West of England

Mid-Year Review

September 2016

Financial Highlights 20th August 2016

- Free Reserve growth of 8% to $299.3m
- Combined ratio at 93.3%
- Positive investment return
- Capital maintained significantly in excess of 'AAA' on S&P's capital model
- Owned and chartered tonnage in excess of 100m GT
- AM Best A- rating

Overview

The Club's capital position reported in February, has continued to strengthen in the six months to August 2016. During this period there has been further 8% growth in free reserves to close to $300 million (Fig. 1). The combined ratio stands at 93.3% and remains within our financial target of below 100% (Fig. 2).

Owned and chartered tonnage continues to grow through organic growth and new business with combined GT in excess of 100m illustrating a strong and growing commitment to the Club. Owned tonnage alone now exceeds 75m GT, although the number of entered vessels has remained broadly similar indicating that the average size of entered vessels continues to increase. (Fig.3).

Fig. 1 – Free Reserves

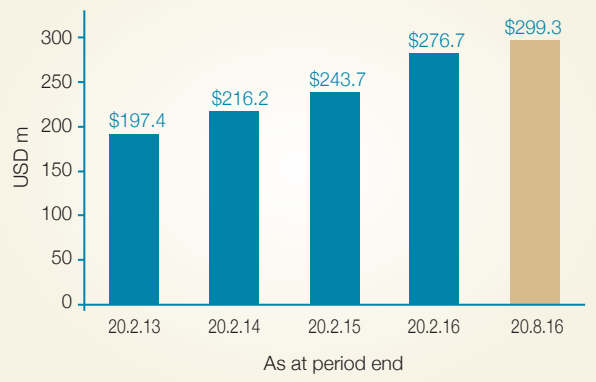


Fig. 2 – Combined Ratio

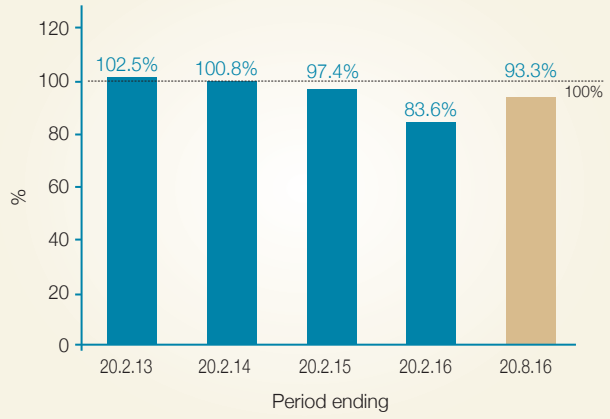
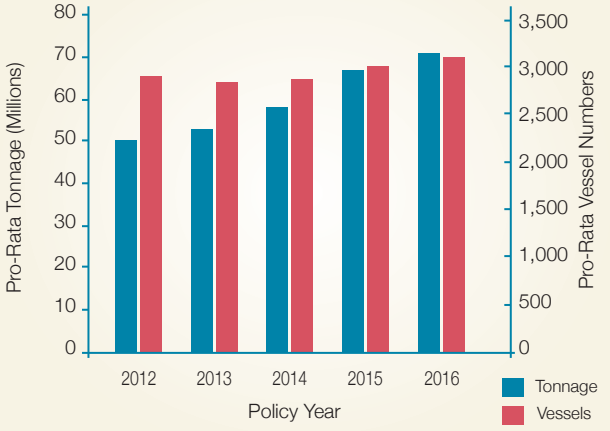


Fig. 3 – Mutual Tonnage and Vessel Numbers

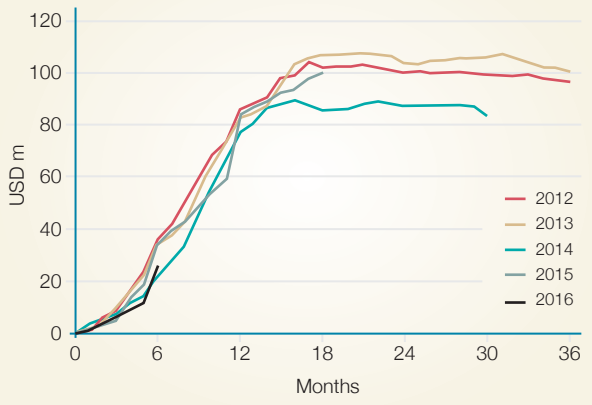


Claims

The excellent claims trend reported in February continues (Fig. 4). Of particular note is the positive development of 2014 with 2015 following the levels of other more recent policy years. At the six month point, claims for 2016 are following the same positive trend.

Pool claims data for the first six months of 2016 is also encouraging, with only six notified claims by other Clubs to the pool, similar to 2015 at the same stage of development. Our own pool record remains positive with a provisional pool contribution of just over 6%.

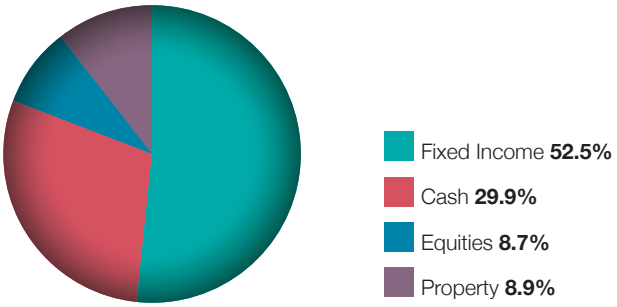
Fig. 4 – Class 1 Members' Claims Net Incurred Cost



Investment Performance

Whilst the Club maintains a conservative investment strategy (Fig. 5) the investment performance on financial assets exceeded expectations. Notwithstanding adverse currency effects on property arising from sterling weakness an overall investment return of 1.8% ($10.6 Million) has been achieved in the first six months of the year.

Fig. 5 – Investment Asset Allocation



Capital Management

The Club's solvency capital continues to be well above the SCR requirements under Solvency 2. The strengthening of the Club's Balance sheet since 2008 and the conservative approach taken to risk are reflected in the Club's strong capital position. The Club measures itself against the models of its two interactive rating agencies, AM Best and Standard & Poor's. The Club's capital is again significantly above an 'AAA' level on both models and is forecast to remain in that range.

Renewal 2017

Whilst the operating performance of the Club remains strong, the effects of churn and volatility in the investment markets require continued underwriting discipline. However, the Managers are conscious of the difficult operating environment most sectors of business continue to experience and this will be reflected in the Club's approach to the renewal.

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