

Position & Performance Review

November 2018



Developments in the current policy year

The Club saw a better than projected outturn for retained claims in the first half of the year, driven by a benign experience of claims in the highest severity band in excess of US\$1m. At the same time, while there was an increase in the cost of claims on the pooling system, this remained within the expected range of outcomes.

During the same period, the effect of churn was a contributor to continued pressure on premium levels, particularly in respect of the mutual product. There was, however, volume growth in the mutual membership, as well as in the Association's fixed premium lines of business, where progress was ahead of expectations. Meanwhile, on the investments side, the Club's well balanced and diversified portfolio produced a positive return, in line with projections, although this has since been subject to increased market volatility.

Financial position

The Club's financial position remains strong. The 2017/18 result saw the free reserve increase to US\$194.6m and capital adequacy is within the 'AAA' range using S&P's capital model. Moreover, the Club's balance sheet is strong not only on an absolute basis, but also in comparison to other IG Clubs. P&I Club performance and positions are measured in various ways across the industry. Combined ratios – to which we refer further on page 2 – are one method, but there are a range of other financial strength indicators which also provide meaningful guidance. These are illustrated by the ratios shown overleaf which underline the Club's highly secure balance sheet and financial strength relative to others.

2019/20 Renewal

The Board decided that no general increase in Annual Call rates would be set. Instead the focus will be on individual Members and such adjustments to rates as may be necessary to achieve an equitable level of premium income over the medium term, reflective of their record and exposure to risk. Individual Member deductibles will also be reviewed as part of the renewal process.



Strategy

The Club's strategy continues to put an emphasis on providing top-class, specialised service and support to Members from a secure financial footing, including compliance with current and prospective regulatory requirements. Implications of this approach include:

- Focus on P&I and similar lines of business. Where the Club underwrites fixed premium business, the cover involves risks with which our mutual Members are familiar, where there is a high level of affiliation with their businesses and strong Club management experience.
- An emphasis on Member service and support which requires a commitment to ensuring high quality and strong resources across the Club – especially in our claims, underwriting and loss prevention sections. We believe that Members and brokers value our focused approach, including the closeness and continuity of the working relationships that we strive to provide.
- Provision is made for a contribution from investments over the longer term, as part of the Club's business model. The performance of the portfolio over recent years and its allocation across a diversified mix of asset classes is shown overleaf. As noted above, returns in the first half of the current policy year were positive and subsequently subject to increased market volatility. The portfolio is tightly controlled, and adjustments to projections for expected returns had previously been made to reflect the current and anticipated environment.
- The Club's focus on P&I and similar lines of business and the allowance for a part to be played by investment performance over the longer term does not sit readily with rating agency models. But the adoption of rating-friendly measures is not the Club's objective – our aim is to support and protect Members.
- Combined Ratios: while the Club's sub-100% combined ratios in the 2015/16 and 2016/17 financial years were below target, the combined ratio for 2017/18 exceeded its target. Our objective remains to produce more balanced underwriting results over the medium term, while allowing for a reasonable contribution from investments. Our experience in H1 of the current policy year and projections on a full-year basis confirm the progress being made towards that goal.

Top class service and robust financial strength

- Risk-adjusted free reserves among the best in the P&I market
- Free reserves in the 'AAA' range using S&P's capital model
- S&P 'BBB' rating with a Stable outlook reaffirmed in November 2018
- Industry leading absolute and risk-adjusted returns over the last five years
- The London P&I Club is committed to functioning as a true P&I Club; we focus on P&I and closely-related covers

Figure 1
International Group – Free Reserves as a % of Net Income

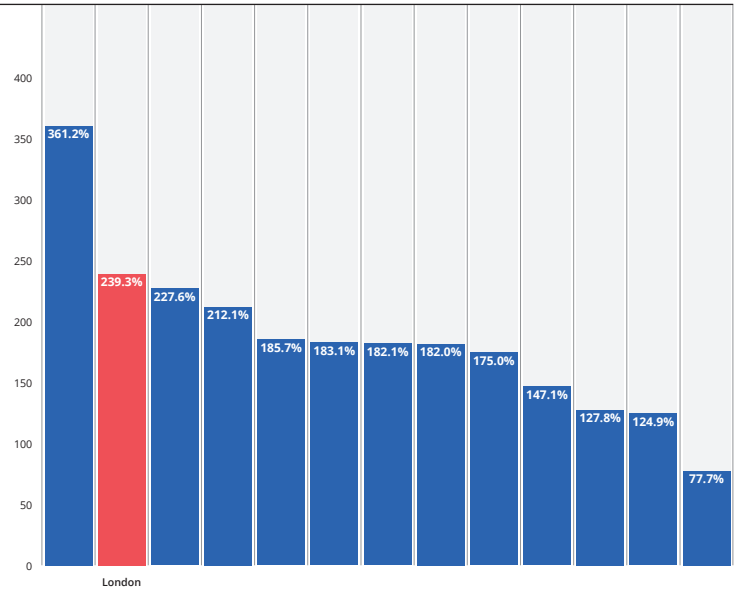


Figure 2
International Group – Free Reserves as a % of Claims + Opex

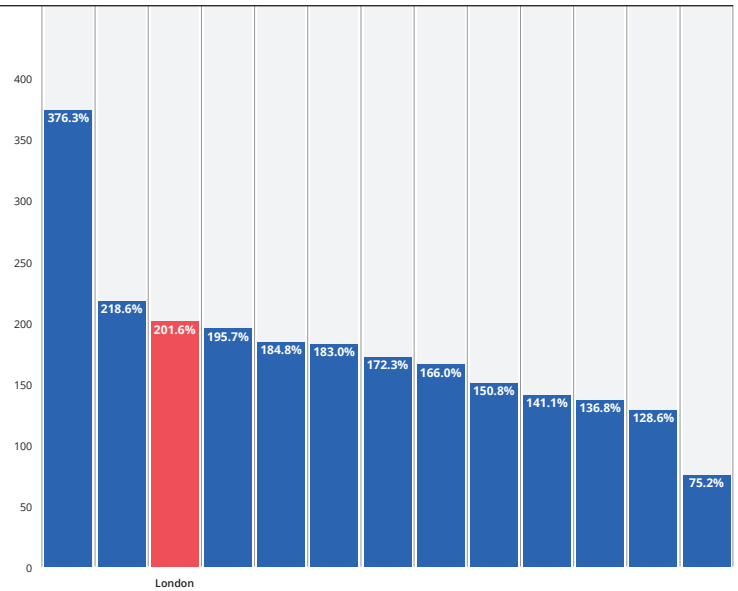
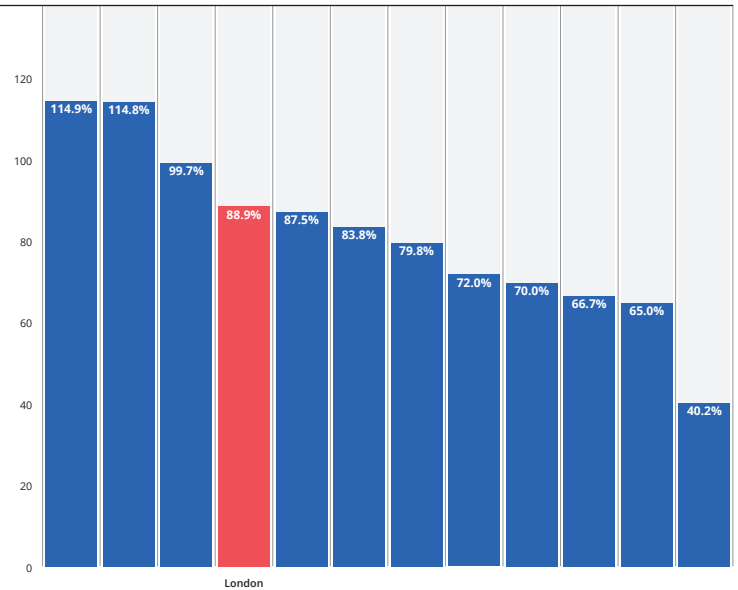


Figure 3
International Group – Free Reserves as a % of Net Outstanding Claims



London P&I Club values/ differentiating features

- Recognised in the market as a proper Club focused on P&I and governed with meaningful input and direction from ship-owners.
- A long-term strategy allowing for solid mutual and affiliated fixed premium underwriting to be supported by a reasonable contribution from investments to provide the basis for the growth of our free reserves.
- Strong reputation for expert P&I service, and goal to assist Members wherever and whenever possible.
- The London P&I Club's top tier investment returns reflect a philosophy of investing in a diversified mix of non-correlated assets to deliver superior risk-adjusted returns over a multi-year time horizon.
- The London P&I Club and its management specialise in and focus on P&I and associated covers.

Figure 4
5-year Operating Performance (US\$'000)

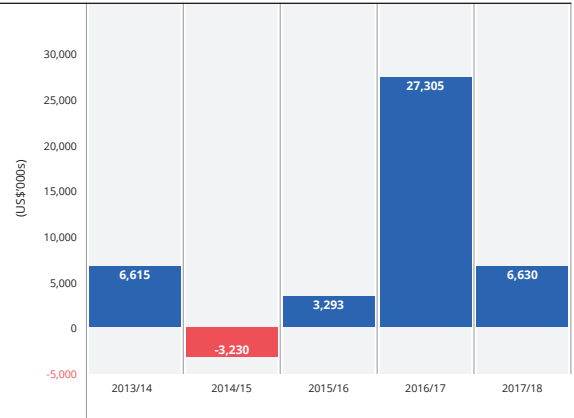


Figure 5
Return on Financial Investments & Cash

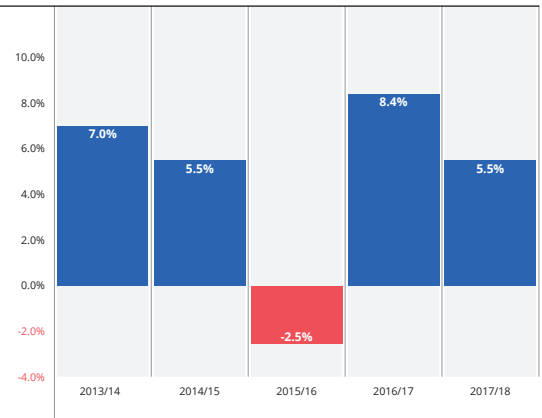
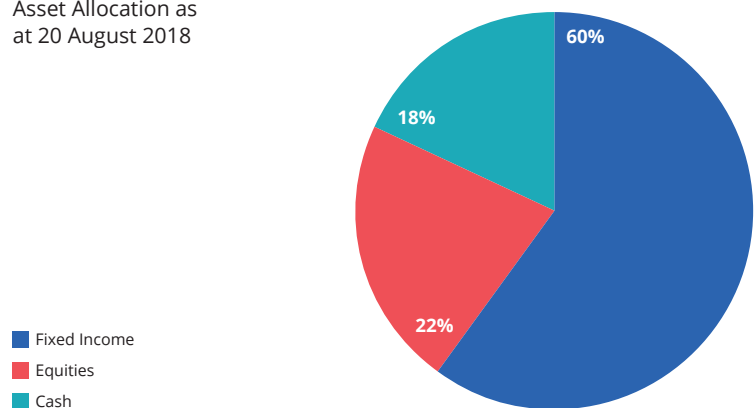


Figure 6
Asset Allocation as at 20 August 2018



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