

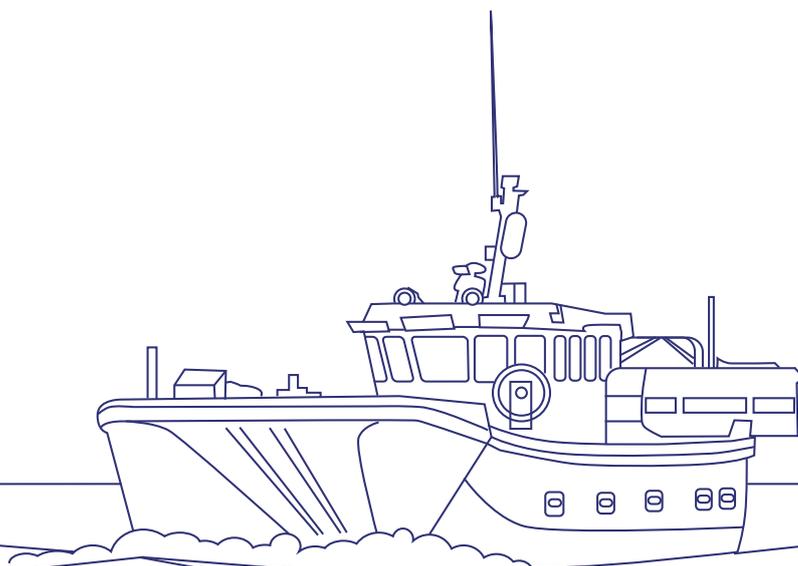


SHIPOWNERS

SECURITY FOR SMALL & SPECIALIST VESSELS

Half Year Report

2018



Summary

STANDARD & POOR'S RATING

A (stable)

The Club's 2017 Annual Report anticipated a continuation of difficult trading conditions for many of our Members, along with an ongoing competitive insurance environment. In support of our Members, and in recognition of a very strong result in 2017, we did not apply a general increase to premiums and therefore, as envisaged, the Club reports a combined ratio in excess of 100%, at 106.4% for the first half of 2018.

Priority must be to thank our Members and their brokers for their loyalty and support, as they recognise the benefits of our consistent service offering, illustrated by high Member retention. We see organic growth increasing and it is good to note a steady flow of new Member enquiries. This has meant that the Club has seen slightly higher levels of income, year on year.

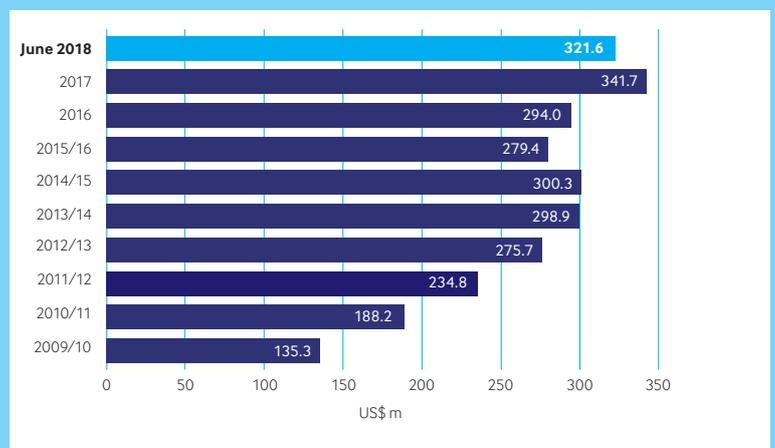
The underwriting deficit of US\$ 6.2m is therefore primarily a result of a higher level of claims cost. As an insurer we exist to provide security and peace of mind to our Members and, of course, the cost of claims can see volatility.

The other key driver of the Club's financial result comes from the investment portfolio. After a very strong investment performance in 2017, a more challenging investment environment in the first half of 2018 resulted in an investment loss of US\$ 13.7m (of which the bulk was incurred in the first quarter) and a total loss for the 6 months of US\$ 20.1m, taking free reserves to US\$ 321.6m.

We look ahead with optimism and with a continued focus on maintaining and growing our key strengths of service and premium stability to our Members.

FREE RESERVES

As at 30 June 2018



▶ Half Year 2018 – at a glance

TOTAL MEMBERS

6,823

TOTAL VESSELS

33,019

TOTAL TONNAGE

26.4m

CAPITAL & FREE RESERVES (US\$ '000)

321,634

COMBINED RATIO

106.4%

INTERIM CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

	Six months to 30 June 2018 (unaudited) US\$ '000	Six months to 30 June 2017 (unaudited) US\$ '000	Year to 31 December 2017 (audited) US\$ '000
Gross premiums earned	110,345	105,875	216,341
Outward reinsurance premiums	(14,429)	(13,512)	(29,706)
	95,916	92,363	186,635
Ultimate claims net of reinsurance	(76,994)	(67,815)	(136,165)
Net operating expenses			
Acquisition costs	(15,000)	(14,270)	(29,044)
Administration expenses	(10,090)	(9,593)	(19,665)
	(25,090)	(23,863)	(48,709)
Underwriting account balance	(6,168)	685	1,761
Investment return*	(13,658)	24,273	47,479
Taxation	(209)	68	(1,518)
Other income/(expenses)	(57)	(32)	(37)
Result for the period	(20,092)	24,994	47,685
Combined ratio	106.4%	99.3%	99.1%
Capital and free reserves	321,634	319,034	341,726

* Net of charges

INTERIM CONSOLIDATED BALANCE SHEET

	30 June 2018 (unaudited) US\$ '000	30 June 2017 (unaudited) US\$ '000	31 December 2017 (audited) US\$ '000
Investments	546,133	565,154	593,963
Reinsurers' share of technical provisions	74,437	120,948	82,697
Debtors	103,051	115,046	50,126
Other assets (including cash)	143,854	127,295	117,035
Prepayments and accrued income	37,952	20,333	15,572
Total assets	905,427	948,776	859,393
Capital and reserves	321,634	319,034	341,726
Gross technical provision	421,857	442,962	425,420
Provision for unearned premium	133,108	134,720	59,333
Creditors and other liabilities	24,259	49,149	27,010
Accruals and deferred income	4,569	2,911	5,904
Total liabilities	905,427	948,776	859,393

Underwriting

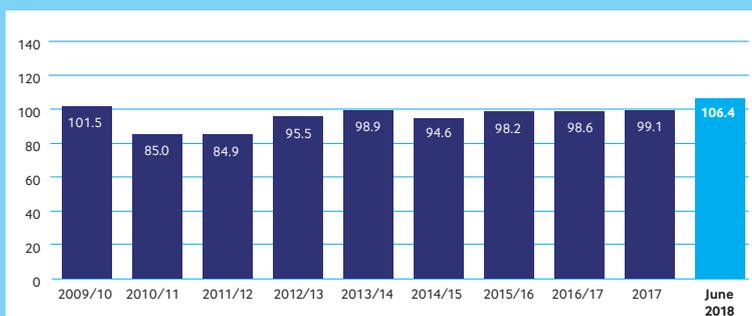
The Club has seen increased Premium, Member and Vessel numbers at the Half Year point.

- Premium, Member and vessel numbers are all up at the half year point compared with 30 June 2017, encouragingly reversing the trend of the last two years.
- The Club has seen an increase in most vessel sectors, with significant new business opportunities being presented. The offshore sector is yet to see a significant upturn, and consolidation within this sector continues.
- Changes in the commercial Fixed Premium P&I sector, in particular consolidation, has prompted some brokers to return to the Club recognising the strength associated with premium stability, strong service and security for their clients' business. We believe that

this trend will continue as the scrutiny on underwriting results and the impact of increased reinsurance costs start to take effect. We will continue to work hard to maintain the trust that the brokers and their clients place in the Club.

- As we focus on the year end we are expecting our first underwriting deficit since 2009. Ensuring premium and individual terms remain commensurate to risk will be essential.
- With 25 years worth of claims data from over 30,000 vessels to support our pricing decisions, we are well placed to determine the correct technical price for the risk underwritten.

COMBINED RATIO %



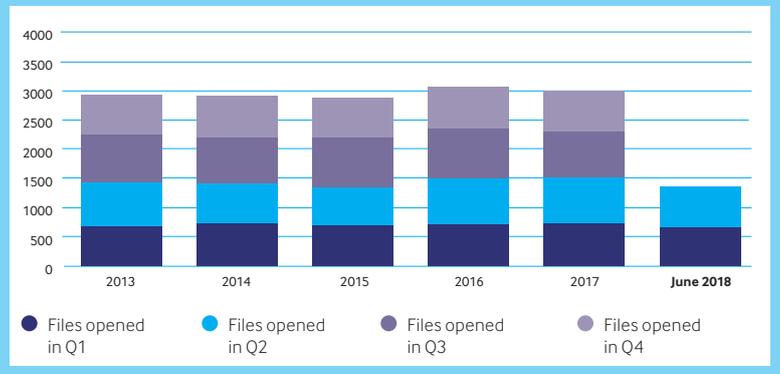
Claims

Claims frequency stability is not mirrored by stability in claims quantum. The higher quantum bands show a deteriorated position at the Half Year point.

- At the half year position, the Club continues to report claims frequency stability. However, such stability in frequency does not reflect claims quantum. Early volatility experienced within our higher value claims bands has contributed to claims cost deterioration at the half year position when compared with the same point in 2017.
- It is within the US\$ 5-7m band where volatility has been the most pronounced with notification of two casualties. The first involved a wreck removal from an isolated location in the Pacific Ocean and the second involved a capsized jack-up barge which is expected to incur significant SCOPIC costs under a Lloyds Open Form Salvage.
- Whilst the Club's own Member claims have been relatively high in the first half of the year, the Club's share of IG pool claims has been relatively benign, which has gone some way to mitigating the overall first half claims costs.

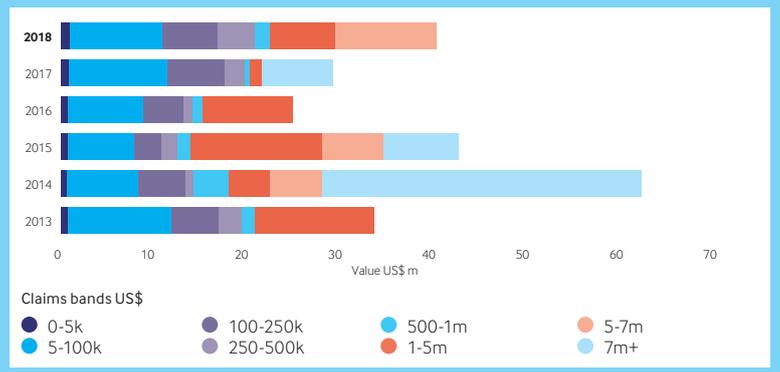
FILES OPENED

As at 30 June 2018



TOTAL INCURRED VALUE OF CLAIMS (US\$m)

As at 30 June 2018



CORPORATE INFORMATION

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