Gard	-54.6	114.1%
American	-15.4	116.3%
Shipowners	-24.6	134.6%
Swedish	-79.9	171.9%

Three Year Development Record

	2013	2012	2011
UK	71.0%	90.9%	90.1%
Skuld	77.9%	93.6%	80.5%
North	84.9%	79.7%	89.7%
Britannia	97.1%	90.2%	90.1%
Standard	97.6%	115.6%	110.9%
West of England	98.9%	102.7%	108.5%
London	101.0%	107.4%	109.0%
Japan	105.9%	103.0%	109.7%
Steamship	106.2%	102.4%	94.8%
Gard	114.1%	100.0%	102.0%
American	116.3%	125.0%	124.4%
Shipowners	134.6%	90.4%	112.0%
Swedish	171.9%	189.4%	111.9%

Comparison of Owned Entered Gross Tonnage by Policy Year (mil's)

	Policy Year										GT Growth	
Club	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2013	2009-2013
American	18.3	19.3	15.4	14	13.3	13.2	15	15	16	16	-13%	21%
Britannia	73.5	75.8	81.7	81.7	88	93	98	103	111	113	54%	22%
Gard	79	81.4	89.5	89.5	127	132.9	136	145	163	175	122%	32%
Japan	57.9	65.7	69.5	69.5	83.9	89.9	92	92	90	92	59%	2%
London	28.9	32.6	34.3	34.3	39	39.1	37	40	44	45	56%	15%
North of England	40	43.6	48.3	48.3	65	75	86	105	125	127	218%	69%
Shipowners Mutual	9.1	9.9	11.5	11.5	15.3	15.9	17	18	20	22	142%	38%
Skuld	26.6	26.2	31.5	31.5	41.4	45.2	55	58	70	72	171%	59%
Standard	46.4	49	47	47	49.9	65	80	85	94	97	109%	49%
Steamship Mutual	38	38.2	41.5	41.5	46.8	49.9	53	58	63	63	66%	26%
Swedish	14.6	17.1	19.6	19.6	25.1	24.5	26	31	34	35	140%	43%
UK	95.4	103.2	100.3	100.3	112	110	105	105	112	120	26%	9%
West of England	49.7	56.5	60.2	60.2	53.7	50.7	52	49	51	53	7%	5%
IG TOTAL	**577**	**619**	**650**	**649**	**760**	**804**	**852**	**904**	**993**	**1030**	**78%**	**28%**

Section Two

Individual Club Analysis 2013

AMERICAN CLUB

The American Steamship Owners Mutual Protection and Indemnity Association Inc.

Basis of accounting: Principles generally accepted in the United States of America.

Results

The American Club experienced a second successive annual deficit despite an excellent investment return. The underwriting deficit doubled to $22m but the investment income reduced the overall deficit to $6m.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**BBB-**	BB+	BB
Combined Ratio	**123%**	111%	99%
General Increase	**10%**	5%	2%
Incurred Claims	**14.1%**	5.4%	-8.8%
Investment Return	**7.6%**	3.5%	7.7%
Increase in Free Reserves	**-9.9%**	-5.3%	31.6%
Surplus /(Deficit)	**$(6.0)m**	$(3.4)m	$15.3m
Other Ratios			
Solvency	**125%**	129%	132%
Increase in Net Premiums	**-2.2%**	-9.1%	1.8%
Average Net Prem Rate per GT	**$5.85**	$5.98	$7.02
Free Reserves per GT	**$3.39**	$3.76	$4.24
Increase in GT	**0.0%**	6.7%	0.0%
Gross Owned Tonnage	**16.0m**	16.0m	15.0m
AER (Average Expense Ratio)	**19.3%**	17.5%	15.3%

"The Club needs to promptly rectify its underwriting issues and in our view S&P should focus on greater consistency"

Underwriting

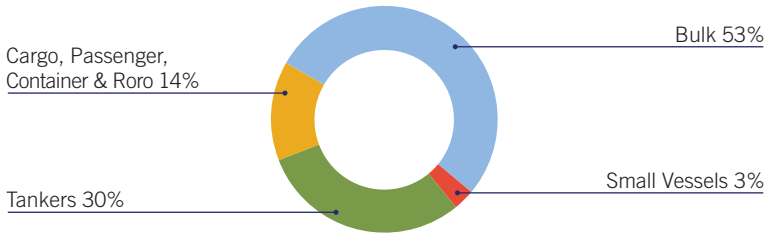
It has been a difficult year for members, particularly in the dry bulk sector, but the Club did acquire some newbuildings, albeit at lower premium rates. This year was the third best in the last decade for retained claims, with only seven claims in excess of $1m and 97% of all claims below $250,000. Pollution and collision claims costs rose in the year, with 66 collision claims costing a total of $8m and cargo claims accounting for 20% of the total claims costs. The cost of cargo claims was the lowest for six years, totalling around $7m, and the average cost of injury claims dropped from $39,000 to $28,000.

The Club's combined ratio rose from 111% last year to 123% this year. This deterioration has largely been caused by circumstances beyond the Club's control, as the Club's contribution to IG pool claims has rocketed from $6m to $23m in the last two years and the reinsurance costs have doubled in the same period. The Club's own retained claims have fallen, but the underwriting results have been marred by these and other external factors.

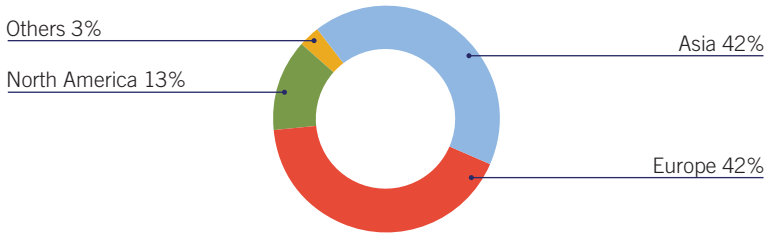
The Club has comprehensive reinsurance cover for sub pool claims of $4m in excess of $5m placed with Lloyd's and Partner Re and lower IG pool cover with Hannover Re.

In 2011 the Club became the primary insurer of Eagle Ocean Marine facility which offers fixed premium P&I and FD&D cover to small vessels.

Tonnage by vessel type



Tonnage by Country of Domicile



Investments

The investment managers Merrill Lynch had an excellent year delivering an overall return of 7.6%. This was in part due to the lack of constraints put on American insurers, compared to those in Europe, which enables them to maintain larger equity holdings. At the year end the asset allocation was 41% equities, 51% bonds and 8% cash. Those IG clubs regulated in the EU are required to hold additional capital against large equity balances because of their volatility.

Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**93,541**	95,672	105,269
Net Claims Incurred	**83,265**	72,986	69,236
Management Costs	**31,995**	33,045	34,691
	115,260	106,031	103,927
Underwriting Surplus/(Deficit)	**(21,719)**	(10,359)	1,342
Investment Income Less Tax	**15,729**	6,966	13,939
Surplus/(Deficit)	**(5,990)**	(3,393)	15,281

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**233,406**	227,166	219,268
Cash	**22,098**	25,734	33,580
Debtors	**53,972**	49,069	40,601
Other Assets	**276**	362	441
Total Assets	**309,752**	302,331	293,890
Outstanding Claims	**214,205**	206,185	200,715
Creditors	**41,318**	35,927	29,563
Total Liabilities	**255,523**	242,112	230,278
Free Reserves	**54,229**	60,219	63,612

Outlook

The Club does have underwriting issues as the cost of IG pool claims now accounts for 24% of the net premium income and the management costs account for a further 34%. This leaves only 42% of the premium to cover retained claims. This has pushed the underwriting into a second successive deficit, which needs to be corrected before the situation deteriorates further and the Club has to resort to unplanned additional calls. The retained claims for the last two years have been very benign, but the management expenses, the IG pool claims, non group retention reinsurances and the lower premiums have all conspired to the rising underwriting deficit.

The declining income needs to be reversed to get the underwriting back into surplus and to rebuild the free reserves.

The Club has the weakest solvency and risk based capital ratios in the IG, a fact noted by S&P who commented on the low capital adequacy and earnings, but who expected the Club's surplus to improve modestly during 2013- 2015. S&P upgraded the Club for the second successive year to a final BBB- rating, which seems very questionable after two successive deficits, a combined ratio of 123% and poor capital ratios, especially after the downgrading of a European club with four successive surpluses. S&P in our opinion need to be more consistent.

BRITANNIA

The Britannia Steam Ship Insurance Association Limited incorporating the "surplus investment assets" of Boudicca Insurance Company Limited a Bermuda based trust for the sole benefit of the association.

Basis of accounting: UK accounting standards. No financial statements were provided for the trust.

Results

The reason for the recent double digit general increase at the last renewal has now become apparent, as the Club including the Boudicca trust reported an overall deficit of $23m or approximately 5% of available combined reserves. The results were split rather disproportionately with a $36m surplus for the Club and a $59m loss for the trust, which saw the trust assets available to meet future claims of the association fall by 35%.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A**	A	A
Combined Ratio	**102%**	110%	103%
General Increases	**16.5%**	5.0%	5.0%
Incurred Claims	**-4.3%**	3.9%	-8.4%
Investment Return	**4.1%**	4.2%	7.8%
Increase in Free Reserve	**-5.0%**	1.5%	20.8%
Surplus/ (Deficit)	**$36.1m**	$15.8m	$52.8m
Other Ratios			
Solvency	**154%**	157%	160%
Increase in Net Premiums	**4.2%**	-2.6%	8.7%
Average Net Prem Rate per GT	**$2.0**	$1.9	$2.2
Free Reserves per GT	**$3.9**	$4.2	$4.4
Increase in GT	**1.8%**	7.8%	5.1%
Gross Owned Tonnage	**113.0**	111.0	103.0
AER (Average Expense Ratio)	**8.5%**	8.5%	8..1%

"Britannia took prompt remedial action to counter the adverse consequences of large International Group Pool claims and the "churn" effect"

Underwriting

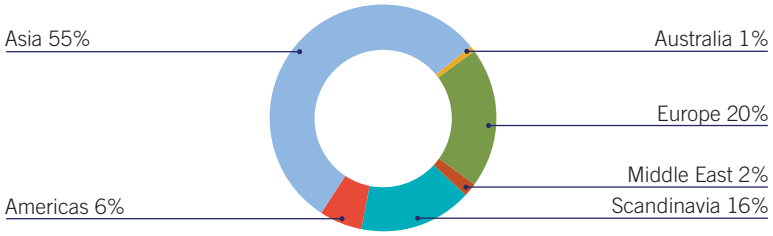
The Britannia Club financial statements show an improved underwriting result with net premium income $9m higher and the net incurred claims $9m lower than last year, reducing the underwriting deficit to a very manageable $4m. The Club results include net recoveries from the trust of $68m, compared to only $21m last year, which shows the current underwriting weakness.

In the last two years the entered tonnage has increased by 10% with no appreciable increase in the premium income, but an increase of over 30% in the incurred claims before recoveries from Boudicca.

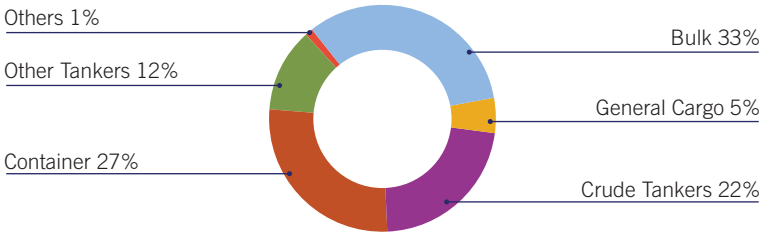
The "churn" and the competitive market for new buildings has meant that the premium income growth has not kept pace with the tonnage growth and the Club has been caught out by the sudden explosion in the cost of International Group (IG) pool claims. In the 2011 policy year there were 34 claims greater than $1m and only 23 comparable claims, so far, in 2012, but although the number was lower, the cost of the large claims and the smaller attritional claims rose by 22% compared to the 2011 policy year, after twelve months. The Club also had four IG pool claims in the 2012 policy year, compared to only one in each of the two previous years. The cost of attritional claims was also a concern, with the average cost of cargo claims below $250,000 doubling in the last four years and the average cost of similar crew claims rising by 50% in the same period.

The claims were higher for the defence class, but still below the heady days of 2008 and 2009 and the class reported a surplus of $3.5m to raise the class free reserves by over 30% to $15m.

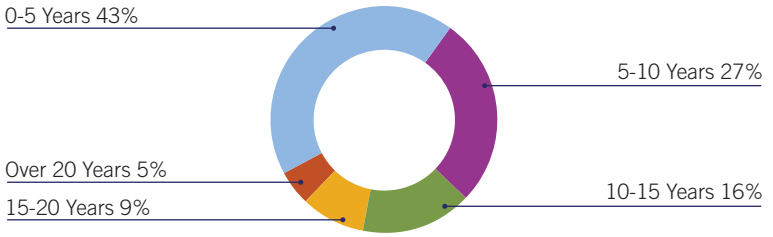
Entered tonnage by area of management



Ship type



Age profile



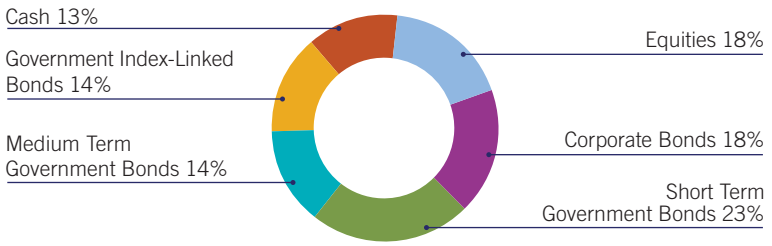
Investments

In keeping with most of the market, the Club has an asset allocation of 70% bonds with the remainder in cash and equities. The investment return was a steady 4.1%, with the equities producing the best performance of 14.9% and the corporate bonds producing 8.3%.

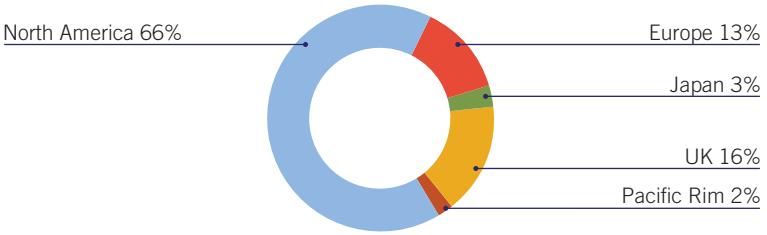
Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**227,237**	218,091	224,014
Net Claims Incurred	**200,594**	209,634	201,818
Management Costs	**30,388**	30,284	28,682
	230,982	239,918	230,500
Underwriting Surplus/(Deficit)	**(3,745)**	(21,827)	(6,486)
Investment Income Less Tax	**39,885**	37,596	59,301
Surplus/(Deficit)	**36,140**	15,769	52,815

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**969,981**	952,897	887,659
Cash	**172,660**	216,198	224,254
Debtors	**127,835**	132,223	122,293
Other Assets			
Total Assets	**1,270,476**	1,301,318	1,234,206
Outstanding Claims	**807,426**	815,113	755,480
Creditors	**25,033**	25,228	24,618
Total Liabilities	**832,459**	840,341	780,098
Free Reserves	**438,017**	460,977	454,108

Asset allocation



Currency split



Outlook

In the past the Club has kept a very tight control over the costs and expenses and has consequently managed to maintain very competitive premium rates. This model is being revised as the Club comes to terms with the cost of the increased exposure of the Club to the IG pool. It is not only the individual Club retention of $8m which has caused the problem, but also the fact that only 20 IG pool claims, so far, in the 2012 policy year have collectively cost $377m.

The Club has taken the correct and very timely remedial action and successfully negotiated the 2013 renewal with only a small reduction in entered tonnage. This will hopefully put the underwriting back onto a more balanced footing and stop the haemorrhaging of funds from the Boudicca trust.

The Club has a healthy solvency margin and an S&P A rating and a strong balance sheet. The claims escalation has hit the club particularly hard, but their unblemished call record and their rapid response to the problem shows the managers have the situation under control.

GARD CLUB

Gard P&I (Bermuda) Limited and its subsidiaries.

Basis of accounting: In accordance with, allowing for a few exceptions, the "regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance, which requires limited use of certain IFRS … in accordance with Norwegian generally accepted accounting principles.

Results

The Gard Club has reported the best results of the year with a surplus of $69m and their fourth successive reduced deferred call. The P&I class however had a disappointing performance but was offset by the good results of the Marine and Energy business and a 6.1% investment return on their $2bn of cash and investments. The year was marred by the premature death of their CEO Claes Isacson, who had been the architect of the Club's meteoric growth.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A+**	A	A
Combined Ratio	**107%**	102%	99%
General Increase	**5.0%**	5.0%	0.0%
Incurred Claims	**-0.7%**	11.8%	-3.0%
Investment Return	**6.1%**	2.8%	9.3%
Increase in Free Reserves	**8.4%**	4.5%	23.8%
Surplus /(Deficit)	**$69.2m**	$35.9m	$151.8m
Other Ratios			
Solvency	**180%**	171%	171%
Increase in Net Premiums	**-0.6%**	5.5%	-1.5%
Average Net Prem Rate per GT	**$3.90**	$4.20	$4.50
Free Reserves per GT	**$5.10**	$5.10	$5.50
Increase in GT	**7.4%**	12.4%	6.6%
Gross Owned Tonnage	**175m**	163m	145m
AER (Average Expense Ratio)	**14.1%**	13.0%	11.8%

The tonnage ratios are not readily comparable with other clubs as they only include P&I tonnage and not the other classes.

"Gard achieves an S&P upgrade largely on the back of its strong multiline results but with its substantial P&I underwriting deficit there is heavy reliance on its non P&I activities and investment income"

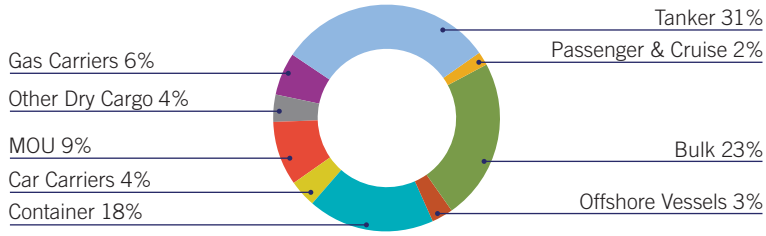
Underwriting

The underwriting has had a rather mixed year of two halves. The P&I had a difficult year suffering from no less than six IG pool claims in excess of $10m each, which left the net incurred claims exceeding the net premium income. The situation was further exacerbated by a $19m write-off of a new production system and a large bonus pot that pushed the management expenses up to $86m, compared to only $48m last year. This left the class with a $93m deficit compared to a $30m deficit the previous year (before allocating investment income). The Club reported a satisfactory renewal with a further increase in tonnage.

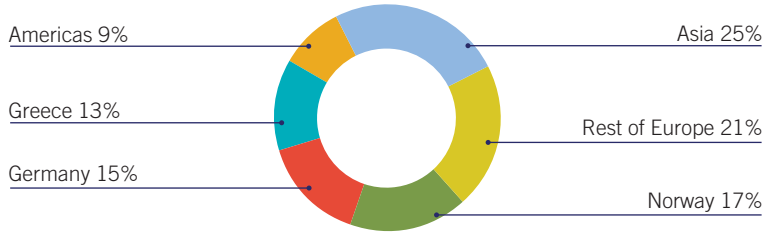
The Marine and Energy business by contrast increased profits by 80% to $52m, helping to bring down the overall underwriting deficit. The commercial market was very competitive, but the outcome still proved favourable with a small reduction in the number of claims. However there is a possibility in the near future of more claims as owners seek to reduce their operating costs. The Energy portfolio had a good year, especially for Exploration & Production and Mobile Offshore Unit hull claims, but there are concerns generally of larger fines in the future for offshore spills in the wake of Deepwater Horizon.

The overall underwriting deficit was $51m compared to $12m last year.

Vessels by type



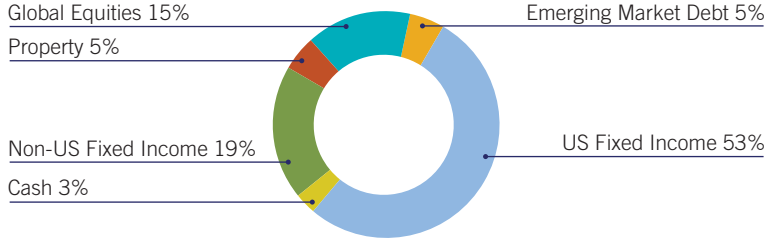
Club entry by region



Investments

With $2bn in cash and other investments the investment managers have become a main source of income for the Club. The majority of the investment portfolio was managed through the Gard Common Contractual Fund in Ireland. The asset allocation at the year end was 53% US fixed income, 19% non-US fixed income, 15% global equities, 5% emerging market debt, 5% property and 3% cash. The investment result for the year was a very healthy return of 6.1% generating $120m.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**681,532**	685,394	649,633
Net Claims Incurred	**591,266**	595,142	532,538
Management Costs	**141,239**	102,714	111,449
	732,505	697,856	643,987
Underwriting Surplus/(Deficit)	**(50,973)**	(12,462)	5,646
Investment Income Less Tax	**120,150**	48,382	146,101
Surplus/Deficit	**69,177**	35,920	151,747

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**1,864,607**	1,774,210	1,637,634
Cash	**143,882**	195,638	235,696
Debtors	**222,029**	250,297	246,758
Other Assets	**64,026**	64,159	56,794
Total Assets	**2,294,544**	2,284,304	2,176,882
Outstanding Claims	**1,113,169**	1,163,964	1,116,114
Creditors	**286,120**	294,258	270,611
Total Liabilities	**1,399,289**	1,458,222	1,386,725
Free Reserves	**895,255**	826,082	790,157

Outlook

In recent years Gard has successfully pursued an expansionist policy by growing its P&I portfolio. This growth has been managed very successfully, although there was a $190m anticipated deficit on the 2012 P&I policy year, but improvements in the Marine and Energy portfolio made a very positive contribution to the overall results of the group. The main driver for the growth of the free reserves has been the cash flow from underwriting which has enabled the investment managers to generate income and thus reduce the impact of any sudden adverse underwriting results and create more capital. This in effect allows the underwriters to be more competitive, while the business keeps growing. In the last two years the free reserves have risen by $105m, compared with investment income of $168m.

The Club has recently been upgraded to A+ by S&P, assisted by their multiline portfolio. With strong risk based capital ratios and solvency margin, the club looks set to continue its success story.

JAPAN CLUB

Japan Ship Owners' Mutual Protection and Indemnity Association.

Basis of accounting: In accordance with the provisions of Japanese Companies Act, The Ship Owners' Mutual Insurance Association Law of Japan and related regulations.

Results

The Japan Club has reported an $8.2m surplus for the year to 31 March 2013, plus a $3m unrealised gain on the investments, which was not included in the revenue statement. Rather perversely the free reserves fell by $10m. This was due to the fall in the value of the Yen during the year from Yen 82=$1 to Yen 94 = $1, which has obscured the annual results expressed in US dollars. In Yen the value of the US dollar investments increased giving rise to a $26m exchange gain, included in investment income, but conversely, due to a matching of assets and liabilities, also led to a $27m increase in the value of outstanding claims.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**BBB+**	BBB	BBB
Combined Ratio	**115%**	98%	91%
General Increase	**5.0%**	3.0%	10.0%
Incurred Claims	**-2.5%**	-1.5%	16.3%
Investment Return	**2.5%**	1.6%	1.4%
Increase in free Reserves	**-5.6%**	5.8%	17.5%
Surplus / (Deficit)	**$8.2m**	$3.9m	$8.1m
Other Ratios			
Solvency	**155%**	157%	157%
Increase in Net Premiums	**-16.2%**	-8.0%	27.8%
Average Net Prem Rate per GT	**$1.95**	$2.37	$2.52
Free Reserves per GT	**$1.71**	$1.86	$1.72
Increase in GT	**2.2%**	-2.2%	0.0%
Gross Owned Tonnage	**92.0m**	90.0m	92.0m
AER (Average Expense Ratio)	**5.7%**	6.2%	6.6%

"The Japan Club faces financial challenges not experienced by other IG Clubs. This will likely impact on premium requirements unless claims costs are controlled going forward"

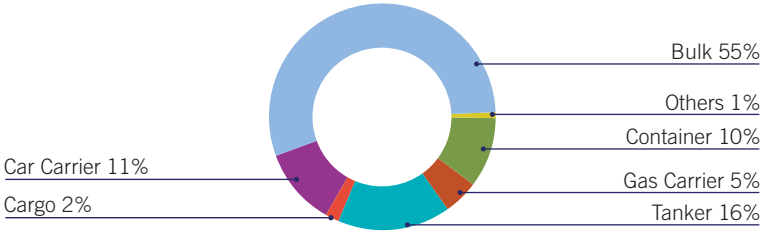
Underwriting

The devaluation of the Yen has made a comparison of the revenue statements particularly difficult. The net premium income in Yen has fallen by 4%, but this reduction was magnified by the currency movement to a reduction of 16%. There was unfortunately no comparable reduction in the net incurred claims as the costs rose by 12% in terms of Yen, probably accentuated by the increase in value of non-Yen outstanding claims estimates. This resulted in the underwriting deficit of $27m, their worst underwriting result for more than twenty years.

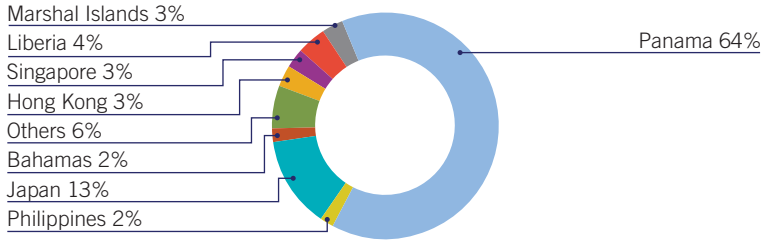
The frequency of claims has fallen gradually since 2010 policy year when there were over 6,000 to less than 5,000 claims for the 2012 policy year. The number of large claims has also fallen; with only three claims between $3m and $8m in 2012, compared to eight last year. The number of International Group (IG) pool claims fell from two in 2011 to just one in 2012. The number of the most frequent claims, notably cargo and crew, have remained consistent over the last five years, but the number of collisions and groundings has decreased.

The cost of IG pool claims paid has increased from $8m in 2011, to $33m in 2013, which has had a material impact on the underwriting. There were deteriorations on the earlier policy years and a deficit on the 2012 policy year, but this will be rectified by the 2012 supplementary call which should generate approximately $50m. This has not been included in these financial statements.

Tonnage by vessel type



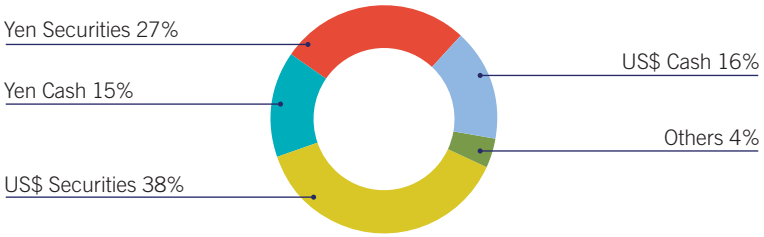
Tonnage by Ships' Registry



Investments

The investment return was 2.5%, excluding foreign currency gains. In the past the Club has not invested in equities and been restricted to mostly government bonds and cash deposits, which has automatically constricted the likely level of investment income. However there has recently been a small venture into equities, which should help to improve returns, while maintaining a low risk policy going forward.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**179,010**	213,637	232,288
Net Claims Incurred	**175,893**	180,390	183,179
Management Costs	**29,945**	29,290	28,189
	205,838	209,680	211,368
Underwriting Surplus/(Deficit)	**(26,828)**	3,957	20,920
Investment Income Less Tax	**35,026**	(91)	(12,812)
Surplus/(Deficit)	**$8,198**	$3,866	$8,108

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**357,452**	367,710	340,054
Cash	**139,596**	114,585	119,083
Debtors	**19,381**	29,177	22,395
Other Assets	**43,931**	45,999	52,637
Total Assets	**560,360**	557,471	534,169
Outstanding Claims	**284,320**	294,650	275,078
Creditors	**118,494**	95,871	101,264
Total Liabilities	**402,814**	390,521	376,342
Free Reserves	**157,546**	166,950	157,827

Outlook

The devaluation of the Yen may have led to the biggest annual revenue surplus for five years, but it could well have profound consequences for the underwriting and the members. The Club is mostly an insurer of local members who are likely to be adversely affected by the depreciation of the currency. Many of the ship owners costs are denominated in US dollars and these are likely to rise in terms of local currency. This may well lead to higher premiums in the future to cover the rising underwriting costs. The irony was that in contrast to many other clubs the cost of large claims, excluding IG claims, has fallen and the number of claims received was lower. If this trend of lower claims frequency can be maintained, then hopefully the costs, including the ever increasing IG pool costs, may be contained and the members spared excessive premium increases. The broadening of the investment policy to include equities will provide major opportunities to bolster the free reserves. If the Club can control claims costs and improve claims reserving the members may avoid the adverse impact of the devaluation.

LONDON CLUB

The London Steam-Ship Owners' Mutual Insurance Association Limited (LSSO) and The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited (LSSB).

Basis of accounting: Non statutory combined financial statements of LSSO and LSSB compiled from the statutory accounts in accordance with UK GAAP. Audit report, but limited accounting policy notes.

Results

The London Club has reported the fourth surplus in five years and boosted the free reserves to a new record high. The premiums and claims were both lower and the underwriting deficit was reduced to $16m, which was comfortably covered by the excellent investment return of 6.9%.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**BBB**	BBB	BBB
Combined Ratio	**121%**	122%	126%
General Increase	**12.5%**	5.0%	5.0%
Incurred Claims	**-11.4%**	-7.7%	-4.7%
Investment Return	**6.9%**	4.9%	7.1%
Increase in Free Reserves	**6.5%**	-0.3%	2.6%
Surplus / (Deficit)	**$9.4m**	$(0.4)m	$3.6m
Other Ratios			
Solvency	**165%**	158%	155%
Increase in Net Premiums	**-9.3%**	-3.0%	-10.0%
Average Net Prem Rate per GT	**$1.77**	$2.00	$2.27
Free Reserves per GT	**$3.42**	$3.29	$3.63
Increase in GT	**2.3%**	10.0%	8.1%
Gross Owned Tonnage	**45.0m**	44.0m	40.0m
AER (Average Expense Ratio)	**9.6%**	9.4%	8.9%

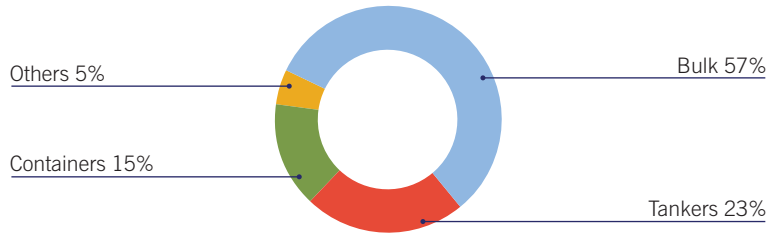
"A conservative approach to new fleet acquisitions shows tangible financial benefits when compared with the results of some other clubs' with more aggressive growth strategies"

Underwriting

The Club has suffered the consequences of the "churn" effect on premium, resulting in a 12% fall in the last two years, but claims have fallen by 18%, bringing the combined ratio down to 121%. There has been a small increase in the tonnage, but the Club's major success has been in controlling the level of incurred claims, which have fallen in the last three successive financial years. This was despite a rise in the cost of International Group (IG) pool claims from other clubs and against a background of rising liabilities suffered by other clubs. The cost of claims in excess of $1m was expected to remain relatively unchanged at $13m. The cost of claims below $1m was less volatile and the total varied between $28m and $40m over the last five years. The total expected cost for 2012 was $35m with personal injury and illness claims costing $9m and cargo claims costing $15m. The number and value of claims below $100,000 had fallen in all but one year since 2008, to an all time low in 2012. By contrast the cost of IG pool claims from other clubs has risen by more than 20% since 2011 and is projected to represent about 30% of the total cost of P&I claims.

The Freight Demurrage and Defence class recorded a deficit of $623,000 after incurred claims rose by 36% to $11m, compared to a modest premium income of $8m.

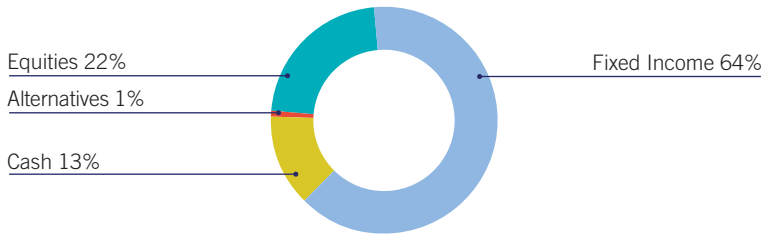
Tonnage by vessel type



Investments

The investment managers had a most successful year producing a return of 6.9%. The main contributor was the corporate bonds which were boosted by investors search for higher yields, strong corporate profitability and the continued policy of quantitative easing. The equity sector also produced a good return as a result of strong investor support towards the end of the year.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**79,776**	87,974	90,675
Net Claims Incurred	**82,691**	93,338	101,118
Management Costs	**13,521**	13,755	13,052
	96,212	107,093	114,170
Underwriting Surplus/(Deficit)	**(16,436)**	(19,119)	(23,495)
Investment Income Less Tax	**25,796**	18,718	27,139
Surplus /(Deficit)	**9,360**	(401)	3,644

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**311,601**	343,089	318,124
Cash	**64,712**	35,126	75,427
Debtors	**15,170**	14,294	18,645
Other Assets	**9,655**	9,881	10,146
Total Assets	**401,138**	402,390	422,342
Outstanding Claims	**236,787**	251,333	264,046
Creditors	**10,322**	6,388	13,226
Total Liabilities	**247,109**	257,721	277,272
Free Reserves	**154,029**	144,669	145,070

Outlook

The London Club was the smallest IG club in terms of premium income, but it is currently succeeding, where some other larger clubs are struggling, in controlling the claims costs, notwithstanding the recent sudden increase in the cost of IG pool claims. This was the Club's third surplus in four years and took the free reserves to a record $154m. There has only been very limited tonnage growth which combined with the effect of the "churn" has left premium income lower. However the surge in claims experienced by some other clubs with more aggressive acquisition policies, has been avoided. With the exception of the IG pool claims, the cost of all the other claims ranges have fallen in the last two years, especially in the range under $1m.

The Club has renewed its "excess of loss" and retention reinsurance contracts, the latter covering $6m in excess of $3m, with an annual aggregate deductible. There was a reported $24m improvement on the expected cost of claims for the policy years prior to 2012, but there was a $37m deficit on the 2012 policy year. This should act as an incentive for the managers to maintain their vigilance over the cost of claims in the future. The Club needs to achieve a significant improvement in its combined ratio, with perhaps a target of below 105%.

The Club has an S&P BBB(pi) rating with a good solvency ratio and their risk based capital ratios have benefited from the larger free reserves and the lower premium income. The Club should be able to exploit the strong capital base to grow their business portfolio if they choose.

NORTH OF ENGLAND

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited combined financial statements.

Basis of accounting: On IFRS principals but the combined financial statements do not comply with IFRS or UK company law. There was no cash flow statement or list of directors.

Results

The North of England has reported a deficit of $1.8m, their first overall deficit for four financial years. This emanated from a $4m increase in premium income and a $7m increase in claims and a low investment return.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A**	A	A
Combined Ratio	**104.0%**	103.0%	79.0%
General Increase	**15.0%**	5.0%	3.0%
Incurred Claims	**3.0%**	57.8%	-18.1%
Investment Return	**1.6%**	2.8%	2.7%
Increase in Free Reserves	**-0.6%**	0.5%	30.0%
Surplus / (Deficit)	**$(1.8)m**	$1.6m	$72.2m
Other Ratios			
Solvency	**152.0%**	154.0%	163.0%
Increase in Net Prem Rate	**1.3%**	14.3%	7.2%
Average Net Prem Rate per GT	**$2.32**	$2.33	$2.42
Free Reserves per GT	**$2.46**	$2.51	$2.98
Increase in GT	**1.6%**	19.0%	22.1%
Gross Owned Tonnage	**127m**	125m	105m
AER (Average Expense Ratio)	**13.1%**	12.6%	11.4%

“Again North of England manage to confound their detractors by announcing some satisfactory 2013 results, particularly when compared with their IG competitors”

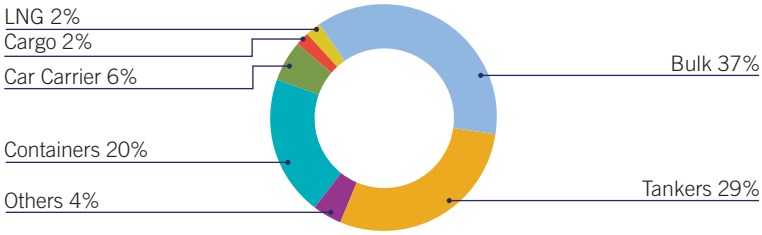
Underwriting

North of England has again confounded their detractors by reporting only a very small deficit, following a year of consolidation after a sustained period of growth. The Club has been one of the main recipients of the new buildings entering the market, which has increased the Club's tonnage by around 70% in the last five years and has raised concerns over its ability to manage the increased exposure. In the last two years the tonnage has risen by 20%, with a 16% increase in net premium income and a 21% increase in outstanding claims. This has pushed the combined ratio up to 104%.

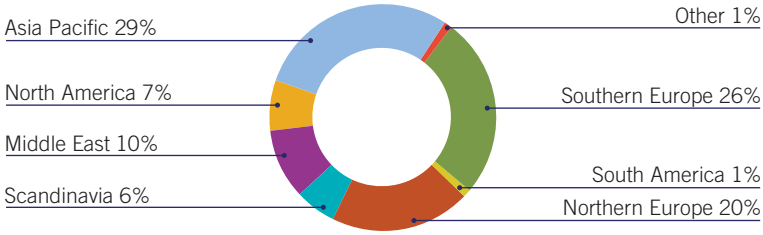
The Club has experienced a surge in claims in the last year with increases in the cost and frequency, particularly those of high value. The claims below $1m have tracked the growth in membership. There were 50 claims greater than $1m, which accounted for 0.5% of the claims by number and for 45% of the total value of claims, including two claims on the International Group (IG) pool. The average cost of claims by category have largely remained constant, except for cargo claims, where the average value rose from $85,000 in 2011 to $150,000 in 2012, the category now accounts for 50% of the total value of all claims.

The mutual members benefitted from the development of the Club's new non-mutual diversification programme.The FDD class returned a surplus of $5m and the charters and offshore businesses also produced positive results.

Tonnage by vessel type



Tonnage by Region

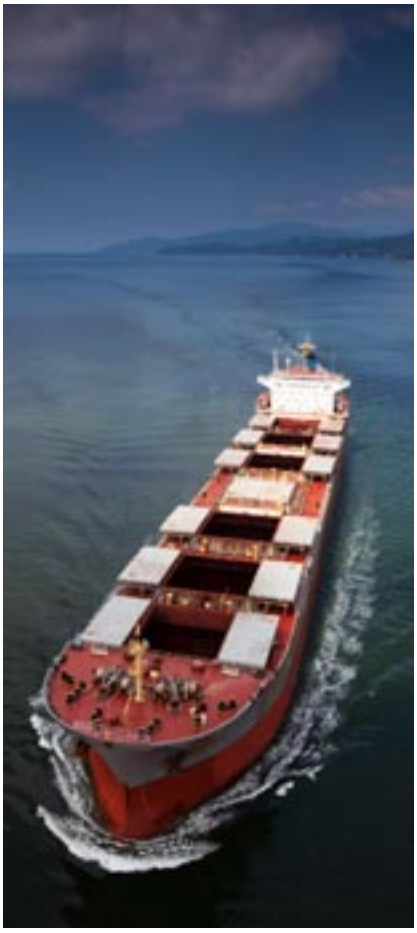


Investments

A very conservative investment policy was adopted with 83% of the portfolio invested in government bonds and cash and the remainder in corporate bonds, which produced a rather disappointing return of 1.6%. The absolute return funds of $77m were sold in December and invested in corporate bonds.

Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**294,559**	290,916	254,505
Net Claims Incurred	**253,512**	246,072	155,956
Management Costs	**51,921**	52,681	44,684
	305,433	298,753	200,640
Underwriting Surplus/(Deficit)	**(10,874)**	(7,837)	53,865
Investment Income Less Tax	**9,097**	9,417	18,307
Surplus/(Deficit)	**(1,777)**	1,580	72,172

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**796,656**	752,441	341,261
Cash	**118,230**	124,834	429,166
Debtors	**27,712**	25,021	15,180
Other Assets	**30,446**	33,188	46,505
Total Assets	**973,044**	935,484	832,112
Outstanding Claims	**605,487**	582,224	497,966
Creditors	**55,321**	39,247	21,712
Total Liabilities	**660,808**	621,471	519,678
Free Reserves	**312,236**	314,013	312,434



Outlook

The Club had a challenging 2013 renewal seeking a significant 15% general increase from the membership, in addition to the also substantial increase in the cost of the IG reinsurance programme. Seven million tons were not renewed, but the overall tonnage rose to 127m GT of owned ships and 43m GT of chartered business.

This should assist the Club in increasing its capital base and put the P&I mutual business back on a sounder footing after the rapid expansion of the last few years.

The diversification programme included the reinsurance of Sunderland Marine Mutual Insurance Company (a fish-boat mutual) together with the charterers' facility, offshore and the existing freight demurrage and defence class all seem to be making a positive contribution to the overall outcome for the mutual members.

If the investment policy were to be relaxed slightly to include equities, this may boost returns and assist in covering their underwriting deficits in the future and help increase the reserves.

The Club has retained its S&P A rating for the ninth consecutive year. With good solvency and risk based capital ratios and a year of constructive consolidation the Club should be able strengthen its reserves going forward.

SHIPOWNERS CLUB

Shipowners' Mutual Protection and Indemnity Association (Luxembourg)

Basis of accounting: Prepared in accordance with Luxembourg Insurance Accounts Law 1994, apart from the valuation of quoted investments and the presentation of the income and expenditure account and the balance sheet.

Results

The Shipowners' (SOP) momentum keeps on rolling, all-be-it with a much reduced underwriting surplus of $7m, but enhanced by an excellent investment return of $34m, raising the free reserves to a new record high of $275m.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A-**	BBB	BBB
Combined Ratio	**97%**	86%	87%
General Increase	**5.0%**	0.0%	0.0%
Incurred Claims	**24.3%**	10.3%	-9.0%
Investment Return	**7.8%**	4.8%	12.5%
Increase in Free Reserves	**17.4%**	24.7%	39.1%
Surplus / (Deficit)	**$40.9m**	$46.6m	$51.4m
Other Ratios			
Solvency	**195%**	188%	178%
Increase in Net Premiums	**5.5%**	9.2%	15.9%
Average Net Prem Rate per GT	**$9.10**	$9.49	$9.66
Free Reserves per GT	**$12.5**	$11.7	$10.5
Increase in GT	**10.0%**	11.1%	5.9%
Gross Owned Tonnage	**22.0m**	20.0m	18.0m
AER (Average Expense Ratio)	**20.0%**	20.0%	19.0%

"SOP achieved a well deserved S&P rating upgrade and all our KPI indicators demonstrate a strong result, outperforming their bigger IG competitors, but will the widening of their entry acceptance criteria ultimately be a step too far?"

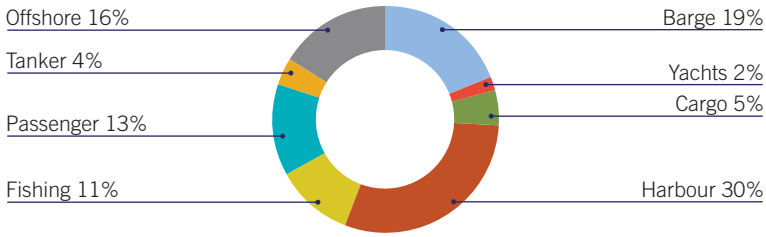
Underwriting

After two years of underwriting surpluses in excess of $20m, the Club has suffered from the same issues afflicting other IG clubs, i.e. the rising cost of claims, notably IG pool claims and the slow improvement in retained premiums. The Club's net premium income rose by 6%, with the addition of over 1,000 new buildings entered and a shift in the Club underwriting philosophy, which was previously restricted to 5,000 gross tons for dry cargo, tanker and passenger ships. As a result of a claims analysis on ships of different sizes, it was determined that larger ships on average had better claims performances, so the current size restriction was increased to 20,000 gross tons.

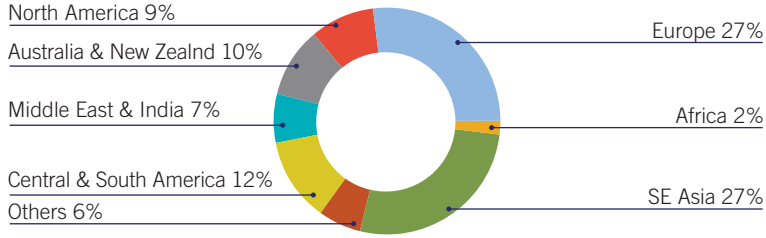
There was a broad increase in claims across all ship type classes, except for tankers and cargo ships, with the frequency of claims rising 13% and the value rising 24%. The cost of all the claims categories increased except cargo, but particularly crew injury, especially in Central America, where the poor condition of ships is an issue. The cost of passenger claims rose by 42%, exacerbated by two entered ships colliding during a firework display in Hong Kong harbour, killing 39 and injuring 88 people. The cost of environmental and wreck removal claims rose, with two claims over $500,000 and six navigational claims over $1m.

The rise in claims was attributed to the increase in the number of ships insured by the Club, now totalling over 33,000 and the cost of large claims, as the number of claims per vessel had only risen modestly.

Tonnage by vessel type



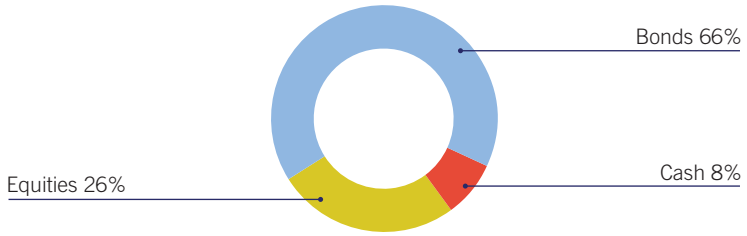
Tonnage by Ships' Registry



Investments

The Club reported the second best return so far in the survey at 7.8%, yielding $34m. The asset allocation at the year end was 66% bonds, 26% equities and 8% cash, which has remained relatively unchanged over the last five years. The main performance came from the bond portfolio which returned 6%.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**200,130**	189,762	173,817
Net Claims Incurred	**146,871**	118,172	107,150
Management Costs	**46,388**	44,829	43,460
	193,259	163,001	150,610
Underwriting Surplus/(Deficit)	**6,871**	26,761	23,207
Investment Income Less Tax	**34,002**	19,785	28,192
Surplus/(Deficit)	**$40,873**	$46,546	$51,399

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**533,930**	477,018	404,098
Cash	**51,264**	39,610	41,931
Debtors	**37,367**	35,051	28,957
Other assets	**2,406**	1,859	3,130
Total Assets	**624,967**	553,538	478,116
Outstanding Claims	**289,937**	267,531	242,813
Creditors	**59,397**	51,247	47,089
Total Liabilities	**349,334**	318,778	289,902
Free Reserves	**275,633**	234,760	188,214

Outlook

There are at least nine fixed premium insurers, including six underwriting agencies, in addition to a number of IG clubs involved in this now rather crowded small ships market. However, the competition does not seem to have had any material impact on Shipowners' Club. It has been one of the strongest performers of any IG club in recent years, with free reserves doubling in the last three years. This last year the free reserves grew by 17.4%, nearly twice as much as any of the opposition and the Club reported the best combined ratio and the second best investment return so far. Other IG clubs have started small vessel facilities, but the SOP has considerably more experience and with 50% of the worldwide market for offshore vessels below 5,000 gross tons, a very strong market position.

The underwriting has come under more pressure during the last year after three successive underwriting surpluses and three years without a general increase. The 5% general increase at the 2013 renewal will assist, but the level of premiums will likely need to increase in the future. The Club retained their policy that members paying mutual premiums will never have to pay additional or release calls. A bold statement! SOP engaged the services of two credit rating agencies to interactively rate the Club. Fortunately both arrived at the same result of A-, which was unsurprising given the excellent solvency and risk based capital ratios.

The Club is financially strong with an entrenched position in its market and seems more than capable of holding its own against bigger opposition.

SKULD

Skuld Mutual Protection & Indemnity Association (Bermuda) Ltd and subsidiaries.

Basis of accounting: Comply with Norwegian Banking, Security and Insurance Commission regulations.

No future claims handling costs and "changes to the value of the Association's hedge portfolio are accompanied by a corresponding revaluation of the claims liabilities present value".

No audit report was included.

Results

The Skuld Club has reported a surplus of $17.5m and a maintenance of its S&P A rating. Their diversification programme continued apace, but it would now appear to be putting pressure on the level of expenses, especially with the addition of new offices in London and Piraeus.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A**	A	A
Combined ratio	**100%**	96%	88%
Incurred Claims	**9.5%**	17.4%	-7.8%
Investment Return	**3.0%**	2.6%	5.8%
Increase in Free Reserves	**5.8%**	9.4%	32.2%
Surplus/ (Deficit)	**$17.5m**	$24.3m	$64.6m

Other Ratios

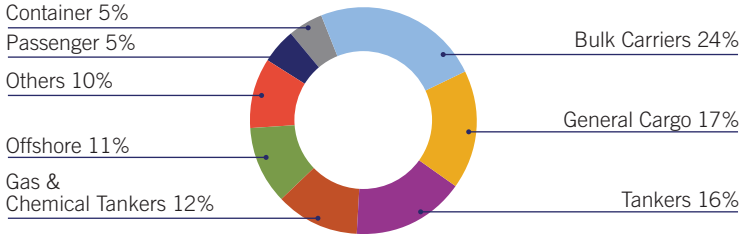
Solvency	**175%**	172%	172%
Increase in Net Premiums	**6.2%**	8.9%	4.9%
Average Net Prem Rate per GT	**3.86%**	3.74%	4.14%
Free reserves per GT	**$4.3**	$4.2	$4.6
Increase GT	**2.9%**	20.7%	11.8%
Gross Owned Tonnage	**72.0**	70.0	58.0
AER (Average Expense Ratio)	**12.3%**	12.4%	12.0%

"Skuld's strong P&I underwriting results subsidise the escalating costs of their new businesses"

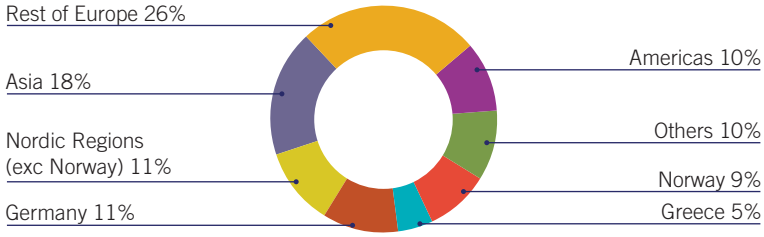
Underwriting

The underwriting remained the mainstay of the Club but for $1.6m of investment expenses included in management costs, the Club would have reported their tenth successive underwriting surplus. The underwriting was coming under increased pressure, not only from the soaring cost of the International Group (IG) pool claims, but also from the escalating costs of their new businesses. In the last two financial years the net premiums have increased by 15.6%, compared to a 28.5% increase in claims and a 43% increase in management costs. The policy year analysis gives details of the P&I mutual, P&I fixed premium and non P&I businesses (Lloyds agency) for the open policy years. From this information it was evident that the most profitable element of the group was the P&I fixed premium class, which was still showing a healthy surplus. It was noted that there has been a marked downturn in the profitability of all the other businesses over the last three years as claims and expenses increased faster than the net premium income. The major area of concern was the non-P&I fixed premium sector, which included the Lloyd's operations, which had seen management costs rise by 50% in the year and reported a loss of $9m. The P&I policy years were still reporting surpluses, but the underlying strength of the underwriting was eroded by the escalating IG pool claims.

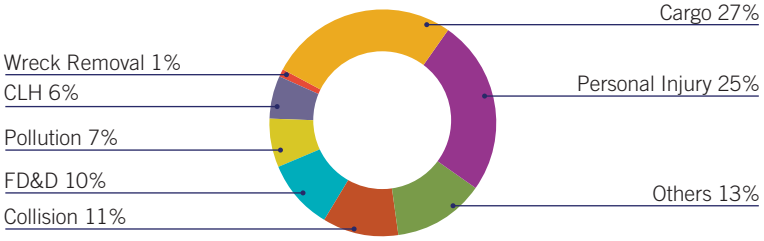
Premium by ship type



Premium by geographic area



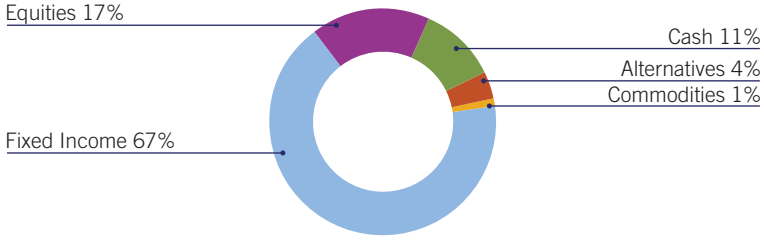
Claims by rule



Investments

The Club maintained a conservative asset allocation with 70% of the portfolio in bonds and the remainder split between cash and equities, with a minor exposure to commodities, hedge funds and private equity. The return for the year was a modest 3% which reflected the low risk of the portfolio containing mostly government bonds and bills and cash, with the remaining 5% in a "risk portfolio" invested in passively managed fund vehicles.

Asset allocation



Revenue statement			
US$000's	**2013**	2012	2011
Net Premiums	**277,692**	261,489	240,117
Net claims Incurred	**212,167**	193,722	165,073
Management Costs	**66,169**	57,768	46,286
	278,336	251,490	211,359
Underwriting Surplus/(Deficit)	**(644)**	9,999	28,758
Investment Income Less Tax	**18,163**	14,354	35,863
Surplus /(Deficit)	**17,519**	24,353	64,621

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**641,845**	628,850	595,426
Cash	**80,669**	63,750	48,251
Debtors	**23,304**	21,013	16,961
Other Assets	**12,121**	9,098	10,510
Total Assets	**757,939**	722,711	671,148
Outstanding Claims	**412,123**	402,244	367,504
Creditors	**37,390**	29,036	37,209
Total liabilities	**449,513**	431,280	404,713
Free Reserves	**308,426**	291,431	266,435

Outlook

Skuld have adopted a very ambitious diversification program aimed at increasing the offshore income by 50% in 2013, pushing the group premium income to $500m by 2015 and growing the income of the commercial businesses to 50% of the total income by 2020. The fixed premium P&I class and the offshore operations were currently profitable, but the Lloyd's operations were recording losses.

The P&I class remained the driving force of the organisation, but the continued absence of an audit report, the exclusion of future claims handling fees and the rather obscure

reference to the net present value of the claims reserves changing with the value of the investment portfolio, raise questions over the loss reserving methodology.

The financial results have remained remarkably robust over the last decade and the free reserves have doubled in the last four years to a record $300m. The diversification programme has been pursued with great vigour, but the Lloyd's operation is proving expensive and has yet to attain the level of performance expected, possibly because of a lower than anticipated level of support from the other businesses within the group.

The Club has an excellent solvency and risk based capital ratios and with the strong underwriting base should be able to support the new enterprises and drive the group forward in the future.

THE STANDARD CLUB

The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited

Managers: Charles Taylor & Co (Bermuda)
Basis of accounting: UK Accounting Standards

2013 Results

The Standard Club has reported a small surplus of $10m. The underwriting was still experiencing difficulties, recording a deficit of $42m. Fortunately this deficit was comfortably covered by the excellent investment return of 6.6% on the substantial funds held which pushed the free reserves up to a new record of $363m.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A**	A	A
Combined Ratio	**118%**	121%	92%
General Increase	**7.5%**	5.0%	3.5%
Incurred Claims	**1.6%**	45.3%	-10.0%
Investment Return	**6.6%**	6.7%	9.9%
Increase in Free Reserves	**2.8%**	11.3%	30.5%
Surplus/ (Deficit)	**$10m**	$2.9m	$74m
Other ratios			
Solvency	**166%**	167%	170%
Increase in Net Premiums	**4.8%**	9.2%	0.0%
Average Net Prem Rate per GT	**$2.46**	$2.35	$2.38
Free Reserves per GT	**$3.9**	$3.8	$3.7
Increase in GT	**3.2%**	10.6%	6.3%
Gross Owned Tonnage	**97.0**	94.0	85.0
AER (Average Expense Ratio)	**13.2%**	13.4%	13.3%

"The adverse effects of Standard's substantial underwriting deficit is again mitigated by a strong investment return"

Underwriting

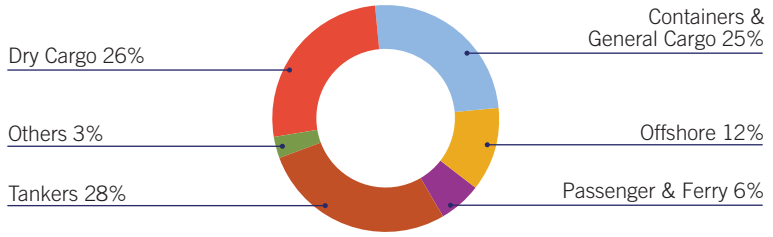
The underwriting enjoyed a rapid increase in tonnage in the period to February 2012 and as a consequence of this expansion the increase in income was unable to keep pace with the increase in incurred claims leading to the current underwriting difficulties. In the most recent financial year the net incurred claims exceeded the net premium income, even before the management expenses, which led to a large underwriting deficit and a combined ratio of 118% (the club managers advise that the combined ratio for 2013 is 113%). The situation has further been exacerbated by the spiralling costs of the International Group (IG) pool claims, which have risen from $18m in 2012 to $42m in 2013. The Club has not been totally blameless in this respect. Their IG pool claims paid in the last two years were $60m, compared to $189m of IG pool recoveries. The reinsurers' share of outstanding claims has risen from $182m to $449m in the same period.

The managers reported a lower number of retained large claims in the year, but increased claims inflation, particularly for injury claims and the cost of the IG pool has pushed incurred claims up in the year.

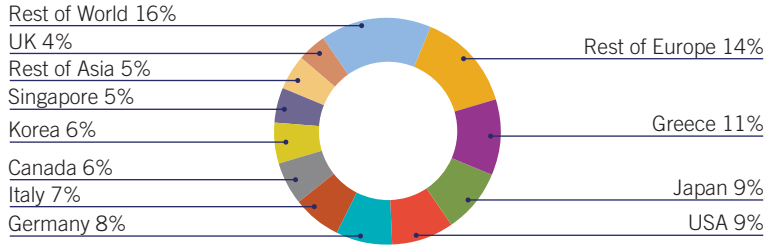
The policy years continued to show a good degree of stability with an $8m deterioration in the 2011 policy year which was easily covered by a $15m improvement on the 2010 policy year. The policy years looked well reserved.

In addition to existing War, small vessels and Defence classes, the Club has started underwriting and/or facilitating Kidnap and Ransom, Traders and Intermediaries and Hull & Machinery covers.

Owned tonnage by ship type



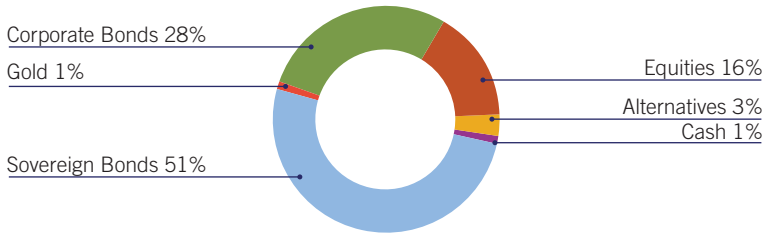
Owned tonnage by country of management



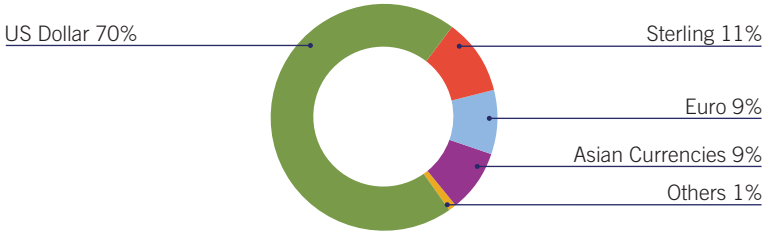
Investments

Once again the investment managers have come to the rescue with another excellent performance and a return of 6.6%, which more than covered the underwriting deficit and added $10m to the free reserves. The asset and currency allocations remained very conservative with approximately 80% of the assets in bonds and 70% of the portfolio in US dollars. The only minor changes during the year were a small reduction in cash and equities and an increase in bonds.

Asset allocation

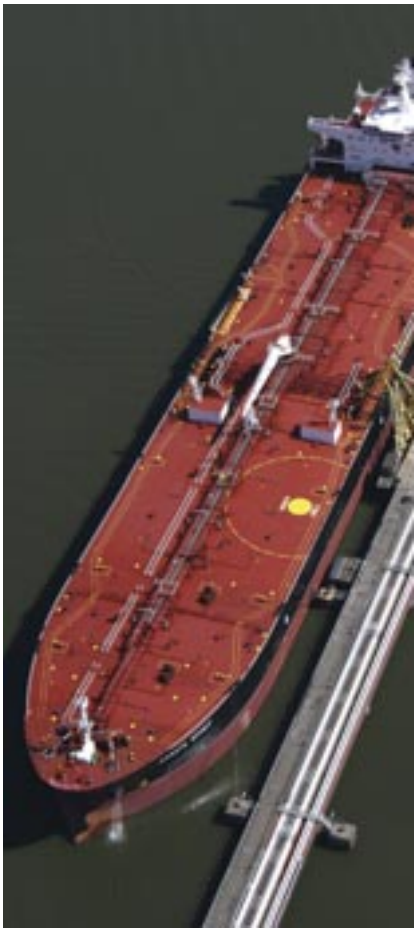


Currency allocation



Revenue statement			
US$000's	**2013**	2012	2011
Net Premiums	**231,200**	220,700	202,170
Net Claims Incurred	**244,700**	240,900	165,743
Management Costs	**28,900**	26,800	20,917
	273,600	267,700	186,660
Underwriting Surplus/(Deficit)	**(42,400)**	(47,000)	15,510
Investment Income Less Tax	**52,400**	49,900	58,475
Surplus /(Deficit)	**10,000**	2,900	73,985

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**741,500**	670,600	622,679
Cash	**83,900**	120,800	48,472
Debtors	**118,400**	96,700	100,396
Other Assets	**34,100**	35,800	34,243
Total Assets	**977,900**	923,900	805,790
Outstanding Claims	**553,400**	523,000	452,914
Creditors	**61,900**	48,300	36,084
Total Liabilities	**615,300**	571,300	488,998
Free Reserves	**362,600**	352,600	316,792



Outlook

There was a 7.5% general increase at the 2013 renewal and it was reported that a figure close to that was achieved. This will hopefully go some way to rectifying the underwriting deficit and reducing the combined ratio. The report of a lower incidence of retained large claims was also a helpful relief and if the impact of these claims can be controlled or ameliorated in the future, it will enable the Club to improve its loss records with the IG and reinsurers.

The Club reported a surplus for the year with record free reserves and a strong balance sheet, which has resulted in the retention of the S&P "A" credit rating. The Club also has one of the best solvency ratios and very good risk based capital ratios.

The underwriting remained weak during the year, but the general increase at the last renewal should help to improve matters and put the Club onto a firmer footing for the future. The Club remains one of the prominent members of the IG with very strong reserves and capital ratios and an exemplary supplementary call record.

STEAMSHIP

The Steamship Mutual Underwriting Association Limited, The Steamship Mutual Underwriting Association (Bermuda) Limited and The Steamship Mutual Trust.

Basis of accounting: "combined financial statements" unaudited. Audit report agrees the combination of the individual audited accounts. UK accounting standards.

Results

Steamship reported a deficit of $9m or a 3% reduction in free reserves after a small reduction in the net premiums and outgoings led to an underwriting deficit of $36m, which was reduced to $9m after the investment income.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A-**	A-	A-
Combined Ratio	**114%**	116%	93%
General Increase	**7.5%**	5%	0%
Incurred Claims	**-2.9%**	33.1%	1.5%
Investment Return	**3.0%**	4.6%	3.8%
Increase in Free Reserves	**-3.3%**	-2.5%	20.6%
Surplus /(Deficit)	**$(9.6)m**	$(7.5)m	$51.7m
Other Ratios			
Solvency	**144%**	148%	157%
Increase in Net Premiums	**-2.6%**	4.0%	2.3%
Average Net Prem Rate per GT	**$4.30**	$4.42	$4.61
Free Reserves per GT	**$4.54**	$4.70	$5.23
Increase in GT	**0.0%**	8.6%	9.4%
Gross Owned Tonnage	**63.0**	63.0	58.0
AER (Average Expense Ratio)	**12.4%**	12.3%	11.8%

"Steamship announces a second consecutive underwriting deficit, high pool claims costs (in which they have played their part), a falling premium income and a modest investment return"

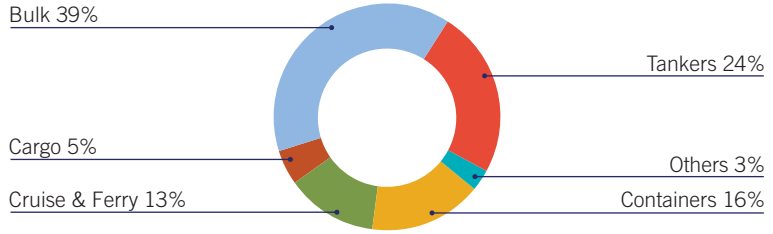
Underwriting

The modest increase in tonnage in recent years has not been met by a comparable increase in the net premium income, which fell in the last 12 months, largely as a consequence of the "churn", as members replaced older ships with new builds, attaching at lower premiums. As a consequence Steamship could not reverse last year's underwriting deficit, although there was a modest overall improvement and the combined ratio fell to 114%.

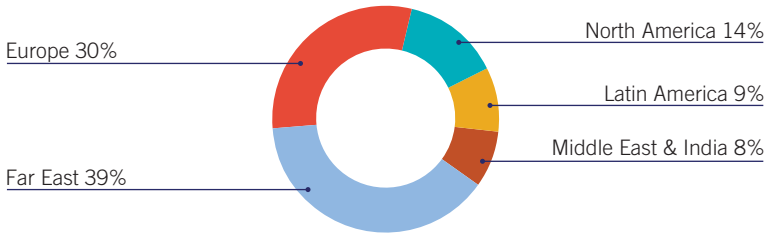
There was some improvement to earlier policy years, demonstrating that their more realistic approach to loss reserving was working - after some large reversals in earlier years. The attritional claims below $250,000 fell in frequency and severity compared to last year and were lower than all but one of the last five years. Larger claims above $250,000 also fell compared to last year, but the situation was masked by the cost of two large International Group pool claims. The cost of large claims within the Club's retention fell by 10%, but the overall cost of gross claims rose by over 30%. Reinsurers share of outstanding claims rose by 90% to $626m, largely as a result of the escalating cost of the Club's IG pool claims.

The net incurred claims have risen by nearly 30% in the last two years with no appreciable increase in income which has thrown the underwriting into deficit.

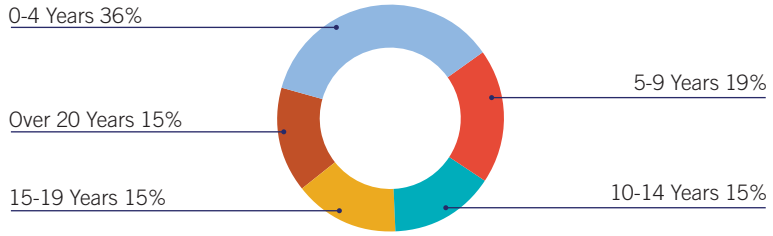
Tonnage by vessel type



Tonnage by region



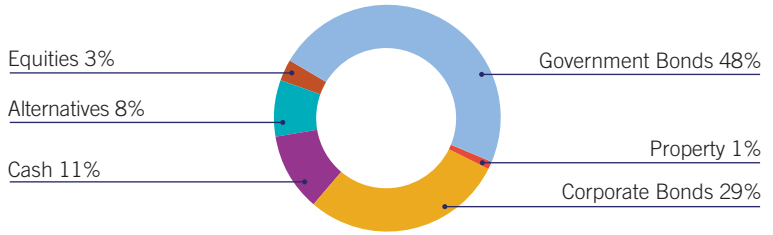
Tonnage by vessel age



Investments

The combined gains on investments amounted to 3%. Low yields on the developed country government bonds led the board to move $105m into higher grade US mortgage backed bonds and global corporate bonds.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**270,942**	278,176	267,511
Net Claims Incurred	**266,261**	274,194	205,983
Management Costs	**41,374**	47,524	42,896
	307,635	321,718	248,879
Underwriting Surplus/(Deficit)	**(36,693)**	(43,542)	18,632
Investment Income Less Tax	**27,062**	36,073	33,113
Surplus /(Deficit)	**(9,631)**	(7,469)	51,745

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**801,695**	741,519	603,114
Cash	**131,999**	145,827	214,142
Debtors	**62,780**	50,202	47,375
Other Assets	**10,997**	10,997	6,910
Total Assets	**1,007,471**	948,545	871,541
Outstanding Claims	**655,211**	616,145	534,558
Creditors	**66,053**	36,562	33,676
Total Liabilities	**721,264**	652,707	568,234
Free Reserves	**286,207**	295,838	303,307

Outlook

Steamship has reduced their underwriting deficit and all policy years were in surplus, but work still needs to be done to correct the current high level of claims. The erosion of net premiums needs to be reversed and although the cost of attritional and large claims fell, the gross cost of claims rose significantly, not only on paid claims, but also on outstanding claims. These cost increases may be partially attributable to the IG pool, but the Club needs to find a way to reduce their exposure to the volatility of the large claims. The Club has the largest American cruise portfolio in the IG and this may also be contributing to the rise in gross claims.

The Club has retained its S&P A- rating and still has good solvency and risk based capital ratios. The investment performance was lower than in previous years, but once the level of premium income has been addressed and the underwriting deficit reduced, the Club should be able to continue with a policy of expansion.

SWEDISH CLUB

Sveriges Angfartygs Assurans Forening (Swedish Club)

Basis of Accounting: Prepared in accordance with the Law of Annual Reports in Insurance Companies (ARFL) and the Swedish Financial Supervisory Authority rules and regulations regarding annual reports for insurance companies and the Swedish Financial Reporting Board's recommendations and IFRS.

The Club underwrites P&I, Hull & Machinery and Energy business and has a 31st December year end.

2013 Results

The Swedish Club started the annual reporting season with another set of steady figures giving an overall surplus of $6m. The Club's reporting year end is 31 December. The results for the year do not include a 'post balance deterioration' in claims reserves of $3.7m.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**BBB+**	BBB+	BBB
Combined Ratio	**111%**	111%	88%
General Increase	**7.5%**	5.0%	2.5%
Incurred Claims	**-3.8%**	42.1%	8.6%
Investment Return	**8.0%**	2.0%	4.1%
Increase in Free Reserves	**4.5%**	-5.6%	23.8%
Surplus/(Defecit)	**$6.4m**	($8.4m)	$28.8m
Other Ratios			
Solvency	**181%**	180%	197%
Increase in Net Premiums	**-2.9%**	7.9%	18.8%
Average Net Prem Rate per GT	**$3.71**	$3.93	$3.99
Free Reserves per GT	**$4.2**	$4.2	$4.8
Increase in GT	**2.9%**	9.7%	19.2%
Gross Owned Tonnage	**35.0**	34.0	31.0
AER (Average Expense Ratio)	**13.3%**	13.0%	11.6%

"The Swedish Club achieves an exemplary investment performance but cannot avoid being afflicted by the current issues facing the industry"

Underwriting

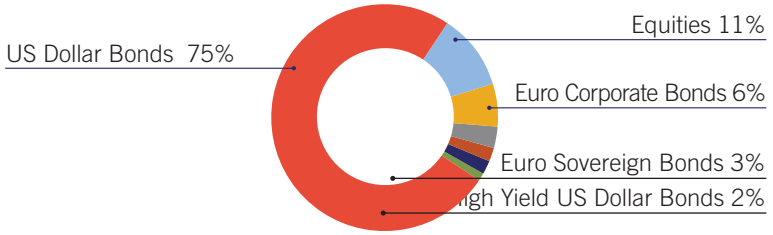
The underwriting has remained relatively constant with very little additional business and a $4m fall in the net premium income and the net incurred claims, leaving the underwriting deficit unchanged at $15m, which included all classes. This was more than adequately covered by the exemplary investment return of 8%, yielding $21m - a considerable improvement on recent years.

The cost of the attritional claims for all classes has levelled off, but the frequency and severity of large claims has increased. There were 27 claims in excess of $500,000 this year compared to 15 last year, although the claims in excess of $2m remained constant at eight. Last year the Club suffered the loss of MV Rena, which heavily impacted both the P&I and Hull classes and has had an adverse effect on the Club's pool record and contributions. In the last two years pool claims paid were $18m, but recoveries from the International Group (IG) pool were $82m and $89m from the IG reinsurers.

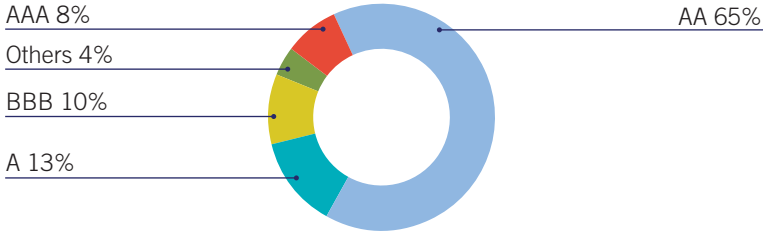
The new Energy class was only in its second year of operation and still reporting deficits. The Hull and Energy businesses combined, returned a modest surplus and the FDD class, which has tripled in size in the last five years also returned a small surplus. The class currently requiring attention would seem to be the P&I, which has seen incurred claims rise considerably faster than net premium income over recent years.

The cost of the Club's P&I claims has risen by 36% in the last two unaudited years to 20 February, compared to no increase in net premiums.

Asset allocation



Bond credit rating



Investments

After years of very average investment returns the Club has reported a very credible performance of 8% generating income of $21m. This has more than covered the underwriting deficit and helped to recover some of the 'ground lost' after last year's deficit.

The Club has a very conservative asset allocation with most of the funds held in US Dollar Bonds with general guidelines of 80% Bonds and 20% Equities. At the year end the asset allocation was as shown in the chart above.

The investment managers exceeded their benchmark returns on all classes, with the Equities returning 18% and the US bond portfolio returning 5.5%.

Revenue Statement			
All Classes	**2013**	2012	2011
US$000's			
Net premiums	**129,706**	133,608	123,778
Net claims incurred	**116,812**	121,489	85,520
Management costs	**27,580**	26,658	23,614
	144,392	148,147	109,134
Underwriting surplus/(deficit)	**(14,686)**	(14,539)	14,644
Investment income less tax	**21,103**	6,135	14,204
Surplus/(Deficit)	**6,417**	(8,404)	28,848

Balance Sheet			
US$000's	**2013**	2012	2011
Investments	**324,962**	309,803	292,461
Cash	**12,506**	17,779	20,443
Debtors	**51,787**	43,603	36,953
Other assets	**2,358**	2,339	2,551
Total assets	**391,613**	373,524	352,408
Outstanding Claims	**182,828**	177,783	155,487
Creditors	**60,470**	53,843	46,620
Total liabilities	**243,298**	231,626	202,107
Free Reserves	**148,315**	141,898	150,301

Outlook

After a very successful growth record in the earlier years of this decade, progress has ground to a halt. Over the last few years the P&I tonnage growth has not been met by comparable growth in income, but by a surge in incurred claims.

This issue seems to be the same as is afflicting most clubs, notably the sudden rise in the cost of a few very large claims which are having a disproportional effect on the results.

These costs need to be better managed in the future either by additional reinsurance, more selective underwriting, or just larger reserves.

The tonnage figures relate only to the P&I class, while the free reserves include all classes of business. As a consequence these ratios are not comparable to other clubs in our analysis.

The Club has a very good level of solvency and capital ratios and has retained an S&P BBB+ credit rating. The P&I underwriting deficits need to be corrected, but otherwise the Club is conservatively managed with a good level of free reserves.

UK CLUB

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited

Managers: Thomas Miller (Bermuda) Limited

Basis of accounting: consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

Results

The UK Club has experienced another quiet year of consolidation and reported an increase in the free reserves of $7m, after giving a mutual discount of 2.5% on the 2011 policy year. There was a deterioration in the underwriting, which was more than made up by a stronger performance from the investment managers who delivered a 3.7% return.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**A-**	A-	A-
Combined Ratio	**107%**	98%	99%
General Increase	**7.5%**	3.0%	5.0%
Incurred Claims	**6.3%**	-2.9%	-21.7%
Investment Return	**3.7%**	1.5%	8.2%
Increase in Free Reserves	**1.7%**	1.7%	16.7%
Surplus /(Deficit)	**$7.6m**	$7.5m	$68.1m
Other Ratios			
Solvency	**165%**	162%	159%
Increase in Net Premiums	**-3.5%**	-1.6%	-20.7%
Average Net Prem Rate per GT	**$2.3**	$2.6	$2.8
Free Reserves per GT	**$4.1**	$4.3	$4.6
Increase in GT	**7.1%**	6.7%	0.0%
Gross Owned Tonnage	**120m**	112m	105m
AER (Average Expense Ratio)	**9.5%**	9.5%	9.4%

"UK Club bucks the trend and delivers its fifth successive annual surplus, its free reserves in the last 4 years have risen by nearly 50% resulting in the second largest "pot" in the group"

Underwriting

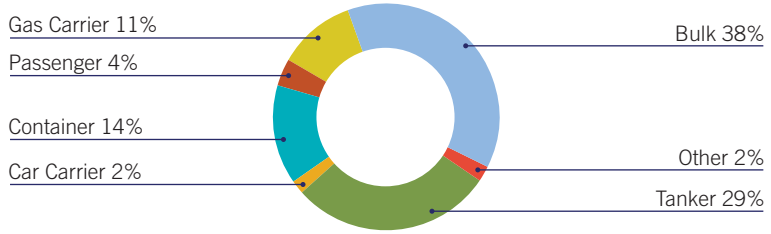
After a very benign 2011 policy year, when the rest of the market suffered, it was always likely that 2012 would be a much more difficult year. The premium income remained static after taking into account the $7m mutual premium discount, but reinsurance and claims costs both rose, giving rise to a $20m underwriting deficit.

The frequency of attritional claims below $0.5m was similar to the 2011 policy year, but the value of these claims rose slightly. Notified claims above $0.5m were substantially higher than 2011 policy year, but still lower than 2010 and similar to 2007 and 2009. One of the main areas of uncertainty remained the cost of International Group (IG) pool claims, but the Club's now excellent record on the IG pool will mean that their pool percentage contribution will fall to 7.5% going forward. The Club is also now protected by the purchase of reinsurance to cover its own and its share of other clubs' pool claims, which should lead to a material recovery on the 2012 policy year.

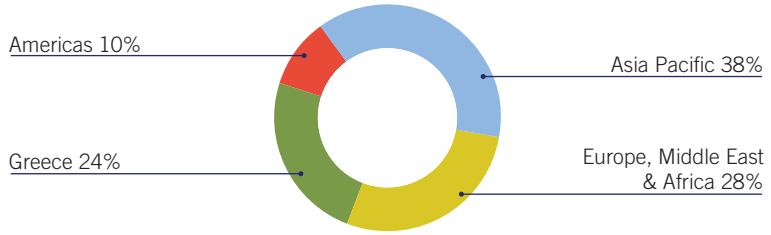
There were improved estimates for the large cargo claims in the financial year and better than expected development of personal injury claims, but charterers' claims deteriorated in the year.

There were continued improvements in the older policy years with a reduction of $19m in the expected cost of claims on the 2011 policy year and a $7m surplus on the closed policy years. There was an anticipated deficit of $31m on the 2012 policy year, but given the conservative reserving policy, this may well be reduced in the future.

Entered vessels by trade type



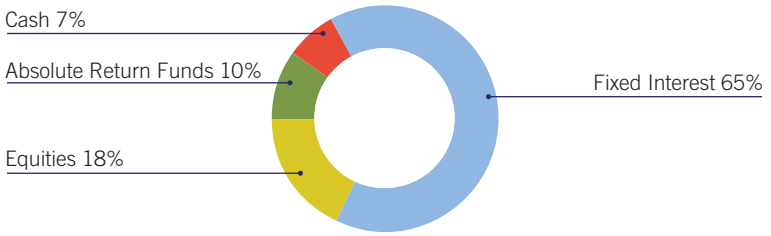
Club entry by region



Investments

After a poor performance last year the investment managers produced a 3.7% return for the year. The equity holdings were increased during the year and then reduced just before the year end after a good performance. The managers adopted the reverse policy on the euro, being underweight at the beginning of the year and going overweight towards the year end.

Asset allocation



Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**279,760**	289,855	294,573
Net Claims Incurred	**258,679**	243,287	250,428
Management Costs	**41,133**	42,109	40,621
	299,812	285,396	291,049
Underwriting Surplus/(Deficit)	**(20,052)**	4,459	3,524
Investment Income Less Tax	**27,649**	3,007	64,529
Surplus/(Deficit)	**7,597**	7,466	68,053

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**1,067,673**	1,040,779	931,130
Cash	**116,120**	158,423	279,602
Debtors	**88,317**	91,128	97,832
Other Assets			4,872
Total Assets	**1,272,110**	1,290,330	1,313,436
Outstanding Claims	**755,088**	778,869	808,744
Creditors	**23,191**	25,684	26,837
Total liabilities	**778,279**	804,553	835,581
Free Reserves	**493,831**	485,777	477,855

Outlook

The UK Club has restructured with UK (Europe) now becoming the principal insurer and the main regulated entity in the United Kingdom and UK (Bermuda) being the holding company, the reinsurer and the owner of several Asia Pacific offices. The new structure should help solvency and streamline governance arrangements.

The Club had good member retention at the last renewal and managed to attract some additional tonnage which should help to boost the premium income, which remained constant last year, after taking into account the 2011 mutual premium discount, but which has fallen in the previous two years. The claims costs have risen, but with the comprehensive reinsurance programme now in place, the fluctuations of the past should be better controlled.

There have been five successive annual surpluses and the free reserves have risen by nearly 50% in the last four years to just under $500m (inc the $100m perpetual subordinated loan capital), which is the second highest in the IG and the Club's published tonnage is reported to have reached 200m gross tons. The Club has a strong solvency ratio and risk based capital ratios and an S&P A- credit rating. The focus on financial strength rather than growth has been successful and will probably be pursued in the future.

WEST OF ENGLAND

The West of England Ship Owners Mutual Insurance Association (Luxembourg) and its subsidiaries.

Basis of accounting: In conformity with the law of 8 December 1994 (as amended) on financial statements with respect to insurance and reinsurance undertakings except for the fact that investments (including land and buildings) are not stated at historic amortised cost but at valuation and with significant accounting policies generally adopted by members of the International Group of P&I Clubs.

Results

West of England has reported a surplus of $17m, its best performance, excluding unplanned supplementary calls, for nine years. This comes despite falling income and the ever increasing cost of other clubs' IG pool claims. The Club avoided the industry trend and managed to reduce its underwriting deficit from $18m to $6m and made a 4.1% investment return; which easily covered the underwriting deficit to produce a surplus.

Key Performance Indicators

	2013	2012	2011
S&P Rating	**BBB**	BB	BBB
Combined Ratio	**104%**	110%	119%
General Increase	**7.5%**	5.0%	5.0%
Incurred Claims	**-14.2%**	-22.9%	-4.7%
Investment Return	**4.1%**	1.8%	8.7%
Increase in Free Reserves	**10.1%**	-1.8%	8.0%
Surplus / (Deficit)	**$17.1m**	$(3.3)m	$13.6m
Other Ratios			
Solvency	**146%**	136%	136%
Increase in Net Premiums	**-6.9%**	-12.2%	4.8%
Average Net Prem Rate per GT	**$3.14**	$3.50	$4.15
Free Reserves per GT	**$3.72**	$3.52	$3.73
Increase in GT	**3.9%**	4.1%	-5.8%
Gross Owned Tonnage	**53.0m**	51.0m	49.0m
AER (Average Expense Ratio)	**15.4%**	14.8%	13.8%

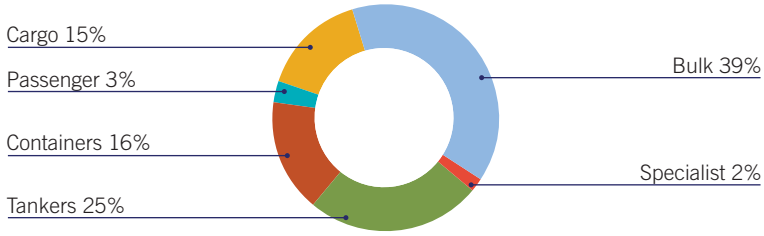
"The West of England achieves their best performance for 9 years countering the industry trend"

Underwriting

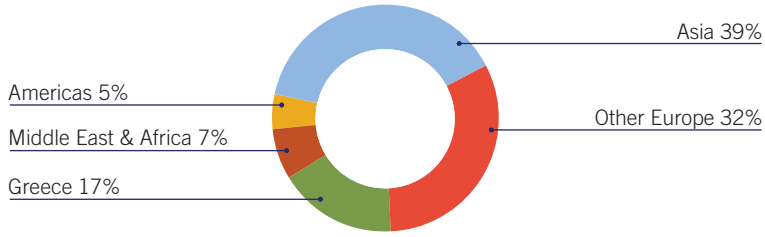
After a run of poor underwriting results over the last decade, there was an underwriting review in 2011, which planned to rectify the adverse situation and put the Club back onto a more balanced underwriting position. A number of members were not renewed and the exposure to expensive high risk areas and sectors were reduced, notably North America and personal injury cover. The policy has been vindicated in the last two financial years as paid claims, excluding International Group (IG) pool claims, have remained relatively constant and the level of outstanding claims has fallen thanks to the more realistic approach to loss reserving, which was effected in 2011. The number and value of claims fell in the last two years and there have been some healthy improvements in the closed and older open policy years. The cost of the IG pool claims, personal injury, environmental damage, and wreck removal claims have all risen, but the overall cost of claims fell. The only concerns were the continuing decline in premium income and the 13% reduction in outstanding claims, which helped to reduce the combined ratio from 110% to 104% this year, but which is unlikely to be repeated again in the near future.

The Club has started underwriting vessels under 5,000 gross tons and has renewed its sub-pool reinsurance contract (with Partner Re) and additional contracts for charters and other non IG covers.

Tonnage by vessel type



Tonnage by Region



Investments

The Club continued to reduce volatility within the portfolio by reducing currency risk and making adjustments to the fixed income portfolio. The revised asset allocation was 70% fixed income, 15% cash and 15% equities and absolute return funds. The fixed income portfolio returned 4.5 %, equities 5.3% and absolute return funds 13.7%. The overall return was 4.1%, compared to the expected long term return for the revised asset allocation of about 2%.

Revenue statement			
US $000	**2013**	2012	2011
Net Premiums	**166,296**	178,543	203,336
Net Claims Incurred	**135,168**	157,595	204,473
Management Costs	**37,012**	38,488	37,317
	172,180	196,083	241,790
Underwriting Surplus/(Deficit)	**(5,884)**	(17,540)	(38,454)
Investment Income Less Tax	**22,963**	14,232	52,009
Surplus/ (Deficit)	**17,079**	(3,308)	13,555

Balance sheet			
US$000's	**2013**	2012	2011
Investments	**427,535**	534,035	564,521
Cash	**118,686**	58,608	69,716
Debtors	**57,653**	55,172	83,930
Other Assets	**43,567**	43,779	42,466
Total Assets	**647,441**	691,594	760,633
Outstanding Claims	**428,599**	492,244	510,776
Creditors	**21,421**	19,994	67,193
Total liabilities	**450,020**	512,238	577,969
Free Reserves	**197,421**	179,356	182,664

Outlook

After enduring a difficult time over the last decade, there were real signs of improvement on the underwriting front and the retained claims were well below the 2008 and 2009 levels. The IG pool claims will continue to cause problems, but the improved claims loss reserving should help to bring a greater degree of certainty more promptly to the outcome of the policy years and minimise back year deteriorations.

There needs to be an improvement in the fortunes of the underwriting, with an emphasis on turning around the falling level of premium income and adjusting members' premiums back to a level where they will be able to cover the expected cost of future policy years. The aim must be balanced underwriting.

The solvency margin and the risk based capital ratios have improved dramatically in the last twelve months but the Club now has to make sure that it builds on this progress going forward, attracts new members and continues to enhance the free reserves to avoid a regression into the past.

S&P have corrected their earlier downgrade misjudgement and the Club now has a BBB rating.

Section Three

Performance Comparison Tables

Revenue and Performance Indicators

CLUB	America	Britannia	Gard	Japan	London	North	Skuld
US$000's							
Revenue Statement							
Net Premiums	93,541	227,237	681,532	179,010	79,776	294,559	277,692
Net Claims Incurred	83,265	200,594	591,266	175,893	82,691	253,512	212,167
Management Costs	31,995	30,388	141,239	29,945	13,521	51,921	66,169
	115,260	230,982	732,505	205,838	96,212	305,433	278,336
Underwriting Surplus/(Deficit)	(21,719)	(3,745)	(50,973)	(26,828)	(16,436)	(10,874)	(644)
Investment Income Less Tax	15,729	39,885	120,150	35,026	25,796	9,097	18,163
Surplus/(Deficit)	(5,990)	36,140	69,177	8,198	9,360	(1,777)	17,519
Balance Sheet							
US$000's							
Investments	233,406	969,981	1,864,607	357,452	311,601	796,656	641,845
Cash	22,098	172,660	143,882	139,596	64,712	118,230	80,669
Debtors	53,972	127,835	222,029	19,381	15,170	27,712	23,304
Other Assets	276	-	64,026	43,931	9,655	30,446	12,121
Total Assets	309,752	1,270,476	2,294,544	560,360	401,138	973,044	757,939
Outstanding Claims	214,205	807,426	1,113,169	284,320	236,787	605,487	412,123
Creditors	41,318	25,033	286,120	118,494	10,322	55,321	37,390
Total Liabilities	255,523	832,459	1,399,289	402,814	247,109	660,808	449,513
Free Reserves	54,229	438,017	895,255	157,546	154,029	312,236	308,426
Tonnage (mil)	16.0	113.0	175.0	92.0	45.0	127.0	72.0
Key Performance Indicators							
S&P Rating	BBB-	A	A+	BBB+	BBB	A	A
Combined Ratio	123%	102%	107%	115%	121%	104%	100%
Incurred Claims	14.1%	-4.3%	-0.7%	-2.5%	-11.4%	3.0%	9.5%
Investment Return	7.6%	4.1%	6.1%	2.5%	6.9%	1.6%	3.0%
Increase in Free Reserves	-9.9%	-5.0%	8.4%	-5.6%	6.5%	-0.6%	5.8%
Surplus /(Deficit) $ms	(5.99)	36.14	69.18	8.20	9.36	(1.78)	17.52
Other Ratios							
Solvency	125%	154%	180%	155%	165%	152%	175%
Average Net PR per GT	$5.85	$2.00	$3.89	$1.95	$1.77	$2.32	$3.90
Free Reserves per GT	$3.39	$3.90	$5.12	$1.71	$3.42	$2.46	$4.30
Increase in GT	0.0%	1.8%	7.4%	2.2%	2.3%	1.6%	2.9%
Increase in Net Premiums	-2.2%	4.2%	-0.6%	-16.2%	-9.3%	1.3%	6.2%
AER (Average Expense Ratio)	19.3%	8.5%	14.1%	5.7%	9.6%	13.1%	12.3%

continued on following page

CLUB	SOP	Standard	Steamship	Swedish	UK	West	TOTAL
US$000's							All Clubs
Revenue Statement							
Net Premiums	200,130	231,200	270,942	129,706	279,760	166,296	3,111,381
Net Claims Incurred	146,871	244,700	266,261	116,812	258,679	135,168	2,767,879
Management Costs	46,388	28,900	41,374	27,580	41,133	37,012	587,565
	193,259	273,600	307,635	144,392	299,812	172,180	3,355,444
Underwriting Surplus/(Deficit)	6,871	(42,400)	(36,693)	(14,686)	(20,052)	(5,884)	(244,063)
Investment Income Less Tax	34,002	52,400	27,062	21,103	27,649	22,963	449,025
Surplus/(Deficit)	40,873	10,000	(9,631)	6,417	7,597	17,079	204,962
Balance Sheet							
US$000's							
Investments	533,930	741,500	801,695	324,962	1,067,673	427,535	9,072,843
Cash	51,264	83,900	131,999	12,506	116,120	118,686	1,256,322
Debtors	37,367	118,400	62,780	51,787	88,317	57,653	905,707
Other Assets	2,406	34,100	10,997	2,358	-	43,567	253,883
Total Assets	624,967	977,900	1,007,471	391,613	1,272,110	647,441	11,488,755
Outstanding Claims	289,937	553,400	655,211	182,828	755,088	428,599	6,538,580
Creditors	59,397	61,900	66,053	60,470	23,191	21,421	866,430
Total Liabilities	349,334	615,300	721,264	243,298	778,279	450,020	7,405,010
Free Reserves	275,633	362,600	286,207	148,315	493,831	197,421	4,083,745
Tonnage (mil)	22.0	97.0	63.0	35.0	120.0	53.0	1,030.0
Key Performance Indicators							
S&P Rating	A-	A	A-	BBB+	A-	BBB	
Combined Ratio	97%	118%	114%	111%	107%	104%	108%
Incurred Claims	24.3%	1.6%	-2.9%	-3.8%	6.3%	-14.2%	-0.4%
Investment Return	7.8%	6.6%	3.0%	8.0%	3.7%	4.1%	4.9%
Increase in Free Reserves	17.4%	2.8%	-3.3%	4.5%	1.7%	10.1%	0.3%
Surplus /(Deficit) $ms	40.87	10.00	(9.63)	6.42	7.6	17.08	204.96
Other Ratios							
Solvency	195%	166%	144%	181%	165%	146%	162%
Average Net PR per GT	$9.10	$2.38	$4.30	$3.71	$2.33	$3.14	$3.02
Free Reserves per GT	$12.53	$3.74	$4.54	$4.24	$4.12	$3.72	$3.96
Increase in GT	10.0%	3.2%	0.0%	2.9%	7.1%	3.9%	3.70%
Increase in Net Premiums	5.5%	4.8%	-2.6%	-2.9%	-3.5%	-6.9%	0.0%
AER (Average Expense Ratio)	20.0%	13.2%	12.4%	13.3%	9.5%	15.4%	12.8%

General Increases %

Policy Year	America	Britannia	Gard	Japan	London	North	Skuld
2003	17.5	15.0	15.0	10.0	15.0	25.0	25.0
2004	25.0[A]	8.5	7.5	0.0	7.5	17.5	15.0
2005	10.0[B]	7.5	5.0	0.0	5.0	12.5	7.5
2006	10.0	5.0	7.5	0.0	7.5	7.5	5.0
2007	10.0	5.0	5.0	10.0	5.0	7.5	2.5
2008	20.0	15.0	10.0	20.0	10.0	17.5[D]	7.5
2009	7.5	12.5	15.0	12.5	15.0	17.5[E]	15.0
2010	0.0	5.0	0.0	12.5	0.0	5.0	5.0
2011	12.0[C]	5.0	0.0	10.0	0.0	3.0	[F]
2012	5.0	5.0	5.0	3.0	5.0	5.0	[F]
2013	10.0	16.5	5.0	5.0	12.5	15.0	[F]
Compounded %							
2003-2013	**326**	**258**	**204**	**219**	**219**	**344**	**216**[F]
2009-2013	**139**	**152**	**127**	**151**	**136**	**153**	**121**[F]

Policy Year	SOP	Standard	Steamship	Swedish	UK	West [H]	Average%
2003	15.0	25.0	25.0	25.0	25.0	25.0	**20**
2004	0.0	20.0	20.0	15.0	17.5	15.0	**13**
2005	0.0	12.5	12.5	10.0	12.5	12.5	**8**
2006	0.0	5.0	5.0	10.0	12.5	12.5	**7**
2007	5.0	5.0	9.0	7.5	7.5	5.0	**6**
2008	[F]	15.0	15.0	15.0	17.5[E]	15.0	**14**
2009	10.0	15.0	17.5	15.0	20.0[G]	10.0	**14**
2010	5.0	3.0	5.0	2.5	5.0	5.0	**4**
2011	0.0	3.5	0.0	2.5	5.0	5.0	**4**
2012	0.0	5.0	5.0	5.0	3.0	5.0	**4**
2013	5.0	7.5	7.5	7.5	7.5	7.5	**8**
Compounded %							
2003-2013	**146**[F]	**296**	**309**	**293**	**344**	**301** [H]	
2009-2013	**121**[F]	**138**	**139**	**136**	**146**	**137** [H]	

A. +23.5% adj. Adv. Call basis
B. +20.8% adj. Adv. Call basis
C. 2% Mutual 10% Fixed
D. +7.5% Pool Surcharge 10% Mutual
E. 10.0% + 7.5% Investment Surcharge
F. Selective increases applied on record and/or trade type and therefore the G.I. is flattered
G. 12.5% Mutual 7.5% Fixed
H. G.I. is not applied to excess loss reinsurance costs

Supplementary Call Record - Original/Current/Release %

Policy Year	America	Britannia	Gard	Japan	London	North
2003	20/56	40/40	25/25	30/10	40/40	0/0
2004	0/0	40/30	25/25	30/30	40/40	0/0
2005	0/20	40/30	25/20	30/30	40/40	0/0
2006	0/35	30/30	25/20	30/60	40/89	0/0
2007	0/30	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 5	40 40 0	25 15 5	40 50 5	0/0	0/0
2011	25 25 15	40 40 22.5	25 20 15	40 40 5	0 0 15	0 0 0
2012	0 0 20	40 40 55	25 15 20	40 40 5	0 0 15	0 0 15
2013	0 0 20	45 45 65	25 25 20	40 40 5	0 0 15	0 0 20

Policy Year	Skuld	SOP	Standard	Steamship	Swedish	UK	West
2003	0/0	25/0	0/0	0/0	0/0	0/0	20/20
2004	0/0	25/0	0/0	0/0	0/0	0/0	20/35
2005	0/0	25/0	0/0	0/0	0/0	0/0	20/35
2006	0/0	25/0	0/0	0/12.5	0/35	0/20	20/55
2007	0/0	25/0	0/0	0/14	0/35	0/25	20/55
2008	0/0	25/0	0/0	0/20	0/0	0/0	20/65
2009	0/0	10/0	0/0	0/0	0/0	0/0	30/30
2010	0/0	10/0	0/0	0/0	0/0	0/0	30/30
2011	0 0 3	0 0 0	0 0 3.5	0 0 5	0 0 10	0 0 5	30 30 5
2012	0 0 8	0 0 0	0 0 4.5	0 0 10	0 0 20	0 0 12.5	30 30 15
2013	0 0 14	0 0 0	0 0 10	0 0 25	0 0 20	0 0 15	35 35 30

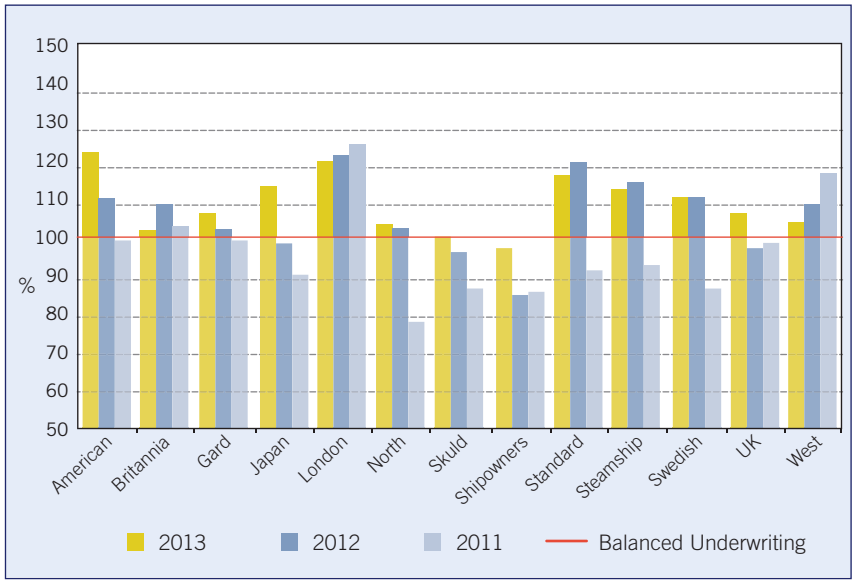
Closed Years

Open Years

- Original
- Current
- Release

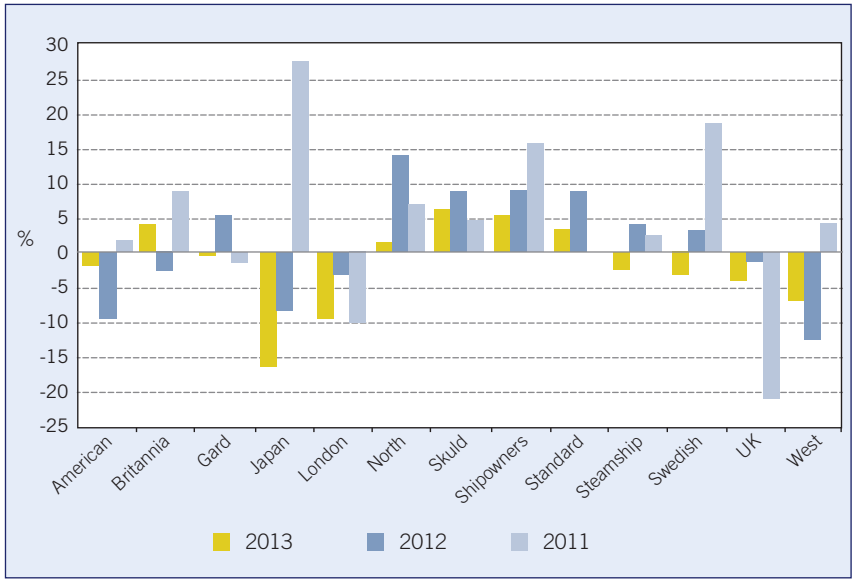
Combined Ratios

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). Small underwriting losses may be covered by Investment Income, but once the Combined Ratio exceeds 110%, the Club needs to take corrective action.



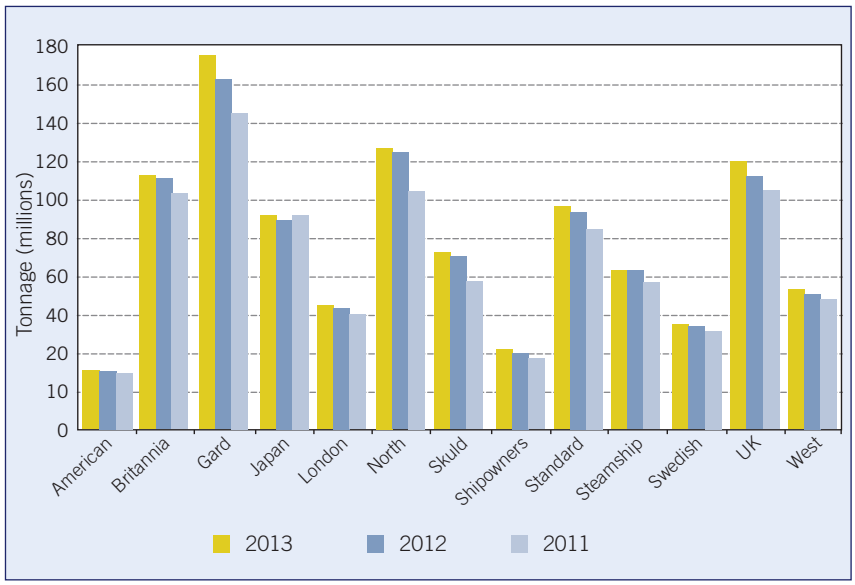
Increase in Net Premiums

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).



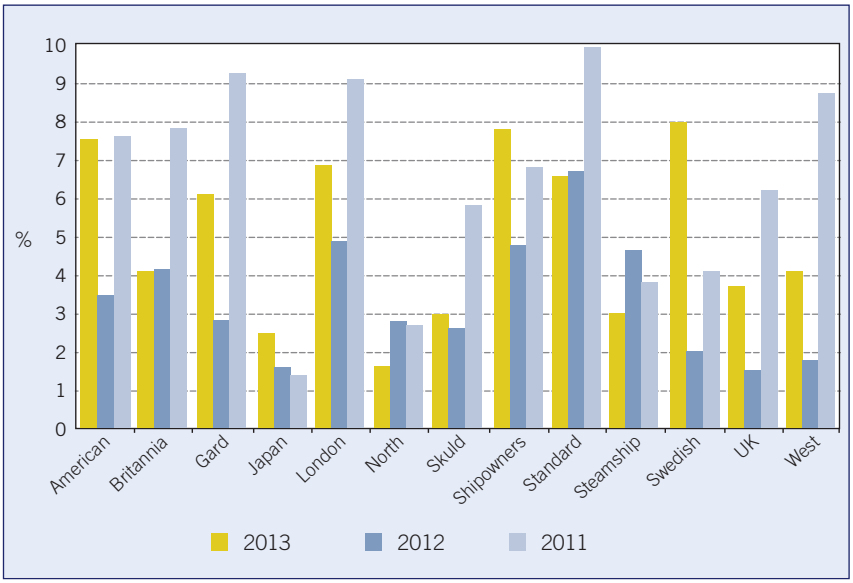
Tonnage

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.



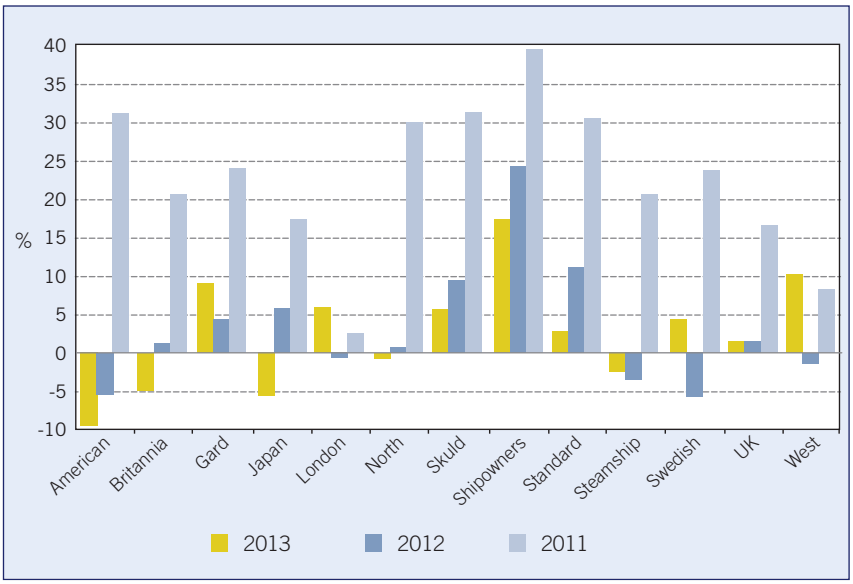
Published Investment Returns

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.



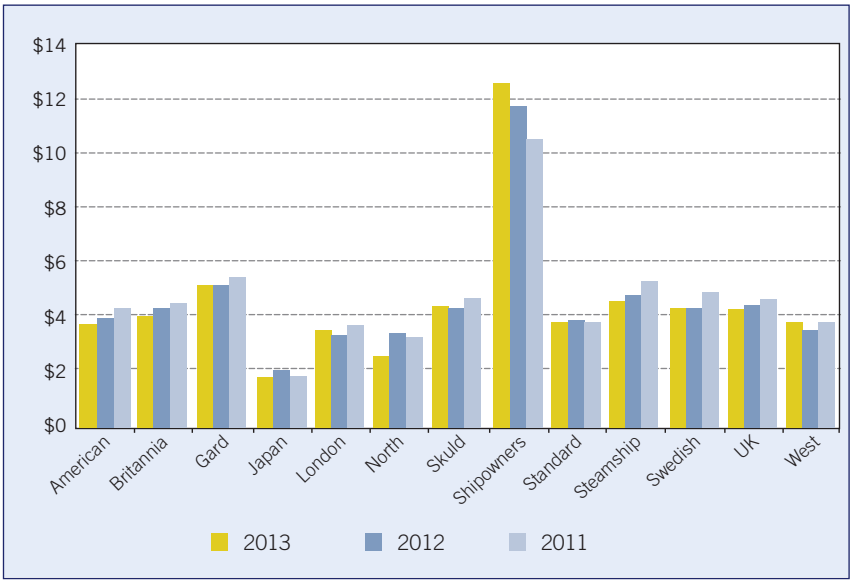
Free Reserves Movement

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.



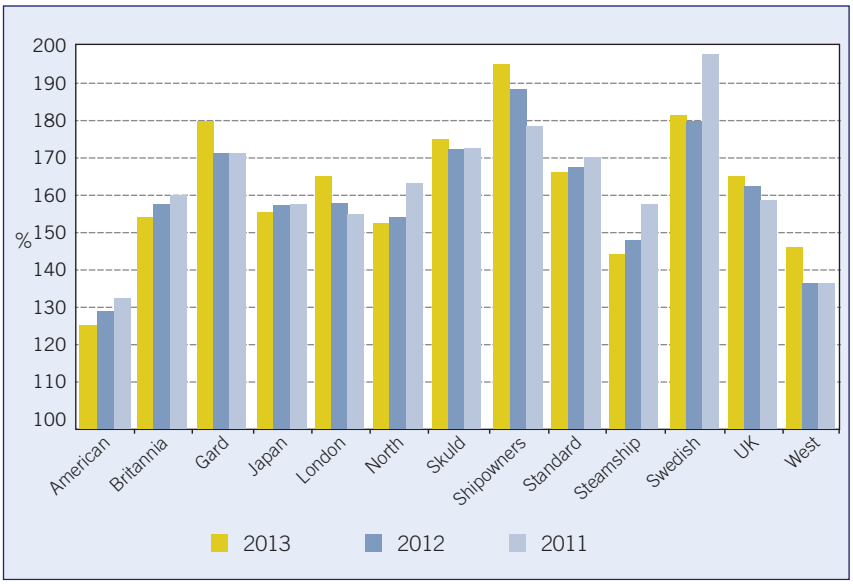
Free Reserves per Gross Ton

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.



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.



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