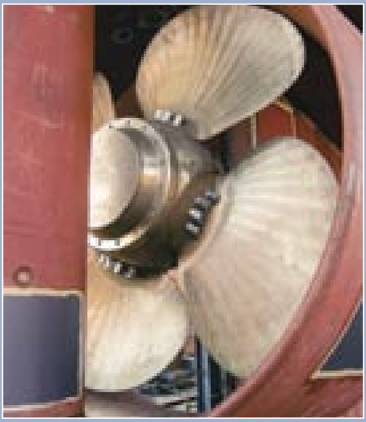
WILSON EUROPE
MASTERS OF P&I

2016
THE WILSON P&I REPORT
International Group Clubs



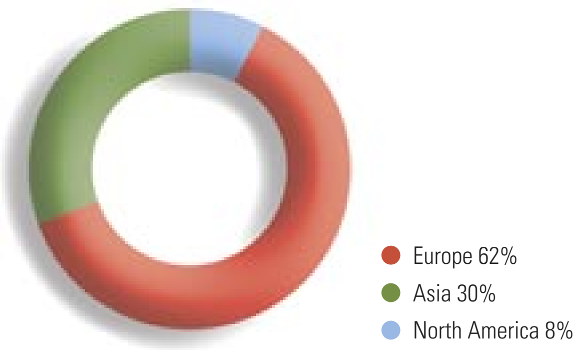
Contents

ABOUT WILSON

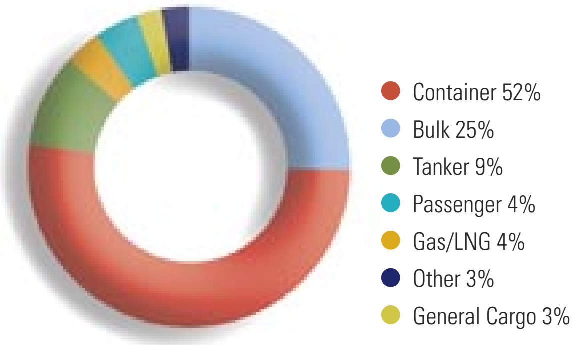
Wilson Europe is an independent insurance and re-insurance broker based in the City of London, specialising in the placing and servicing of P&I and other Marine Insurance risks. Wilson Re, our parent company, headquartered in Hong Kong along with offices in Korea, Taiwan and Tokyo, have a long standing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

Wilson Europe has built a substantial global client base and today is responsible for placing some 65 million gross tons of P&I insurance. These covers are primarily placed with International Group Clubs….. our portfolio is larger than some clubs.

Portfolio by Continent (Owned and Time Chartered)



Portfolio by Ship Type (Owned and Chartered GT)



Our International portfolio demonstrates our industry capability, enabling our experienced highly skilled team of brokers in London to "tailor make" solutions for our clients' needs. Our portfolio extends from small fleets to some of the world's largest and best known operators, enabling us to place ships of all sizes, types and complexities. Our client base includes a significant number of current and past Club Board Directors.

Wilson Europe has one of the largest and most experienced P&I teams of any London broker which enables us to provide highly effective and efficient service to our clients. We maintain a very strong service ethos and are committed to operating with transparency and integrity at all times.

Reasons to use Wilson

- **Strength in depth - a Global client base.**
- **Unparalleled knowledge of P&I.**
- **Dedicated teams focused on innovative solutions and delivering first class service.**
- **Considerable experience in placing bespoke covers for all ship types.**
- **Integrity and transparency in all that we do.**

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

CHAIRMAN'S ANNUAL REVIEW

"The IG collectively reported their 7th successive increase in free reserves to a new record high of over $4.7bn."

2016 has been a very eventful year with major improvements in Club underwriting results, setbacks in investments, the successful introduction of Solvency II and the failure of the merger talks between UK & Britannia. The latter will likely deter future aspirants and reduce the likelihood of any further mergers, unless one party offers cash or shares to ensure there is an equitable balance of capital between the parties involved. P&I Clubs renounce mutuality at their own peril.

The Clubs have collectively had another very successful year, despite the fact that not a single Club had a positive return on investments after tax and currency losses. The IG collectively reported their 7th successive increase in free reserves to a new record high of over $4.7bn. We have been arguing for 3 consecutive renewals that the general increases demanded were not really necessary given the benign claims environment. Only now are the Clubs releasing monies from their over reserved claims to achieve record free reserves at a time when most Shipowner members have had to endure a sustained period of dire trading conditions.

Club finances saw a marked improvement in results despite weaker income levels, with only 14 IG Pool claims in the 2015 policy year, compared to 18 claims for the year earlier, although the estimated cost of those claims were slightly higher. The trend has been for minor improvements in the cost of attritional claims and a reduction in the frequency and severity of larger retained claims. The vast majority of Clubs also saw major improvements in their estimated cost of claims on earlier policy years. The continued rising cost of wreck removal claims is a real concern generally, but with the exception of "Alpine Eternity" there were no claims falling on the Group 'excess of loss' reinsurance programme.

Investment Managers had a torrid time resulting from historically low yields, a strong US dollar, falling equity values and a lack of "obvious" investment opportunities. The recent regulatory changes (Solvency II) has encouraged Club and Investment Managers to adopt more conservative investment policies and curb their enthusiasm for equities, as these performed particularly badly during 2015, delivering negative returns in excess of 10%. Some of the bonds produced positive returns, but overall the returns were also negative, leaving all Clubs with (modest) investment losses.

The Clubs with membership in the European Union single market, managed to pass a milestone by complying with the new Solvency II capital requirements, which finally came into effect in January 2016. This should reduce the Clubs' desire to continually build up their free reserves with no publicly stated upper limit / maximum. Once again we ask how large do the free reserves of a Mutual really need to be?

"The Clubs with membership in the European Union single market, managed to pass a milestone by complying with the new Solvency II capital requirements, which were finally came into effect in January, 2016."

The majority of Clubs in our view have sufficient funds to start delivering members discounts or other returns for earlier policy years, as well as halting, for the time being at least, the imposition of general increases. The likelihood of future investment income remains a concern, with no obvious solution other than perhaps for the Club Managers to focus on and maintain a low risk portfolio.

The next major obstacle for the UK based Clubs, many of whom have recently completed time-consuming corporate restructuring, will be continued membership of the EU single market as a consequence of the U.K. "Brexit" vote. The future status of Lloyd's will also be of concern to all Club Managers as a consequence of the IG reinsurance policies.

2016 policy year has thus far been favourable with no serious casualties and a steady stream of new buildings entering the market. These though remain extremely difficult times for Shipowners with reduced cargo volumes and low freight rates. We firmly believe whilst the current poor trading conditions persist and the trend of reduced claims continues, Owners expect and not unreasonably, these conditions to be reflected by their Clubs with no general increases, reduced rates and returns of premium.

Dudley Taylor
Chairman
Wilson Europe Limited

MANAGING DIRECTOR'S SOAP BOX

"...let's be honest, the real reason to grow any Club that already has critical mass is not for some altruistic desire to benefit the Shipowners, but for Club managers to enhance their profits and reward."

Mergers……..

Following the failed attempt to merge UK and Britannia Clubs, the industry appears now to have settled back down, but there is still an uneasy calm and it is difficult to evaluate the full effect that this initiative has had on the International Group. There are a number of the larger Club Managers who are now more focused on the size of the Clubs they manage and their perceived vulnerability following the threat of two very large clubs joining together to become a mega Club and thus controlling the IG.

There are of course also significant financial reward creating opportunities for independent Club Managers following a successful merger, takeover or sudden surge in the size of their business! It is therefore unlikely that the issue of mergers or takeovers will go away for the foreseeable future.

The UK / Britannia Failed Merger - The Fallout

Whereas previous International Group Club takeovers have come about as a result of Clubs in financial distress, we have not experienced in the recent past two strong Clubs, both in terms of size and financial strength, merging to achieve premier status within the group, as in the case with Britannia and UK Club. Of course Standard Club also tried to merge with the Britannia some 20 years ago with similar consequences to those of UK and Britannia this year. Clearly lessons from the past were not learnt!

It may be desirable for the industry to see the weaker Clubs in the International Group being absorbed by their stronger and perhaps more dynamic and efficient brethren.

However let's be honest, the real reason to grow any Club that already has critical mass is not for some altruistic desire to benefit the Shipowners, but for Club managers to enhance their profits and reward.

The Club system, over many decades, has successfully leveraged "economies of scale" not least by bringing together approximately 95% of the World's Shipowners to buy a unique, impressive and secure reinsurance programme at a very competitive cost. Additionally the Group created the pooling agreement that provides quota share reinsurance for all I.G. Clubs without profit to 3rd party underwriters.

Economies of Scale - The Fallacy

There has been comment by brokers and others that significant "economies of scale" will result from Clubs merging. However we believe this is unlikely or of minimal benefit to the Shipowners for the following reasons :

- Most Club costs are not very susceptible to economies of scale. This is because a high proportion of their costs are unlikely to increase or reduce based on size.
- The largest annual cost component for all Clubs is the Members' net claims, which are not reduced by consolidation whether a single Club or all 13 Clubs of the International Group.
- The cost of Group Reinsurance is not influenced by Club consolidation. The Group purchases this cover for and on behalf of all IG Clubs and shares the cost equally across its members - the largest Clubs charge their members exactly the same rates per gt as the smallest Clubs.
- Costs potentially susceptible to change through consolidation may be "other non group reinsurance costs", but the vast majority of Group Clubs already buy independently similar retention reinsurance.

"The club system over many decades has successfully leveraged economies of scale ...."

- Approximately 80% of the total premium a member pays is unlikely to change merely on account of Club size. Therefore, any potential saving will emanate from the management fee of the remaining 20% element of the members premium – let's speculate 15% efficiency saving on the remaining 20% i.e. 3% overall.
- It is interesting to note that some of the largest Clubs have the highest proportionate management expenses. There is no guarantee that size brings reduced costs or greater efficiency!

It was apparent at the time of the UK and Britannia Clubs proposed merger that the Managers never really promoted (at least publicly) the potential for savings! The likely reason for this is that the Managers themselves - who are of course profit making organisations unlike the Mutuals they manage, would want to keep any reasonable efficiencies / cost savings for themselves. It is therefore not surprising that thus far only the independent Club Managers have sought mergers.

North of England, a Club that owns its management is the only Club that has successfully taken over other Clubs and on the basis of "benefit" to the Club itself. It has been a recognised ambition of the NOE management and their Board of Directors to grow the Club since the late 80s. They have successfully taken over Liverpool and London, Newcastle Club and more recently Sunderland Marine, a fish boat Club previously operating outside the International Group …. all of whom were struggling to survive. Certainly in the cases of L&L and Newcastle they were distressed. Note, because of the dilemma of those Clubs the takeovers were successful - North of England was strong and well capitalised and the counterparts were not!

"There is no guarantee that size brings reduced costs or greater efficiency!"

The Conclusion

It remains to be seen if Shipowner members are convinced that Club consolidation within the International Group is in their best long-term interests and those of the P&I industry. It also remains to be seen if the anti-competition department within Brussels has any interest in the potential loss of competition, particularly now that the United Kingdom (from where many clubs operate) has voted to leave the European Union. It is however clear that in all cases of mergers, Capital is the no.1 consideration and unless both / all parties are convinced that there has been an equalisation of Capital, any proposed merger will surely fail or leave one side disadvantaged with obvious long term consequences.

It is also certain that reduced competition will result in higher premiums for Shipowners!

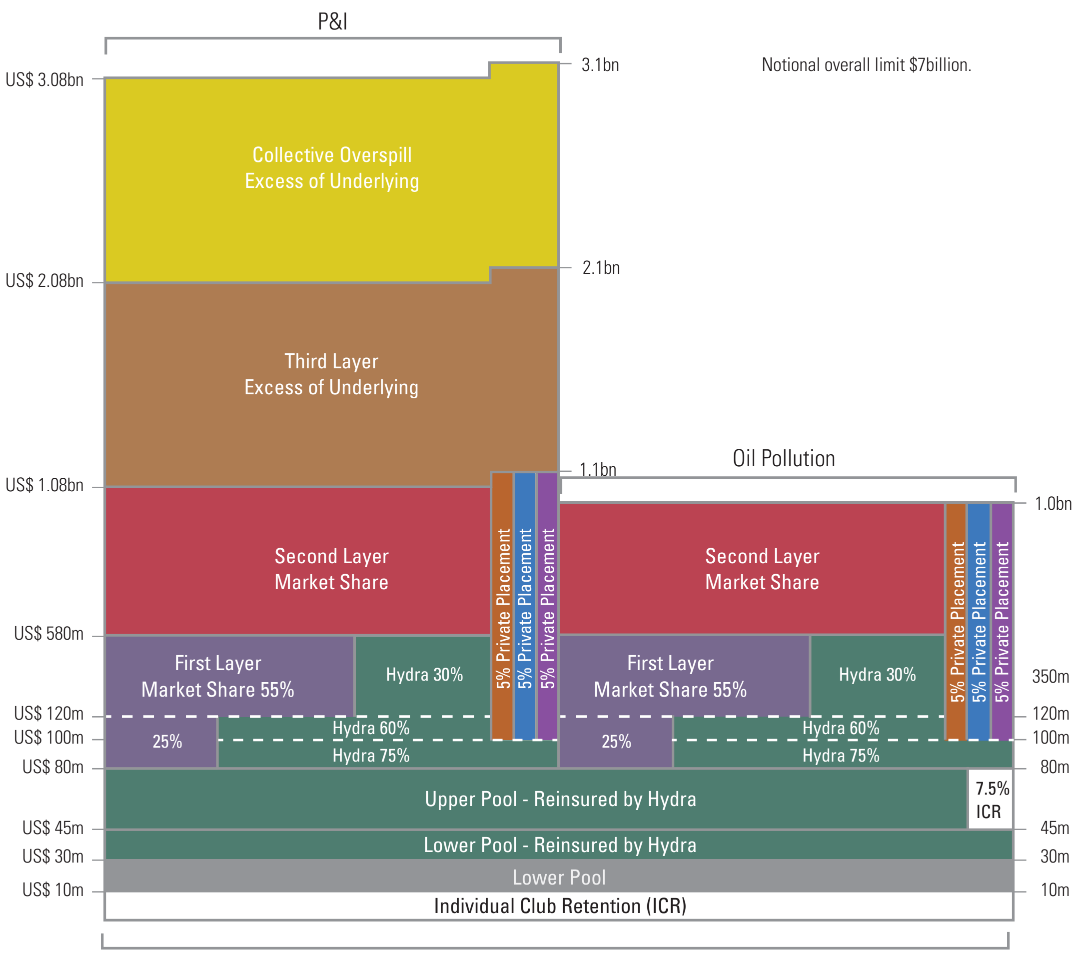
Julian South

Julian South
Managing Director
Wilson Europe Limited

SECTION ONE

Financial, Retention and Reinsurance

International Group Reinsurance Structure 2016



GXL RI Rates 2016

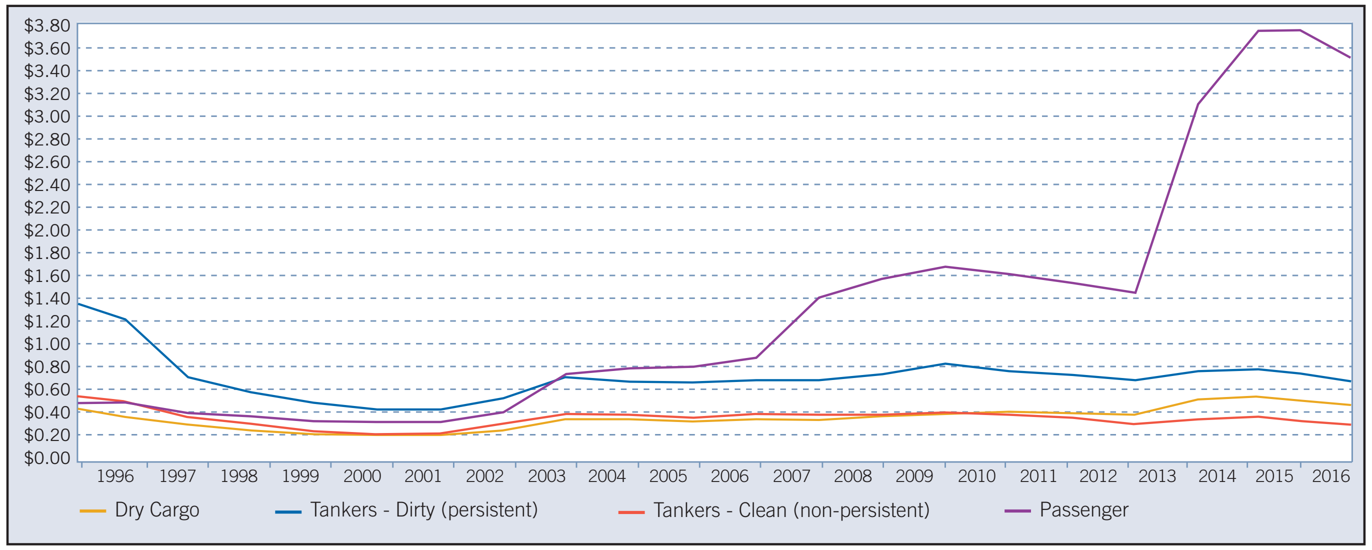
	Dry Cargo Ships (US$)	Dirty Persistent Tankers (US$)	Clean Non-Persistent Tankers (US$)	Passenger Carrying Ships (US$)
2016 Rates	0.4537	0.6567	0.2816	3.5073
2015 Rates	0.4888	0.7317	0.3138	3.7791
Adj. from 2015	-0.0351	-0.0750	-0.0322	-0.2718
% Movement	-7.18%	-10.25%	-10.26%	-7.19%

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

GXL RI Rates 1996-2016

Policy Year	Dry Cargo Ships ($)	Dirty Persistent Tankers ($)	Clean Non-Persistent Tankers ($)	Passenger Carrying Ships ($)
1996	0.3061	1.2346	0.4321	0.4136
1997	0.2357	0.6786	0.3031	0.3274
1998	0.1957	0.5479	0.2493	0.3049
1999	0.1538	0.4373	0.1970	0.2762
2000	0.1453	0.3953	0.1773	0.2762
2001	0.1453	0.3593	0.1773	0.2762
2002	0.1984	0.4859	0.2364	0.3782
2003	0.2858	0.6724	0.3268	0.6841
2004	0.2752	0.6399	0.3128	0.7328
2005	0.2677	0.6385	0.3041	0.7476
2006	0.2851	0.6799	0.3201	0.8006
2007	0.2837	0.6797	0.3187	1.3714
2008	0.3196	0.7300	0.3498	1.4985
2009	0.3695	0.8079	0.3667	1.6026
2010	0.3867	0.7554	0.3335	1.5654
2011	0.3709	0.7038	0.3055	1.4780
2012	0.3561	0.6515	0.2798	1.3992
2013	0.4942	0.7565	0.3245	3.1493
2014	0.5203	0.7963	0.3415	3.7791
2015	0.4888	0.7317	0.3138	3.7791
2016	**0.4537**	**0.6567**	**0.2816**	**3.5073**

GXL RI (fluctuations graph) 1996-2016



International Group General Increase Comparison Summary – 2016

Club	P&I	Remarks	FDD	Remarks
American	**2.5%**	Expiring deductibles below $10,000 to be increased by $1,000 - A minimum deductible of $7,500 for all crew claims to be applied.	**Nil**	No other publicised changes.
Britannia	**2.5%**	G.I. applied to the Advance Call. 2016 Deferred Call budgeted at 45%. 2015 Deferred Call budgeted at 45%. 2014 Deferred Call reduced to 37.5%.	**Nil**	2016 Deferred Call budgeted at 30%. 2015 Deferred Call budgeted at 30%. 2014 Deferred Call reduced to 30%.
Gard	**2.5%**	G.I. applied to the Advance Call. Deductibles currently below Club rules to be increased by $1,000. 2016 Deferred Call budgeted at 25%. 2015 Deferred Call budgeted at 25%. 2014 Deferred Call budgeted at 15%. 2013 Deferred Call budgeted at 15%.	**2.5%**	G.I. applied to the Advance Call.
Japan	**3%**	5% G.I. applied to chartered entries.	**Nil**	No other publicised changes.
London	**5%**	$2,000 increase applied to all deductibles.	**5%**	No other publicised changes.
North	**2.5%**	Crew and cargo deductibles below $25,000 to be increased by $2,500 per deductible. All other deductibles to be increased by $1,000 per deductible.	**2.5%**	No other publicised changes.
SOP	**Nil**	Club will absorb any increase in GXL costs.	**Nil**	No other publicised changes.
Skuld	**Selective**	Individual adjustments to be applied to ship types according to Club's perception of risk exposure.	**Selective**	No other publicised changes.
Standard (Europe)	**2.5%**	All deductibles to be increased by 10%. Deductibles below $20,000 to be increased by $2,000.	**Nil**	No other publicised changes.
Standard (London)	**Nil**	No other publicised changes.	**Nil**	No other publicised changes.
Steamship	**Nil**	No other publicised changes.	**Nil**	No other publicised changes.
Swedish	**Nil**	Cargo and crew deductibles to be increased by $1,000.	**Nil**	No other publicised changes.
UK	**2.5%**	4th instalment of the 2014 policy year reduced from 25% to 22.5%.	**Nil**	Continuity Credit allowances:- 2.5% for 1 full policy year of entry. 5% for 3 full policy year of entry. 7.5% for 5 full policy year of entry. 1.5% additional credit if member's entire fleet is entered.
West	**Nil**	Members' deductibles to be increased by 10% or $1,000 whichever is the highest, subject to a maximum increase of $2,500. Rules deductibles to be increase by $1,000 to $11,000.	**Nil**	No other publicised changes.

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 Triggers - 2016

Club	Abatement Triggers
American	$4.5m
Britannia	N/A
Gard	$3m
Japan	$5m
London	$2m
North*	$2m
Shipowners	N/A
Skuld	N/A
Standard**	$2m
Steamship***	$1.8m
Swedish	$3m
UK	$2.5m
West	$2m

Claims become eligible for abatement when exceeding the stated amounts below

* 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.

** Standard Club only allows 1 abated claim to be accepted for the life of the loss record.

*** 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.

FD&D Cover Comparison Table – 2016

Club	Standard Limit	Standard Deductible
American	$2m	$5k, then 25% member contribution max $50k
Britannia	$10m ($2m newbuilding/conversion disputes)	1/3 of all costs excess of $5k
Gard	$10m ($2m newbuilding/conversion disputes)	25% member contribution , min $5k
Japan	Yen 1.5bn (approx. $12m)	1/3 of all costs excess of $1k
London	$7.5m	25% member contribution
North	Nil (except $250k newbuilding / purchase / sale disputes)	25% member contribution, min $10k max $150k
Shipowners	$5m	First $750 up to $3k, then 25% max $30k
Skuld	$5m ($300k newbuilding / purchase / sale disputes)	25% member contribution , min $10k
Standard	$5m	25% member contribution , min $10k
Steamship	$10m	$5k, then 1/3 all costs subject overall max $30k
Swedish	$5m	$12k, plus 25% member contribution for costs in excess of $250k
UK	$15m	Nil, but no cover for disputes less than $10k
West	$10m	$5k, then 25% member contribution max $50k ($100k for newbuilding disputes).

Pool Development Record Tables

Profit / Loss and 3 Year Development

Club	Net position (US$ m)	2016	2015	2014
UK	134.9	72.6%	76.6%	79.1%
Skuld	57.2	71.9%	75.5%	74.6%
West	35.8	89.3%	94.4%	93.8%
North	11.7	95.3%	102.6%	115.3%
London	6	96.7%	98.7%	92.4%
Britannia	2.1	99.4%	89.8%	87.7%
Steamship	-3.8	101.2%	100.0%	103.5%
Gard	-7.5	101.6%	97.7%	105.1%
American	-10.4	109.3%	114.4%	118.8%
Japan	-13.9	105.5%	112.1%	114.9%
Shipowners	-54.1	151.9%	157.8%	101.2%
Standard	-60.6	123.0%	110.0%	99.4%
Swedish	-71.6	145.3%	155.2%	165.9%

Good - balanced results within bounds of acceptability

Satisfactory - just outside Deficit/Surplus margins of acceptability

Too divergent from break even - suggesting a need for a rating correction

Entered Mutual GT by Club by Policy Year (mil) 2006-2016

Club	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Period % Change 2006 - 2016
American	15	14	13	13	15	15	16	16	16	17	16	7%
Britannia	82	82	88	93	98	103	111	113	108	108	106	29%
Gard	90	90	127	133	136	145	163	175	187	189	200	112%
Japan	70	70	84	90	92	92	90	92	93	93	92	33%
London	34	34	39	39	37	40	44	45	43	44	44	29%
North	48	48	65	75	86	105	125	127	128	127	131	173%
Shipowners	12	12	15	16	17	18	20	22	24	24	25	108%
Skuld	32	32	41	45	55	58	70	72	75	74	78	144%
Standard	47	47	50	65	80	85	94	97	97	101	103	119%
Steamship	42	42	47	50	53	58	63	63	69	74	78	86%
Swedish	20	20	25	25	26	31	34	35	37	42	44	120%
UK	100	100	112	110	105	105	112	120	124	127	135	35%
West	60	60	54	51	52	49	51	53	57	67	72	20%
IG Total	**652**	**651**	**760**	**805**	**852**	**904**	**993**	**1030**	**1058**	**1087**	**1124**	**72%**

KPI Club League Tables – 2016

Combined Ratios

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

Steamship	74%
North	77%
West	84%
Gard*	85%
London	85%
Japan	91%
Skuld*	94%
UK	94%
Standard	95%
SOP	99%
Swedish*	99%
Britannia	101%
American	102%

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).

North	4.40%
West	4.30%
Swedish*	2.50%
Skuld*	1.60%
Standard	0.80%
London	0.60%
Britannia	-1.00%
Steamship	-3.70%
UK	-4.70%
Japan	-6.90%
Gard*	-9.80%
American	-13.70%
SOP	-13.80%

Entered GT (mil)

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

Gard*	200
UK	135
North	131
Britannia	106
Standard	103
Japan	92
Skuld*	78
Steamship	78
West	72
London	44
Swedish*	44
SOP	25
American	16

* Multi-line Insurer

Above Industry Average Below

Published Investment Returns

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

Japan	1.40%
American	0.30%
West	-0.80%
Standard	-0.90%
Steamship	-0.90%
UK	-1.00%
North	-1.00%
Swedish*	-1.60%
Skuld*	-1.60%
Britannia	-2.50%
London	-2.50%
Gard*	-3.00%
SOP	-3.00%

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.

North	26.70%
Steamship	17.00%
West	13.50%
Japan	8.60%
Gard*	5.00%
Standard	2.60%
London	2.10%
Skuld*	0.20%
UK	-0.20%
Swedish*	-0.60%
American	-3.70%
Britannia	-6.00%
SOP	-7.00%

Free Reserves per Gross Ton

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

SOP	$11.18
Steamship	$5.65
Gard*	$5.09
Britannia	$4.84
Skuld*	$4.46
Swedish*	$4.16
UK**	$4.05
West	$3.84
Standard	$3.79
London	$3.65
American	$3.53
UK***	$3.32
North	$3.27
Japan	$2.03

Solvency Ratios

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

Swedish*	195%
SOP	186%
Gard*	182%
UK	178%
London	172%
Steamship	172%
West	169%
North	169%
Skuld*	168%
Japan	167%
Standard	167%
Britannia	166%
American	133%

* Multi-line Insurer ** Inc. Perpetual Loan *** Exc. Perpetual Loan

SECTION TWO
Performance Comparison Tables

Revenue and Key Performance Indicators

CLUB	American	Britannia	Gard	Japan	London	North	Skuld	SOP	Standard	Steamship	Swedish	UK	West	Total
US$000's														All Clubs
Revenue Statement														
Net Premiums	81,376	194,609	727,870	165,029	87,402	361,053	353,317	182,011	264,200	285,499	142,950	303,946	183,687	**3,332,949**
Net Claims Incurred	49,364	167,654	532,259	125,416	60,129	196,040	243,276	136,060	206,900	167,930	115,187	241,252	118,072	**2,359,539**
Management Costs	33,978	28,350	84,943	25,556	14,435	81,542	89,516	44,720	43,600	43,337	26,535	44,874	36,519	**597,905**
	83,342	196,004	617,202	150,972	74,564	277,582	332,792	180,780	250,500	211,267	141,722	286,126	154,591	**2,957,444**
Underwriting Surplus/(Deficit)	(1,966)	(1,395)	110,668	14,057	12,838	83,471	20,525	1,231	13,700	74,232	1,228	17,820	29,096	**375,505**
Investment Income Less Tax	(224)	(23,476)	(62,560)	(10,290)	(9,545)	(7,175)	(7,491)	(22,126)	(3,800)	(10,098)	(2,288)	(19,045)	3,824	**(174,294)**
Surplus/(Deficit)	**(2,190)**	**(24,871)**	**48,108**	**3,767**	**3,293**	**76,296**	**13,034**	**(20,895)**	**9,900**	**64,134**	**(1,060)**	**(1,225)**	**32,920**	**201,211**
Balance Sheet														
Investments	227,020	1,071,938	2,094,405	314,755	315,527	799,498	696,869	526,610	750,400	788,363	349,372	1,078,944	400,150	**9,413,851**
Cash	13,572	107,981	112,799	211,363	52,164	284,539	176,085	109,326	114,800	241,233	44,146	87,242	192,647	**1,747,897**
Debtors	33,969	146,131	300,541	17,750	12,815	90,369	35,083	48,497	130,400	33,826	55,722	116,313	53,422	**1,074,838**
Other Assets	139		33,849	40,408	17,502	44,669	10,564	9,004	36,900	14,551	11,392		69,935	**288,913**
Total Assets	**274,700**	**1,326,050**	**2,541,594**	**584,276**	**398,008**	**1,219,075**	**918,601**	**693,437**	**1,032,500**	**1,077,973**	**460,632**	**1,282,499**	**716,154**	**12,525,499**
Outstanding Claims	172,572	781,618	1,245,249	278,459	224,566	622,487	511,526	325,283	582,700	613,022	192,181	701,342	403,505	**6,654,510**
Creditors	45,717	31,736	279,186	118,687	12,735	168,187	58,847	88,776	59,700	24,630	85,377	34,244	35,988	**1,043,810**
Total Liabilities	218,289	813,354	1,524,435	397,146	237,301	790,674	570,373	414,059	642,400	637,652	277,558	735,586	439,493	**7,698,320**
Free Reserves	**56,411**	**512,696**	**1,017,159**	**187,130**	**160,707**	**428,401**	**348,228**	**279,378**	**390,100**	**440,321**	**183,074**	**546,913**	**276,661**	**4,827,179**
Key Performance Indicators														
S&P Rating	BBB-	A	A+	BBB+	BBB	A	A	A-	A	A	BBB+	A	BBB+	
Combined Ratio	102%	101%	85%	91%	85%	77%	94%	99%	95%	74%	99%	94%	84%	**89%**
Investment Return	0.3%	-2.5%	-3.0%	1.4%	-2.5%	-1.0%	-1.6%	-3.0%	-0.9%	-0.9%	-1.6%	-1.0%	-0.8%	**-1.3%**
General Increase	2.5%	2.5%	2.5%	3.0%	5.0%	2.5%	N/A	0%	2.5%	0%	0%	2.5%	0%	**2.3%**
Solvency	133%	166%	182%	167%	172%	169%	168%	186%	167%	172%	195%	178%	169%	**173%**
Net Premium Adjustments	-13.7%	-1.0%	-9.8%	-6.9%	0.6%	4.4%	1.6%	-13.8%	0.8%	-3.7%	2.5%	-4.7%	4.3%	**-3.7%**
Free Reserves Adjustments	-3.7%	-6.0%	5.0%	8.6%	2.1%	26.7%	0.2%	-7.0%	2.6%	17.0%	-0.6%	-0.2%	13.5%	**4.4%**
Incurred Claims	-25.2%	7.3%	-15.6%	-19.4%	-42.3%	-35.9%	-6.1%	-6.5%	-11.5%	-10.5%	23.7%	-16.8%	-13.4%	**-14.7%**
AER (Average Expense Ratio)	24.2%	9.1%	11.8%	5.2%	9.52%	12.4%	12.8%	21.0%	12.2%	12.1%	13.3%	10.17%	15.5%	**13.0%**
Increase in GT	-5.9%	-1.9%	5.8%	-1.1%	0.0%	3.2%	5.4%	4.2%	2.0%	5.4%	4.8%	6.3%	7.5%	**3.4%**
Average net PR per GT	$5.09	$1.84	$3.64	$1.79	$1.99	$2.76	$4.53	$7.28	$2.57	$3.66	$3.25	$2.25	$2.55	**$2.97**
Free Reserves per GT	$3.53	$4.84	$5.09	$2.03	$3.65	$3.27	$4.46	$11.18	$3.79	$5.65	$4.16	$4.05	$3.84	**$4.29**
Surplus /(Deficit) (mil)	-$2.19	-$24.87	$48.11	$3.77	$3.29	76.3	$13.03	-$20.90	$9.90	$64.13	-$1.06	-$1.23	$32.92	**$201.20**
Tonnage (mil)	16	106	200	92	44	131	78	25	103	78	44	135	72	**1124**

General Increase Percentages 2003-2016

Policy Year	American	Britannia	Gard	Japan	London	North	Skuld	SOP	Standard	Steamship	Swedish	UK	West	Average%
2003	17.5	15	15	10	15	25	25	15	25	25	25	25	25	**20**
2004	25	8.5	7.5	0	7.5	17.5	15	0	20	20	15	17.5	15	**13**
2005	10	7.5	5	0	5	12.5	7.5	0	12.5	12.5	10	12.5	12.5	**8**
2006	10	5	7.5	0	7.5	7.5	5	0	5	5	10	12.5	12.5	**7**
2007	10	5	5	10	5	7.5	2.5	5	5	9	7.5	7.5	5	**6**
2008	20	15	10	20	10	17.5	7.5	*Non Declared	15	15	15	17.5	15	**15**
2009	7.5	12.5	15	12.5	15	17.5	15	10	15	17.5	15	20	10	**14**
2010	0	5	0	12.5	0	5	5	5	3	5	2.5	5	5	**4**
2011	12	5	0	10	0	3	*Non Declared	0	3.5	0	2.5	5	5	**4**
2012	5	5	5	3	5	5	*Non Declared	0	5	5	5	3	5	**4**
2013	10	12.5	5	5	12.5	15	*Non Declared	5	7.5	7.5	7.5	7.5	7.5	**9**
2014	10	2.5	5	7.5	10	7.5	*Non Declared	5	12.5	10	7.5	10	7.5	**8**
2015	4.5	2.5	2.5	3	6	4.8	*Non Declared	0	5	0	2.5	6.5	2.5	**3**
2016	2.5	2.5	2.5	3	5	2.5	*Non Declared	0	2.5	0	0	2.5	0	**2**

* 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 / Release Requirement

Policy Year	American	Britannia	Gard	Japan	London	North	Skuld	SOP	Standard	Steamship	Swedish	UK	West
2003	20/56	40/40	25/25	20/10	40/40	0/0	0/0	25/0	0/0	0/0	0/0	0/0	20/20
2004	0/0	40/30	25/25	30/30	40/40	0/0	0/0	25/0	0/0	0/0	0/0	0/0	20/35
2005	0/30	40/30	25/20	30/30	40/40	0/0	0/0	25/0	0/0	0/0	0/0	0/0	20/35
2006	0/35	30/30	25/20	30/60	40/89	0/0	0/0	25/0	0/0	0/12.5	0/35	0/20	20/55
2007	0/25	30/30	25/25	30/30	40/89	0/0	0/0	25/0	0/0	0/14	0/35	0/25	20/55
2008	0/25	40/40	25/25	30/30	40/75	0/0	0/0	25/0	0/0	0/20	0/0	0/20	20/65
2009	20/20	40/32.5	25/10	40/40	40/40	0/0	0/0	25/0	0/0	0/0	0/0	0/0	30/30
2010	25/25	40/40	25/15	40/50	0/0	0/0	0/0	25/0	0/0	0/0	0/0	0/0	30/30
2011	25/25	40/40	25/20	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/-2.5	30/30
2012	0/0	40/40	25/15	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	30/30
2013	0/0	45 45 0	25 15 0	40 40 5	0 0 5	0 0 0	0 0 0	0/0	0/0	0/0	0/0	0/0	35/35
2014	0 0 12.5	45 37.5 5	25 25 5	40 40 5	0 0 12.5	0 0 5	0 0 0	0 0 0	0 0 2	0 0 0	0 0 7.5	0 -2.5 0	35 35 0
2015	0 0 15	45 45 7.5	25 15 15	40 40 5	0 0 15	0 0 5	0 0 5	0 0 0	0 0 3	0 0 2.5	0 0 10	0 0 10	35 35 10
2016	0 0 20	45 45 15	25 25 20	40 40 5	0 0 15	0 0 15	0 0 10	0 0 0	0 0 7	0 0 12.5	0 0 15	0 0 15	35 35 20

Closed Years

Open Years

Original Current Release

SECTION THREE
Individual Club Spotlights, 2016

AMERICAN CLUB

Overview

- The members of the American Club have experienced difficult trading conditions, which are reflected in the Club's results. The entered tonnage has remained unchanged, but there has been a significant reduction in the net premium income, which has resulted in an underwriting deficit, despite lower claims.
- The investment return was marginally positive before tax, but a loss after tax and the overall deficit was $2m.

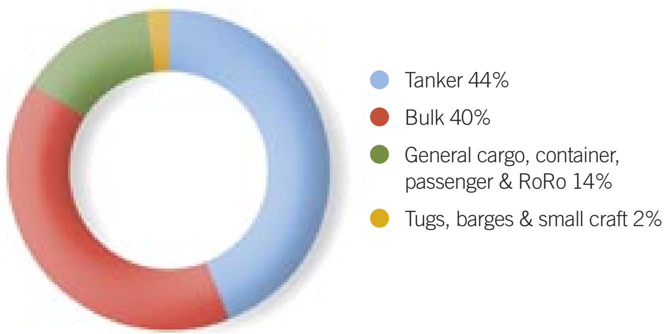
Key Performance Indicators

		2016	2015	2014
S&P Rating		BBB-	BBB-	BBB-
Combined Ratio	%	102	107	112
Investment Return	%	0.3	4.0	6.7
General Increase at Renewal	%	2.5	10	10
Solvency	%	133	132	131
Net Premiums Adjustments	%	-13.7	5.4	-4.5
Free Reserves Adjustments	%	-3.7	2.2	5.7
Incurred Claims	%	-25.2	1.4	-21.9
AER (Average Expense Ratio)	%	24.2	21.6	19.3
Increase in GT	%	-5.9	6.3	0.0
Average net PR per GT	$	5.09	5.54	5.59
Free Reserves per GT	$	3.53	3.45	3.58
Surplus /(Deficit) (mil)	$	-2.19	1.26	3.12
Gross Owned Tonnage	mil	16	17	16

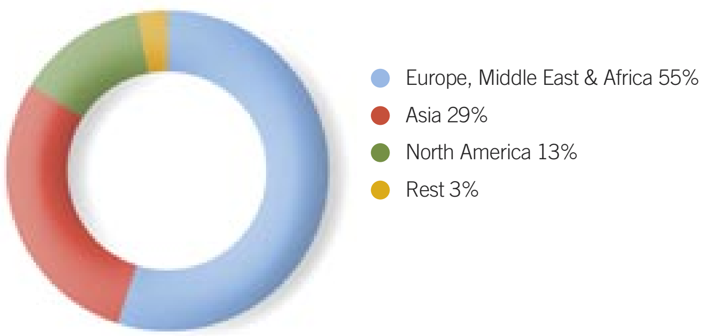
Underwriting

- The net premium income dropped by 14% despite the relatively unchanged entered tonnage, reflecting the poor trading conditions particularly for the Club's bulk carrier operators. The net premium income is at the lowest level since 2003, but fortunately it was also accompanied by the lowest level of incurred claims since 2002.
- The expected cost of claims for 2015 after 12 months is estimated at $45m, compared to $62m after 12 months for the 2014 policy year.
- 98% of the claims had individual values below $250,000. Cargo and personal injury claims accounted for approximately 60% of the 2015 total claims value.
- Collision claims fell from 63 last year to 46 this year and their average cost also fell.
- Club management costs consumed over 40% of the net premium income, which should be a matter of concern. The Club has commenced a diversification programme to increase their income.
- In 2011 the Club took a share in the underlying cover of Eagle Ocean Marine - a small vessel P&I and FD&D insurer for vessels trading outside the USA. This year the Club increased its exposure from 20% to 50% of the first $10m of any claim - supported by a quota share reinsurance at Lloyd's. The Club also created a new Hull and Machinery facility - American Hellenic Hull, which will takeover business previously underwritten by the Hellenic Hull Club.

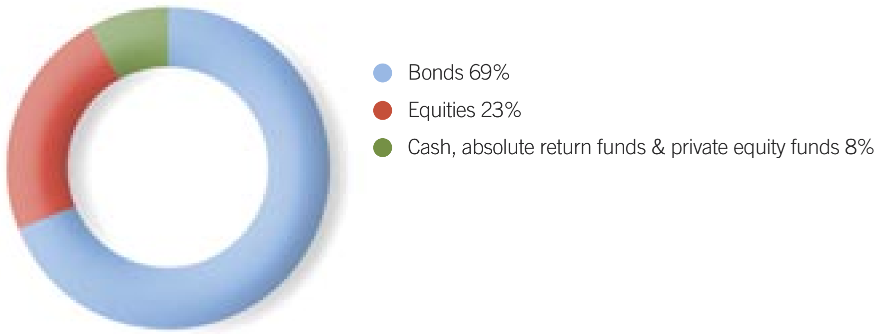
Members' tonnage by vessel type



Members' tonnage by management domicile



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**81,376**	94,245	89,378
Net claims incurred	**49,364**	65,962	65,064
Management costs	**33,978**	34,795	35,250
	83,342	100,757	100,314
Underwriting surplus/(deficit)	**(1,966)**	(6,512)	(10,936)
Investment income less tax	**(224)**	7,768	14,051
Surplus/Deficit	**(2,190)**	1,256	3,115
Balance Sheet			
Investments	**227,020**	239,547	238,825
Cash	**13,572**	14,983	19,805
Debtors	**33,969**	28,572	27,870
Other assets	**139**	194	258
Total Assets	**274,700**	283,296	286,758
Outstanding Claims	**172,572**	184,856	183,591
Creditors	**45,717**	39,840	45,823
Total liabilities	**218,289**	224,696	229,414
Free Reserves	**56,411**	58,600	57,344

Investments

- The Club is one of only a few this year that reported a positive investment return (0.28% before tax), but a small loss after tax. The losses on the (23%) equity exposure were off-set by gains on the (69%) bond holdings.
- The Club arranged a 'private placement' of $19.5m to redeem earlier borrowings and provide working capital for their new American Hellenic Hull facility.

Outlook

- The Club reported a small deficit, although the solvency margin and capital ratios have remained unchanged and the Club still achieves an investment grade credit rating.
- The current level of management costs are over 40% of the net premium income which is the highest in the IG and over twice the average.
- Issues were exacerbated by the difficulties facing the bulk carrier members, who account for approx. 40% of the entered tonnage and 25% of the net premium income of the Club. To sustain the current level of costs the Club needs to increase its volume of business, which explains the investments in Eagle Ocean Marine and their new hull venture.
- American Hellenic Hull (registered in Cyprus) will takeover clients insured by Hellenic Hull Insurance, although they will continue to be responsible for the day to day management for the new owners.
- The Club will celebrate its centenary in 2017 and is currently enjoying one of its more settled periods with an S&P BBB- credit rating, although the solvency margin and capital ratios remained the weakest in the IG. The new businesses will need to be successful to assist with underlying financial issues.

Summary

- Overall loss $2m
- Investment Return +0.28%
- Management Expense ratio 40%
- S&P Rating BBB-
- New Greek Hull Venture

BRITANNIA

Overview

- Britannia has had a difficult year, experiencing rising claims and falling investment income. This resulted in a deficit of $25m for the Club and $8m for Boudicca, their private trust, bringing about a total reduction in free reserves of $33m.
- In contrast to other Clubs in the IG, Britannia experienced an increase in claims across the board but like other Clubs suffered a poor investment year. Their underwriting surplus fell from $14m last year to a deficit of $1m this year and there was a $23m investment loss.

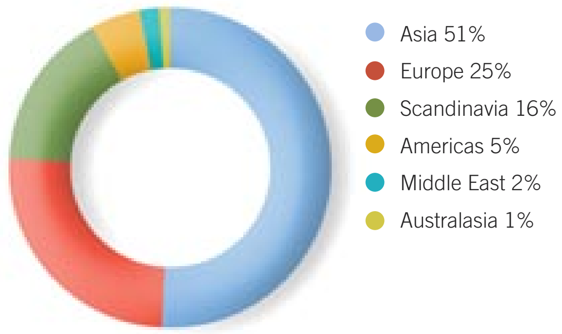
Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A	A
Combined Ratio	%	**101**	93	111
Investment Return	%	**-2.5**	0.4	4.8
General Increase at Renewal	%	**2.5**	2.5	2.5
Solvency	%	**166**	168	158
Net Premiums Adjustments	%	**-1.0**	-6.1	-7.9
Free Reserves Adjustments	%	**-6.0**	15.6	7.7
Incurred Claims	%	**7.3**	-23.2	1.5
AER (Average Expense Ratio)	%	**9.1**	8.4	8.0
Increase in GT	%	**-1.9**	0.0	-4.4
Average net PR per GT	$	**1.84**	1.82	1.94
Free Reserves per GT	$	**4.84**	5.05	4.37
Surplus /(Deficit) (mil)	$	**-24.9**	18.3	26.2
Gross Owned Tonnage	mil	**106**	108	108

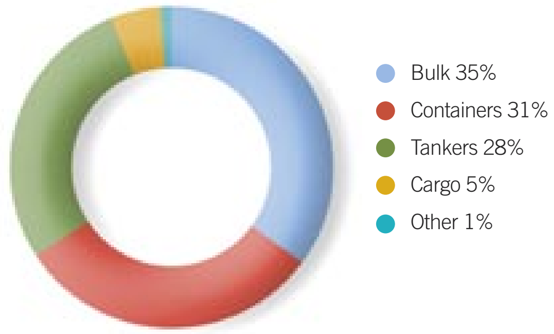
Underwriting

- The Club reported a $35m surplus on underwriting after a transfer from reserves, which would otherwise have had a $1m deficit. In a year which saw most other Clubs' underwriting improve, Britannia may be the exception, experiencing an increase in the number of claims over $1m from 15 in 2014 to 20 in 2015. This included 2 International Group Pool claims, 1 of which - "Alpine Eternity" may prove to be the most expensive claim of that year. The cost of large claims rose in the year from $59m in 2014 to $84m in 2015.
- Claims below $1m were also higher in number and aggregate value than those in 2014 at the same stage. There were 5,079 claims below $1m in 2015, compared to 4,766 in 2014 - an increase of 6.6% in number and 13.8% in value. The current overall level of claims is however below the peaks of 2012 and 2013.
- The deterioration in current year claims has fortunately been offset by the almost unprecedented improvement in the total expected cost of claims on earlier policy years. The Club adopts a very conservative policy of reserving outstanding claims, which is on the basis of the "highest reasonable likely outcome" and has led to a $66m over-reserving of outstanding claims for previous policy years.

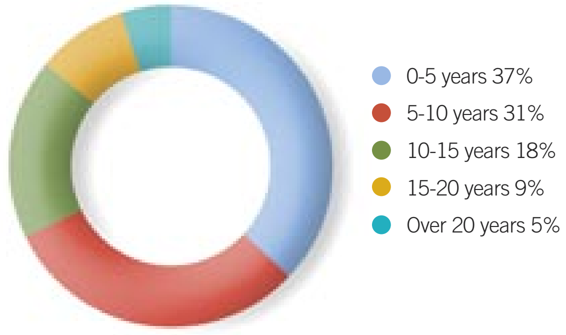
Entered tonnage by management area



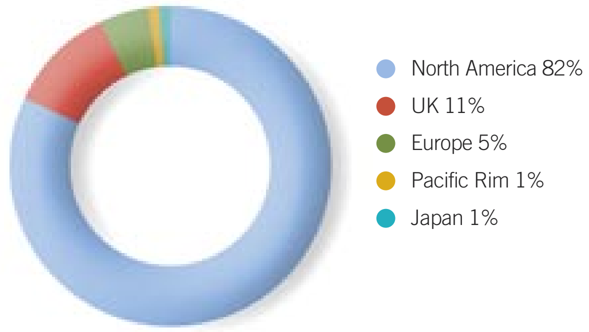
Tonnage by ship type



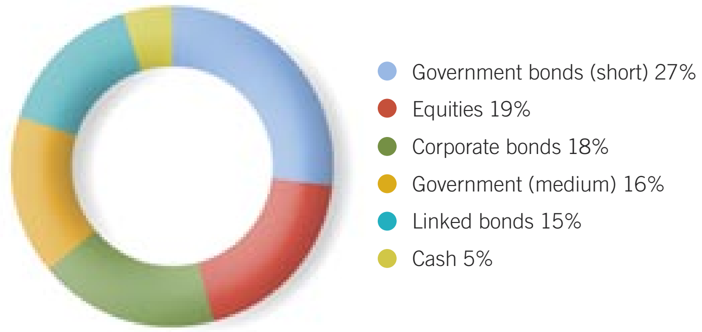
Age of ship



Currency allocation



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**194,609**	196,535	209,301
Net claims incurred	**167,654**	156,241	203,516
Management costs	**28,350**	26,767	28,583
	196,004	183,008	232,099
Underwriting surplus/(deficit)	**(1,395)**	13,527	(22,798)
Investment income less tax	**(23,476)**	4,742	48,979
Surplus/Deficit	**(24,871)**	18,269	26,181

Balance Sheet			
Investments (inc Boudicca)	**1,071,938**	1,093,406	1,042,379
Cash	**107,981**	159,921	149,070
Debtors	**146,131**	113,552	117,760
Other assets			
Total Assets	**1,326,050**	1,366,879	1,309,209
Outstanding Claims	**781,618**	796,938	813,307
Creditors	**31,736**	24,374	24,004
Total liabilities	**813,354**	821,312	837,311
Free Reserves	**512,696**	545,567	471,898

Investments

- Like most other Clubs, Britannia's investment managers had a difficult year and despite an asset allocation of over 75% bonds and only a small non-dollar exposure, the losses totalled $23m - a negative return of 2.5%.
- The issue centred around their small equity exposure, which lost 11.8% of its value, compared with only a small loss on the corporate bonds and a nil return on government bonds.

Outlook

- Britannia and the UK Club were in merger discussions but these have foundered. Britannia's funds would have assisted significantly in a merged group.
- Britannia has adopted a conservative approach in attracting new P&I members and the FDD class entry has halved in number of ships since 2013. The Club is well run with very strong reserves and adopts a very conservative approach generally, suggesting that their reserves for outstanding claims may well contain significant provisions/over-estimations - perhaps in the order of $100m, which may well be released in the future - particularly now that current proposed merger has not succeeded.
- There is potentially an underlying trend in the growth of large claims, but with an interactive S&P "A" credit rating and with some of the largest free reserves in the IG, the Club is now well placed to commence an expansion policy!

Summary

- Merger talks with UK Club failed
- S&P "A" Credit Rating
- Difficult Underwriting Year
- Investment Return -2.5 %
- Very strong free reserves $512m
- Potentially significant surpluses in claims reserves for earlier policy years.

GARD

Overview

- The "behemoth" of the IG has broken through the $1bn free reserves barrier, despite investment losses, with a much improved underwriting result.
- Against a poor background of trading conditions for many of the P&I and Marine and Energy members, the Club has been able to increase its underwriting surplus, with a reduction in management costs and a $17m surplus on its pension fund revaluation.

Key Performance Indicators

		2016	2015	2014
S&P Rating		**A+**	A+	A+
Combined Ratio	%	**85**	97	104
Investment Return	%	**-3.0**	1.8	4.3
General Increase at Renewal	%	**2.5**	2.5	5
Solvency	%	**182**	177	178
Net Premiums Adjustments	%	**-9.8**	10.6	7.0
Free Reserves Adjustments	%	**5.0**	2.6	5.5
Incurred Claims	%	**-15.6**	-1.9	7.1
AER (Average Expense Ratio)	%	**11.8**	11.4	11.3
Increase in GT	%	**5.8**	1.1	6.9
Average net PR per GT	$	**3.64**	4.27	3.90
Free Reserves per GT	$	**5.09**	5.13	5.05
Surplus /(Deficit) (mil)	$	**48.1**	49.48	49.33
Gross Tonnage (owned)	mil	**200**	189	187

Underwriting

- The net premium income fell by 10% as a result of the weak market for many P&I Members, particularly those operating bulk carriers who have been hit by a slowdown in the Chinese economy.
- The Energy sector was also particularly hard hit as a result of lower oil prices and a serious contraction in exploration activities.
- There was a seventh consecutive reduction (10%) in the deferred call, but with a lower claims environment and assisted by significant improvements in earlier policy years. The P&I class surplus, (before management costs) rose from $64m to $119m.
- The Marine & Energy sector was less fortunate with a 17% reduction in net income and a similar level of claims to that of last year. This led to a 40% reduction in the pre management expenses surplus to $76m.
- The lower level of premiums led to a lower level of brokerage and commission costs and the beneficial change in the pension fund assumptions reduced total expenses by $63m when compared to a year earlier.
- There was a reduction in net claims with fewer serious pollution claims, particularly among tankers. Wreck Removal claims continued to grow in terms of cost and complexity.

Entered owners' GT split by vessel type

Entered owners' GT split by domicile of tonnage

Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**727,870**	806,598	729,268
Net claims incurred	**532,259**	630,893	643,003
Management costs	**84,943**	147,774	111,899
	617,202	778,667	754,902
Underwriting surplus/(deficit)	**110,668**	27,931	(25,634)
Investment income less tax	**(62,560)**	21,550	74,966
Surplus/Deficit	**48,108**	49,481	49,332
Balance Sheet			
Investments	**2,094,405**	2,048,903	1,911,415
Cash	**112,799**	137,367	207,281
Debtors	**300,541**	338,477	289,716
Other assets	**33,849**	39,003	46,951
Total Assets	**2,541,594**	2,563,750	2,455,363
Outstanding Claims	**1,245,249**	1,250,883	1,215,860
Creditors	**279,186**	343,814	294,917
Total liabilities	**1,524,435**	1,594,697	1,510,777
Free Reserves	**1,017,159**	969,053	944,586

Investments

- There was no investment report, but it seems evident that Gard adopted a high risk policy, which has not been successful for the last 2 financial years.
- The equity and investment fund exposure at the end of the year was around 40%, which may have been the norm 10 years ago, but in this risk capital based era of Solvency II, such exposures attract attention, not only from regulators, but also ratings agencies as they are generally considered high risk, attracting higher risk weighted capital requirements.
- The capital values of the investments generally fared badly during the year resulting in an investment loss of $63m (approx. minus 3%).

Outlook

- The Chairman rebuffed suggestions that the Club is over reserved (and therefore should reduce premiums to aid members). However, it was reaffirmed that the members' best interests are served within a financially secure Club.
- The Club's risk based capital ratios are in line with other Clubs, but only because of their significant equity exposure. A concern may be that the "ratings and regulatory environment" tend to make managers more risk averse, especially when reserving for outstanding claims thus resulting in outstanding claims being over-reserved.
- The Club is the largest in the International Group both in terms of GT and free reserves and the only Club with an S&P A+ credit rating - which is largely due to its multi-line portfolio.

Summary

- S&P A+ rating
- Free reserves $1bn
- High risk investment strategy
- Negative investment return (-3%)
- $48m surplus for the year
- Reduced deferred call

JAPAN

Overview

- The Japan Club has had another steady year, but once again the results are clouded by the movements in the foreign exchange markets. In US dollars there was a $14m underwriting surplus as a result of a reduction in the frequency and cost of claims. This surplus was reduced by investment losses of $10m emanating from the currency translation losses on US dollar investments - as the Yen appreciated against the Dollar.

Underwriting

- The underwriters had a successful year, mirroring that of many other Clubs. The premium income fell by 7% as a result of the lower value of the dollar income and a reduction in the supplementary call requirement for the 2014 policy year from 40% to 20%, which cost an estimated $32m.

- The number of claims for ocean-going vessels has been gradually decreasing over the last 5 years, with cargo and crew claims (unsurprisingly) remaining the most frequent. Cargo claims accounted for between 49% and 60 % of all claims in the last 5 years and crew claims accounted for circa 30%.

- The Club has around 120 major claims a year, which accounted for up to 38% of the total cost of incurred claims. Just 5% of the claims are over $100k but accounted for more than 80% of the total claims cost. The small coastal class has seen a stable claims level, but is now seeing a growing trend of larger more expensive claims.

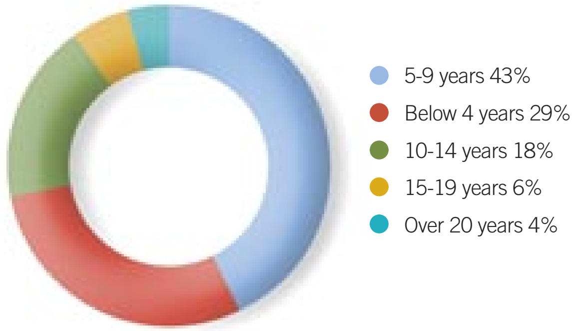
- The open policy years are all in surplus, except for 2015 policy year on which a supplementary call of 40% is anticipated but not included in the financial statements. This will add $70m to the free reserves. However in the current benign claims environment, it was likely that the supplementary call will be reduced to perhaps 20% or $35m, which should still leave the policy year in surplus.

- The Club purchases additional reinsurance for coastal vessels, charterers, FD&D and claims within the Club's retention.

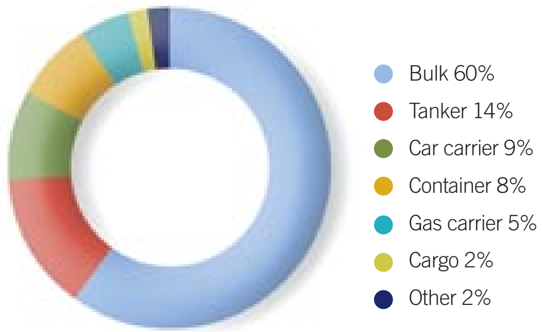
Key Performance Indicators

		2016	2015	2014
S&P Rating		**BBB+**	BBB+	BBB+
Combined Ratio	%	**91**	100	106
Investment Return	%	**1.4**	2.6	2.6
General Increase at Renewal	%	**3.0**	3.0	7.5
Solvency	%	**167**	167	157
Net Premiums Adjustments	%	**-6.9**	-2.3	1.4
Free Reserves Adjustments	%	**8.6**	10.5	-1.0
Incurred Claims	%	**-19.4**	-7.7	-4.2
AER (Average Expense Ratio)	%	**5.2**	5.3	5.7
Increase in GT	%	**-1.1**	0.0	1.1
Average net PR per GT	$	**1.79**	1.91	1.95
Free Reserves per GT	$	**2.03**	1.85	1.68
Surplus /(Deficit) (mil)	$	**3.77**	36.88	14.94
Gross Owned Tonnage	mil	**92**	93	93

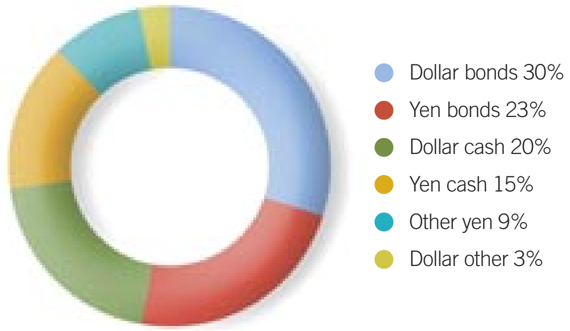
Entered tonnage by age



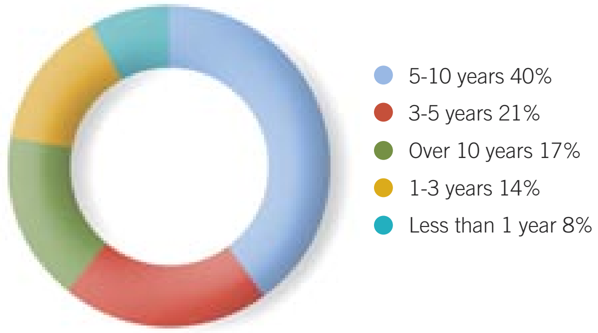
Entered tonnage by vessel type



Asset allocation



Maturities of securities



Revenue Statement			
US$000's	2016	2015	2014
Net premiums	**165,029**	177,337	181,474
Net claims incurred	**125,416**	155,635	168,548
Management costs	**25,556**	21,488	24,125
	150,972	177,123	192,673
Underwriting surplus/(deficit)	**14,057**	214	(11,199)
Investment income less tax	**(10,290)**	36,664	26,143
Surplus/Deficit	**3,767**	36,878	14,944

Balance Sheet			
Investments	**314,755**	327,154	337,205
Cash	**211,363**	172,107	168,777
Debtors	**17,750**	23,556	15,169
Other assets	**40,408**	34,529	40,496
Total Assets	**584,276**	557,346	561,647
Outstanding Claims	**278,459**	255,933	273,267
Creditors	**118,687**	129,043	132,368
Total liabilities	**397,146**	384,976	405,635
Free Reserves	**187,130**	172,370	156,012

Investments

- The Club's performance has once again been hit by the Japanese government's economic policies of quantitative easing and negative interest rates, which is designed to weaken the Yen and stimulate economic growth. Unfortunately the Yen strengthened, leaving the Club with currency translation losses of $19m and overall investment losses of $10m and there has been no sign of growth. The reported investment income is 1.44%, the highest in the group.

Outlook

- The Club reported its 9th consecutive surplus, doubling their free reserves since 2007. This has come about as a result of their claims being consistently lower than any other Club of a comparable size - likely due to the Club's tonnage profile, which is almost exclusively Japanese.
- The Club has an office in Singapore, but only 4.5% of its tonnage is Singapore registered and only 3% registered in Korea and Hong Kong. This illustrates the difficulty the Club is having in attracting overseas business and may well account for the fact that the tonnage has not risen since 2010.
- S&P recently reaffirmed the Club's BBB+ credit rating, reflecting their experience and expertise and their dominant position in their local market…. but did report a lack of leadership and innovation.
- The free reserves included a $29m deferred tax asset, which was of questionable value given that the reserve only ever seems to increase and the Club pays very little tax. However the free reserves did not include the 2015 supplementary call which is estimated at $70m, subject to a possible future reduction, and would improve their financial position if charged in whole or in part.

Summary

- 9th successive surplus
- Investment return 1.44%
- S&P BBB+ Credit Rating
- Free Reserves doubles since 2007
- Too nationally focused

LONDON

Overview

- London has had an "annus mirabilis" reporting only its second underwriting surplus since 2003, after the incurred claims for the financial year fell by over 40% compared with the record high the previous year. The success was only slightly marred by an investment loss, but there was an overall surplus of $3m.

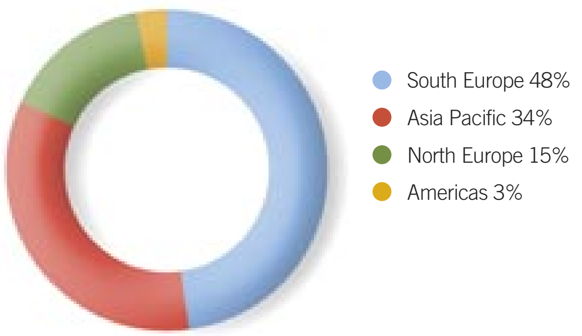
Key Performance Indicators

		2016	2015	2014
S&P Rating		**BBB**	BBB	BBB
Combined Ratio	%	**85**	137	124
Investment Return	%	**-2.5**	5.5	7.0
General Increase at Renewal	%	**5.0**	6.0	10.0
Solvency	%	**172**	165	170
Net Premiums Adjustments	%	**0.6**	0.8	8.0
Free Reserves Adjustments	%	**2.1**	-2.0	4.3
Incurred Claims	%	**-42.3**	12.2	12.4
AER (Average Expense Ratio)	%	**9.52**	8.80	8.36
Increase in GT	%	**0.0**	2.3	-4.4
Average net PR per GT	$	**1.99**	1.97	2.00
Free Reserves per GT	$	**3.65**	3.58	3.74
Surplus /(Deficit) (mil)	$	**3.3**	-3.2	6.6
Gross Owned Tonnage	mil	**44**	44	43

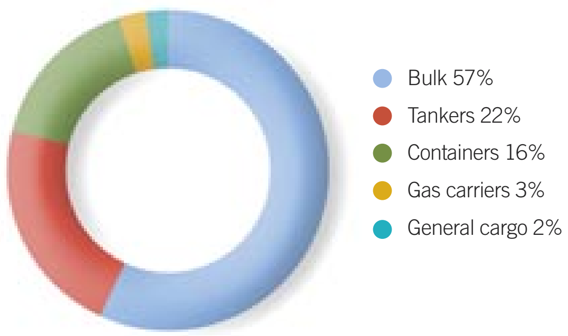
Underwriting

- After years of struggling with the underwriting, London has finally reported a surplus, without the need for any additional unplanned supplementary calls. Last year the combined ratio of the Club was an astronomical 137% - by far the highest in the IG, but this year it has fallen to a lowly 85%.
- There are a number of reasons for this enormous improvement, ranging from the initiatives taken by the Club to the benign claims period. The Club made a number of changes to their deductibles policy which will have undoubtedly reduced the number of attritional claims. The tough trading conditions for bulk carrier owners, who account for over 50% of the Club's entered tonnage, will also have led to lower claims.
- The Club experienced a reduction in the frequency and severity of both large and small claims. The number of claims costing over $1m dropped from 14 in the 2014 policy year to just 4 in 2015.
- The number and cost of collision claims in 2015 was comparable to 2014, but the number of FFO claims fell from 105 to 85 and the expected cost fell from over $40m to less than $10m. The cost of attritional claims also fell and IG pool claims were lower and there were also improvements on earlier policy year claims estimates.
- The Club's Combined Single Limit (CSL) Charterers Cover attracted new members during the year and the Club has also started underwriting small vessels - a highly competitive market, but the initial signs are encouraging.

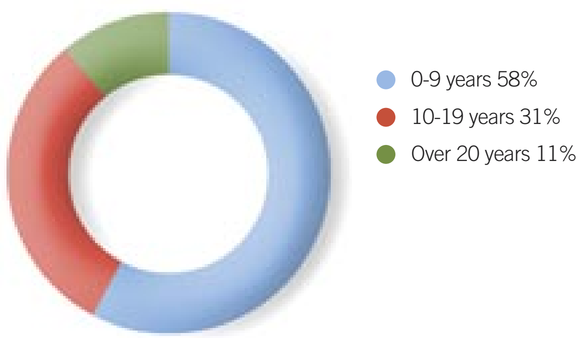
Regional spread of members



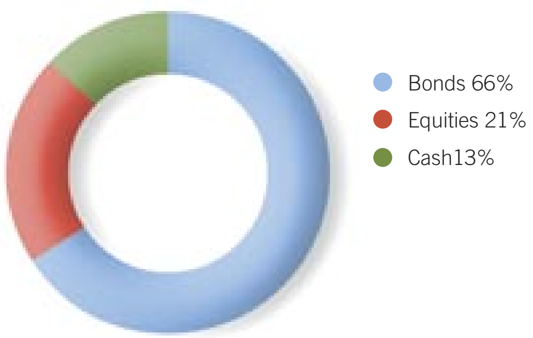
Ship types



Vessel age



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**87,402**	86,845	86,141
Net claims incurred	**60,129**	104,277	92,956
Management costs	**14,435**	14,919	14,020
	74,564	119,196	106,976
Underwriting surplus/(deficit)	**12,838**	(32,351)	(20,835)
Investment income less tax	**(9,545)**	29,121	27,450
Surplus/Deficit	**3,293**	(3,230)	6,615
Balance Sheet			
Investments	**315,527**	338,279	330,325
Cash	**52,164**	42,745	46,511
Debtors	**12,815**	11,189	13,257
Other assets	**17,502**	18,872	10,420
Total Assets	**398,008**	411,085	400,513
Outstanding Claims	**224,566**	240,704	230,851
Creditors	**12,735**	12,967	9,018
Total liabilities	**237,301**	253,671	239,869
Free Reserves	**160,707**	157,414	160,644

Investments

- The loss on investments was the first since the financial crisis in 2008 and similar to most other Clubs. The asset allocation of just 20% equities is relatively conservative, but there were no details of the currency exposure or the nature of the bond investments.

Outlook

- At the start of the year there was a structural reorganisation as the Bermuda Company became a wholly owned subsidiary of London (UK), in order to align itself with the new EU insurance regulations. The Club now produces consolidated financial statements to UK accounting standards, rather than combined accounts.
- The current underwriting results were a major achievement and will hopefully be sustainable and put the Club on a steady long term path of underwriting stability, something which has been rather elusive in the past.
- In earlier years it has been left to the investment managers to make up any shortfalls, but in the current economic environment this may no longer be possible.
- The Club is one of the smallest in the Group in terms of both premium income and free reserves, which has enabled it to get exemption from some of the more onerous Solvency II quarterly reporting requirements.
- The Club is relatively well reserved with a good solvency ratio and an S&P BBB credit rating. Provided it is able to maintain its current underwriting performance their future should be secure.

Summary

- First underwriting surplus since 2009
- Investment loss $9m
- Overall surplus $3m
- S&P BBB Rating
- Good solvency ratio 172%

NORTH OF ENGLAND

Overview

- The North of England has had a very good year - reporting the best surplus in our review of the IG Clubs by adding over 25% to their free reserves. With a slightly higher premium income the Club benefitted from the benign claims environment that the Pandi clubs are generally experiencing, which has seen their incurred claims for the year fall by over 40%, delivering an underwriting surplus of $83m, compared to a deficit of $32m last year.
- The investment return was negative, but the deficit on the pension scheme fell by $14m to give an overall surplus of $90m, compared to $26m a year earlier.

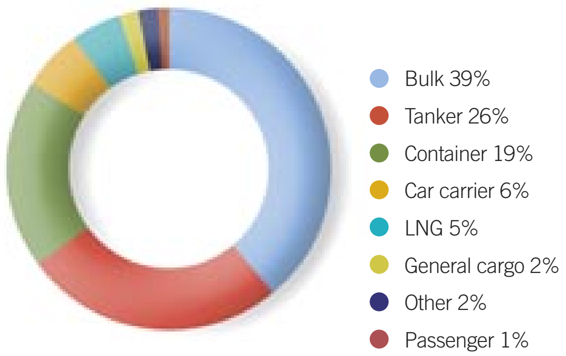
Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A	A
Combined Ratio	%	**77**	110	93
Investment Return	%	**-1.0**	4.3	1.9
General Increase at Renewal	%	**2.5**	4.8	7.5
Solvency	%	**169**	148	150
Net Premiums Adjustments	%	**4.4**	13.2	3.8
Free Reserves Adjustments	%	**26.7**	8.3	0.0
Incurred Claims	%	**-35.9**	32.0	-8.6
AER (Average Expense Ratio)	%	**12.4**	12.4	12.5
Increase in GT	%	**3.2**	-0.8	0.8
Average net PR per GT	$	**2.76**	2.72	2.39
Free Reserves per GT	$	**3.27**	2.66	2.44
Surplus /(Deficit) (mil)	$	**76.3**	53.6	33.5
Gross Owned Tonnage	mil	**131**	127	128

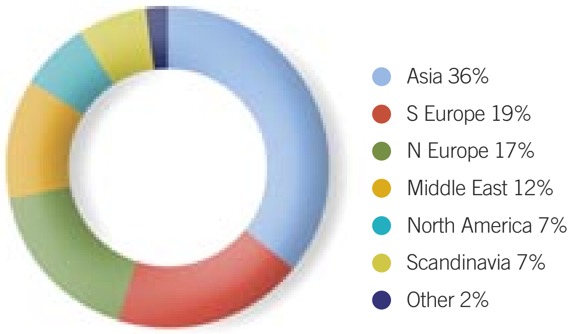
Underwriting

- There has been a transformation in the underwriting performance (like so many Clubs this reporting year) with the combined ratio falling from 110% to 77%. The net premium income rose by 4% after a small increase in the owned tonnage and an additional 10m gt of chartered tonnage.
- The major improvement was in the incurred claims which fell by 36% to $196m from $305m last year. This is the result of improvements in the expected cost of claims on earlier years, but more importantly a reduction in the frequency and cost of claims on the 2015 policy year.
- The number of claims for the 2015 policy year fell by over 1,000 when compared to the 2014 policy year, but the determining factor was the lower number of larger claims over $1m, which fell from 49 in 2014 policy year to just 19 in 2015 policy year. The cost of these large claims fell from $143m in 2014 to $71m in 2015, which is the principal reason for the underwriting improvement.
- The smaller attritional claims also witnessed major improvements, with the number of claims below $1m falling by nearly 1,000 and the expected cost after 12 months coming down from $132m last year to $106m.
- There were underwriting improvements on the earlier policy years of approximately $20m and the Defence class turned in a creditable surplus of $5m, but the recently acquired Sunderland Marine Insurance reported a loss of $1.6m after being hit by over $42m of "Marketing and Acquisition" expenses.

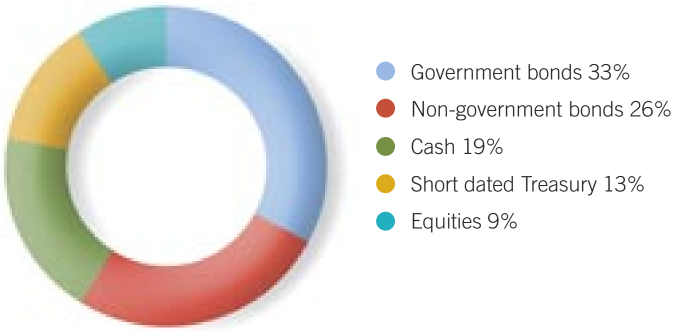
Entered tonnage by ship type



Entered tonnage by geographic region



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**361,053**	345,910	305,649
Net claims incurred	**196,040**	305,808	231,627
Management costs	**81,542**	74,497	53,175
	277,582	380,305	284,802
Underwriting surplus/(deficit)	**83,471**	(34,395)	20,847
Investment income less tax	**(7,175)**	87,965	12,642
Surplus/Deficit	**76,296**	53,570	33,489
Pension gain/(loss)	**14,120**	(27,735)	6,238

Balance Sheet			
Investments	**799,498**	737,837	778,625
Cash	**284,539**	269,343	119,283
Debtors	**90,369**	171,323	98,731
Other assets	**44,669**	49,287	22,697
Total Assets	**1,219,075**	1,227,790	1,019,336
Outstanding Claims	**622,487**	703,265	623,477
Creditors	**168,187**	186,416	83,585
Total liabilities	**790,674**	889,681	707,062
Free Reserves	**428,401**	338,109	312,274

Investments

- North have a very conservative investment policy which paid dividends with a loss of only $7m, considerably below its rivals. The rate of return was not published, but was estimated at around -1% or less. The small equity holdings produced a return of -7.7% and the corporate bonds lost 4.9%, but the larger holding of government bonds made a positive contribution of 1.73%.

Outlook

- The Club has had a most successful year with a surplus of $90m, pushing the free reserves up by over 25% to a record $428m, while cementing 3rd place in the IG tonnage league table and 5th in the free reserves ranking. The result was the direct consequence of the benign claims environment, which has been enjoyed by most other Clubs in our survey, but the key to success will be to consistently deliver this performance!
- Sunderland Marine Insurance, the small vessels and fish farm insurer, has seen a jump in the net premium income of 60%, but the class seems to be handicapped by a high level of management costs which may limit improvements and a positive contribution to the group's performance.
- The Club remains committed to further diversification and has a strategy to explore future mergers and acquisitions and joint ventures, although there were no specific plans noted or any guidance on such initiatives.
- The Club is the 5th to pass the $400m free reserves mark, which together with its 11% market share gives it a strong position in the IG. It also has an S&P A credit rating and a good solvency ratio, which will enable it to progress and commit to any future expansion plans.

Summary

- Best results in the Group
- $90m surplus
- Free reserves up 25%
- Free reserves $428m
- S&P A credit rating

SHIPOWNERS' CLUB

Overview

- Shipowners set the tone with a small underwriting surplus, overshadowed by a loss of $22m on their investments and a 7% drop in free reserves.
- Their financial statements cover an abbreviated 10 month period to 31st December, following the Club change to calendar year reporting, to simplify overseas regulatory reporting. This may give the impression that this year's operating figures have contracted, however the comparative 12 month figures remain largely unchanged.
- The Club has been hit by the strong US dollar, leading to lower premium income and currency losses on investments, culminating in their first deficit for 7 years.

Key Performance Indicators

		2016	2015	2014
S&P Rating		**A-**	A-	A-
Combined Ratio	%	**99**	96	100
Investment Return	%	**-3.0**	-0.9	4.4
General Increase at Renewal	%	**0**	0	5
Solvency	%	**186**	197	193
Net Premiums Adjustments	%	**-13.8**	-0.9	6.5
Free Reserves Adjustments	%	**-7.0**	0.5	8.4
Incurred Claims	%	**-6.5**	-8.2	7.9
AER (Average Expense Ratio)	%	**21.0**	20.0	18.0
Increase in GT	%	**4.2**	0.0	9.1
Average net PR per GT	$	**7.28**	8.80	8.88
Free reserves per GT	$	**11.18**	12.51	12.45
Surplus /(Deficit) (mil)	$	**-20.90**	1.42	23.22
Gross Owned Tonnage	mil	**25**	24	24

Underwriting

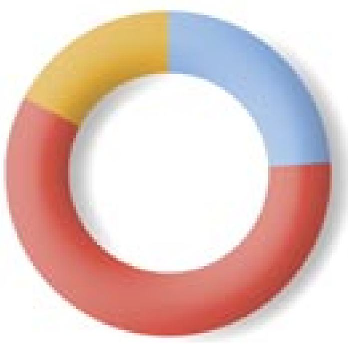
- The Club underwrites in 8 different currencies (including the US dollar) to accommodate many of their smaller vessel Owners, which unfortunately, unlike larger Clubs that underwrite predominantly in US dollars, leave the Club vulnerable to foreign exchange risks. This year the strong dollar undermined the premium income.
- The weak premium income has been exacerbated by the low oil price, which has led to reductions in exploration activities, resulting in less activity for small offshore specialist and supply craft, which account for nearly 30% of the Club's premium income and have been one of the key drivers of growth in recent years.
- Elsewhere tug and barge operators have been hit by the slowdown in China, as exports of minerals and other cargoes have reduced.
- The overall number of vessels entered has remained broadly constant at around 32,000 units, being mostly harbour craft, fishing vessels, dry cargo, offshore, yachts and small tankers. The tonnage increased by 1m to 25m during the year.
- The Club's stop loss reinsurance contract is placed with Swiss Re, Lloyd's and Munich Re.
- The Club has entered into a partnership with Svensk to improve its exposure to the Scandinavian market and set up CTRL Marine Solutions to offer UK legal and technical services. The Club states it has no plans to diversify into unfamiliar areas.
- There was a modest reduction in the frequency of claims - down 3% (a 6.5% drop in the overall cost). Once again it was a small number of large claims which brought the most volatility.
- Claims below $1m remained fairly stable. Volatility occurred in the claims over $1m where the number of claims over $1m rose from 7 to 13 from the period from December 2014 to December 2015.
- The claims in the band of $1m to $5m were the most volatile with 4 claims in 2014, doubling to 8 in 2015, excluding 2 IG pool claims in each year. The high quantum bands were dominated by wreck removal claims which rose in number from 6 in 2014 to 12 in 2015.
- Passenger claims showed the most dramatic increase in cost. Last year there were just 2 claims in excess of $100,000, with no fatalities. This year there were multiple fatalities after the well reported incident of the capsize of a whale watching vessel off the coast of British Columbia.
- The strong dollar did not stop the outstanding claims rising by 5%.

Percentage of vessels by numbers

Tonnage by trade area

Geographic domicile of members

Investment allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**182,011**	211,099	213,051
Net claims incurred	**136,060**	145,493	158,462
Management costs	**44,720**	56,606	54,470
	180,780	202,099	212,932
Underwriting surplus/(deficit)	**1,231**	9,000	119
Investment income less tax	**(22,126)**	(7,582)	23,103
Surplus/Deficit	**(20,895)**	1,418	23,222
Balance Sheet			
Investments	**526,610**	506,894	553,566
Cash	**109,326**	121,633	86,820
Debtors	**48,497**	48,895	39,112
Other assets	**9,004**	6,510	5,456
Total Assets	**693,437**	683,932	684,954
Outstanding Claims	**325,283**	309,856	319,929
Creditors	**88,776**	73,803	66,170
Total liabilities	**414,059**	383,659	386,099
Free Reserves	**279,378**	300,273	298,855

Investments

- There was no separate investment report in the annual review. The investment return for the year was a loss of $22m or a negative return of 3%.
- The strong dollar led to losses on foreign currency investments, while concerns over future interest rates in America pushed bonds lower and equity markets remained weak.

Outlook

- The Club has had a difficult year with many of its markets hit by lower levels of activity emanating from a slowdown in global economic growth, especially in China.
- There are future currency risks to underwriting in a multitude of different currencies and having to match asset holdings with the currencies of outstanding claims.
- The Club has lost 7% of the free reserves, but this is their first deficit for 7 years.
- The Club has an S&P A- credit rating and a strong balance sheet with good solvency and an exceptional level of free reserves for the size of the entered tonnage.
- The Club needs to control better its currency risks and exposure to large claims volatility.
- The current year may also be challenging, but the Club has more than sufficient reserves to manage most foreseeable problems.

Summary

- A strong dollar led to a fall in the underwriting surplus from $8m to $1m.
- A poor investment year delivered a loss of $22m.
- The Club has been hit by large claims and currency exposures.
- Next year may also prove challenging for the Club.
- S&P A-rating. The reserves remain strong.

SKULD

Overview

- Skuld has maintained its enthusiasm for diversification with yet another recent acquisition (May 2016) and turned out another annual underwriting surplus of $20m - the best for a number of years. This was reduced by an investment loss of $7m and there was no increase in the free reserves after the Club addressed a loss of $12m on the pension fund.

Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A	A
Combined Ratio	%	**94**	100	99
Investment Return	%	**-1.6**	1.9	5.4
General Increase at Renewal	%	**N/A***	N/A*	N/A*
Solvency	%	**168**	170	171
Net Premiums Adjustments	%	**1.6**	7.7	16.3
Free Reserves Adjustments	%	**0.2**	3.9	8.5
Incurred Claims	%	**-6.1**	5.5	15.7
AER (Average Expense Ratio)	%	**12.8**	12.9	12.3
Increase in GT	%	**5.4**	-1.3	4.2
Average net PR per GT	$	**4.53**	4.70	4.30
Free Reserves per GT	$	**4.46**	4.70	4.46
Surplus /(Deficit) (mil)	$	**13.0**	13.5	29.1
Gross Owned Tonnage	mil	**78**	74	75

*G.I not publicised – adjustments made depending on members' individual trade type / risk exposure.

Underwriting

- The Club is now underwriting the widest range of products of any IG Club, ranging from mutual and fixed premium P&I, hull and machinery, cargo, terminals, offshore, FD&D, war risks and other covers through their Lloyd's syndicate. As a consequence it is not always possible to determine which parts of the enterprise are making the major contributions or how all the new ventures are performing.

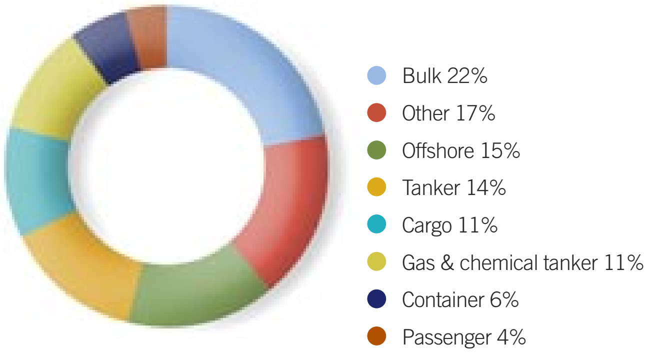
- It is clear that 65% of the net premium income is derived from the P&I business and that this class is contributing most of the surplus. The P&I had a successful year with a lower number of large claims and a reduction in the cost of IG pool claims.

- From the policy year analysis it was possible to determine that there had been major improvements on the two previous open P&I policy years, as the anticipated cost of claims fell by $19m and there was an additional $19m fixed premium income.

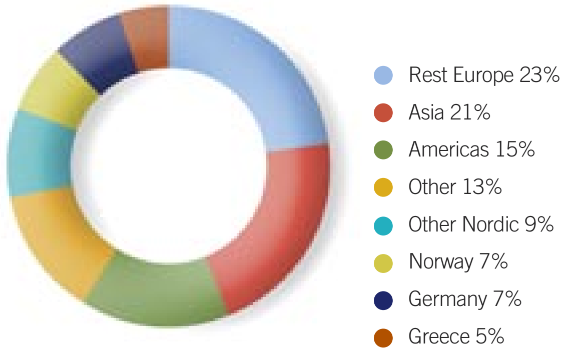
- The fixed premium business has been buoyant, but the Lloyd's syndicate results are still struggling. The Club declared that the syndicate made a profit for the rest of the 2013 Lloyd's policy year, but their financial statements to 20th February, show a small loss of $4m. The volume of the business in the syndicate is rising and the losses falling, but with operating costs of 40% of net premium income, profits are difficult to generate.

- After the year end the Club acquired SMA – Gerling Norway, a local hull insurer covering a share of 6,000 vessels, with an annual premium of $40m, which will further boost the diversification.

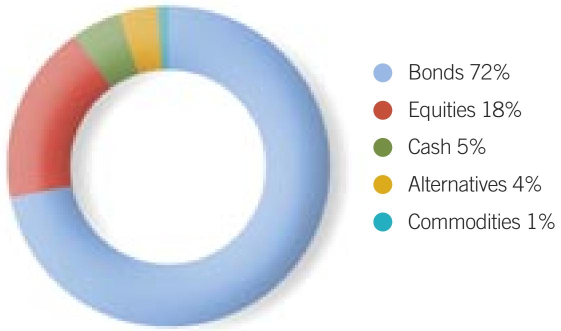
Premium by ship type



Premium by region



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**353,317**	347,624	322,833
Net claims incurred	**243,276**	259,057	245,554
Management costs	**89,516**	89,435	75,148
	332,792	348,492	320,702
Underwriting surplus/(deficit)	**20,525**	(868)	2,131
Investment income less tax	**(7,491)**	14,372	26,925
Surplus/Deficit	**13,034**	13,504	29,056

Balance Sheet			
Investments	**696,869**	682,830	717,462
Cash	**176,085**	160,299	95,569
Debtors	**35,083**	46,984	29,921
Other assets	**10,564**	13,590	13,032
Total Assets	**918,601**	903,703	855,984
Outstanding Claims	**511,526**	497,578	470,159
Creditors	**58,847**	58,441	51,278
Total liabilities	**570,373**	556,019	521,437
Free Reserves	**348,228**	347,684	334,547

Investments

- There was no investment report, but the portfolio, which had over 70% bonds, with a small equity allocation and a sprinkling of alternative investments, suffered a loss of $7m or a negative return of minus 1.6%. The result emanated from the weak equity markets, the flat bond markets and a strong dollar.

Outlook

- Skuld continues their diversification strategy with unrestrained zeal, with a new acquisition only as recently as May, 2016. It is not always possible to determine the progress of the new businesses, but it is fairly apparent that the P&I business remained the dominant force, producing the necessary returns to power all the new ventures.
- The P&I class produced a surplus of $11m on the open policy years, much of which appeared to emanate from the fixed premium business. The financial statements showed the Lloyd's syndicate was still reporting losses, albeit lower than last year, but the cost of running the syndicate and the fiercely competitive market will probably limit growth, at least in the short term.
- There was no comment in the annual report on the progress of the hull or the offshore businesses, which probably will have experienced difficult trading conditions, but the Club maintained a steady premium growth and another underwriting surplus.
- The Club is 'powering' ahead with its diversification strategy and maintaining apparent good underwriting discipline / results. It has a sound capital base for expansion, an S&P A rating reflecting the Club's financial strength and a sound long term outlook.

Summary

- $20m Underwriting surplus
- Recent acquisition
- Lloyd's syndicate improvements
- Investment Return -1.6%
- S&P A Rating

STANDARD CLUB

Overview

- After a number of years of hectic diversification, the Standard Club has had a quiet year of consolidation, bedding-in the new businesses and reporting a healthy underwriting surplus for the first time in a number of years.
- The overall level of premium income remained largely unchanged, but a dramatic improvement in the level of claims experienced by the P&I business resulted in a $14m underwriting surplus, which was reduced by a $4m investment loss.

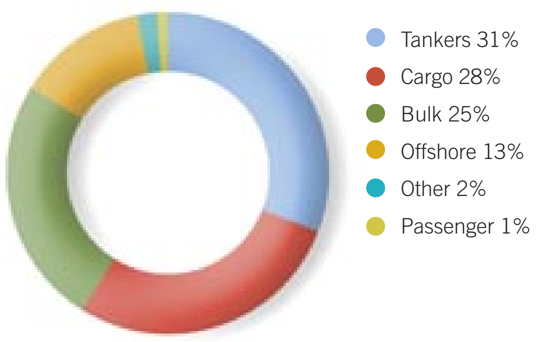
Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A	A
Combined Ratio	%	**95**	102	103
Investment Return	%	**-0.9**	1.8	0.6
General Increase at Renewal	%	**2.5**	5.0	12.5
Solvency	%	**167**	166	163
Net Premiums Adjustments	%	**0.8**	3.5	9.5
Free Reserves Adjustments	%	**2.6**	3.2	1.6
Incurred Claims	%	**-11.5**	1.3	-5.6
AER (Average Expense Ratio)	%	**12.2**	11.4	10.9
Increase in GT	%	**2.0**	4.1	0.0
Average net PR per GT	$	**2.57**	2.59	2.61
Free Reserves per GT	$	**3.79**	3.77	3.80
Surplus /(Deficit) (mil)	$	**9.9**	11.8	5.9
Gross Owned Tonnage	mil	**103**	101	97

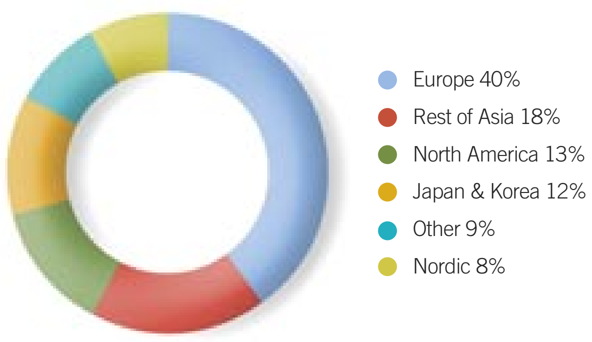
Underwriting

- This was the inaugural year of Standard's Lloyd's syndicate in which the Club has a 40% share. The syndicate underwrites Hull, Marine and Energy, Energy Physical Damage, D&O, E&O, M&E Property, Cargo, Specie, and from 2016, Political Risks classes.
- Much of the Hull and Energy business opportunities emanated from the Club, which helped their share of the net premium income rise to $5m. This however was insufficient to cover the start-up and other costs of $11m, leaving a small deficit, which should diminish with growth in future years.
- The P&I income dipped slightly during the year, but the Club has embarked on a campaign to reduce claims costs by negotiating with major service providers to reduce fees and producing a list of UK and US approved technical providers. This together with a benign claims climate, resulted in a 15% reduction in the cost of incurred claims during the year.
- The year started with fewer large claims, but in the second half of the year there were a number of large casualties including a couple of complex and potentially expensive wreck removal claims. The smaller claims continued to be dominated by cargo and personal injury, while the larger claims, which accounted for approximately 60% of the total gross cost, were dominated by wreck removal costs and associated fines.
- The International Group claims fell by $13m and the Club only had 2 claims above its retention, compared to 3 a year earlier.
- TS21, the joint venture with Tokio Marine and Nichido Fire, contributed 9% of the Club's tonnage, while Standard Asia reported their first underwriting surplus for a number of years. Elsewhere, Offshore had a quiet year, while the Standard London (small vessels class) experienced significant competition from the commercial market.

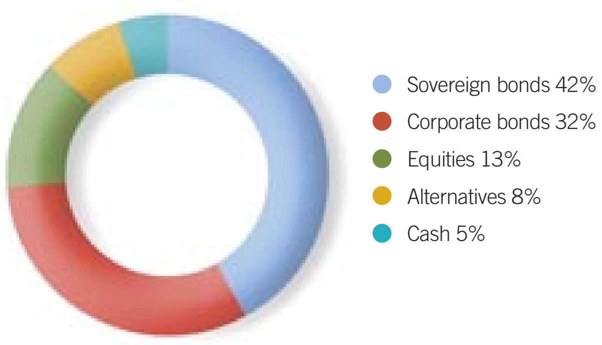
Owned vessels by tonnage



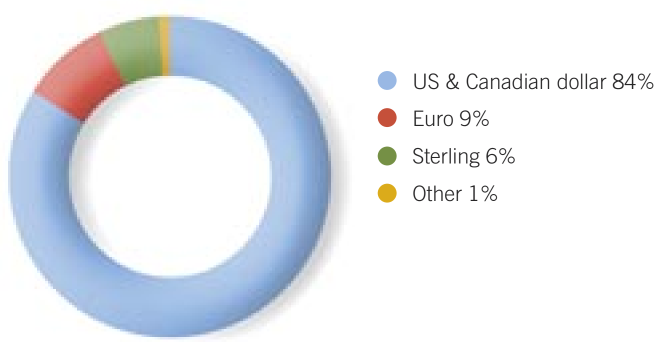
Country of management tonnage



Asset allocation



Currency allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**264,200**	262,000	253,200
Net claims incurred	**206,900**	233,800	230,900
Management costs	**43,600**	32,600	29,500
	250,500	266,400	260,400
Underwriting surplus/(deficit)	**13,700**	(4,400)	(7,200)
Investment income less tax	**(3,800)**	16,200	13,100
Surplus/Deficit	**9,900**	11,800	5,900
Balance Sheet			
Investments	**750,400**	773,000	735,700
Cash	**114,800**	84,600	119,900
Debtors	**130,400**	130,200	96,100
Other assets	**36,900**	35,700	38,000
Total Assets	**1,032,500**	1,023,500	989,700
Outstanding Claims	**582,700**	576,200	580,800
Creditors	**59,700**	67,000	40,400
Total liabilities	**642,400**	643,200	621,200
Free Reserves	**390,100**	380,300	368,500

Investments

- The investment managers lost money during the year in line with most other Clubs. There was a conservative investment policy with over 70% of the funds in bonds, which made a positive contribution, but this was more than offset by weak equity returns and currency translation losses on non-dollar assets.
- The main changes in the year were an increase in the corporate bond allocation and a reduction in the cash and non-dollar currencies, which helped reduce losses. There was also a small surplus on the revaluation of the offices.

Outlook

- The Club has recently embarked on an ambitious diversification programme, including a Singapore War Risks Club and a share of a Lloyd's syndicate. It was too early to judge the success of these new ventures as some of them are still in an embryonic stage.
- The syndicate is clearly the largest new entity, underwriting many members' non P&I risks, but as other Clubs have discovered the overheads are high and it may take a number of years to generate sufficient quality income to cover the costs and return a surplus.
- The P&I remains the powerhouse behind the operation and the first positive underwriting result for a number of years got the class back on track, assisted by over $40m of claims estimate improvements on earlier policy years.
- The Club is well reserved, has good risk based capital ratios, an S&P A credit rating and remains one of the most secure Clubs within the IG.

Summary

- $14m Underwriting Surplus
- Small investment loss
- New Lloyd's Syndicate
- $10m overall surplus
- Positive outlook

STEAMSHIP

Overview

- Steamship has turned in a second consecutive stunning performance with a $74m underwriting surplus (only slightly diminished by a small investment loss), to boost their free reserves by 17%, to a record $440m. Their combined ratio further improved to 74% from 79% last year, which has added over 45% to the free reserves in the last 2 years.

- Club achieves an S&P upgrade to "A" with a Stable outlook.

Underwriting

- No general increase was charged for the 2015 policy year, and as a consequence (and in spite of a small increase in tonnage), the net premium income fell by nearly 4%. This was likely due to the 'churn' effect (recently entered ships attaching at more competitive rates) and improvements in members' terms / deductibles.

- Although claims for the 2015 policy year within the Club's retention are estimated to be 20% higher than the previous policy year (at this early stage), the overall claims total for the financial year is 10% lower. This is due to further improvements on claims estimates for earlier policy years.

- Attritional claims below $250,000 were similar to the previous year, with an overall cost increase of 3%. Claims costs over $250,000 are currently estimated to have increased by 20%.

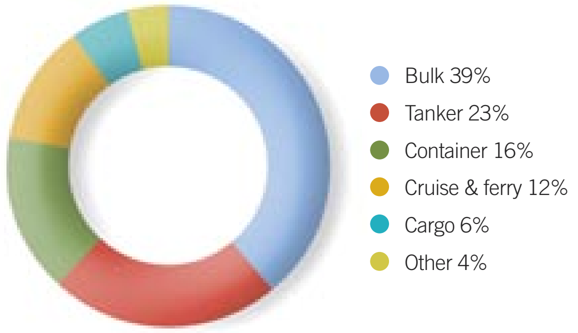
- The Club only had 1 IG pool claim during the year and the cost of other Clubs' IG pool claims fell by $14m.

- There were also considerable improvements on the earlier policy years, with reductions in the estimated cost of claims on the open years of over $20m and more than $40m on the closed years. This has resulted in a 10% reduction in their total outstanding claims in the last 2 policy years.

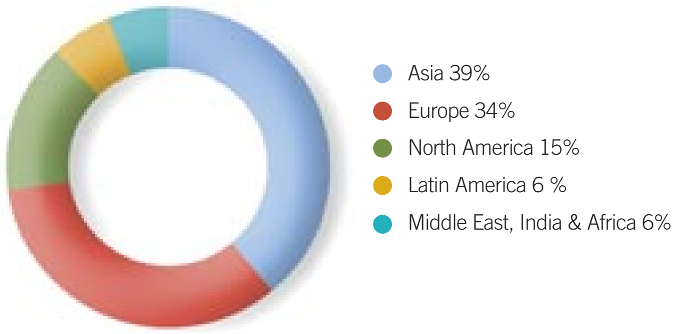
Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A-	A-
Combined Ratio	%	**74**	79	98
Investment Return	%	**-0.9**	1.3	0.9
General Increase at Renewal	%	**0**	0	10
Solvency	%	**172**	158	144
Net Premiums Adjustments	%	**-3.7**	4.1	5.0
Free Reserves Adjustments	%	**17.0**	24.9	5.2
Incurred Claims	%	**-10.5**	-19.3	-12.7
AER (Average Expense Ratio)	%	**12.1**	11.8	11.3
Increase in GT	%	**5.4**	7.2	9.5
Average net PR per GT	$	**3.66**	4.00	4.12
Free Reserves per GT	$	**5.65**	5.08	4.37
Surplus /(Deficit) (mil)	$	**64.1**	75.0	15.0
Gross Owned Tonnage	mil	**78**	74	69

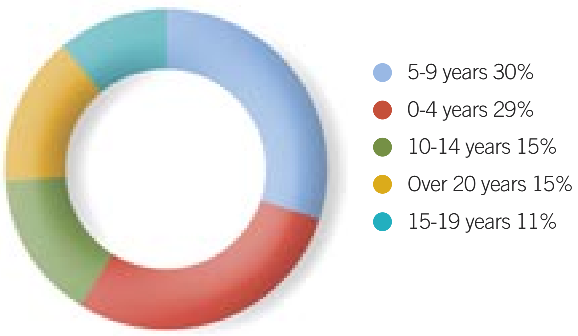
Gross tonnage by vessel type



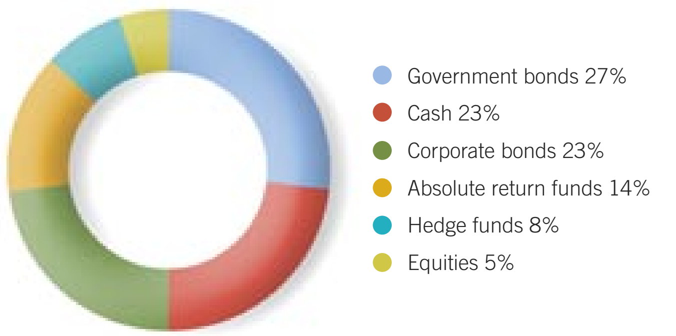
Gross tonnage by region



Vessel age



Asset allocation



Revenue Statement			
US$000's	2016	2015	2014
Net premiums	285,499	296,339	284,562
Net claims incurred	167,930	187,614	232,450
Management costs	43,337	47,499	45,554
	211,267	235,113	278,004
Underwriting surplus/(deficit)	74,232	61,226	6,558
Investment income less tax	(10,098)	13,762	8,434
Surplus/Deficit	64,134	74,988	14,992
Balance Sheet			
Investments	788,363	768,499	374,897
Cash	241,233	257,625	587,947
Debtors	33,826	30,509	38,536
Other assets	14,551	15,741	10,997
Total Assets	1,077,973	1,072,374	1,012,377
Outstanding Claims	613,022	651,173	684,502
Creditors	24,630	45,014	26,676
Total liabilities	637,652	696,187	711,178
Free Reserves	440,321	376,187	301,199

Investments

- The overall investment result was minus 0.9%, which included a 0.8% currency loss on investment assets (held to match outstanding claims). The loss was further mitigated by the Club's low risk policy with a minimal equity exposure.
- The return on bonds was 1.3%, which was offset by losses of 11.1% on equities and 3.5% on the hedge funds held. There was a $1m loss on their London HQ property following last year's revaluation and the fall in the value of £ Sterling.

Outlook

- The Club had a successful renewal, again with no general increase and a modest increase in the net entered tonnage. This left the premium income largely unchanged. After a number of years with increases in claims, the Club has very successfully turned the results around.
- The annual incurred claims of $168m were the lowest since 2004.
- The Club has added $139m to the free reserves in the last 2 years raising them by over 45% to $440m. This has propelled the Club to 4th in the free reserves league table, behind Gard, UK & Britannia … notwithstanding their entered tonnage being approximately half that of its higher reserved competitors.
- The Club has good solvency and risk based capital ratios, and an S&P A credit rating. The claims appear to be under control with improved underwriting results.

Summary

- 2nd consecutive bumper year
- Surplus $64m
- S&P A Stable
- Free Reserves up by 45% since 2014
- 4th largest Club by free reserves
- Lowest claims for over 10 years

SWEDISH CLUB

Overview

- The Swedish Club has had a difficult year, with deterioration in their Hull and Machinery business and losses on their investments. The underwriting surplus fell from $18m to $1m and there was a $2m loss on their investment, leaving an overall deficit of $1m after tax.

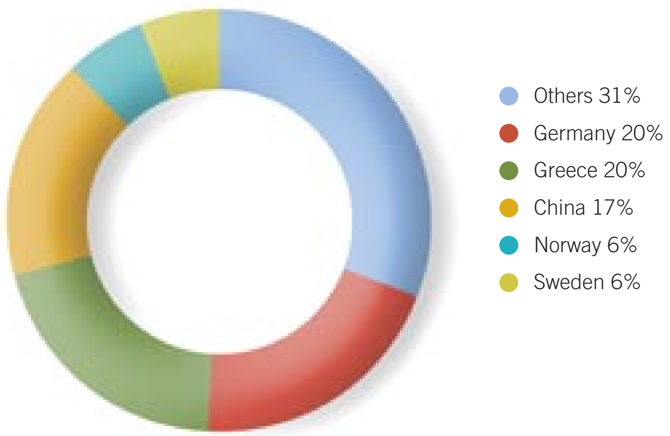
Key Performance Indicators

		2016	2015	2014
S&P Rating		BBB+	BBB+	BBB+
Combined Ratio	%	99	87	96
Investment Return	%	-1.6	1.6	3.6
General Increase at Renewal	%	0	2.5	7.5
Solvency	%	195	202	220
Net Premiums Adjustments	%	2.5	10.9	-3.0
Free Reserves Adjustments	%	-0.6	11.8	11.0
Incurred Claims	%	23.7	3.0	-22.6
AER (Average Expense Ratio)	%	13.3	13.0	12.1
Increase in GT	%	4.8	13.5	5.7
Average net PR per GT	$	3.25	3.32	3.40
Free Reserves per GT	$	4.16	4.38	4.45
Surplus /(Deficit) (mil)	$	(1.06)	19.38	16.45
Gross Owned Tonnage	mil	44	42	37

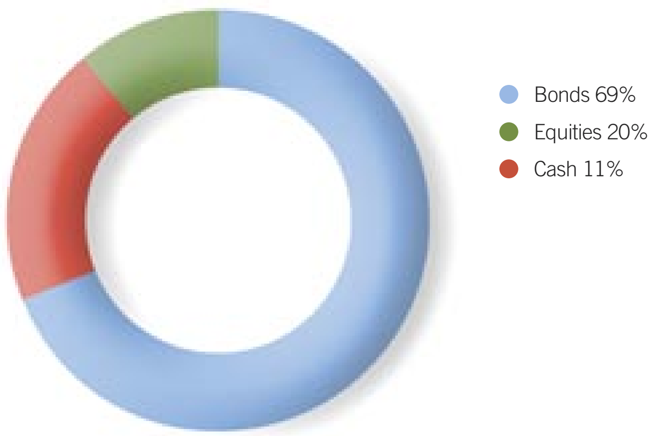
Underwriting

- The underwriting was a tale of two halves, with the P&I seeing a marked improvement and the Hull and Machinery business suffering a number of expensive losses.
- The P&I achieved a growth of 7% in tonnage, with the total entered gross tonnage reaching 44m tons plus a further 66m of chartered business.
- The P&I premiums rose by 5%, while the claims remained largely unchanged, thanks to a $5m reduction in the cost of IG pool claims. The underwriting surplus rose from $4m to $10m.
- The Hull and Machinery class was not so fortunate, with static income, the class was hit by a number of expensive losses which had an adverse impact on the performance. The incurred claims rose by 26% to $49m, which resulted in a $6m deficit.
- The Defence class was comparatively small with only 899 entered vessels totalling 39m tons. The entry increased during the year, but the volatility in the freight market led to an increase in claims. The class broke even, while the energy business posted a deficit.
- Overall there were 27 claims in the year over $0.5m, compared with only 16 in the previous year and 6 in excess of $2m, compared with only 1. The claims included 7 total losses.

Premium by geographic area



Asset allocation at the year end



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**142,950**	139,448	125,769
Net claims incurred	**115,187**	93,151	90,409
Management costs	**26,535**	28,718	29,936
	141,722	121,869	120,345
Underwriting surplus/(deficit)	**1,228**	17,579	5,424
Investment income less tax	**(2,288)**	1,798	11,021
Surplus/Deficit	**(1,060)**	19,377	16,445

Balance Sheet			
Investments	**349,372**	343,370	284,975
Cash	**44,146**	31,808	28,780
Debtors	**55,722**	63,987	46,113
Other assets	**11,392**	1,811	2,197
Total Assets	**460,632**	440,976	362,065
Outstanding Claims	**192,181**	180,836	137,096
Creditors	**85,377**	76,006	60,288
Total liabilities	**277,558**	256,842	197,384
Free Reserves	**183,074**	184,134	164,681

Investments

- The Club maintained a conservative investment policy, with a low equity exposure and during the year moved their bonds from government securities into longer dated funds.
- The bonds performed poorly during the year due to the underperformance of the corporate bond holdings. The investment loss was $2m, after tax or a return of minus 1.6%.
- The asset allocation at the year end was equities 20%, bonds 69% and cash 11%.

Outlook

- The Swedish Club has experienced a difficult year with a serious increase in the number of large claims. This has led to a marked increase in non P&I losses, pushing the class into deficit.
- Fortunately the P&I class had a better year, but the overall underwriting surplus fell to $1m.
- The impact of the large claims, especially on the non P&I class may indicate a need for additional reinsurance to cover the exceptional fluctuations in annual results.
- The reinsurance costs for marine are 18% of net premium income compared to 25% for P&I. Additional reinsurance may prove beneficial.
- The Club has a number of new initiatives, including "all- in-one" cover for charterers' liability offering higher limits and flexible terms and Delay cover for deviations costs when picking up refugees.
- The Club has a good solvency margin and strong capital ratios, but because of its relatively small size with only 44m tons, could only attract an S&P BBB+ credit rating (AM Best A-). The Club remains very secure.

Summary

- Small Deficit
- Negative Investment Return
- Increase in Claims
- S&P BBB+ Rating
- Strong Solvency
- Financially Secure

UK CLUB

Overview

- The UK Club has reported its best underwriting surplus for 7 years, but unfortunately the combination of investment losses and their “perpetual loan” interest absorbed the surplus, leaving a small overall deficit of $1m.
- The underwriting enjoyed the benefits of the benign claims environment, with incurred claims being 17% lower, resulting in an $18m underwriting surplus. However this was exceeded by the 1% loss on investments and the interest charge.

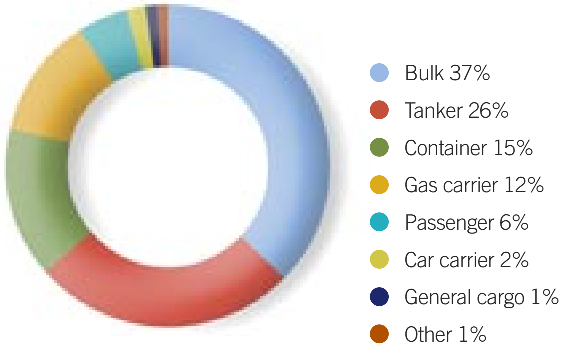
Key Performance Indicators

		2016	2015	2014
S&P Rating		**A**	A	A
Combined Ratio	%	**94**	105	102
Investment Return	%	**-1.0**	5.0	4.5
General Increase at Renewal	%	**2.5**	6.5	10.0
Solvency	%	**178**	177	169
Net Premiums Adjustments	%	**-4.7**	5.4	8.2
Free Reserves Adjustments	%	**-0.2**	4.5	8.7
Incurred Claims	%	**-16.8**	7.8	4.0
AER (Average Expense Ratio)	%	**10.2**	9.7	9.4
Increase in GT	%	**6.3**	2.4	3.3
Average net PR per GT	$	**2.25**	2.51	2.44
Free Reserves per GT	$	**4.05**	4.31	4.26
Surplus /(Deficit) (mil)	$	**-1.2**	19.1	35.9
Gross Owned Tonnage	mil	**135**	127	124

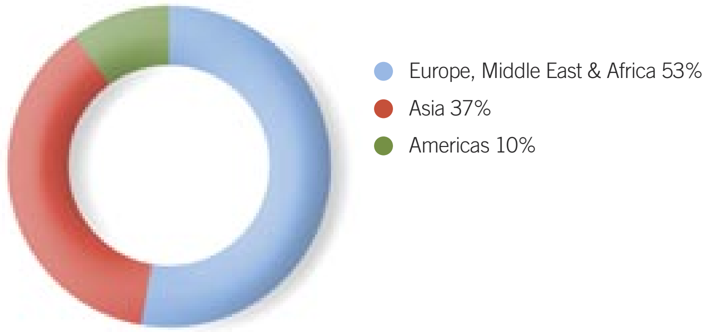
Underwriting

- The Club has continued to attract new members with a tonnage growth of 6%, taking the mutual owned gt to 135m and 100m gt of fixed premium / chartered business. The increase in gt however was not matched by an increase in net premium income which actually fell by 5%, notwithstanding lower reinsurance costs. Provision was made for a 2.5% discount on the 2014 mutual premium.
- The good claims performance (also enjoyed by most other Clubs) was really the highlight of the year and was one of the lowest claims years for a decade.
- The Club has enjoyed a sustained period with fewer large claims, which has resulted in a $140m credit balance on its IG pool record. This should result in reduced contributions to other Clubs’ IG Pool claims in the future.
- The cost of claims on the 2015 policy year is 25% lower than the average for the last 10 years and nearly 40% lower than the most expensive year.
- The average cost of attritional claims below $500,000 is estimated to be 40% more than a decade ago. In the same period the average premium rate per ton has actually fallen. From the claims development tables it is fairly evident that the claims are very conservatively reserved and claims estimates have now been reduced by over $50m. Additional reductions will likely be made in the future.

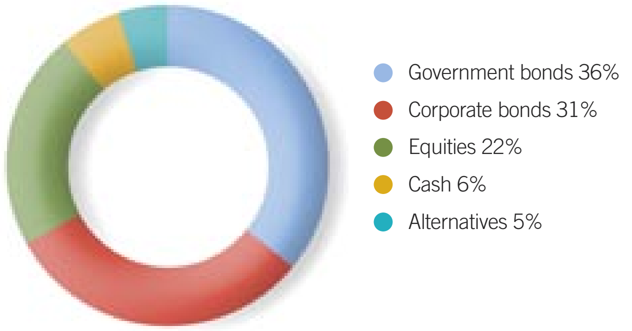
Tonnage by ship type



Tonnage by geographic region



Asset allocation



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**303,946**	319,090	302,779
Net claims incurred	**241,252**	289,936	268,906
Management costs	**44,874**	43,961	40,942
	286,126	333,897	309,848
Underwriting surplus/(deficit)	**17,820**	(14,807)	(7,069)
Investment income less tax	**(19,045)**	33,872	43,017
Surplus/Deficit	**(1,225)**	19,065	35,948
Balance Sheet			
Investments	**1,078,944**	1,135,625	1,137,372
Cash	**87,242**	48,762	87,580
Debtors	**116,313**	106,714	95,794
Other assets			
Total Assets	**1,282,499**	1,291,101	1,320,746
Outstanding Claims	**701,342**	715,079	762,773
Creditors	**34,244**	28,256	29,631
Total liabilities	**735,586**	743,335	792,404
Free Reserves (inc. perpetual loan)	**546,913**	547,766	528,342

Investments

- There was only a short investment report referring to an 11% decline in the value of the equity portfolio, which was substantially offset by the improvements in the much larger government and corporate bond portfolios. The investment return was minus 1% and there was a $7.5m interest charge on the Club's controversial and expensive "perpetual loan" arrangement.

Outlook

- Perhaps the most important recent announcement is the termination of the "merger talks" with Britannia. The reasons for the failure may have centred around the valuation of the various assets and liabilities (of both Clubs) and the best method to adopt, to balance the capital / free reserves.
- The likely consequences of this failed merger will be that aspirants are deterred and any future combinations will be between stronger Clubs and those in difficulty.
- The UK Club remains in a strong position with a steadily increasing membership. The underwriting deficits in earlier years have been manageable and often covered by investment income, which has led to a steady rise in free reserves.
- The Club has the 2nd largest free reserves by quantum (when including the "perpetual loan" of $99m), and the third largest if the loan is excluded. However, on a free reserve per gt basis, the Club's position falls to the lower end of the league table.
- The Club has an excellent solvency and risk based capital ratios. It is the only Club currently with its own approved internal capital model and thus should be able to negotiate lower regulatory solvency capital requirements.

Summary

- Britannia merger failed
- S&P "A" credit rating
- Minus 1% investment return
- Underwriting surplus

WEST OF ENGLAND

Overview

- The West of England's revival continues with their 6th surplus in 7 years and a 2nd consecutive underwriting surplus of an impressive $29m.The Club's financial results were also supported by a revaluation of their London property HQ and a positive investment return, which collectively added $33m to the free reserves, taking them to a record $276m.

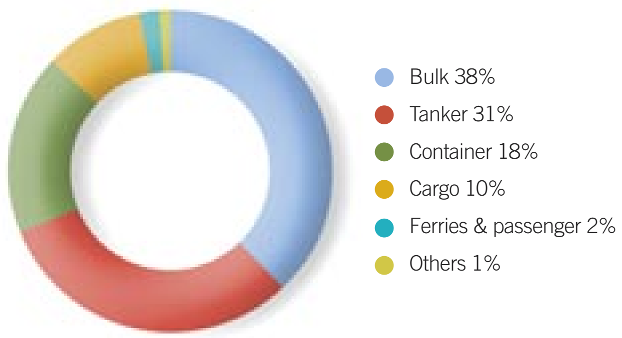
Key Performance Indicators

		2016	2015	2014
S&P Rating		**BBB+**	BBB+	BBB
Combined Ratio	%	**84**	98	102
Investment Return	%	**-0.8**	4.3	4.1
General Increase at Renewal	%	**0.0**	2.5	7.5
Solvency	%	**169**	159	151
Net Premiums Adjustments	%	**4.3**	5.5	0.4
Free Reserves Adjustments	%	**13.5**	12.7	9.5
Incurred Claims	%	**-13.4**	2.1	-1.2
AER (Average Expense Ratio)	%	**15.5**	14.9	14.2
Increase in GT	%	**7.5**	17.5	7.5
Average net PR per GT	$	**2.55**	2.63	2.93
Free Reserves per GT	$	**3.84**	3.64	3.79
Surplus /(Deficit) (mil)	$	**32.9**	27.5	12.4
Gross Owned Tonnage	mil	**72**	67	57

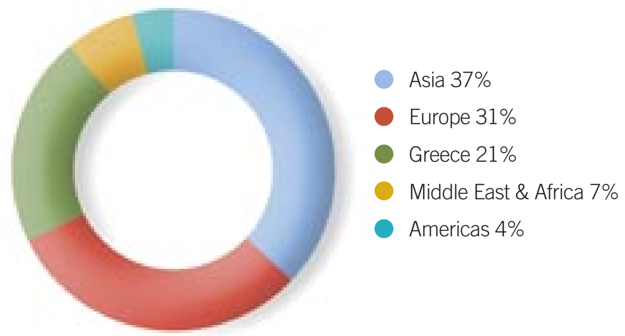
Underwriting

- The Club reported a strong underwriting performance with the net income up by more than 4% and additional mutual tonnage of 5m gt, and when the charterers entry was included, pushed the total gt to over 100m. Benefits were also derived from the benign claims environment and improvements in earlier policy years.
- West of England is the only Club to charge the Group GXL costs to members separately as a fixed rate per gross ton. This assists transparency, but can put added pressure on the Club's Underwriters, as general increases and/or percentage adjustments for record are not subsidised by the r/i element contained within the members' individual rates.
- In 2011 the Club undertook a major underwriting review and since that time there has been a significant improvement in its underwriting performance along with consistently lower claims costs.
- There has also been improvements in the estimated cost of claims on earlier policy years, with a $14m improvement on the 2014 policy year and over $12m for the closed policy years.
- Paid claims on the 2015 policy year after 12 months were $17m compared to $27m on the 2014 policy year at the same time. This probably indicates that the benign claims environment is continuing. The cost of other Clubs' IG pool claims also fell by $10m, leaving the total incurred claims for the year 13% lower.

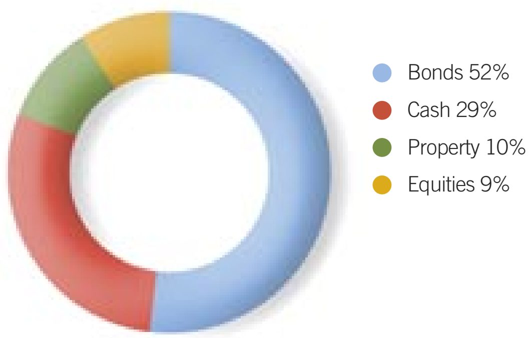
Mutual tonnage by vessel type



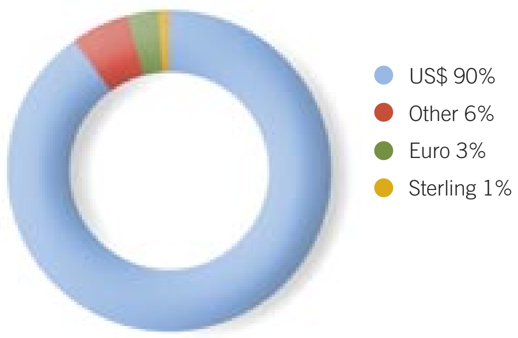
Mutual tonnage by area of management



Asset allocation



Currency allocation (xc property)



Revenue Statement			
US$000's	**2016**	2015	2014
Net premiums	**183,687**	176,179	166,942
Net claims incurred	**118,072**	136,280	133,485
Management costs	**36,519**	36,605	36,547
	154,591	172,885	170,032
Underwriting surplus/(deficit)	**29,096**	3,294	(3,090)
Investment income less tax	**3,824**	24,202	15,441
Surplus/Deficit	**32,920**	27,496	12,351
Balance Sheet			
Investments	**400,150**	382,907	395,074
Cash	**192,647**	184,590	159,185
Debtors	**53,422**	60,650	75,874
Other assets	**69,935**	62,970	52,987
Total Assets	**716,154**	691,117	683,120
Outstanding Claims	**403,505**	410,286	421,849
Creditors	**35,988**	37,139	45,075
Total liabilities	**439,493**	447,425	466,924
Free Reserves	**276,661**	243,692	216,196

Investments

- The Managers reported an investment loss of minus 0.8% on the financial assets, but if the property revaluation increase of $7.3m is included, and the investment management costs excluded, the West of England is the 1st and probably only Club to record a post-tax investment profit for the year.
- The Club has a very conservative investment policy, which included just 9% equities and circa 30% of funds in cash. The equities declined in value by 10.8% but the cash and bonds returned 0.4%.

Outlook

- In a post 'Brexit' world, West of England may have a key advantage over some of its UK based rivals as it is registered in the Grand Duchy of Luxembourg, which will likely mean that while others ponder over their future corporate structures, West can concentrate on running their successful business. Their Luxembourg presence may also serve as a useful bridge between the EU and the IG when 'Brexit' discussions commence.
- The Club's success continued with its free reserves up 50% since 2012, equating to 150% of 1 years net premium income. The Club also has an A M Best A- credit rating.
- The Club has had a steady growth which fortunately has not led to a commensurate increase in outgoings. Management costs have also been kept under strict control. The more realistic claims reserving policy adopted has enabled the Club to better forecast policy year outcomes and release reserves on older policy years.
- The Club has no current plans to diversify and expose the members' capital to non P&I insurance classes. West of England should be able to continue its positive progress without the unnecessary distractions that so many of its competitors have indulged in.

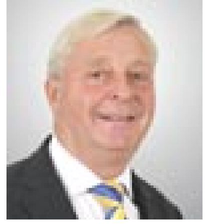
Summary

- $33m surplus
- 6th surplus in 7 years
- Positive investment result
- Record $276m free reserves
- AM Best A- credit rating

Service Delivery Team

Wilson Europe Directors

Dudley Taylor - Chairman
dudley@wilsoneurope.com
M: +44 (0)7590 775 599



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

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

Broking and Service Team

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

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

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

Paul Marketis - Regional Director
pmarketis@wilsoneurope.com
M: +44(0)7702 867 171

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

Nick Walker - Junior Broker
nick@wilsoneurope.com
M: +44 (0)759 077 5557

Kassie Lewis - Junior Broker
kassie@wilsoneurope.com
T: +44 (0)20 7626 9888

Matthew Bragger - Trainee Broker
matthew@wilsoneurope.com
T: +44 (0)20 7626 9888

Bradley Pearce - Trainee Broker
bradley@wilsoneurope.com
T: +44 (0)20 7626 9888

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

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

Wilson Offices Worldwide

Wilson Europe Limited

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

Asia Offices

HONG KONG

Wilson Re Limited

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

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

KOREA

Wilson Korea Limited

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

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

JAPAN

World Insurance Brokers Corp

1-4 Nihonbashi-honcho, Chuo-ku
Tokyo 103-0023,
Japan

Contact: Sumie Onai
sumie@worldins.co.jp
T +81 3 3273 6551

Notes

WILSON EUROPE
MASTERS OF P&I

Wilson Europe Limited

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