

THE WILSON EUROPE P&I REPORT 2018

INTERNATIONAL GROUP CLUBS



International Group Clubs



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THE CHAIRMAN'S ANNUAL ROUND UP

Once again the International Group clubs have defied the pessimists and the forecasters with a collective annual surplus of \$470m, adding a further 8% to their combined free reserves, which now exceed \$5.7bn. The overall results come largely due to the performance of the investment managers in a climate of reduced premium income levels and rising claims. All clubs' Investment Managers achieved returns of 2.5% or higher with an average return of almost 6% across the board.

However, when we look at the clubs' underwriting results things do not look so positive. This year only two clubs reported underwriting surpluses in excess of \$1m, compared to only two clubs reporting underwriting deficits greater than \$1m last year. Overall, the clubs reported a \$92m underwriting deficit compared to a \$110m surplus a year earlier – a swing of over \$200m.

With the cost of incurred claims for the 2018 financial year only marginally lower than the year earlier, the driver behind this reversal has been another reduction in net premium income which fell by 5%, after many clubs returned calls or discounted members' annual premium. In addition to returning and discounting members' annual premium, the clubs remain incredibly competitive on the pricing of new tonnage with many rates quoted hardly covering club overhead costs and clearly not sustainably priced.

“While it has been pleasing to see a number of the clubs returning premium / capital to their members these returns are rather modest when compared with how much money is being added to the Free Reserves.”

Although overall claims figures remain similar to 2017, early signs in 2018 are showing an upturn in claims with the Pool showing its highest level of claims at 6 months since 2012/2013.

While it has been pleasing to see a number of the clubs returning premium / capital to their members, these returns are rather modest when compared with how much money is being added to the Free Reserves.

We have argued for a number of years that clubs should place a cap on the levels of their free reserves with any excess amounts being returned to the Membership. We will continue to fight on this point but so far the clubs are reluctant to act on this issue and appear happy to see their free reserves continue to increase. This seems most unmutual.

“Even more recently we are also now seeing mega broking houses taking over other major broking houses. These acquisitions are slowly restricting Shipowners' options when it comes to selecting a broker of choice.”

“Wilson continues to be a major player in the P&I market with some 75 million gross tons and selectively seek to add to our established portfolio.”

For 2019, despite the underwriting losses referred to above we do not anticipate the clubs charging general increases at this renewal. We do however expect the clubs to be much tougher this year particularly with Owners with adverse loss records as they seek to redress their Underwriting deficits.

Notwithstanding the fact that much comment has been made regarding the potential benefits of club mergers this has yet to come to fruition since the breakdown of merger talks between the UK Club and Britannia. Although not an advocate of a reduced International Group I personally believe it is inevitable at some stage we will see another merger initiative. Make no mistake these club mergers do not tend to be straightforward with two club Boards of Directors and potentially two sets of Managers (having to agree how they combine into one club). The same however cannot be said of brokers as in recent years we are seeing acquisition after acquisition of small broking houses selling to much larger concerns. Even more recently we are also now seeing mega broking houses taking over other major broking houses. These acquisitions are slowly restricting Shipowners' options when it comes to selecting a broker of choice.

What is happening to the small boutique broker? For a company like Wilson we have always prided ourselves on the personal service we provide to our clients. Our Shipowners are not just a number but represent in all cases a relationship built on trust where we seek to understand individual client's needs and expectations and convey this message to the clubs. For Wilson the relationships we have established are not just with the Shipowners but also with the clubs. This mutual respect only enhances our position as we seek to obtain the best possible results for our clients.

Wilson continues to be a major player in the P&I market with some 75 million gross tons and selectively seek to add to our established portfolio. The personal service we provide to our clients is only possible due to our staff and my grateful thanks extends to them for all their hard work over the last 12 months.

Dudley Taylor
Chairman
Wilson Europe Limited



MANAGING DIRECTOR'S SOAPBOX

A NEW IG CHAIRMAN COMING SOON...

Paul Jennings will takeover the helm as Chairman of the International Group this November. Paul has obviously seen and experienced a lot in his 30 years in the industry. His club, the North of England, has successfully grown from around just 4mil gt in 1990 to 142mil today... growing from one of the smallest in the Group to now the 2nd largest in tonnage terms.

It can only be hoped that Paul will engender greater confidence and vision for the Group, being inclusive to all its participants and not just pander to the self-interests of the few mega players. At Wilson we believe that a reduced number of IG participants will result in much reduced competition, with the mega clubs ultimately operating clone like; slow on their feet like equally matched heavyweight boxers just occasionally jabbing at each other... too big, too slow and ultimately too complacent to outmanoeuvre their opponents! Many of the industry players are nervous of Gard's size and financial strength, yet Gard still only has c.17% of Group market share, an amount the UK Club comfortably exceeded 20 years ago!

We wish Paul every success in his new and very important tenure as Chairman. We hope that his legacy will be an IG where all members respect the rights of the others to exist, all enjoying equal importance without discrimination, all pulling together to serve the needs of this most important and valued industry, and particularly the shipowner members (who the club managers are employed to serve) who 'chose' to join the clubs of which they are members!

“At Wilson, we believe that a reduced number of IG participants will result in much reduced competition”

We should also not miss this opportunity to extend our congratulations to Mike Hall of Tindall Riley/Britannia who will replace Paul as Chairman of the Reinsurance Subcommittee. Mike is clearly the best and most qualified candidate for this role in the Group. Prior to joining Tindall Riley, Mike was a reinsurance broker for the Benfield Group. He also recently successfully chaired the review of the IG reinsurance broker 'beauty parade'.

WHEN DIVERSIFICATION IS NOT IN THE BEST INTERESTS OF SHIPOWNER CLUB MEMBERS...

Those (usually independent) club managers who have large appetites to find new income streams for their businesses, continue to 'peddle' the often dubious benefits that will be derived for their club shipowner members by diversification. However in recent times, and in most cases there is little or no evidence that such benefits are actually being delivered, with the possible and *current* exception of Gard, whose unique business model many seek to copy, but is now very difficult to replicate (and also relies heavily on investment income). Let's look at a few examples of diversification initiatives by club managers and the consequences:-

- Three years ago, the managers of The Standard Club created a Lloyd's syndicate - Standard Syndicate 1884. The club's underwriting capacity started at around 40% but has now grown to a massive 86%, notwithstanding, and perhaps as a result of the syndicate's heavy loss-making results. The syndicate is reported to be employing some 49 staff and has

overhead costs of a substantial \$7.9 mil for 2017! This syndicate has already lost its investors c. \$92 mil. These reported results will have impacted negatively on Standard Club and their shipowner members to the tune of some \$40 mil in lost reserves... and no doubt reduced the opportunities for more meaningful call returns to their mutual members. Charles Taylor on the other hand, continues to enhance its profits from the Syndicate and indeed other P&I 2nd and 3rd party related businesses acquired, such as Richards Hogg, who are currently loss adjusting the rather expensive 'Maersk Honam' casualty.

- Skuld also opened a syndicate at Lloyd's and over its four years of underwriting is reported to have lost circa £37m (or c.\$50m), which again will have likely deprived its club mutual members of larger, more meaningful call returns.
- A couple of years ago, UK Club and Thomas Miller were seeking to takeover / merge with Britannia and Tindall Riley! Both management companies, and particularly some individuals stood to gain a lot from this union. However, once the 'merger' proposal was put to the Britannia shipowner Board, it was obvious to most that it was certainly not in the club's best financial interest. There were significant direct and indirect costs incurred in formulating the proposed takeover; undergoing due diligence, management time and costs, employee distraction, and uncertainty for their futures, all of which seemed to impact

negatively on both businesses operations for more than a year! At least a positive consequence followed this failed exercise in that the Britannia Board, having finally focussed on their enormous uncommitted free reserves, are now releasing back to their members some of the very substantial club capital that had accrued and laid dormant for decades.

- The managers of the UK Club recently purchased Brookes Bell, a large international marine surveying company whose services are used by most / all clubs. Some clubs have suggested they will reduce their patronage of this company (as a result of its loss of independence and now owned by a competitor) to a 'necessity only' basis. How can club members be confident that resultant fees (paid through their loss records) are competitive, particularly if other clubs reduce their patronage of this company and income falls? Thomas Miller has also acquired two, arguably struggling P&I fixed premium facilities, and it has just been announced they have acquired a third - Hanseatic (a German fixed premium supplier). With the high limits provided by fixed premium facilities, and their capability to underwrite ships with large gross tonnages, it is perhaps difficult to argue, that in many cases, they are not directly competing, and perhaps even undermining the International Group clubs, who themselves underwrite comparable ships, which are often reinsured within the IG and operate under its non-compete rules.

“Why can't club managers be content with this extraordinary and financially rewarding position, rather than continually challenging the system?”

It appears that there are significant conflicts of interest for a number of club managers, ensuring the best interests of their members, operating businesses that are arguably in direct competition with, and detrimental to the IG. The 13 clubs of the Group insure circa 95% of the world's merchant fleet with currently no meaningful outside competition! Why can't club managers be content with this extraordinary and financially rewarding position? It is disappointing that they continually challenge the system by; seeking to reduce the number of IG clubs at the expense of IG competition, creating loss making Lloyd's Syndicates at the expense of their members, acquiring (often distressed fixed premium P&I suppliers in an effort to breathe new life into them, which then will compete with their IG partners), or by purchasing P&I related service suppliers at the likely expense of competition. The consequences of these diversification projects will likely result in greater ultimate cost to the shipowners that have to use (or are steered to use) these services. It is perhaps pretty clear that none of these diversification activities are done for the greater good of the shipowner members, but for greater club managers' reward!

CLUBS SHOULD INVEST MORE IN THEIR STAFF & LESS IN THE STOCKMARKET

The clubs' product is, on the face of it identical... it has to be as all share the same reinsurance protection. As a consequence, individual clubs often struggle to find their own USP. An analogy might be 'cola'... they are all selling it, but it's a question of brand choice for the consumer... taste v price! The clubs who thrive today are those who combine both financial strength and deliver to their members higher service levels and value for money.

The industry over the last decade or more has seen a large number of senior managers, claims handlers and specialists, who were intellectual and/or commercial heavyweights retiring from the industry. Through a lifelong career in the industry they were focused on delivering high quality service, with the long established goal of delighting the shipowner members they served, and only referring to the club rule book to pay difficult claims and not avoid them! It is essential in our view, that current club managements invest in a new generation of highly motivated and talented individuals to support this dying ethos... which has been at the core of clubs' success since their creation. Many owners have raised frustration of some club staff adopting too legalistic or inflexible approaches to claims handling or underwriting. One of the largest expenses for the clubs after claims is 'people'. During times of shipping and financial crisis and with reduced claims activity

(as we have experienced for a decade), clubs have apparently felt the need to cut back on investing in staff, the very people who offer a real chance of reducing expensive claims settlements through skilful and knowledgeable claims handling. Now is the time for club managements to refocus their energies on fast tracking their talented staff, adopting intensive training, recognising the importance of maintaining staff continuity to ensure consistent high quality service delivery, and avoiding an environment where staff feel they have to move on to new job roles, either within the managers' 'stable' of diversified businesses or leaving the industry entirely to progress their careers elsewhere.

“It is essential, in our view, that current club managers invest and encourage a new generation of highly motivated and talented individuals to support this dying ethos”

SHIPOWNERS WON'T KNOW WHAT THEY HAD UNTIL IT'S GONE

We read in TradeWinds that AP Moller... one of the world's mega merchant fleets is said to have applied pressure on the IG (through their clubs), and has been successful in pushing the IG to review its GXL reinsurance arrangements. There was a firm denial from the Group Chairman confirming that Moller's intervention had no impact on the Group's

decision to put this contract out to a broker RFP (request for proposal). It is possible that Moller's goal was to achieve greater competition amongst both the reinsuring brokers and the reinsurance market, but no doubt this vision was primarily for their ultimate benefit and may have been counterproductive, particularly in the Lloyd's market! Whilst there has now been a broker 'beauty parade', in fact not much changed (and quite rightly!). The two brokers Miller and Aon, continue to place the contract with similar involvement as before, but perhaps now with a stronger mandate to work more cohesively together. In our view there is little more that can be done by way of pricing for this long-established contract, which continues to be very important to the interests of both the clubs and the Lloyd's reinsurance market. The commercial market underwriters are now likely to have arrived at a minimum premium situation for this contract, particularly in this period of low claims and resultant soft insurance environment.

Both parties heavily rely on mutual cooperation, and as a result they must be fair with each other, delivering a 'win-win' situation for both, to ensure that the contract is not 'rigged' in favour of one side or the other. If this were to happen it would bring disillusionment and resultant lack of support with damaging consequences to the club system!

The P&I clubs were created from small and medium sized independent shipowners who continue to be the bedrock of the system today, although understandably club managers regularly find the draw of very large fleets and resultant large premiums irresistible, often at the expense of smaller traditional shipowners. Less than a handful of overly bearing corporates sometimes seek to exercise undue leverage on the system and yet do not think twice themselves about 'record washing' by moving clubs following a substantial claim.

“Large and often opportunistic clubs say there are efficiencies to be achieved through there being fewer clubs. However these clubs do not themselves have the lowest expense ratios and their underwriting results are often mediocre.”

Club managers often boast they are too large to be influenced by any one shipowner applying undue influence on their operation at the expense of their other members... these boasts perhaps look a bit shallow in some quarters! If as suggested, the clubs are in fear of losing such corporates to the commercial market, then we suggest 'let them try'. Often these mega companies do not need the clubs for service, but for unfettered access to the otherwise impossibly

high limits the International Group 'excess loss contract' and the mutual system provides. This 'high limit' stance also assists the P&I clubs and their managers, as it makes competition from the commercial markets much more difficult to replicate. Fixed Premium commercial market players cannot provide the very high limits available from the IG. Generally speaking it is the mega corporates that bring the very large claims on the Group GXL contract e.g. the Costa Concordia.

It is quite likely that there has been some 'collusion', or support at least from a few club managers who want to see the demise or absorption of the smaller clubs, by encouraging the type of publicity recently generated, seeking dramatic structural changes to the P&I reinsurance structure. These large and often opportunistic clubs say there are efficiencies to be achieved through there being fewer clubs. However these clubs do not themselves have the lowest expense ratios and their underwriting results are often mediocre, perhaps hence their desire to see reduced competition as an easy fix for a more challenging issue!

The system may not be perfect but as with Brexit... if the likes of Moller or one or two clubs feel there are aspects that are fundamentally contradictory to their visions, then perhaps they should consider leaving the Group to follow their chosen paths, and let the enthusiastic 'remainers' work together to further improve this valuable system in a cohesive and supportive approach!



Julian South
Managing Director
Wilson Europe Limited



About Wilson

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

Wilson Europe has built a substantial global client base and today is responsible for placing more than 75 million gross tons of P&I. Being strong supporters of the International Group we favour placing these covers with P&I Clubs but do also work closely with some fixed premium providers.

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

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

REASONS TO USE WILSON

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

Additional Covers

We can readily place the following:

Club/Market

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

Cargo/Property

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

People

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

Freight Protection

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

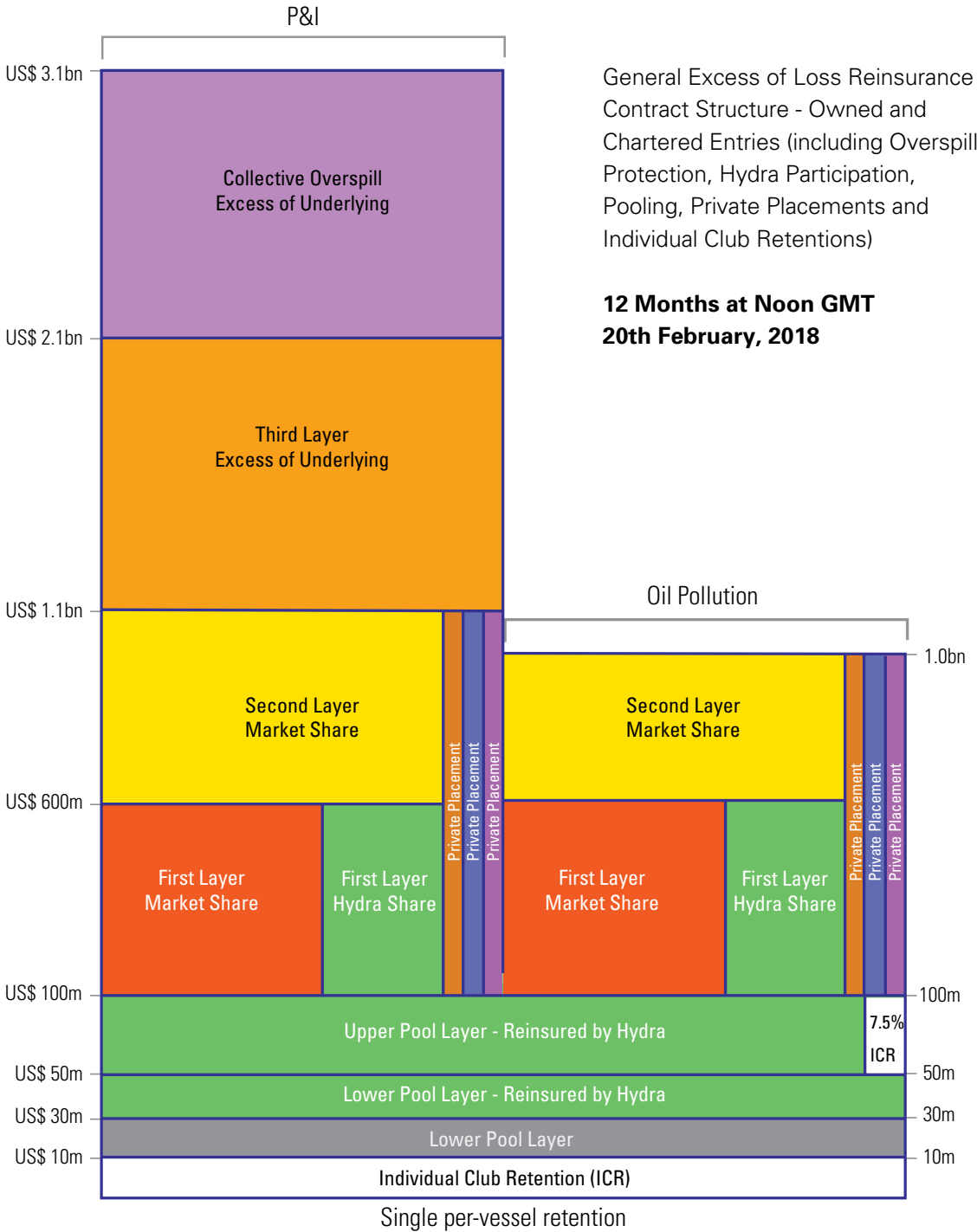


SECTION ONE

Financial Retention & Reinsurance



International Group Reinsurance Structure 2018



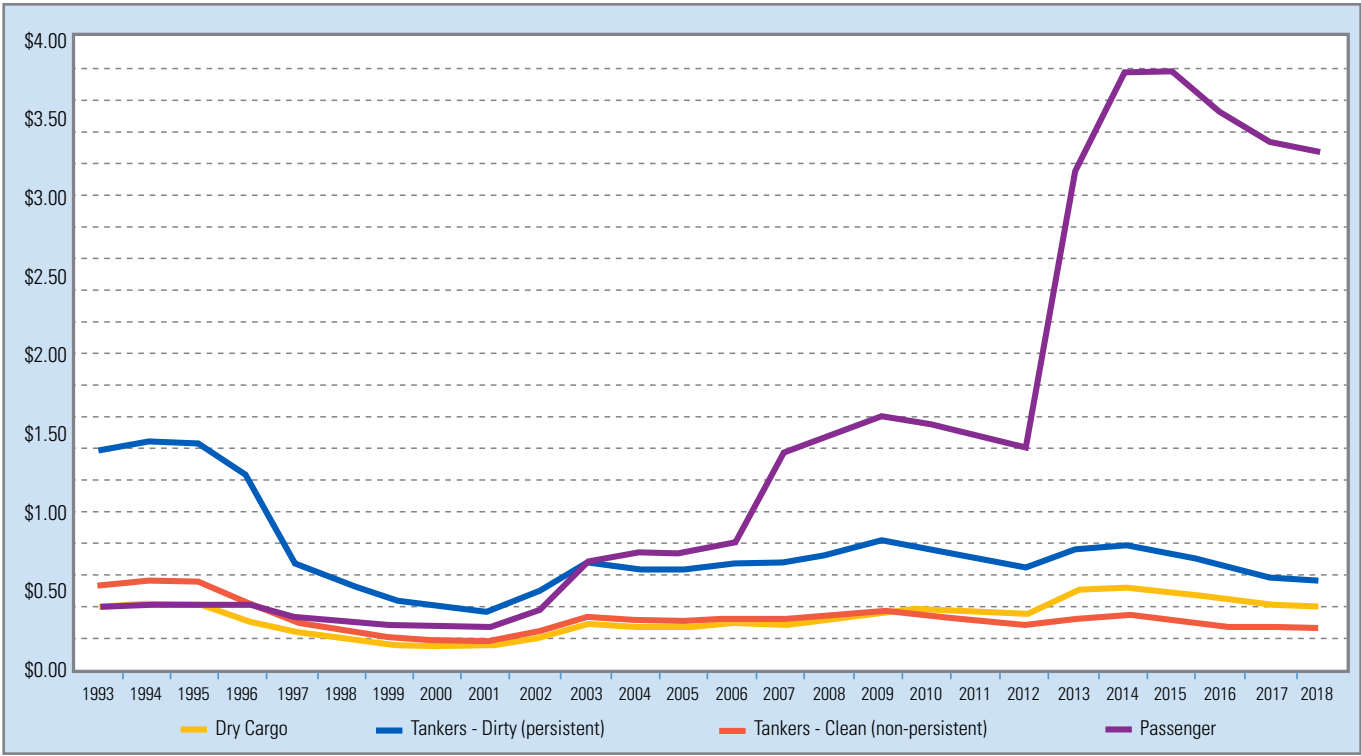
Group GXL Reinsurance Rates - 2018 Policy Year

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

	Dry Cargo Ships (US\$)	Dirty Persistent Tankers (US\$)	Clean Non-Persistent Tankers (US\$)	Passenger Carrying Ships (US\$)
2018 Rates	0.4038	0.5845	0.2626	3.2707
2017 Rates	0.4114	0.5955	0.2675	3.3319
Adj. from 2017	-0.0076	-0.011	-0.0049	-0.0612
% Movement	-1.85%	-1.85%	-1.83%	-1.84%

2016	0.4537	0.6567	0.2816	3.5073
2015	0.4888	0.7317	0.3138	3.7791
2014	0.5203	0.7963	0.3415	3.7791
2013	0.4942	0.7565	0.3245	3.1493

GXL RI Rates (fluctuations graph) 1993-2018



IG Clubs' 2018 Renewal Requirements and Policy Year Developments

Club	P&I	Remarks	FDD	Remarks
American	Nil		Nil	
Britannia	Nil	Capital distribution of \$10 million to Members with ships on risk as at Midnight (BST) on 17 October 2017. Release Calls set to nil for all open Policy Years.	Nil	Release Calls set to nil for all open Policy Years. Initial cost absorbed by the Association to increase from \$5,000 to \$7,500.
Gard	Nil		Nil	
Japan	Nil		Nil	
London	Nil	Deductibles increased by \$1,000, with an increase of \$2,000 applying to crew and other persons.	Nil	
North	Nil	Deductibles below \$25,000 will be increased by a minimum of \$1,000 per deductible.	Nil	
Shipowners	Nil	To absorb any changes in the GXL Reinsurance Programme.	Nil	
Skuld	Nil		Nil	
Standard (Europe)	Nil	2017 PY - 5% return of mutual premium, credits to be issued in late February 2018. Deductibles increased by 10% with deductibles below \$20,000 increased by \$2,000.	Nil	
Standard (London)	Nil	2016 PY - 5% return of mutual premium, credits to be issued in late February 2018.	Nil	
Steamship	Nil	2015 PY - 10% return of mutual premium, credits to be issued in November 2017.	Nil	
Swedish	Nil	Deductibles for Cargo and Crew increased by \$1,000.	Nil	
UK	Nil		Nil	
West	Nil	Rules deductible increased from \$11,000 to \$12,000 with Members' individual deductibles below this level increased by 10% or \$1,000, whichever is the higher. Charging of mutual premium modified from 'net advance call plus an additional call' and re-expressed as a 'total mutual call', payable in 5 equal instalments.	Nil	Charging of mutual premium modified from 'net advance call plus an additional call' and re-expressed as a 'total mutual call', payable in 5 equal instalments.

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

Abatement Layer Triggers – 2018

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

FD&D Club Comparison Table – 2018

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

Pool Record Development Tables 2016-2018

IG SHARE, SURPLUS / DEFICIT AND 3 YEAR POOL LOSS RATIO DEVELOPMENT

Club	IG Share %	Net position (US\$ m)	2018 %	2017 %	2016 %
UK	12	100	72	69	73
North	10	34	87	92	95
Gard	15	27	95	102	102
Britannia	7	23	93	97	99
Skuld	8	19	91	72	72
London	3	19	89	97	97
West	7	18	95	97	89
Japan	7	-18	107	106	106
Steamship	9	-27	108	97	101
American	3	-29	125	116	109
SOP	5	-32	125	134	152
Standard	9	-52	118	124	123
Swedish	4	-56	132	154	145

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

Entered Mutual GT by Club by Policy Year (mil) 2008-2018

Club	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Period % Change 2008 - 2018
American	13	13	15	15	16	16	16	17	16	16	17	31
Britannia	88	93	98	103	111	113	108	108	106	101	107	22
Gard	127	133	136	145	163	175	187	189	200	200	207	63
Japan	84	90	92	92	90	92	93	93	92	91	91	8
London	39	39	37	40	44	45	43	44	44	43	45	15
North	65	75	86	105	125	127	128	127	131	140	142	118
Shipowners	15	16	17	18	20	22	24	24	25	25	25	67
Skuld	41	45	55	58	70	72	75	74	78	85	90	120
Standard	50	65	80	85	94	97	97	101	107	108	117	134
Steamship	47	50	53	58	63	63	69	74	78	85	85	81
Swedish	25	25	26	31	34	35	37	42	44	47	51	104
UK	112	110	105	105	112	120	124	127	135	139	139	24
West	54	51	52	49	51	53	57	67	72	82	91	69
IG Total	760	805	852	904	993	1030	1058	1087	1128	1162	1207	59

KPI League Tables – 2018

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).

- Above
- Industry Average
- Below

Britannia	79
UK	90
Japan	91
Skuld	100
SOP	100
American	103
Gard	104
North	105
Swedish	108
Standard	111
West	116
Steamship	117
London	122

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).

- Above
- Industry Average
- Below

Skuld	5.80
UK	0.50
London	-1.70
Steamship	-2.60
West	-3.00
Standard	-3.20
Japan	-4.90
Britannia	-5.40
North	-7.20
SOP	-7.20
Gard	-11.30
Swedish	-12.60
American	-22.20

ENTERED GT (MIL)

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

Gard	207
North	142
UK	139
Standard	117
Britannia	107
Japan	91
West	91
Skuld	90
Steamship	85
Swedish	51
London	45
SOP	25
American	17

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.

SOP	8.4
American	8.1
Swedish	7.7
Skuld	7.0
Standard	6.4
Gard	6.3
UK	6.1
London	5.5
West	4.8
Britannia	4.6
Steamship	3.5
North	2.9
Japan	2.5

Above Industry Average Below

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.

SOP	16.2
UK	14.7
American	12.1
Skuld	12.0
Gard	10.1
Swedish	9.1
Japan	8.7
Standard	7.2
Britannia	6.7
North	4.6
London	3.5
Steamship	1.1
West	0.7

Above Industry Average Below



FREE RESERVES PER GROSS TON (US\$)

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

SOP	13.67
Steamship	6.07
Gard	6.03
Britannia	6.00
Skuld	4.87
UK (inc. Hybrid)	4.60
Swedish	4.51
London	4.33
Standard	3.94
UK (ex. Hybrid)	3.88
American	3.39
West	3.39
North	3.17
Japan	2.49

Above Industry Average Below

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.

Gard	215
Swedish	215
SOP	200
Britannia	189
London	189
Steamship	188
Skuld	183
Standard	180
UK	177
Japan	174
West	172
North	170
American	140

Above Industry Average Below























SECTION TWO

Performance Comparison Tables



Revenue and Key Performance Indicators

CLUB	American	Britannia	Gard	Japan	London	North
US\$000's						
Revenue Statement						
Net Premiums	74,195	152,390	548,732	163,560	81,335	306,273
Net Claims Incurred	36,302	93,552	479,232	121,533	83,902	243,994
Management Costs	40,300	27,174	93,077	27,863	15,112	77,410
	76,602	120,726	572,309	149,396	99,014	321,404
Underwriting Surplus/(Deficit)	(2,407)	31,664	(23,577)	14,164	(17,679)	(15,131)
Investment Income Less Tax	8,603	48,951	137,746	(6,247)	24,309	32,794
Surplus/(Deficit)	6,196	80,615	114,169	7,917	6,630	17,663
Pension Gain/(Loss)						2,149
Balance Sheet						
Investments	194,242	1,105,984	2,087,975	365,118	341,338	974,894
Cash	26,393	172,757	223,057	196,172	58,288	144,190
Debtors	51,063	107,418	228,457	19,178	16,999	68,861
Other Assets	188	N/A	51,709	64,692	17,130	35,107
Total Assets	271,886	1,386,159	2,591,198	645,160	433,755	1,223,052
Outstanding Claims	143,151	721,179	1,087,214	306,324	219,059	643,412
Creditors	71,121	23,423	254,955	112,312	20,054	129,178
Total Liabilities	214,272	744,602	1,342,169	418,636	239,113	772,590
Free Reserves	57,614	641,557	1,249,029	226,524	194,642	450,462
Key Performance Indicators						
S&P Rating	BBB-	A	A+	BBB+	BBB	A
Combined Ratio	% 103	79	104	91	122	105
Investment Return	% 8.1	4.6	6.3	2.5	5.5	2.9
General Increase	% 0	0	0	0	0	0
Solvency	% 140	189	215	174	189	170
Net Premium Adjustments	% -22.2	-5.4	-11.3	-4.9	-1.7	-7.2
Free Reserves Adjustments	% 12.1	6.7	10.1	8.7	3.5	4.6
Incurred Claims	% -45.4	-28.2	-2.8	-0.9	20.8	-0.8
AER (Average Expense Ratio)	% 27.9	9.7	11.2	6.2	9.7	12.1
Increase in GT	% 6.3	5.9	3.5	3.4	4.7	1.4
Average net PR per GT	\$ 4.36	1.42	2.65	1.80	1.81	2.16
Free Reserves per GT	\$ 3.39	6.00	6.03	2.49	4.33	3.17
Surplus/(Deficit) (mil)	\$ 6	81	114	8	7	18
Gross Owned Tonnage	(mil) 17	107	207	91	45	142

Skuld	SOP	Standard	Steamship	Swedish	UK	West	Total/Avg.
							All Clubs
345,796	186,635	253,500	243,229	114,098	296,674	176,301	2,942,718
251,580	136,165	232,300	241,369	98,114	225,700	169,143	2,412,886
93,794	51,214	49,000	42,977	25,425	42,751	36,163	622,260
345,374	187,379	281,300	284,346	123,539	268,451	205,306	3,035,146
422	(744)	(27,800)	(41,117)	(9,441)	28,223	(29,005)	(92,428)
47,529	48,429	58,800	46,795	28,251	53,380	30,989	560,329
47,951	47,685	31,000	5,678	18,810	81,603	1,984	467,901
							2,149
850,321	576,950	830,200	932,489	375,751	1,236,614	487,331	10,359,207
132,221	115,546	125,300	149,139	25,118	156,244	145,439	1,669,864
73,064	62,102	154,600	33,820	45,313	92,202	66,257	1,019,334
14,494	18,502	33,300	21,424	10,090	N/A	70,632	337,268
1,070,100	773,100	1,143,400	1,136,872	456,272	1,485,060	769,659	13,385,673
527,741	342,723	578,000	589,661	184,513	831,128	428,788	6,602,893
103,720	88,651	103,900	31,243	59,929	14,136	32,338	1,044,960
631,461	431,374	681,900	620,904	244,442	845,264	461,126	7,647,853
438,630	341,726	461,500	515,968	211,830	639,796	308,533	5,737,811
							
A	A	A	A	BBB+	A	A-	
100	100	111	117	108	90	116	104
7.0	8.4	6.4	3.5	7.7	6.1	4.8	5.7
N/D	0	0	0	0	0	0	0
183	200	180	188	215	177	172	184
5.8	-7.2	-3.2	-2.6	-12.6	0.5	-3.0	-5.8
12.0	16.2	7.2	1.1	9.1	14.7	0.7	8.2
9.8	-8.7	15.7	43.3	-4.7	-17.5	36.7	1.3
12.7	22.0	12.5	12.2	13.4	10.3	14.7	13.4
5.9	0.0	8.3	0.0	8.5	0.0	11.0	4.5
3.84	7.47	2.17	2.86	2.43	2.13	1.94	2.85
4.87	13.67	3.94	6.07	4.51	3.88*	3.39	5.06
48	48	31	6	19	82	2	36
90	25	117	85	51	139	91	1,207

* Ex Hybrid

General Increase Percentages 2008-2018

Policy Year	American	Britannia	Gard	Japan	London	North
2008	20	15	10	20	10	17.5
2009	7.5	12.5	15	12.5	15	17.5
2010	0	5	0	12.5	0	5
2011	12	5	0	10	0	3
2012	5	5	5	3	5	5
2013	10	12.5	5	5	12.5	15
2014	10	2.5	5	7.5	10	7.5
2015	4.5	2.5	2.5	3	6	4.75
2016	2.5	2.5	2.5	3	5	2.5
2017	0	0	0	0	0	0
2018	0	0	0	0	0	0

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

Calls – Initial Estimate / Total Called

Policy Year	American	Britannia	Gard	Japan	London	North
2008	0/25	40/40	25/25	30/30	40/75	0/0
2009	20/20	40/32.5	25/10	40/40	40/40	0/0
2010	25/25	40/40	25/15	40/50	0/0	0/0
2011	0/0	40/40	25/20	40/40	0/0	0/0
2012	0/0	40/40	25/15	40/40	0/0	0/0
2013	0/0	45/45	25/15	40/40	0/0	0/0
2014	0/0	45/35	25/15	40/20	0/0	0/0
2015	0/0	45/40	25/15	40/30	0/0	0/0
2016	0/0	45/45	25/0	40/40	0/0	0/-5
2017	0/0	45/45	25/0	40/40	0/0	0/0
2018	0/0	45/45	25/25	40/40	0/0	0/0

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

Release Call Requirements

Year	American	Britannia	Gard	Japan	London	North
2015		0	0	5		0
2016	10	0	5	5	5	5
2017	20	0	15	5	12.5	15
2018	20	0	20	5	15	15

* of the advance call (7.4% of the ETC)
** of the estimated mutual call (Net of GXL Reinsurance)

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

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

Closed Years

Original

Current

Open Years

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

SECTION THREE

Individual Club Spotlights, 2018

AMERICAN CLUB

OVERVIEW

The American Club celebrated its centenary year with a \$6m surplus, after a small underwriting deficit and a healthy investment return, which pushed the free reserves up 12% to \$58m.

This was against a backdrop of a sharp decline in income and an astonishing 45% fall in the cost of incurred claims, particularly in a year when most Clubs are reporting increases. The management costs now exceed the cost of claims, amounting to 54% of the net premium income.

Key Performance Indicators		2018	2017	2016
S&P Rating		BBB-	BBB-	BBB-
Combined Ratio	%	103	109	102
Investment Return	%	8.1	2.4	0.3
General Increase	%	0	0	2.5
Solvency	%	140	130	133
Increase in Net Premiums	%	-22.2	17.1	-13.7
Increase in Free Reserves	%	12.1	-8.9	-3.7
Increase in Incurred Claims	%	-45.4	34.7	-25.2
AER (Average Expense Ratio)	%	27.9	25.7	24.2
Increase in GT	%	6.3	0.0	-5.9
Average net PR per GT	\$	4.36	5.96	5.09
Free Reserves per GT	\$	3.39	3.21	3.53
Surplus /(Deficit) (mil)	\$	6	-5	-2
Gross Owned Tonnage	mil	17	16	16

HIGHLIGHTS

Investment Return

8.1%

Credit Rating

S&P BBB-

Free Reserves

+12%

WORLDWIDE OFFICES



AMERICAN CLUB

UNDERWRITING

The underwriting experienced a most unusual year. There was no general increase at the 2017 renewal and although there was an increase in the tonnage of 1m gt, the gross premium income actually fell by \$11m.

The reinsurance programme was reviewed and expanded during the year, which led to \$10m of additional costs, pushing the net premium income down further and leading to an overall reduction of 22%.

This result would have been disastrous for most Clubs, but the Club lowered the cost of incurred claims by \$30m or 45% when compared to the previous year.

There has been a small increase in the cost of attritional claims below \$250,000, with personal injury and cargo claims accounting for half the total. There were only 4 claims in excess of \$1m, and no IG claims. Claims costs for the 2017 policy year were expected to be higher than those on the 2015 year, but significantly better than those on the 2016 policy year.

The cost of known claims on the 2017 policy year was \$27m, with an estimate of future claims of \$9m, compared to \$29m of known claims on the 2015 policy year after 12 months and an estimate of future claims of \$16m. The cost of claims on the 2017 policy year look under-reserved and may well deteriorate in the future.

The underwriting was also hampered by the high level of management costs, which currently account for more than claims and absorb 54% of the net premium income.

Members Tonnage by Vessel Type	%
Tanker	39
Bulk	31
Cargo, Container, Passenger & RoRo,	18
Tug, Barge & Small Craft	12

Management Area	%
Europe, Middle East & Africa	52
North America	26
Asia	20
Other	2

Asset Allocation	%
Cash & Bonds	72
Equities	28

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	17	16	16	17	16	16	16	15	15	13	13
Market Share (%)	1	1	1	2	2	2	2	2	2	2	2
General Increase (%)	0	0	2.5	4.5	10	10	5	12	0	7.5	20
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 0	0/0	0/0	0/0	0/0	25/25	25/25	20/20	0/25
Release Call Requirements (%)	20	20	10								

Closed Years
 Initial
 Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	74,195	95,325	81,376
Net Claims Incurred	36,302	66,497	49,364
Management Costs	40,300	37,744	33,978
	76,602	104,241	83,342
Underwriting Surplus/(Deficit)	(2,407)	(8,916)	(1,966)
Investment Income Less Tax	8,603	3,924	(224)
Surplus (Deficit)	6,196	(4,992)	(2,190)

Balance Sheet	2018	2017	2016
Investments	194,242	204,520	227,020
Cash	26,393	16,445	13,572
Debtors	51,063	63,350	33,969
Other Assets	188	173	139
Total Assets	271,886	284,488	274,700
Outstanding Claims	143,151	171,706	172,572
Creditors	71,121	61,364	45,717
Total Liabilities	214,272	233,070	218,289
Free Reserves	57,614	51,418	56,411

INVESTMENTS

The Club has scaled back its equity holdings from 38% to 28%, but still managed to produce an investment return of 8.1% generating an income of \$9m. The strategy is to further reduce the equities and increase the cash and bond holdings.

OUTLOOK

The Club has expanded into the Hull market through American Hellenic Hull Insurance Company, registered in Cyprus. There were no figures provided for its performance, but the company now insures c.2,800 vessels, the income is ahead of 'plan' and the loss results are better than expected.

There has been a long established relationship with Eagle Ocean Marine, which covers risks for small vessel owners outside the USA. The Club increased its exposure to this facility from 50% to 55% for the first \$10m of claims, with the remainder insured in Lloyd's.

The American Club faces a number of challenges... the decline in net premium income leaves the underwriting very vulnerable to any adverse developments in the claims, and the high management costs threaten future surpluses.

The new enhanced reinsurance programme will hopefully reduce the impact of the cost of claims and the degree of volatility brought by large claims, particularly within the Club's retention and the cost of IG pool claims in the future.

The Club retained their S&P BBB-, investment grade credit rating and improved their solvency margin, but concerns remain over the erosion of income, the excessive management costs and the loss reserving.

IN THE SPOTLIGHT

Incurred Claims **Down 45%**

Management cost **54%**
Net Premium Income

Net Premium Down **22.2%**

BRITANNIA

OVERVIEW

Britannia have reported a surplus of \$80m, before another "capital distribution" of \$30m - which included a subsidy of \$10m from Boudicca owned by Icen Trust. This left the Club's combined free reserves \$40m higher at a massive \$642m.

The underwriting surplus was buoyed by improvements in earlier policy year claims reserves and the investment managers generating \$49m in investment income.

Key Performance Indicators		2018	2017	2016
S&P Rating		A	A	A
Combined Ratio	%	79	98	101
Investment Return	%	4.6	3.0	-2.5
General Increase	%	0.0	0.0	2.5
Solvency	%	189	177	166
Increase in Net Premiums	%	-5.4	-17.2	-1.0
Increase in Free Reserves	%	6.7	17.2	-6.0
Increase in Incurred Claims	%	-28.2	-22.3	7.3
AER (Average Expense Ratio)	%	9.7	9.4	9.1
Increase in GT	%	5.9	-4.7	-1.9
Average net PR per GT	\$	1.42	1.60	1.84
Free Reserves per GT	\$	6.00	5.95	4.84
Surplus /(Deficit) (mil)	\$	81	33	-25
Gross Owned Tonnage	mil	107	101	106

HIGHLIGHTS

Gross Tonnage Up

6m

Free Reserves per GT

\$6

Free reserves

\$642m

WORLDWIDE OFFICES



UNDERWRITING

The underwriting performance, before the capital distribution, was the best for over a decade. This was the product of a positive release of estimated claims liabilities from the older policy years of \$77m.

The 2017 policy year has seen a continued reduction in the frequency and cost of the smaller attritional claims, with the costs 5% lower than the previous year. The large claims were the most volatile factor, with the number of claims greater than \$1m falling from 22 to just 13, after 12 months. Their estimated value rose from \$35m in the 2016 policy year to \$63m for the 2017 policy year. This however compared favourably with the 2015 policy year, when there were 20 large claims in the first 12 months with an estimated value of \$84m.

The reductions in the outstanding claims reserves does not undermine the financial strength of the Club as it is in any event, very conservatively claims reserved at \$6 per gt. This is well above the IG average and the Club boasts some of the lowest claims per ton costs in the Group. There is also a further provision of \$83m for occupational disease claims, which predominantly relate to asbestosis claims emanating from the 1950's, which are notoriously difficult to assess with multiple class actions.

Tonnage by Area	%
Asia	45
Europe	32
Scandinavia	16
America	4
Middle East	2
Australasia	1

Tonnage by Ship Type	%
Bulk & OBO	34
Containers	30
Oil Tankers	17
Other Tankers	13
Cargo	5
Others	1

Vessel Age	%
0-5 years	37
5-10 years	33
10-15 years	17
15-20 years	9
Over 20 years	4

Investment Allocation	%
Government Bonds & Cash	49
Absolute Return Funds	24
Equities	16
Diversified Growth Fund	11

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008		
Gross Tonnage (mil)	107	101	106	108	108	113	111	103	98	93	88		
Market Share (%)	9	9	9	10	10	11	11	11	12	12	12		
General Increase (%)	0	0	2.5	2.5	2.5	12.5	5	5	5	12.5	15		
Calls - Initial Estimate / Total Called (%)	45	45	45	45	45	40	45/35	45/45	40/40	40/40	40/40	40/32.5	40/40
Capital Distribution (mil)	20	30											
Release Call Requirements (%)	0	0	0	0									

Closed Years
 Initial
 Current

BRITANNIA

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	152,390	161,106	194,609
Net Claims Incurred	93,552	130,268	167,654
Management Costs	27,174	27,531	28,350
	120,726	157,799	196,004
Underwriting Surplus/(Deficit)	31,664	3,307	(1,395)
Investment Income Less Tax	48,951	29,639	(23,476)
Surplus (Deficit)	80,615	32,946	(24,871)

Balance Sheet	2018	2017	2016
Investments	1,105,984	1,089,242	1,071,938
Cash	172,757	173,024	107,981
Debtors	107,418	135,998	146,131
Other Assets			
Total Assets	1,386,159	1,398,264	1,326,050
Outstanding Claims	721,179	775,651	781,618
Creditors	23,423	21,571	31,736
Total Liabilities	744,602	797,222	813,354
Free Reserves	641,557	601,042	512,696

IN THE SPOTLIGHT

Investment Return **4.6%**No **Release Call**
Requirements**\$30m** Distribution

INVESTMENTS

Investment performance was the best for 7 years, with a return of 4.6%, which generated \$49m. The best performing class was the equities with a return of 14.6%, with the diversified growth fund returning 3.3% and the absolute return fund returning 3.4%.

The Club's investment policy is to hold bonds and cash to match the currency and duration of the outstanding claims, plus a small buffer, and to invest the remainder in a growth portfolio to maximise the return within the prescribed risk parameters.

OUTLOOK

The net premium income has fallen by over 20% in the last 2 years, but the combined ratio (underwriting result) has improved from over 100% to 79% reflecting the 40% reduction in incurred claims. The underwriting benefitted from the claims estimate reductions of the older policy years... and an increase in entered gross tonnage.

The reduction in the outstanding claims reserves of 7% does not undermine the financial strength of the Club. The Britannia is certainly one of the most generously reserved Clubs in the IG and can well afford to make further "capital releases" in the future, without any meaningful detrimental effect to its finances.

There is very little information on Boudicca, within the Britannia report, which raises transparency questions given that it holds over 30% of Britannia's combined free reserves.

The Club has reversed its previously declining membership trend by allowing (generous) capital returns to its current membership, which has resulted in Club entry and market share growth, which looks certain to continue!

GARD

OVERVIEW

Gard have posted a surplus of \$114m and an increase in their free reserves of 10% to a new record high of \$1.25bn. The excellent result was delivered notwithstanding their 9th consecutive reduction in their Estimated Total Cost (as a result of not calling their 4th instalment). This led to a fall in their anticipated net premium income for the year, resulting in an (expected) underwriting deficit.

The Club's financial strength emanates from its high level of free reserves and the investment income generated, which delivered a return of 6.3% or \$138m. This investment income absorbed their underwriting deficit and added an extra \$114m to the free reserves.

Key Performance Indicators	2018	2017	2016
S&P Rating	A+	A+	A+
Combined Ratio	% 104	97	85
Investment Return	% 6.3	5.0	-3.0
General Increase	% 0.0	0.0	2.5
Solvency	% 215	198	182
Increase in Net Premiums	% -11.3	-15.0	-9.8
Increase in Free Reserves	% 10.1	11.6	5.0
Increase in Incurred Claims	% -2.8	-7.4	-15.6
AER (Average Expense Ratio)	% 11.2	12.0	11.8
Increase in GT	% 3.5	0.0	5.8
Average net PR per GT	\$ 2.65	3.09	3.64
Free Reserves per GT	\$ 6.03	5.67	5.09
Surplus /(Deficit) (mil)	\$ 114	125	48
Gross Owned Tonnage	mil 207	200	200

HIGHLIGHTS

Underwriting

Deficit
6.3% Investment ReturnFree reserves
\$1.25bn
S&P Rating **A+**

WORLDWIDE OFFICES



UNDERWRITING

Their premium income remained weak (in relation to their estimated liabilities) with an overall reduction of 11% when compared to last year, however there was a 3% reduction in incurred claims and "agents' commissions".

In the last 8 years the net premium income has fallen by 17% but entered tonnage has risen by 50%. This has been made possible by a massive improvement in incurred claims (experienced by all Clubs in the International Group), which have fallen by 14%, despite their increase in tonnage insured.

The P&I class saw the surplus (before management costs) collapse from \$89m to just \$4m, resulting in an underwriting deficit after management expenses. This was not caused by the reduction in their deferred call (which was in fact lower than last year) but from weakened levels of premium income and a 10% increase in the cost of claims.

Fortunately, the Marine & Energy class showed a marked improvement in results following a 28% reduction in claims. This led to a \$64m underwriting surplus before management costs... compared to \$36m a year earlier and notwithstanding a 9% drop in net premium income.

Tonnage by Area	%
Asia	26
Other Europe	21
Norway	16
Greece	15
Germany	10
Americas	9
Others	3

Asset Allocation	%
Investment Grade Bonds & Credit Bonds	59.6
Emerging Market Bonds	5.7
Global High Yield Bonds	8.8
Global Equities	15.9
Real Estate Assets	2.7
Alternatives	5
Cash	2.3

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	207	200	200	189	187	175	163	145	136	133	127
Market Share (%)	17	17	18	17	18	17	16	16	16	17	17
General Increase (%)	0	0	2.5	2.5	5	5	5	0	0	15	10
Calls - Initial Estimate / Total Called (%)	25 25	25 0	25 0	25 15	25/15	25/15	25/15	25/20	25/15	25/10	25/25
Release Call Requirements (%)	20	15	5	0							

 Closed Years
  Initial
  Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	548,732	618,578	727,870
Net Claims Incurred	479,232	493,045	532,259
Management Costs	93,077	105,893	84,943
Underwriting Surplus/(Deficit)	(23,577)	19,640	110,668
Investment Income Less Tax	137,746	105,108	(62,560)
Surplus (Deficit)	114,169	124,748	48,108

Balance Sheet	2018	2017	2016
Investments	2,087,975	2,153,890	2,094,405
Cash	223,057	117,376	112,799
Debtors	228,457	205,405	300,541
Other Assets	51,709	36,961	33,849
Total Assets	2,591,198	2,513,632	2,541,594
Outstanding Claims	1,087,214	1,152,343	1,245,249
Creditors	254,955	226,426	279,186
Total Liabilities	1,342,169	1,378,769	1,524,435
Free Reserves	1,249,029	1,134,863	1,017,159

INVESTMENTS

The strength of the Club comes from the enormous reserves held of \$2.3bn in cash and investments, which generates investment income resulting in the free reserves almost doubling in the last 8 years (and frequently supporting the underwriting).

The Club appears to have a conservative asset allocation with only 16% of funds in equities, 14% in emerging market and high yield bonds, and most of the remainder in 'investment grade' bonds.

It is interesting to note that the majority of the investments are held in Irish Common Contractual Funds (CCF), enabling pooling within the group. A change of accounting policy also enabled the Club to reduce the equity classification of assets and increase the bonds.

The investment return was 6.3%, yielding a healthy \$138m.

OUTLOOK

Gard is increasingly the dominant player in the P&I market, with 17% of the GT and 20% of the net premium income of the International Group (for all classes of business). The successful acquisition of 'IF' in 2000, enables the Club to currently subsidise the P&I mutual members from fixed premium profits... a business model a number of other Clubs have tried to replicate, but have been conspicuous by their lack of success, and resulting for them in significant underwriting losses for their mutual Members to burden!

The change in Gard's accounting policy and the Irish Common Contractual Funds has reduced their 'equity classification'... which will not impact the revenue account but will boost their risk-based capital ratios.

IN THE SPOTLIGHT

Market Dominant

Cancelled 4th Instalment

Could their mutual status be at risk?

Mutual members' exposure to Fixed Premium risks

JAPAN

OVERVIEW

The Japan Club reported a surplus of \$8m and an increase in their free reserves of \$18m, largely resulting from the strength of the yen against the US dollar. The underwriting remained positive with a \$14m surplus, but the investment return was negative due to the weak dollar.

Key Performance Indicators		2018	2017	2016
S&P Rating		BBB+	BBB+	BBB+
Combined Ratio	%	91	86	91
Investment Return	%	2.5	2.0	1.4
General Increase	%	0.0	0.0	3.0
Solvency	%	174	171	167
Increase in Net Premiums	%	-4.9	4.2	-6.9
Increase in Free Reserves	%	8.7	11.4	8.6
Increase in Incurred Claims	%	-0.9	-2.2	-19.4
AER (Average Expense Ratio)	%	6.2	5.5	5.2
Increase in GT	%	3.4	-1.1	-4.3
Average net PR per GT	\$	1.80	1.95	1.85
Free Reserves per GT	\$	2.49	2.37	2.10
Surplus /(Deficit) (mil)	\$	8	22	4
Gross Owned Tonnage	mil	91	88	89

HIGHLIGHTS

S&P BBB+

Credit Rating

Combined Ratio

91%

Free Reserves

+9%

WORLDWIDE OFFICES



UNDERWRITING

2017 marked the 3rd and final year of the latest "Medium-term Operation Plan" designed to stop the decline in the number of ships entered in the Club and to improve the quality of their membership. There has been little evidence of progress as the tonnage has remained substantially unchanged, and the underwriting results have remained steady despite reductions in supplementary call requirements in the last 3 years.

The GT rose by 3m during the year, but the net premium income in yen fell by 10%, reflecting the pressure on premiums. Fortunately, this was partially offset by a 6% reduction in the cost of incurred claims... when valued in yen.

Cargo continued to provide the highest number of claims over the last 5 years, accounting for between 52% and 61% of the total number of claims. The next most significant class was crew claims which ranged between 24% and 28% by number. Casualty claims remained few but accounted for between 9% and 41% of the total cost of claims.

The estimated cost of the IG pool claims rose in the 2017 policy year, but no increase in the overall results for the financial year. The underwriting surplus fell from \$24m last year to \$14m this year, reflecting the reduction in premium income.

The 'Achilles heel' of the Club remains its inability to attract more tonnage, and in particular tonnage from countries other than Japan. In the last decade global tonnage has increased by around 60%, while the Club's tonnage has increased by just 15%.

Tonnage by Vessel Type	%
Bulk	56
Tanker	14
Container	12
Car Carrier	8
Gas	6
Cargo	2
Other	2

Tonnage by Vessel Age	%
0-4 years	24
5-9 years	39
10-14 years	26
15-19 years	6
over 20 years	5

Investment Allocation	%
Bonds	32
Yen Bonds	28
Dollar Cash & Deposits	18
Yen Other	14
Yen Cash & Deposits	8

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	91	88	89	91	93	92	90	92	92	90	84
Market Share (%)	8	8	8	8	9	9	9	10	11	11	11
General Increase (%)	0	0	3	3	7.5	5	3	10	12.5	12.5	20
Calls - Initial Estimate / Total Called (%)	40/40	40/40	40/40	40/40	30/40	40/20	40/40	40/40	40/40	40/50	40/40
Release Call Requirements (%)	5	5	5	5							

Closed Years
 Initial
 Current

JAPAN

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	163,560	171,994	165,029
Net Claims Incurred	121,533	122,604	125,416
Management Costs	27,863	25,441	25,556
	149,396	148,045	150,972
Underwriting Surplus/(Deficit)	14,164	23,949	14,057
Investment Income Less Tax	(6,247)	(1,789)	(10,290)
Surplus (Deficit)	7,917	22,160	3,767

Balance Sheet	2018	2017	2016
Investments	365,118	365,040	314,755
Cash	196,172	184,786	211,363
Debtors	19,178	24,122	17,750
Other Assets	64,692	52,886	40,408
Total Assets	645,160	626,834	584,276
Outstanding Claims	306,324	293,292	278,459
Creditors	112,312	125,119	118,687
Total Liabilities	418,636	418,411	397,146
Free Reserves	226,524	208,423	187,130

INVESTMENTS

The investment return for the year, excluding foreign currency losses, was 2.5%. The Club's financial reports are habitually clouded by the change in the value of the yen/dollar exchange rate. The Club reports locally in yen, which in the current year, with a weak dollar led to currency losses on dollar holdings. The Club then converts the report into dollars, which leads to an undisclosed increase in the value of the free reserves, due to the appreciation of the yen.

Japanese long-term interest rates ended the year at 0.04%, so investment income is clearly hard to achieve, especially as the Club also has restricted access to equities. The Club did however venture into investment trusts, which has helped the returns.

OUTLOOK

The Japan Club had another steady year with a \$14m underwriting surplus and a small loss on investments caused by the weak dollar. However, in dollar terms the free reserves rose by nearly 9% to a new record high of \$226m, before the inclusion of the 2017 supplementary call. This should yield around \$40m, even if reduced in-line with earlier years.

The Club remains predominantly locally reliant, with only a token presence in Korea, Singapore and London. The local market is facing increased interest and competition from other Clubs who are opening branches in the country. The Club needs to make greater commitment to expanding their operations in the rapidly growing Asia Pacific area to protect it from the likely erosion of their home market.

IN THE SPOTLIGHT

AER **6.2%**Investment Return **2.5%**Low **Free Reserves**
per Ton

LONDON CLUB

OVERVIEW

The London Club reported a surplus of \$7m after a difficult year, which saw a 20% rise in the cost of claims... which may mark the end of the current benign claims run generally in the industry. The underwriting deficit was \$18m, but the investment managers produced a good return of 5.5%... equating to \$24m. This delivered an overall surplus of \$7m and raised the free reserves to \$195m, a rise of 3.5%.

Key Performance Indicators	2018	2017	2016
S&P Rating	BBB	BBB	BBB
Combined Ratio	% 122	101	85
Investment Return	% 5.5	8.4	-2.5
General Increase	% 0	0	5
Solvency	% 189	191	172
Increase in Net Premiums	% -1.7	-5.4	0.6
Increase in Free Reserves	% 3.5	17.0	2.1
Increase in Incurred Claims	% 20.8	15.5	-42.3
AER (Average Expense Ratio)	% 9.68	9.51	9.52
Increase in GT	% 4.7	-2.3	0.0
Average net PR per GT	\$ 1.81	1.92	1.99
Free Reserves per GT	\$ 4.33	4.37	3.65
Surplus /(Deficit) (mil)	\$ 7	27	3
Gross Owned Tonnage	mil 45	43	44

HIGHLIGHTS

Free Reserves

+3.5%**S&P BBB**

Credit Rating

\$7m Overall Surplus

WORLDWIDE OFFICES



LONDON CLUB

UNDERWRITING

The London Club underwriting results traditionally have been weak, achieving only 1 underwriting surplus in the last 9 years (perhaps a sign of a true mutual!). Consequently, historically, when the industry claims climate deteriorates the Club is one of the first to feel the effect. This may already be becoming evident following this year's significant combined ratio deterioration to 122%.

This year's total expected claims costs were \$84m, compared to \$69m for the previous policy year. The cost of attritional claims has remained fairly constant at around \$29m, but it is the total cost of a small number of large claims which has caused the negative impact on the Club's results this year.

The cost of large retained claims rose by \$3m and the cost of IG pool claims rose by \$9m. The most common categories of large claims costs were RDC, FFO, GA and Salvage.

There has been a record number of FDD claims, leading to a much reduced surplus on this class.

Ship Age	%
0-9 Years	51
10-19 Years	36
Over 20 Years	13

Ship Type	%
Bulk	52
Tanker	24
Container	18
Gas Carrier	3
Cargo	3

Members by Region	%
South Europe	51
Asia	33
North Europe	15
Americas	1

Investments	%
Bonds	61
Equities	22
Cash	17

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	45	43	44	44	43	45	44	40	37	39	39
Market Share (%)	4	4	4	4	4	4	4	4	4	5	5
General Increase (%)	0	0	5	6	10	12.5	5	0	0	15	10
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 0	0/0	0/0	0/0	0/0	0/0	0/0	40/40	40/75
Release Call Requirements (%)	15	12.5	5								

Closed Years
 Initial
 Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	81,335	82,710	87,402
Net Claims Incurred	83,902	69,472	60,129
Management Costs	15,112	13,876	14,435
	99,014	83,348	74,564
Underwriting Surplus/(Deficit)	(17,679)	(638)	12,838
Investment Income Less Tax	24,309	27,943	(9,545)
Surplus (Deficit)	6,630	27,305	3,293

Balance Sheet	2018	2017	2016
Investments	341,338	327,871	315,527
Cash	58,288	50,023	52,164
Debtors	16,999	15,852	12,815
Other Assets	17,130	15,168	17,502
Total Assets	433,755	408,914	398,008
Outstanding Claims	219,059	206,284	224,566
Creditors	20,054	14,618	12,735
Total Liabilities	239,113	220,902	237,301
Free Reserves	194,642	188,012	160,707

INVESTMENTS

There was a strong performance from the investment managers with a return of 5.5%, largely driven by a rally in equities and helped by a good result from the fixed income instruments. The return generated income of \$24m, which moved the overall results into surplus. There has been no change in asset allocation with 61% of the portfolio in bonds, 22% in equities and 17% in cash.

OUTLOOK

The London Club posted a surplus of \$7m this last year, raising the free reserves to \$195m. The 2017 policy year had the highest expected claims costs for 3 years, with total expected claims expenditure of \$81m. This left the year with an underwriting deficit of \$18m.

There continued to be pressure on the premiums, but the Club has attracted an additional 2m gt of new business during the year. London is also seeking to attract new business from markets other than those where it is already established, and is building up entries from charterers' and the small vessels market, to supplement income.

The Club is making contingency plans to open an EU subsidiary company in Cyprus, doubtless as a result of their large Greek membership and Club Board of Directors representation. This decision should perhaps be given serious consideration given the parlous state of the country's banks. However, if the Cypriot regulator only requires modest sums (or none at all) to be deposited in the country, this could prove to be an inspired move!

The London Club has improved its free reserves, but still remains the smallest Club in the IG in terms of premium income and the 2nd smallest in free reserves. The underwriting remains vulnerable, especially in times of rising claims and limited investment opportunities.

IN THE SPOTLIGHT

Combined ratio **122%**

Investment Return **5.5%**

Underwriting Deficit **\$18m**

NORTH OF ENGLAND

OVERVIEW

North of England has reported a surplus of \$20m, after including an improvement in the Club's pension schemes of \$2m, and a modest investment return, which covered the underwriting deficit and added a further 5% to the free reserves. Declining premium income led to an underwriting deficit of \$15m, but the investment return assisted the Club's overall positive financial position.

Key Performance Indicators		2018	2017	2016
S&P Rating		A	A	A
Combined Ratio	%	105	98	77
Investment Return	%	2.9	2.8	-1.0
General Increase	%	0	0	2.5
Solvency	%	170	170	169
Increase in Net Premiums	%	-7.2	-8.6	4.4
Increase in Free Reserves	%	4.6	0.6	26.7
Increase in Incurred Claims	%	-0.8	25.5	-35.9
AER (Average Expense Ratio)	%	12.1	12.0	12.4
Increase in GT	%	1.4	6.9	3.1
Average net PR per GT	\$	2.16	2.36	2.76
Free Reserves per GT	\$	3.17	3.08	3.27
Surplus /(Deficit) (mil)	\$	18	33	76
Gross Owned Tonnage	mil	142	140	131

HIGHLIGHTS



WORLDWIDE OFFICES



UNDERWRITING

The underwriting was adversely affected by the "soft" market, and the results were further clouded by the sale of Knighthood Corporate Assurance (KCA), a subsidiary of the recently acquired Sunderland Marine Insurance (SMI). The total net premium income was down by \$24m, of which \$11m could be attributed to KCA and the remainder to P&I and FD&D. The overall claims fell by \$2m after the KCA (incurred) claims fell by \$18m and the P&I class rose by \$16m.

The P&I results mirror those of most other IG Clubs, with the premiums down 7% which led to the overall P&I underwriting deficit of \$15m.

The cost of attritional claims below \$1m was in line with the 2 previous policy years, but there were 32 claims in excess of \$1m, accounting for 47% of their total claims costs, of which the most significant number were predictably admiralty.

Claims on the 2017 policy year were 20% higher than those for the 2016 year after 12 months, and the year had a \$36m underwriting deficit, the first for a number of years.

The Club diversification programme continued to evolve with the disposal of KCA, but the management is working towards increasing its proportion of fixed limit/premium P&I, Hull and Aquaculture through SMI. After successive losses, SMI has now reported an operating profit.

Total Tonnage by Type	%
Bulk	40
Tanker	27
Container	18
Others	13
Cargo	2

Entry by Distribution	%
Asia Pacific	36
Greece	17
Other Europe	15
Scandinavia	10
Middle East	10
North America	6
UK	4
Other	2

Asset Allocation	%
Government Bonds	74
Corporate Bonds	13
Equities	11
Cash	2

Currency Allocation	%
US Dollar	87
Sterling	7
Euro	4
Other	2

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	142	140	131	127	127	127	125	105	86	75	65
Market Share (%)	12	12	12	12	12	12	13	12	10	9	9
General Increase (%)	0	0	2.5	4.75	7.5	15	5	3	5	17.5	17.5
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 -5	0 0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Release Call Requirements (%)	15	15	5	0							



NORTH OF ENGLAND

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	306,273	329,959	361,053
Net Claims Incurred	243,994	246,013	196,040
Management Costs	77,410	75,698	81,542
	321,404	321,711	277,582
Underwriting Surplus/(Deficit)	(15,131)	8,248	83,471
Investment Income Less Tax	32,794	24,505	(7,175)
Surplus (Deficit)	17,663	32,753	76,296
Pension gain/(loss)	2,149	(30,241)	14,120

Balance Sheet	2018	2017	2016
Investments	974,894	922,807	799,498
Cash	144,190	162,125	284,539
Debtors	68,861	94,874	90,369
Other Assets	35,107	40,941	44,669
Total Assets	1,223,052	1,220,747	1,219,075
Outstanding Claims	643,412	612,936	622,487
Creditors	129,178	177,036	168,187
Total Liabilities	772,590	789,972	790,674
Free Reserves	450,462	430,775	428,401

IN THE SPOTLIGHT

Premium **Down 7.2%****No Return** of CallSale of **KCA**

INVESTMENTS

The Club has a very conservative investment policy with only 11% of the portfolio in equities and the remainder in bonds and cash, with no alternatives or absolute return funds. As a consequence, the returns tend to be modest with only a 2.9% return this year, which amounted to \$33m. This was however sufficient to counter their underwriting deficit and make a small contribution to the free reserves.

OUTLOOK

After 2 years of no general increases, the North of England (as with most other Clubs) are experiencing pressure on the underwriting. For North the net premium income has fallen by 15% in the last 2 years... a figure which has been exacerbated by the sale of KCA. In the same period the net claims have risen by nearly 25%, pushing the underwriting into a deficit with a combined ratio of 105%.

Their diversification strategy continued and the operating performance of SMI has shown a small surplus after a number of years of deficits and a restructuring of costs last year. The Club is also seeking to attract additional fixed P&I, Hull and Aquaculture business into SMI.

The Club has an S&P A credit rating and over 10% market share in tonnage terms. The solvency and capital ratios are good, but below average for the IG, reflecting a low free reserves per gt ratio. The Club is clearly trying to diversify to expand the business for the "benefit" of the members... in this current very competitive market!

SHIPOWNERS

OVERVIEW

Shipowners' have formally opened the reporting season with a stellar investment return of \$48m resulting in record free reserves ...but unfortunately for members no return of calls! The underwriting is in balance after both a fall in the premiums and claims, thus maintaining their record of responsible underwriting notwithstanding the considerable competitive market conditions.

The investment managers provided the bonus with a whopping 8.4% return on the invested assets, to lift the free reserves by 16%.

Key Performance Indicators	2018	2017	2016
S&P Rating	A	A	A-
Combined Ratio	% 100	100	99
Investment Return	% 8.4	3.5	-3.0
General Increase	% 0	0	0
Solvency	% 200	189	186
Increase in Net Premiums	% -7.2	10.5	-13.8
Increase in Free Reserves	% 16.2	5.2	-7.0
Increase in Incurred Claims	% -8.7	9.6	-6.5
AER (Average Expense Ratio)	% 22.0	22.0	21.0
Increase in GT	% 0.0	0.0	4.2
Average net PR per GT	\$ 7.47	8.04	7.28
Free Reserves per GT	\$ 13.67	11.76	11.18
Surplus /(Deficit) (mil)	\$ 48	15	-21
Gross Owned Tonnage	mil 25	25	25

HIGHLIGHTS

Investment return
\$48m

Free reserves up to
\$341m

No Return of Call
4 years of nil General Increases

WORLDWIDE OFFICES



SHIPOWNERS

UNDERWRITING

Shipowners' probably faces the most competition of any Club in the IG, not only from other IG members seeking to break into the (previously) profitable small vessels market, but also from the ever growing number of fixed premium providers both operating in the Lloyd's market and from outside.

In recent years the Club has seen a decline in their offshore business, which was previously a principal source of revenue. The Club has managed to maintain tonnage levels by replacing lost and laid up offshore business with new members operating in other classes of vessels, notably, a 35% rise in cargo vessels, a 6% increase in passenger craft and a 5% rise in the yacht portfolio.

A reduction in the volume of new builds and offshore units led to a 7% decline in the Club's net premium income, but this was fortunately offset by a 9% reduction in the cost of claims, leaving the combined ratio unchanged at 100%.

Looking forward the Club remains cautious about the 2018 financial year. There was 95% member retention at this renewal, which will likely result in a lower premium income.

The Club has signed a "delegated underwriting authority" with Castel for yachts and have also entered into several "risk sharing agreements" in China for small vessels which will be underwritten through the Club's Singapore branch office.

Vessel Number by Type	%
Harbour	29
Barge	20
Passenger	14
Offshore	12
Fishing	8
Cargo	7
Yacht	6
Tanker	4

Members by Area	%
Europe	48
South East Asia & Far East	16
South Pacific & Australia & New Zealand	15
Central & South America	10
Middle East & India	5
North America	4
Africa	2

Gross Tonnage by Area	%
South East Asia & Far East	48
Europe	21
Central & South America	10
Middle East & India	10
North America	5
South Pacific & Australia & New Zealand	4
Africa	2

Entered Vessels by Region	%
Europe	33
South East Asia & Far East	25
Central & South America	16
South Pacific & Australia & New Zealand	12
Middle East & India	7
North America	5
Africa	2

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	25	25	25	24	24	22	20	18	17	16	15
Market Share (%)	2	2	2	2	2	2	2	2	2	2	2
General Increases (%)	0	0	0	0	5	5	0	0	5	10	ND
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Release Call Requirements (%)	0	0	0								

Closed Years
 Initial
 Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	186,635	201,053	182,011
Net Claims Incurred	136,165	149,087	136,060
Management Costs	51,214	51,462	44,720
	187,379	200,549	180,780
Underwriting Surplus/(Deficit)	(744)	504	1,231
Investment Income Less Tax	48,429	14,159	(22,126)
Surplus (Deficit)	47,685	14,663	(20,895)

Balance Sheet	2018	2017	2016
Investments	576,950	529,764	526,610
Cash	115,546	116,778	109,326
Debtors	62,102	57,591	48,497
Other Assets	18,502	11,534	9,004
Total Assets	773,100	715,667	693,437
Outstanding Claims	342,723	329,975	325,283
Creditors	88,651	91,651	88,776
Total Liabilities	431,374	421,626	414,059
Free Reserves	341,726	294,041	279,378

IN THE SPOTLIGHT

Surplus **\$48m**

Record Free Reserves

S&P A Rating

Record Investment Return

INVESTMENTS

No investment report was included within the R&A, but it is evident that Berenberg Bank had exceeded all expectations and produced an investment income of \$48m - a return of 8.4%!

Shipowners' were slightly fortunate when compared to other Clubs, as they have a 31st December end of year cut off date, which preceded a temporary financial market downward correction, which will have likely impacted negatively on the Clubs who account for their financials on 20th February each year.

OUTLOOK

The Club continues to face an unprecedented level of competition, both from other IG Clubs and a flood of cheap capital entering this market ...looking to attract new business opportunities. Fortunately with 162 years of experience the SOP has managed to maintain the advantage, whilst exploring new avenues in the small vessels market, particularly via their Singapore branch which now handles 48% of the Club's entered tonnage.

The offshore industry may well improve with the recent rise in oil prices, which should reinvigorate this industry and lead to an increase in offshore activities, which may have a beneficial "knock-on effect" for the Club.

Shipowners' Club remains one of the best funded Clubs for their size in the IG. It has one of the best solvency ratios and larger reserves than many Clubs with multiples of their tonnage. The Club has a clear and proven policy on how to run the business which continues to be very successful.

SKULD

OVERVIEW

Skuld has reported a surplus of \$48m, following last year's surplus of \$46m, which has collectively raised the free reserves by over 25%.

The Club announced a \$10m premium (effective continuity) credit to current members, which resulted in the underwriting being in balance. However, a 7% return on the investment portfolio lifted the free reserves by 12% to a new record high of \$438m.

Key Performance Indicators		2018	2017	2016
S&P Rating		A	A	A
Combined Ratio	%	100	98	94
Investment Return	%	7.0	3.4	-1.6
General Increase	%	*ND	*ND	*ND
Solvency	%	183	177	168
Increase in Net Premiums	%	5.8	-7.5	1.6
Increase in Free Reserves	%	12.0	12.4	0.2
Increase in Incurred Claims	%	9.8	-5.8	-6.1
AER (Average Expense Ratio)	%	12.7	12.8	12.8
Increase in GT	%	5.9	9.0	5.4
Average net PR per GT	\$	3.84	3.85	4.53
Free Reserves per GT	\$	4.87	4.61	4.46
Surplus /(Deficit) (mil)	\$	48	46	13
Gross Owned Tonnage	mil	90	85	78

*NON DECLARED

HIGHLIGHTS

Surplus

\$48m

Investment Return

7%

\$10m

Member Discount

WORLDWIDE OFFICES



UNDERWRITING

A 6% increase in the premium income was recorded, which was largely due to their new diversified operations. The net premium income for the P&I business remained static. Growth was however generated by the recent acquisition of Skuld Marine Agency (a Hull & Machinery provider) and increased premium income from the Lloyd's syndicate and their fixed premium operations.

It was reported that the claims frequency fell during the year for both the small attritional claims and the high value claims, although they incurred 2 IG pool claims!

From the policy year statements it was evident that there had been improvements on previous years. The reported losses on their Lloyd's syndicate for the 2016 and 2015 policy years have fallen by \$12m. The gross premium income for the 2017 policy year was \$13m higher than the previous year after 12 months. The increased capacity of the syndicate will help to absorb the heavy overhead costs which are running at 40% of net premium income. The syndicate is still losing money, but there are currently signs of improved results.

The P&I Club remains the driving force with the Members providing the positive financial results, and within the P&I class the fixed premium portfolio appears to be very profitable.

It was not possible to determine the extent of the claims improvements on earlier policy years, although the 2015 P&I policy year improved by \$10m and there were further collective improvements on other classes of business of circa \$10m.

Premiums by Country	%
Asia	27
Rest of Europe	20
Americas	19
Norway	11
Other Nordic	8
Germany	7
Greece	4
Others	4

Premium Distribution	%
Bulk	24
Offshore	16
Gas & Chemical Tankers	14
Tankers	13
Cargo	12
Containers	7
Passenger	6
Others	8

Investments	%
Fixed Income	74
Equities	22
Non Listed	2
Commodities	1
Cash	1

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	90	85	78	74	75	72	70	58	55	45	41
Market Share (%)	7	7	7	7	7	7	7	6	6	6	5
General Increase (%)	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	5	15	7.5
Calls - Initial Estimate / Total Called (%)	0 0	0 -2.5	0 -2.5	0 -2.5	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Release Call Requirements (%)	15	7.5	3	0							

Closed Years
 Initial
 Current

Closed Years
 Open Years

SKULD

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	345,796	326,878	353,317
Net Claims Incurred	251,580	229,143	243,276
Management Costs	93,794	89,979	89,516
	345,374	319,122	332,792
Underwriting Surplus/(Deficit)	422	7,756	20,525
Investment Income Less Tax	47,529	38,088	(7,491)
Surplus (Deficit)	47,951	45,844	13,034

Balance Sheet	2018	2017	2016
Investments	850,312	692,369	696,869
Cash	132,221	247,286	176,085
Debtors	73,064	41,369	35,083
Other Assets	14,494	19,440	10,564
Total Assets	1,070,091	1,000,464	918,601
Outstanding Claims	527,741	507,194	511,526
Creditors	103,720	101,756	58,847
Total Liabilities	631,461	608,950	570,373
Free Reserves	438,630	391,514	348,228

IN THE SPOTLIGHT

More Lloyd's Losses

12% Growth
in Free Reserves

9% Increase in Claims

INVESTMENTS

There was no separate investment report, but it is evident that the investment managers provided one of the best returns in the IG, achieving 7% which generated \$47m. The performance was driven by a 19% return on the equity portfolio and high yields on the bonds. The Club also held token allocations of unlisted investments and commodities. The strategy is to hold the majority of the funds in low risk bonds with a small equity exposure.

OUTLOOK

The financial report was rather brief with no reference to corporate governance and only a scant note on risk management. The mainstay of the Club continued to be the P&I class with over 70% of the premium income generation and providing almost all of the overall surplus.

The Club may have been embarrassed by their recent Solvency and Financial Condition Report (SFCR), which resulted in the Club coming bottom of the IG financial reserves league table. They were the only Club to have a tier 1 capital ratio of below 100%, a situation which would doubtless have been better without their Lloyd's syndicate!

The Club's free reserves have increased by 12% and provided the current membership with a \$10m premium (continuity) credit. The Club has an S&P A credit rating and apart from the results of the SFCR, appears to be in a strong position. The new businesses have improved, but question marks remain over the Lloyds syndicate's results.

STANDARD

OVERVIEW

The Standard Club has reported a surplus of \$31m, after making a 5% return of call to mutual members, costing just \$11m. The underwriting saw a major reversal of fortunes, with last year's surplus turning into a \$28m deficit this year. Fortunately, the investment managers conjured up an impressive 6.4% return which brought in \$59m.

Key Performance Indicators	2018	2017	2016
S&P Rating	A	A	A
Combined Ratio	111	94	95
Investment Return	6.4	3.0	-0.9
General Increase	0	0	2.5
Solvency	180	178	167
Increase in Net Premiums	-3.2	-0.9	0.8
Increase in Free Reserves	7.2	10.4	2.6
Increase in Incurred Claims	15.7	-2.9	-11.5
AER (Average Expense Ratio)	12.5	12.4	12.2
Increase in GT	8.3	0.9	1.9
Average net PR per GT	2.17	2.42	2.47
Free Reserves per GT	3.94	3.99	3.65
Surplus /(Deficit) (mil)	31	40	10
Gross Owned Tonnage	117	108	107

HIGHLIGHTS

Investment Return

6.4%

\$31m

Surplus

5%

Premium Return

WORLDWIDE OFFICES



STANDARD

UNDERWRITING

The net premium income fell by 3% to the lowest level since 2014. The Club has continued to enjoy the benign claims climate, although there was a 15% increase in the cost of claims in the financial year. The P&I policy years continued to show a declining level of premium income, but fortunately this was matched by an even greater decline in the expected claims costs. These costs have fallen from \$345m in the 2015 policy year to \$270m in the 2017 policy year... a fall of over 20%!

The Club continued its diversification policy by expanding new fledgling operations via Standard Asia, its subsidiary in Singapore, which is providing a comprehensive range of services.

The Club also has a collaboration facility with Korea P&I to provide cover in excess of \$500,000 for coastal and regional trading craft up to 10,000 gt. Standard Offshore has achieved strong growth and some significant new members. The London Class continued to expand in very challenging conditions, underwriting inland and coastal vessels, with an entry of 5m gt.

The Club has now further increased its exposure of the Standard Syndicate 1884 to a massive 86% underwriting capacity. It has also diversified into non-marine activities, in addition to the initial Marine and Energy risks. As predicted the syndicate has had a very difficult first few years making significant losses which were higher than anticipated. The Club / Charles Taylor reported confidence that the Syndicate is well placed to make a positive contribution in the future. We remain sceptical!

Ship Types	%
Tanker	32
Container	30
Bulk	23
Offshore	12
Passenger	2
Other	1

Management Country	%
Asia	28
Europe	18
Greece	13
Nordic	11
Japan	8
Canada	6
Italy	6
USA	6
Rest of World	4

Asset Allocation	%
Sovereign Bonds	38
Corporate Bonds	35
Equities	13
Alternatives	8
Cash & f/x	6

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	117	108	107	101	97	97	94	85	80	65	50
Market Share (%)	10	9	9	9	9	9	9	9	9	8	7
General Increase (%)	0	0	2.5	5	12.5	7.5	5	3.5	3	15	15
Calls - Initial Estimate / Total Called (%)	0 0	0 -5	0 -5	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Release Call Requirements (%)	6	0	0								

Closed Years
 Initial
 Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	253,500	261,800	264,200
Net Claims Incurred	232,300	200,800	206,900
Management Costs	49,000	46,600	43,600
	281,300	247,400	250,500
Underwriting Surplus/(Deficit)	(27,800)	14,400	13,700
Investment Income Less Tax	58,800	25,900	(3,800)
Surplus (Deficit)	31,000	40,300	9,900

Balance Sheet	2018	2017	2016
Investments	830,200	786,100	750,400
Cash	125,300	108,100	114,800
Debtors	154,600	134,500	130,400
Other Assets	33,300	29,900	36,900
Total Assets	1,143,400	1,058,600	1,032,500
Outstanding Claims	578,000	554,200	582,700
Creditors	103,900	73,900	59,700
Total Liabilities	681,900	628,100	642,400
Free Reserves	461,500	430,500	390,100

INVESTMENTS

The investment managers reported a 6.4% return generating an income of \$59m, their best performance since 2010. There was no mention of the results of the individual asset classes, but it must be assumed that the 13% equity holding made a substantial contribution.

Not included in the financial report was the subsequent sale of Standard House for £22m, after the year-end. Rather surprisingly the property was purchased in 2008 for £20m and had only appreciated by 10% in 10 years! The proceeds will be included in the investment portfolio.

OUTLOOK

The Club returned \$11m to members and increased the free reserves by 7%.

The Club has continued with its expansion and diversification programme, but there was no disclosure within the annual report on progress. However it was interesting, if not a little worrying, to note that in the last 3 years, despite the formation of the Lloyd's syndicate and a 11% increase in the entered tonnage of the Club, the net premium income has actually fallen. Since 2015, the management costs have risen by 50%, but the net premium per ton has fallen by 16%.

The Club management should avoid increasing tonnage and its underwriting exposure at Lloyd's at uneconomic rates in this weak market. In our view the Club should concentrate on delivering more meaningful returns of calls to the mutual members who have put the Club into their strong position!

The Club has a record level of free reserves and an S&P A credit rating and has been enjoying a period of very strong growth.

IN THE SPOTLIGHT

Continued **Diversification**More **Lloyd's Losses****Rising** Management Costs

STEAMSHIP MUTUAL

OVERVIEW

After 3 years of unprecedented financial success, which has seen the free reserves rise by 70% from \$301m to \$510m over the period, the Steamship's financial bonanza has for this year at least run out of steam. The overall surplus was \$6m following \$47m of investment income.

Previous (financial) years' results have been bolstered by improvements on earlier policy years following a run of benign claims years. However, the 2017 policy year is currently expected to be one of the worst on record, with no further improvements on earlier years.

Key Performance Indicators		2018	2017	2016
S&P Rating		A	A	A
Combined Ratio	%	117	84	74
Investment Return	%	3.5	2.8	-0.9
General Increase	%	0	0	0
Solvency	%	188	191	172
Increase in Net Premiums	%	-2.6	-12.6	-3.7
Increase in Free Reserves	%	1.1	15.9	17.0
Increase in Incurred Claims	%	43.3	0.3	-10.5
AER (Average Expense Ratio)	%	12.2	12.1	12.1
Increase in GT	%	0.0	9.0	5.4
Average net PR per GT	\$	2.86	2.94	3.66
Free Reserves per GT	\$	6.07	6.00	5.65
Surplus /(Deficit) (mil)	\$	6	70	64
Gross Owned Tonnage	mil	85	85	78

HIGHLIGHTS



WORLDWIDE OFFICES



UNDERWRITING

The underwriting delivered a deficit of \$41m compared to a surplus of \$40m last year. This followed the \$26m return of premium to members and also being impacted by a string of large claims on the current policy year.

Mutual tonnage remained largely unchanged during the year. There was a small increase in the chartered entry, although the total net premium income fell by \$6m. The deterioration in the underwriting emanated predominantly from a surge in claims and a reduction in reinsurance protection.

There was an increase in claims across the spectrum, with attritional claims below \$250,000 costing 28% more than last year. There was also a 21% increase in the cost of larger claims in excess of \$250,000. The increase in severity was most pronounced in claims over \$10m, with 3 IG pool claims occurring in the year, compared to no more than one in the earlier years.

There were 50 claims in excess of \$250,000, which cost \$173m. The largest category of claims was pollution (3), currently estimated to cost over \$100m. Elsewhere there were 6 cargo claims costing \$23m, 19 crew claims costing \$15m, and 8 FFO claims costing \$15m.

The 2016 policy year has matured largely as expected, and there was only a small deterioration on the 2015 policy year. After 3 IG pool claims in a single year and a significant deterioration in the 2017 policy year due to attritional claims activity, the Club may need to reconsider their retention reinsurance policy.

Gross Tonnage by Vessel Type	%
Bulk	38
Tanker	24
Container	18
Cruise and Ferry	12
Cargo	5
Other	3

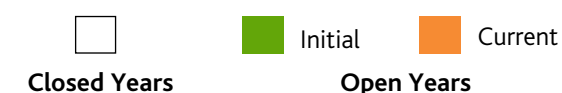
Gross Tonnage by Region	%
Far East	41
Europe	35
North America	16
Africa, Middle East & India	5
Latin America	3

Tonnage by Age of Vessel	%
0-4 years	26
5-9 years	35
10-14 years	15
15-19 years	11
Over 20 years	13

Asset Allocation	%
Government & Corporate Bonds	49
Absolute Return Funds	16
Cash	14
Equities	9
Hedge Funds	6
Emerging Market Debt	4
Property	2

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	85	85	78	74	69	63	63	58	53	50	47
Market Share (%)	7	7	7	7	7	6	6	6	6	6	6
General Increases (%)	0	0	0	0	10	7.5	5	0	5	17.5	15
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 0	0/-10	0/-10	0/0	0/0	0/0	0/0	0/0	0/20
Release Call Requirements (%)	12.5	2.5	0								



STEAMSHIP MUTUAL

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	243,229	249,609	285,499
Net Claims Incurred	241,369	168,455	167,930
Management Costs	42,977	41,364	43,337
	284,346	209,819	211,267
Underwriting Surplus/(Deficit)	(41,117)	39,790	74,232
Investment Income Less Tax	46,795	30,179	(10,098)
Surplus (Deficit)	5,678	69,969	64,134

Balance Sheet	2018	2017	2016
Investments	932,489	855,828	788,363
Cash	149,139	192,302	241,233
Debtors	33,820	38,349	33,826
Other Assets	21,424	12,687	14,551
Total Assets	1,136,872	1,099,166	1,077,973
Outstanding Claims	589,661	562,557	613,022
Creditors	31,243	26,319	24,630
Total Liabilities	620,904	588,876	637,652
Free Reserves	515,968	510,290	440,321

IN THE SPOTLIGHT

New Offices
Singapore & Tokyo

Underwriting Loss **\$41m**

Modest **Overall Surplus**

2017 **Heavy Claims** Year

INVESTMENTS

The investment managers reported a return of 3.5%, which produced income of \$47m. This included \$8m of currency gains and an unrealised revaluation surplus of \$9m on their London office HQ.

There was a matched portfolio of government and corporate bonds to back the net outstanding claims, in terms of currency and duration. The remainder is held in a portfolio including absolute return fund bonds, hedge fund of funds and equities amounting to 31% of the asset allocation.

OUTLOOK

After many exceptionally good years 2017 has proved to be a challenging claims year, but notwithstanding this the Club still achieved a modest surplus.

The 2018 renewal was adversely impacted by the Managers' decision to terminate the Iranian fleet membership. This followed the US decision to reintroduce sanctions, resulting in a loss of 3m gt. This was partially offset by an additional 5m gt of chartered tonnage gained from a new member. The overall premium income fell by \$5m.

The Club managed to maintain capital despite returning to members \$26m of calls.

The year finished broadly neutral after a good investment performance, leaving the solvency ratio largely unchanged and the Club still maintaining very substantial free reserves.

The Club retained an S&P A credit rating and with the largest free reserves per gt in the IG it is well placed to continue to expand its membership generally and in particular via their new offices in Singapore and Tokyo.

SWEDISH CLUB

OVERVIEW

The Swedish Club has reported a surplus of \$19m after a 4% discount on P&I premiums. The Club experienced weaker levels of income particularly from the Hull & Machinery class, which led to an overall underwriting deficit of \$9m. This deficit however was easily covered by the 7.7% investment return (\$28m). The free reserves increased by 9% to \$212m, which is a new Club record.

Key Performance Indicators	2018	2017	2016
S&P Rating	BBB+	BBB+	BBB+
Combined Ratio	% 108	99	99
Investment Return	% 7.7	2.7	-1.6
General Increase	% 0	0	0
Solvency	% 215	203	195
Increase in Net Premiums	% -12.6	-8.7	2.5
Increase in Free Reserves	% 9.1	6.0	-0.6
Increase in Incurred Claims	% -4.7	-10.6	23.7
AER (Average Expense Ratio)	% 13.4	13.3	13.3
Increase in GT	% 8.5	6.8	4.8
Average net PR per GT	\$ 2.43	2.78	3.25
Free Reserves per GT	\$ 4.51	4.13	4.16
Surplus /(Deficit) (mil)	\$ 19	11	(1)
Gross Owned Tonnage	mil 51	47	44

HIGHLIGHTS

7.7% Investment return

\$212m Free reserves

\$19m Overall surplus

3 years of nil General Increases

WORLDWIDE OFFICES



SWEDISH CLUB

UNDERWRITING

The underwriting has experienced premium income pressure, with a 3rd year of no general increase on P&I and continuing weakness in the Hull & Machinery market.

The entered gross tonnage for the P&I class rose by 4m, but the net premium income fell by 13% after the \$3m discount allowed to members. Fortunately there was a small reduction in the cost of claims, resulting in the modest underwriting deficit.

The H&M class continued to be more challenging with a reducing membership and continued financial over-capacity in the market. This led to the underwriting deficit for this class, however there are hopes that the rise in the price of oil will lead to a resurgence of their offshore activities.

The Club also underwrites freight demurrage and defence risks which returned a small surplus.

The cost of claims fell by 5%, but the Club still recorded its first underwriting deficit since 2013.

There are plans for the Club to increase its activities in the Asian and Greek markets and has introduced a new "all-in-one" charterers' cover, and a collision recovery insurance to ease Members' cash flow following a collision.

Gross Premium Income by Area	%
China	20
Greece	20
Germany	15
Singapore	8
Norway	7
Sweden	6
Others	24

Gross Tonnage by Ship Type	%
Container	38
Bulker	37
Tanker	20
Offshore	2
Dry Cargo	1
Passenger/Ferry	1
Roro	1

Gross Tonnage by Area	%
Asia	49
Southern Europe	26
Northern Europe	17
Middle East	8

Asset Allocation	%
Bonds	79
Equities	15
Cash	6

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	57	47	44	42	37	35	34	31	26	25	25
Market Share (%)	5	4	4	4	3	3	3	3	3	3	3
General Increases (%)	0	0	0	2.5	7.5	7.5	5	2.5	2.5	15	15
Calls - Initial Estimate / Total Called (%)	0 -5	0 -4	0 0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/35
Release Call Requirements (%)	15	12.5	5								

Closed Years
 Initial
 Current

Open Years

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	114,098	130,530	142,950
Net Claims Incurred	98,114	102,961	115,187
Management Costs	25,425	25,945	26,535
	123,539	128,906	141,722
Underwriting Surplus/(Deficit)	(9,441)	1,624	1,228
Investment Income Less Tax	28,251	9,416	(2,288)
Surplus (Deficit)	18,810	11,040	(1,060)

Balance Sheet	2018	2017	2016
Investments	375,751	351,506	349,372
Cash	25,118	31,580	44,146
Debtors	45,313	50,199	55,722
Other Assets	10,090	7,826	11,392
Total Assets	456,272	441,111	460,632
Outstanding Claims	184,513	188,244	192,181
Creditors	59,929	58,751	85,377
Total Liabilities	244,442	246,995	277,558
Free Reserves	211,830	194,116	183,074

IN THE SPOTLIGHT

Record Free Reserves

\$9m Underwriting Deficit

Claims fell by 5%

4% Return of Call

INVESTMENTS

The investment managers "saved the day" with a stellar investment return of 7.7%, yielding \$28m. This was more than enough to cover the underwriting deficits and leave an overall surplus of \$19m. The investment income was the Club's best result since 1999 notwithstanding the Club's conservative policy of investing only 20% in equities. The return was aided by the performances of America, emerging market equities and the weak dollar.

OUTLOOK

The Club reported its best performance for 3 years after the excellent performance from the investment managers, generating the surplus of \$19m. The Club has been disadvantaged by underwriting H&M business, which was previously perceived as beneficial by spreading the overall risk, but this continues to be unrewarding.

The H&M business is contracting and showing no signs of improvement, while the P&I business is expanding and managing to almost breakeven. Fortunately, the Club was still able to report a good result with an increase in the free reserves of 9.9%, even after the discount.

Both major classes of business reported minor underwriting deficits, but the Club is increasing activities in Asia and Greece and has introduced a number of new products to boost its income.

The Club has a strong balance sheet with an excellent solvency ratio and free reserves of nearly twice the net annual premium income. The Club has been in existence for 145 years and has healthy reserves and a conservative underwriting and investment policy and the S&P BBB+ credit rating has been retained.

UK CLUB

OVERVIEW

The UK Club has reported an overall surplus of \$82m. This came about due to another benign claims year, improvements in claims on older policy years and a 6.1% return on the investments - when exchange gains were included. However, it is disappointing that there was no return of call to its membership.

The move to retain earnings rather than be a little generous may stem from the perceived need to build up the free reserves before redeeming the hybrid capital, which could not be redeemed before 2018 policy year.

Key Performance Indicators		2018	2017	2016
S&P Rating		A	A	A
Combined Ratio	%	90	107	94
Investment Return	%	6.1	4.6	-1.0
General Increase	%	0	0	2.5
Solvency	%	177	178	178
Increase in Net Premiums	%	0.5	-2.9	-4.7
Increase in Free Reserves	%	14.7	2.0	-0.2
Increase in Incurred Claims	%	-17.5	13.4	-16.8
AER (Average Expense Ratio)	%	10.31	10.22	10.17
Increase in GT	%	0.0	3.0	6.3
Average net PR per GT	\$	2.13	2.12	2.25
Free Reserves per GT (inc. Hybrid)	\$	4.60	4.01	4.05
Free Reserves per GT (ex. Hybrid)	\$	3.88	3.29	3.31
Surplus /(Deficit) (mil)	\$	81.6	10.5	-1.2
Gross Owned Tonnage	mil	139	139	135

UNDERWRITING

The total entry remained unchanged, despite an unusually high turnover of membership and tonnage but, the net premium was constant due to the absence of any return of premium.

The cost of claims fell during the year largely as a result of improvements in earlier policy years, where the expected costs of claims had fallen by around \$60m. This was also helped by a decrease in the frequency of attritional claims on the 2017 policy year to the lowest level in recent history. The cost of large claims remained broadly in line with previous years.

The increase in deductibles, an improvement in standards and the changing economic environment has helped to drive down the cost of attritional claims, but the major cost element has become the small number of large claims, which were more variable and less predictable.

With an increase in the cost of IG pool claims, the total of the net notified claims on the 2017 policy year were the highest since 2013. There have been significant improvements on the older policy years and it was possible to see the historic extent of the over-reserving from the 10 year table of ultimate claims costs which is included within the report and accounts. It is clearly prudent to reserve conservatively, but in many cases it may have been excessive.

Owned Fleet Profile		%
Bulk		37
Tanker		28
Gas		13
Container		12
Other		10

Owned Fleet Geographic Region		%
Europe, Middle East and Africa		54
Asia		35
Americas		11

Investments		%
Government Bonds		35.7
Corporate Bonds		29.1
Equities		21.1
Alternatives		8.5
Cash		5.6

HIGHLIGHTS

Surplus **\$82m** | Investment Return **6.1%**
Free reserves up **15%**

WORLDWIDE OFFICES



CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	139	139	135	127	124	120	112	105	105	110	112
Market Share (%)	11	12	12	12	12	12	11	12	12	14	15
General Increase (%)	0	0	2.5	6.5	10	7.5	3	5	5	20	17.5
Calls - Initial Estimate / Total Called (%)	0 0	0 0	0 0	0/-3	0/-2.5	0/0	0/0	0/0	0/0	0/0	0/0
Release Call Requirements (%)	10	5	0								

Closed Years
 Initial
 Current

Closed Years
 Open Years

UK CLUB

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	296,674	295,088	303,946
Net Claims Incurred	225,700	273,619	241,252
Management Costs	42,751	43,595	44,874
	268,451	317,214	286,126
Underwriting Surplus/(Deficit)	28,223	(22,126)	17,820
Investment Income Less Tax	53,380	32,659	(19,045)
Surplus (Deficit)	81,603	10,533	(1,225)

Balance Sheet	2018	2017	2016
Investments	1,236,614	1,080,612	1,078,944
Cash	156,244	115,486	87,242
Debtors	92,202	105,373	116,313
Other Assets			
Total Assets	1,485,060	1,301,471	1,282,499
Outstanding Claims	831,128	710,739	701,342
Creditors	14,136	32,914	34,244
Total Liabilities	845,264	743,653	735,586
Free Reserves	639,796	557,818	546,913

IN THE SPOTLIGHT

No return of call

\$110m cash from Swiss Re

Perpetual Loan
Under Review

INVESTMENTS

The investment managers produced a return of 3.9%, boosted to 6.1%, when currency gains were included! The total return was \$53m, which was undoubtedly helped by the \$110m settlement received for recoveries under the multi-year reinsurance contract with Swiss Re, which ended around 2010.

The best performing assets were the equities with a return of 19%, and other components all contributed positive returns. During the year there was a small reallocation of funds from government bonds to alternatives.

The policy was to have a well-diversified portfolio, whilst ensuring opportunities to maximise investment returns.

OUTLOOK

The UK Club has posted their best overall results since 2010, but will have doubtless disappointed their mutual members by not making a return or giving a discount on renewal. This decision was probably driven by the need to build up the free reserves prior to having an opportunity to redeem their hybrid capital / perpetual loan. The capital is potentially redeemable for the first time in 2018 and the directors may decide whether to redeem the bonds either in part or in total. A full redemption will reduce the Club's tier one capital by \$100m.

The tonnage has not increased. The absence of a return of call has kept the net premium income steady and the Club continued to enjoy the very benign claims climate. The incurred claims were the lowest since 2006, despite a small increase in the net reported claims on the 2017 policy year.

The Club retained an S&P A credit rating and has an average solvency ratio within the IG.

WEST OF ENGLAND

OVERVIEW

The West of England has reported an underwriting deficit of \$29m following a 37% increase in incurred claims. This led to a reported deficit of \$8m, which was covered by a \$10m increase in the revaluation of the London and Hong Kong office properties.

The annual report this year did not come with a managers' review, but is confirmed it will be published in October.

Key Performance Indicators	2018	2017	2016
S&P Rating	A-	A-	BBB+
Combined Ratio	% 116	88	84
Investment Return	% 4.8	1.0	-0.8
General Increase	% 0	0	0
Solvency	% 172	177	169
Increase in Net Premiums	% -3.0	-1.1	4.3
Increase in Free Reserves	% 0.7	10.8	13.5
Increase in Incurred Claims	% 36.7	4.8	-13.4
AER (Average Expense Ratio)	% 14.7	15.2	15.5
Increase in GT	% 11.0	13.9	7.5
Average net PR per GT	\$ 1.94	2.22	2.55
Free Reserves per GT	\$ 3.39	3.74	3.84
Surplus /(Deficit) (mil)	\$ 2	30	33
Gross Owned Tonnage	mil 91	84	73

HIGHLIGHTS

3 Year Average
Combined Ratio

95.6%

Investment Return

4.8%

Record Free Reserves

\$308.5m

WORLDWIDE OFFICES



WEST OF ENGLAND

UNDERWRITING

The Club saw its mutual tonnage rise from 84mil gt to 91mil gt. Chartered tonnage stands at 29mil gt. The increase in entry was accompanied by a 3% drop in net premium income.

There was a sharp rise in the cost of claims of 37%. The increase seems to be the result of an unexpected increase of a relatively small number of large, expensive collision and navigational claims.

The incurred claims on the 2017 policy year (after 12 months) were \$198m, compared to \$149m on the 2016 policy year after 12 months. Fortunately the claims estimates for the 2016 policy year improved by \$13m, and there were also further improvements on older policy years.

The Freight, Demurrage and Defence Class produced a surplus of \$10m (before management costs) compared to \$8m last year.

The Management going forward should perhaps focus on the Club's reinsurance arrangements in an effort to mitigate the impact of large claims such as those experienced in 2017.

Asset Allocation	%
Bonds	66
Cash	23
Equities	11

Vessel Type	%
Bulk Cargo Carriers	37
Tankers & OBOs (inc LPG/LNG)	31
Container Vessels	18
General Cargo & Reefers	11
Ferries & Passenger Liners	2
Specialist Vessels & Miscellaneous	1

Tonnage by Area	%
Asia	37
Other Europe	28
Greece	18
Middle East/Africa etc.	11
Americas	6

CALL AND TONNAGE DEVELOPMENT: 2018 → 2008

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross Tonnage (mil)	91	84	73	68	59	53	51	49	52	51	54
Market Share (%)	7	7	7	6	6	5	5	5	6	6	7
General Increase (%)	0	0	0	2.5	7.5	7.5	5	5	5	10	15
Calls - Initial Estimate / Total Called (%)	35 35 35 35 35 35	35/35	35/35	35/35	35/35	35/35	30/30	30/30	30/30	30/30	20/65
Release Call Requirements (%)	15**	10*	0								



Closed Years



Initial



Current

Open Years

* of the advance call (7.4% of the ETC)

** of the estimated mutual call (Net of GXL Reinsurance)

Revenue Statement US\$000's	2018	2017	2016
Net Premiums	176,301	181,677	183,687
Net Claims Incurred	169,143	123,772	118,072
Management Costs	36,163	35,427	36,519
	205,306	159,199	154,591
Underwriting Surplus/(Deficit)	(29,005)	22,478	29,096
Investment Income Less Tax	30,989	7,445	3,824
Surplus (Deficit)	1,984	29,923	32,920

Balance Sheet	2018	2017	2016
Investments	487,331	433,210	400,150
Cash	145,439	187,579	192,647
Debtors	66,257	54,257	53,422
Other Assets	70,632	57,493	69,935
Total Assets	769,659	732,539	716,154
Outstanding Claims	428,788	396,489	403,505
Creditors	32,338	29,538	35,988
Total Liabilities	461,126	426,027	439,493
Free Reserves	308,533	306,512	276,661

INVESTMENTS

There was no investment report, but the investment managers produced a return of 4.8% generating income of \$21m, which was further supplemented by the property revaluation of \$10m. The income was mostly generated from interest on bonds and the appreciation in the value of the equities. The London and Hong Kong properties were revalued leading to further gains, and the Directors decided that the London property at Tower Bridge, which was valued at \$59m, should now be sold.

OUTLOOK

The West of England has had a challenging year, with a sudden surge in claims. The issue for the Club Management is to establish whether this sudden surge in claims is a momentary aberration (which is likely) or the start of a new claims trend.

The IG Clubs generally have seen a large increase in tonnage over the last decade, with little or no corresponding increase in the level of premiums. This situation has been sustainable due to the lower incidence of claims, but the industry could now be starting to experience an upturn perhaps due to an increase in world trade, and the number of much larger ships moving around crowded ports.

Despite the underwriting setback, the Club managed to increase the free reserves by \$2m and retain their S&P A- credit rating. There is understandable concern relating to the 2017 underwriting year, but a review of the Club's reinsurance programme and the possible purchase of additional casualty protection may well assist future years.

The solvency ratio dropped this year, but the Club achieved strong growth and should be able to maintain the progress that has been made over the last decade!

IN THE SPOTLIGHT

Gross Tonnage **Up 7m**Claims **Up 37%**S&P **A- Rating**

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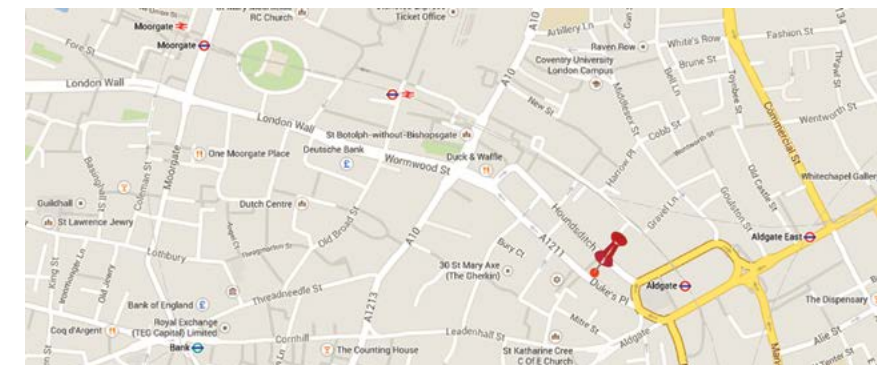
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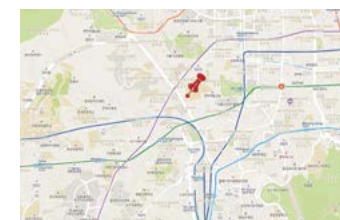
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Notes

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