Shipowners Club

Club Financial Summary

September 2019

Highlights

Owned tonnage
+6.9%

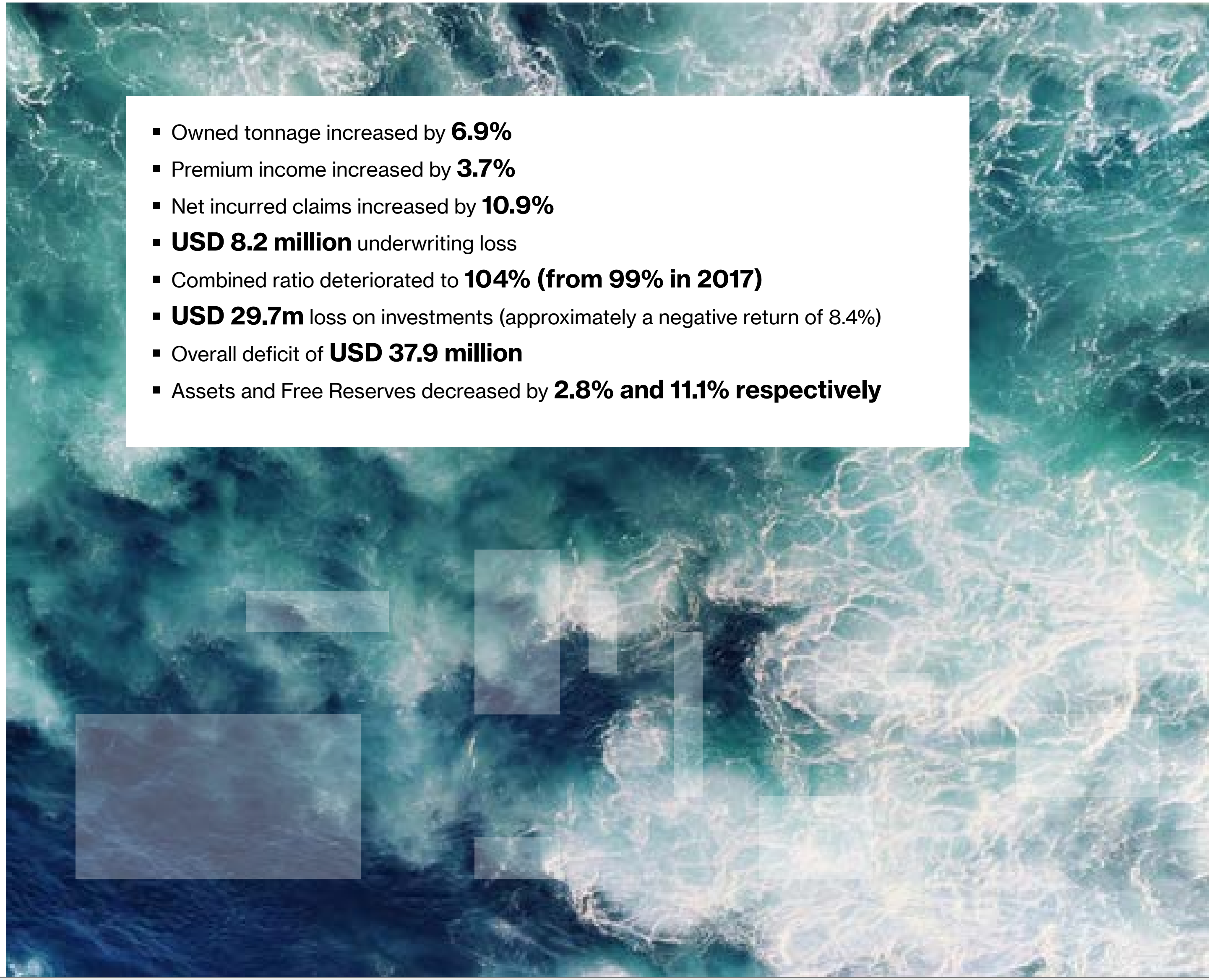
Premium income
+3.7%

Incurred claims
+10.9%

Free Reserves
-11.1%

Investment return
-8.4%

Combined ratio
104%

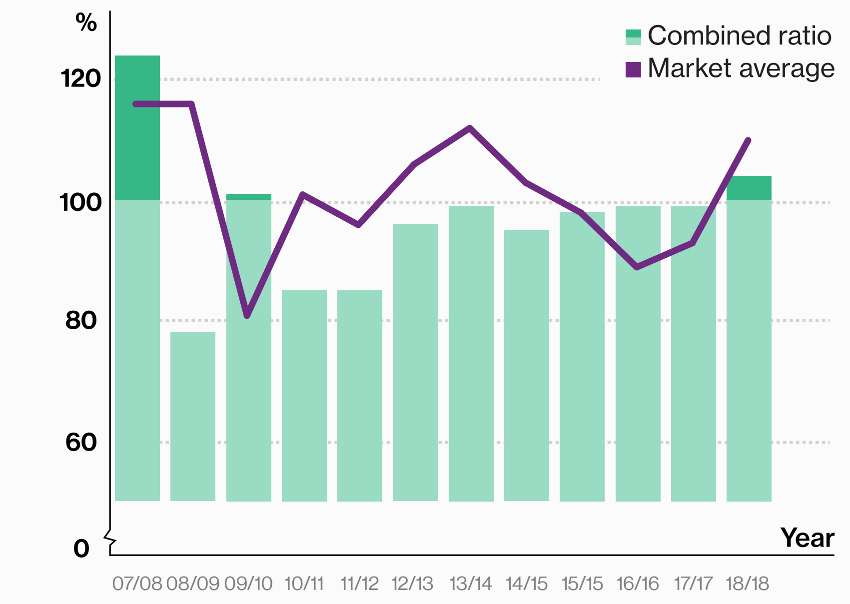


- Owned tonnage increased by **6.9%**
- Premium income increased by **3.7%**
- Net incurred claims increased by **10.9%**
- **USD 8.2 million** underwriting loss
- Combined ratio deteriorated to **104% (from 99% in 2017)**
- **USD 29.7m** loss on investments (approximately a negative return of 8.4%)
- Overall deficit of **USD 37.9 million**
- Assets and Free Reserves decreased by **2.8% and 11.1% respectively**

Combined ratio

Shipowners P&I Club recorded a combined ratio of 104.2% in 2018, recording an underwriting deficit for the first time since 2009/10.

Combined ratio



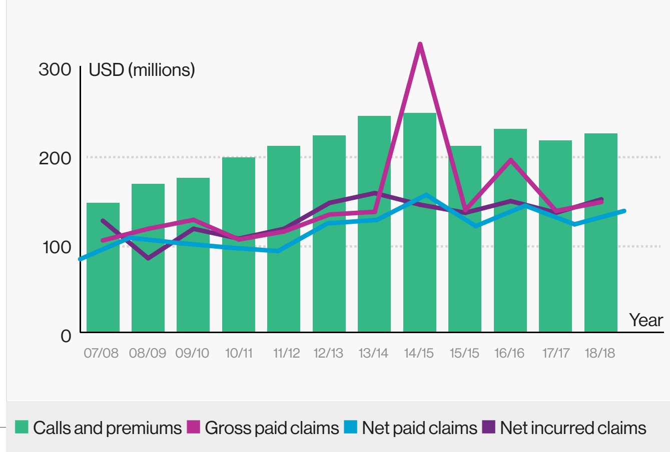
*NB Shipowners' Club changed their financial year to the calendar year in 2015.

"Underwriting loss for the first time in nine years"

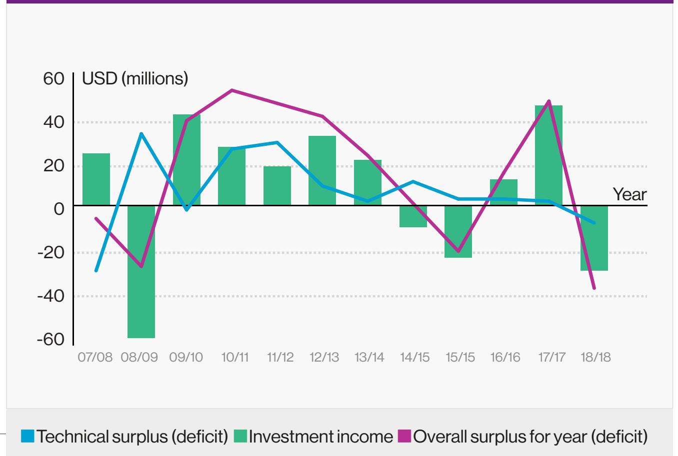
Consolidated financials

(USD 000s)	2016	2017	2018
Calls and Premiums	**228,580**	**216,341**	**224,267**
Reinsurance Premiums	-27,527	-29,706	-29,270
Operating Expenses	-49,164	-48,709	-52,156
Operating Income	**151,889**	**137,926**	**142,841**
Gross Paid Claims	194,674	138,215	147,508
Net Paid Claims	144,395	123,417	137,605
Net Change in Provision for Claims	4,692	12,748	13,433
Net Incurred Claims	149,087	136,165	151,038
Technical Surplus (Deficit)	**2,802**	**1,761**	**-8,197**
Investment Income	11,861	45,924	-29,704
Overall Surplus for Year (Deficit)	**14,663**	**47,685**	**-37,901**

Underwriting development



Overall result – including investment income

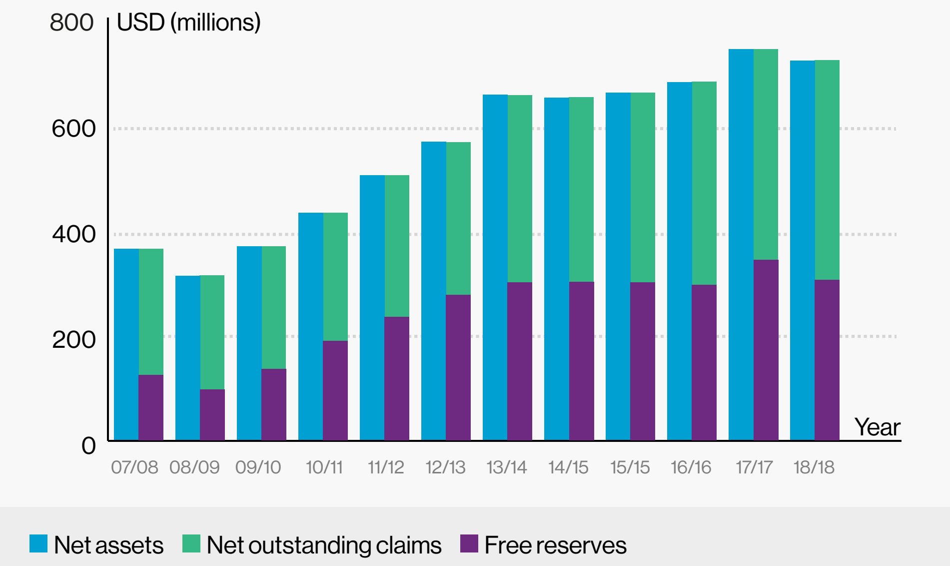


Consolidated financials

(USD 000s)	2016	2017	2018
Net Assets	**677,870**	**740,186**	**719,469**
Net Outstanding Claims	383,829	398,460	415,644
Free Reserves	**294,041**	**341,726**	**303,825**

	2016	2017	2018
S&P Rating			
	A	A	A
AER (Average Expense Ratio)			
Five years ending 20, February:	22	22	24

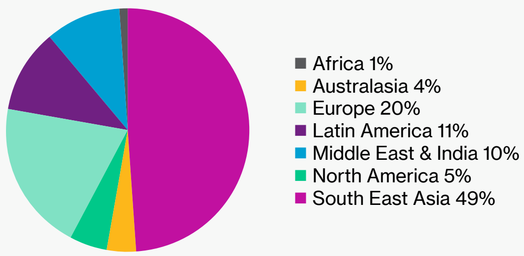
Assets and free reserves



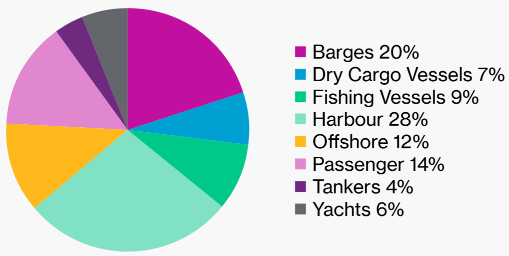
Entered tonnage

	2016	2017	2018
Entered Tonnage (GT, millions)			
Owned / Mutual	25.44	25.49	27.25
Chartered / Fixed	0.35	0.35	0.35
Total	**25.79**	**25.84**	**27.60**

Tonnage split by trading area +



Tonnage split by trading area +



Glossary

Combined Ratio

Combined ratios provide a direct comparison of club underwriting performance. The combined ratio is essentially the net loss ratio for the club and is defined as follows:

$$\textbf{Net combined ratio} = \frac{\text{(Net incurred claims + operating expenses)}}{\text{(Premium – reinsurance costs)}}$$

- A combined ratio of 100% represents an underwriting break-even position
- Anything in excess of 100% would be an underwriting loss
- A combined ratio less than 100% would represent an underwriting surplus.

Average Expense Ratio (AER)

Average Expense Ratios (AERs) were introduced in 1999 following pressure from the European Commission in an attempt to enable direct comparisons of operating costs between clubs within the International Group. The formula that all clubs are required to adhere to when calculating their AER figure is as follows:

$$\textbf{The AER formula is the five-year average of: } \frac{\text{(Operating costs x 100)}}{\text{(Premium income + Investment income)}}$$

In principle the AER is a reasonable idea, but in reality it is only ever a very approximate guide to the relative operating costs of individual clubs. For example different membership profiles, disproportionately high levels of premium or investment, whether the club owns or rents their office space, how much the club spends on loss prevention, global office network, member portals etc all have an impact on the AER.

Basis of financial analysis

The main aim in the Willis Towers Watson analysis of club report and accounts has been consistency. Although there are still variations between the way clubs report, we try as far as possible to compare 'like with like' and to apply the same approach year after year.

A glossary of terms is provided below.

Glossary of terms

Calls and Premiums	All calls (gross basis, including brokerage)
Reinsurance Premiums	All reinsurance premiums
Operating Expenses	All general management, administrative and audit expenses (not including claims management costs)
Operating Income	Calls, less reinsurance costs, less expenses
Gross Paid Claims	Paid gross claims, including Pool contributions (including claims management costs)
Net Paid Claims	Gross paid claims less reinsurance and Pool recoveries
Net Change in Provision for Claims	Change in net estimated outstanding claims
Net Incurred Claims	Net paid claims plus change in provision for claims
Technical Surplus (Deficit)	Operating Income less Net Incurred Claims
Investment Income	All investment income, including exchange gains/losses, tax etc.
Overall Surplus for Year (Deficit)	Incurred technical surplus (deficit), plus investment income
Net Assets	Total assets, less creditors, less miscellaneous provisions for taxation etc
Net Outstanding Claims	Total net estimated outstanding claims
Free Reserves (Including Forecast Deferred Calls)	Net assets, less outstanding claims

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