



/INTRODUCTION

As the Club's financial year commences from 1 January, we are now able to review the initial performance of the Club over the last six months.

The slowdown in the global shipping market has been of significance. Those operating in the small and more specialist vessel sector have all been touched in some way by the slowdown, and this has inevitably had an impact on the Club. A challenging shipping environment has coincided with a period in which the commercial insurance market has an oversupply of capital eager to grow to satisfy shareholders' interests. This has resulted in a more competitive insurance environment, which of course allows ship owners greater choice. It is essential that we support and engage with Members and their brokers at this time, offering even higher levels of service and stability as, after all, we are a mutual Club and we have an important role to play in protecting Members' interests – however varied and complex they may be.



The Club's values are such that we are always mindful of doing the best for our membership.



As the leading mutual insurer of P&I risks to the small and specialist vessel sector, we take great pride in seeking to understand our Members' businesses, the sectors in which they operate and the insurance risks that they face. This knowledge means that we are uniquely placed to meet the P&I insurance needs of our Members, to price those insurance risks appropriately and to help resolve insurance claims in an efficient and professional way.

As the Club's risk appetite towards providing the widest cover for small and specialist vessels continues to grow, we strongly recognise the value of sharing like-with-like liabilities within the membership.

With so much choice available, it is encouraging to see the loyalty of our membership and the brokers that support their clients. More than 6,500 Members continue to recognise the values and service of the Club, pricing insurance 'at cost' and providing value-added services through market-leading claims and loss prevention support. Creating stability by spreading risks among the membership is very important, and the Club's Members – on the advice of their brokers – choose to place the insurance of more than 32,000 vessels with the Club. We are delighted that, despite the challenging operating environment, this number continues to grow and the total tonnage placed with the Club continues to follow suit.

The Club's values are such that we are always mindful of doing the best for our membership. As a mutual organisation, we do not seek to profit from Members. Our aim is to only charge what is needed to cover the costs of providing Members' insurance.



We are uniquely placed to meet the P&I insurance needs of our Members.



The ongoing challenging conditions that are seen by many ship owners and operators mean that downward pressure on the Club's income has continued in the first half of the year – for example, as a result of laid-up tonnage, operators reducing the size of their fleets and a slowdown in organic growth. Although we expect this tight market to continue, our risk-based approach to underwriting has helped deliver our key strategic aim to achieve a breakeven underwriting result.

The modest underwriting surplus achieved in the first six months of US\$ 0.7m has been supplemented by a favourable return on the Club's investment portfolio. This portfolio has contributed some US\$ 24m of surplus in the first half of the year – a return of 3.7%. We are hopeful that the various political and economic risks which many businesses currently face will not impinge on our future performance and that we are able to build on the total US\$ 25m first half surplus.

The Club's reserves at 30 June 2017 stood at US\$ 319m. This capital strength is a great comfort to Members and their brokers and provides further confidence as to the financial strength of their P&I insurer.

This capital strength is further supported by the Club's comprehensive reinsurance programme and the unique sharing of risks within the International Group pooling system.

As ever, we will continue to monitor our financial performance and position to ensure that mutual benefits are always delivered to our Members and their brokers who place their risks with us.

UNDERWRITING SURPLUS (in the first six months)

US\$ 0.7m

OVERALL SURPLUS (in the first six months)

US\$ 25m

CLUB'S RESERVES (at 30 June 2017)

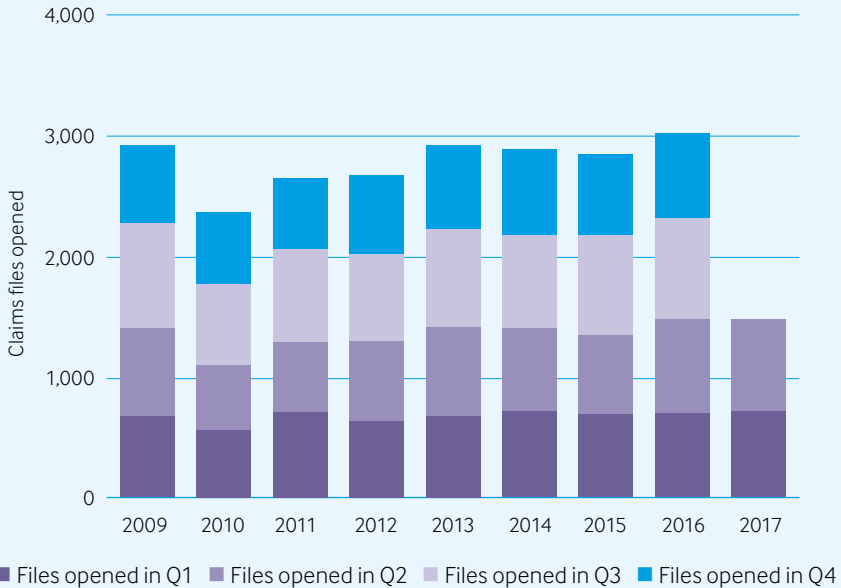
US\$ 319m

/CLAIMS ACTIVITY

Fundamentally, each ship owner enters into an arrangement with a P&I insurer who can offer them protection and should a claim occur, will assist and indemnify them for their claims.

It remains a simple transaction of trust and support and that is what we aim to offer first and foremost to our mutual Members. In all that we consider, be it additional products or services, the Club's governing Board of non-executive ship-owning directors frequently ask: does this benefit all Members?

FILES OPENED
As at 30 June 2017



When we review the half year claims position, the frequency of claims reported has remained remarkably stable. This is particularly evident when comparing 2017 with 2016. However, this stability masks frequency fluctuations in relation to vessel types, so often associated with movement in market activity.

As a consequence of the challenging offshore market, claims frequency from vessels supporting the offshore sector has declined. However within the cargo sector activity remains high, evidenced by an increased number of pre-load surveys – undertaken to assess the quality of certain specialist cargoes prior to shipment. We have also seen a small increase in frequency of actual cargo claims.

One area of significant vessel growth to the Club has been in the global yacht market. Our specialisation towards the larger yacht, often used for commercial charter purposes, inevitably results in more claims – often these are unique in nature due to the complex crew risks associated with multiple nationalities and the sensitive handling of passenger claims. Collisions can also be expensive when yachts are operating in close proximity with each other, as hull values are very high.

Despite claims stability, we have seen a 15% increase in overall quantum of claims reported. When we place our claims into value bands, this increase is particularly evident across the majority of lower claim bands up to US\$ 1m. When viewed against stable claims frequency, this supports the view that there is an element of claims inflation which is perhaps not surprising given the current market conditions. Today, the liability claims of ship owners are, quite simply, more complex and hence more expensive.



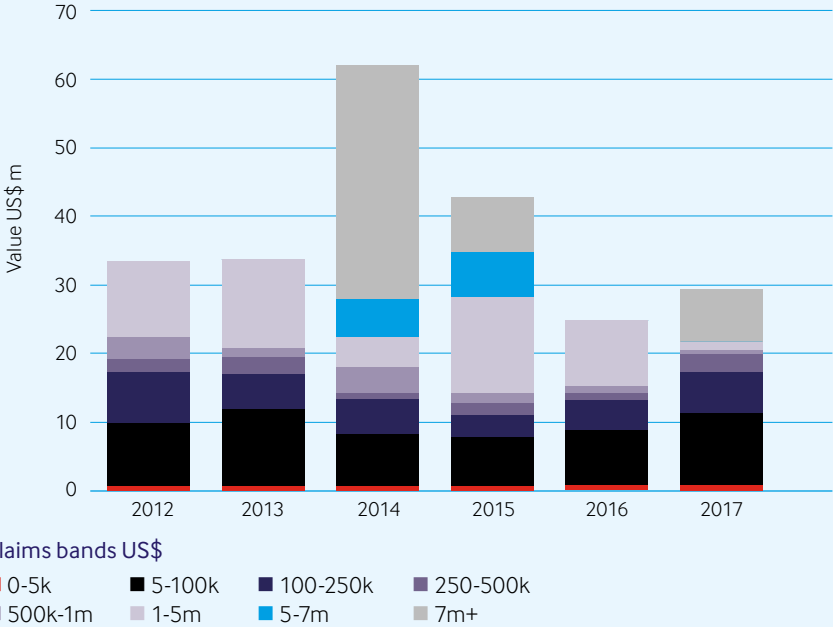
There is an element of claims inflation which is perhaps not surprising.



For claims above US\$ 1m, it only takes a small change in frequency to have a significant effect on the overall value of claims to the Club. It is for this reason that we are encouraged to report that within the US\$ 1m – US\$ 5m band there has been a slight slow down in frequency compared with the same period in 2016. This is the claims band where fluctuation has historically had the most impact on overall quantum. This positive trend continues within the US\$ 5m – US\$ 7m band, which remains claim free in line with 2016 at the same position.

One claim reported falls within the uppermost band in excess of US\$ 7m. Maintaining the theme of previous years, it is again wreck removal and environmental claims that dominate these higher-value claim bands and which impact most on the overall claim cost to the Club. However, we can turn to our reinsurers and our pooling partners to support the Club in addressing any future volatility in claims in the higher bands.

TOTAL INCURRED VALUE OF CLAIMS
As at 30 June 2017



Every insurer closely monitors the lower attritional claims that are generally retained in full by an insurer and not reinsured. Our experience and culture ensures a proactive, supportive and sympathetic approach to handling these claims, at an early stage. It is through these lower-value claims that we

recognise the importance of the spread of risk through our global membership and the application of sound underwriting techniques for each risk type. This is matched by the security offered by strong Club reserves. These remain essential components in assessing the value of a mutual insurer.

/UNDERWRITING PERFORMANCE

In the 2016 Annual Report, we acknowledged that shipping activity for many sectors in which Members operate was suppressed; this remains the case at the half year position.

Consequently, premium income from the Club's offshore sector has reduced by just over 6% at the half year point. In 2016, our offshore entries saw overall premiums reduce by 12.4%.

We continue to operate closely with our offshore Members and their brokers. As a mutual, we empathise with the difficult trading conditions and our dedicated offshore syndicate offer proactive advice and support, including our recently published *Endurance Guide*, to assist Members in tackling some of the issues that have arisen from the tough market conditions.

In all other vessel sectors, we have seen tremendous support from owners and their brokers. European inland craft, and the Club's close association with Euro P&I, has seen continued growth in what is foremost considered a traditional inland maritime network. Our yacht syndicate has developed bespoke solutions which address the complex risks associated with these highly valued prized possessions. Our specialisation in the tug and barge sector continues, and this has been supported by a focused loss prevention initiative offering a practical safety and operational guide.

When we assess a risk, we ensure that it is to the benefit of the mutual membership as a whole. Therefore, maintaining underwriting discipline is important in order to ensure that we are not pricing risk that may incur a negative underwriting result. What we have seen more recently is that increased insurance market capacity leads to an increased appetite from insurers to offer reinsurance capacity. This simply fuels what is already a very soft insurance market. As a mutual, we only need to break even in our underwriting result by covering the costs of claims plus our operating expenses; we do not seek to make a profit in our underwriting. The reported combined ratio stands at 99% and this demonstrates the small margins to which we always work.

Regular analysis of claims data can assist our underwriting decisions. As we report, claims are generally running in line with expectations. However, there is a concerning trend emerging in relation to certain crew claims. We have seen state compensation schemes for seafarers, especially in France and Italy, seeking recovery for crew compensation claims. This has and will continue to impact on the tail that is so often part of the long-term nature of a liability claim. Previously, we would have considered such claims to represent shorter tail business and, while we have always made substantial provisions for crew claims in areas such as the UK, Australia and the United States, such provision is becoming increasingly necessary in other areas too.



We ensure that our Members receive consistent support in times of both hardship and prosperity.



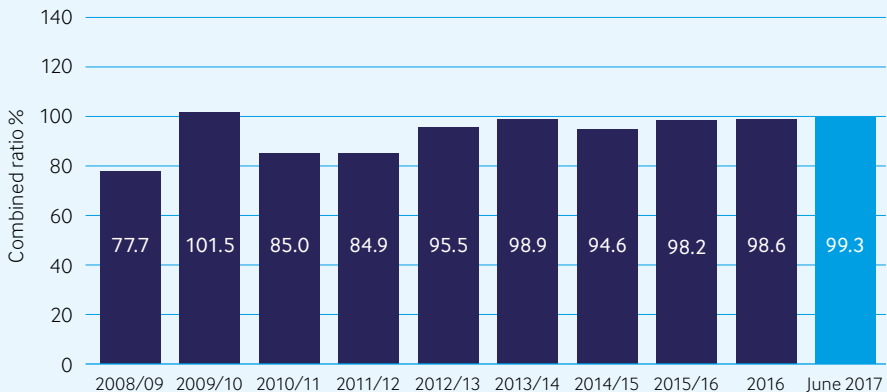
We are aware that Members, through their diverse operations, seek certainty of cover for many different risk types. This is typical of a specialist vessel operation. Consequently, we continue to develop additional products aligned to Members' vessel types and trading areas – exemplified by the plain language policies that continue to evolve and offer a simplified, yet fully comprehensive, liability product.

We now have a dedicated business development representative from the Club based in Greece as we seek to develop even closer ties with Members and brokers there. We continue to explore new opportunities within the small and specialist vessel sector and are currently engaging in partnership arrangements in China.

What we see in the insurance market today is a huge availability of choice to ship owners wishing to insure a vessel's P&I risks. Choice is good – it encourages innovation through product offering, it helps to keep owners' premiums to a realistic level, it ensures that the highest levels of service standards are offered and that claims are paid. These principles will always remain at the heart of the Club's strategic aims. Through our brand, service and financial strength, we ensure that Members receive consistent support in times of both hardship and prosperity.

COMBINED RATIO

As at 30 June 2017



/THE CLUB'S INVESTMENTS

While the underwriting and claims performance of any mutual is essential, so are its investments. The Club has an actively managed investment portfolio of some US\$ 575m.

These funds belong to the membership. Wise investment and governance are essential by the Club's Board in its investment strategy, direction and policy.

The Club's benchmark policy is to invest approximately 75% of the portfolio in cash and fixed-income products, with the balance in equity investments. The currency balance is weighted heavily towards the US dollar (89%), with smaller balances in sterling, euro and other currencies. The Club has a longstanding relationship with Berenberg Bank, working closely together to achieve a strong balance between asset management, risk and return.

Global capital markets have generally performed well in the first half of the year and the Club has benefited from this, delivering a year to date return on the portfolio of 3.7%. This compares favourably with benchmark performance and has contributed to a total gain from investments in the first half of the year of US\$ 24.3m.

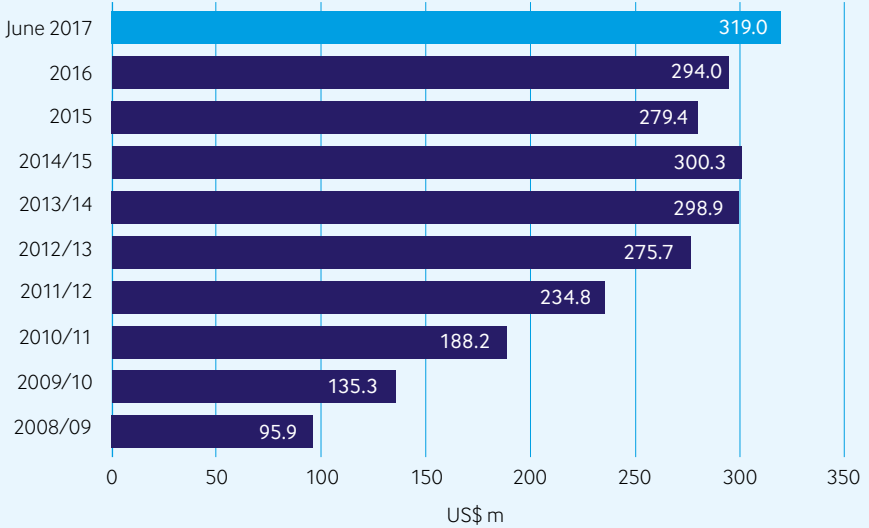
Continuing political risks mean that the global economy remains uncertain. Despite that, with the oversight of the Club's Finance Committee and the expertise of our investment managers, we hope to continue to see favourable performance of the investment portfolio into the future.

/FREE RESERVES

The first six months of the year have produced a surplus of US\$ 25.0m, increasing the Club's free reserves to US\$ 319.0m.

FREE RESERVES

As at 30 June 2017



INTERIM CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

	Six months to 30 June 2017 (unaudited) US\$'000	Six months to 30 June 2016 (unaudited) US\$'000	Year to 31 December 2016 (audited) US\$'000
Gross premiums earned	105,875	112,781	228,580
Outward reinsurance premiums	(13,512)	(14,071)	(27,527)
	92,363	98,710	201,053
Ultimate claims net of reinsurance	(67,815)	(72,668)	(149,087)
Net operating expenses			
Acquisition costs	(14,270)	(14,308)	(29,419)
Administrative expenses	(9,593)	(9,870)	(19,745)
	(23,863)	(24,178)	(49,164)
Underwriting account balance	685	1,864	2,802
Investment return*	24,273	9,473	11,782
Taxation	68	463	135
Other income/(expenses)	(32)	(27)	(56)
Result for the period	24,994	11,773	14,663
Combined ratio	99.3%	98.1%	98.6%
Capital and free reserves	319,034	291,153	294,041

* Net of charges

INTERIM CONSOLIDATED BALANCE SHEET

	30 June 2017 (unaudited) US\$'000	30 June 2016 (unaudited) US\$'000	31 December 2016 (audited) US\$'000
Investments	565,154	547,548	550,232
Reinsurers' share of technical provisions	120,948	143,310	107,454
Debtors	115,046	117,755	46,870
Other assets (including cash)	127,295	117,432	107,844
Prepayments and accrued income	20,333	35,552	10,721
Total assets	948,776	961,597	823,121
Capital and reserves	319,034	291,153	294,041
Gross technical provision	442,962	476,605	433,441
Provision for unearned premium	134,720	137,485	57,842
Creditors and other liabilities	49,149	51,380	32,338
Accruals and deferred income	2,911	4,974	5,459
Total liabilities	948,776	961,597	823,121

/CONCLUSION

We welcome the opportunity during the remainder of the financial year to meet and speak with our membership, through their brokers or directly.

We value our strong and loyal membership and while quality growth is important to us, so is the retention of our established membership and this remains our continued focus. To ensure that ship owners and their brokers continue to renew their insurances with us, we know that we must never take their custom for granted. We acknowledge this by providing Members with the highest quality of service, financial stability and, at all times, a professional and approachable attitude. These are the attributes that we guarantee when becoming part of and belonging to The Shipowners' Mutual P&I Club.



