West of England

Financial Highlights

20 February 2017

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- **Free Reserves growth of 11% to record $306.5m**
- **Combined ratio at 87.2%**
- **Positive investment return**
- **Owned and chartered tonnage in excess of 110m GT**
- **Standard & Poor's and A.M. Best A-rated security**

Overview

The Club's financial position has strengthened again in 2016/17. Another positive set of financial results mean Free Reserves stand at a record high of $306.5m, an increase of 11% from a year ago and 26% since 2014/15 (Fig.1).

Underwriting performance remains strong. The combined ratio continues to remain below break-even, at 87.2% for this year (Fig.2), reflecting the Club's continued strategic focus on underwriting discipline and targeted growth in core business areas.

Entered tonnage now exceeds 110 million GT with the Club experiencing continued support from both existing and new Members, however the number of entered vessels continues to grow conservatively ensuring the quality of the Membership remains high (Fig. 3).

The Club's policy of separately charging the cost of the International Group's excess of loss reinsurance programme allowed it to pass on all the significant reduction in Group reinsurance costs for Policy Year 2017 to its Members.

Rating agency Standard and Poor's ("S&P") recognised the Club's financial and operating strength in December, upgrading it to A-, meaning that the Club is "A rated" security with both of its interactive rating agencies, S&P and A.M. Best.

Fig. 1 – Increased Free Reserves

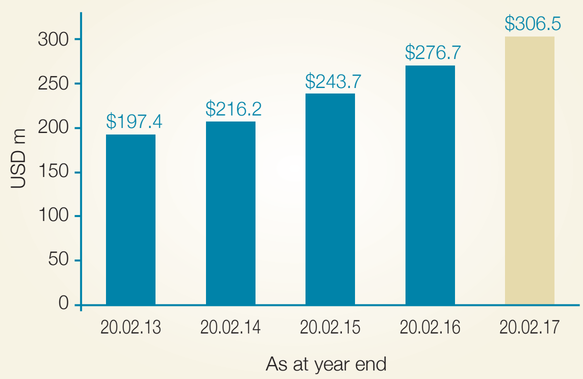

Fig. 2 – Combined Ratio

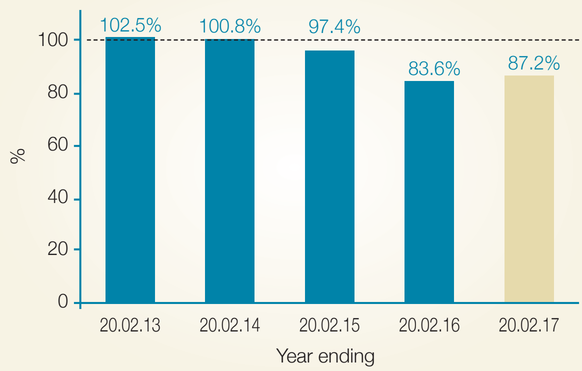

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Fig. 3 – Mutual Tonnage and Vessel Numbers

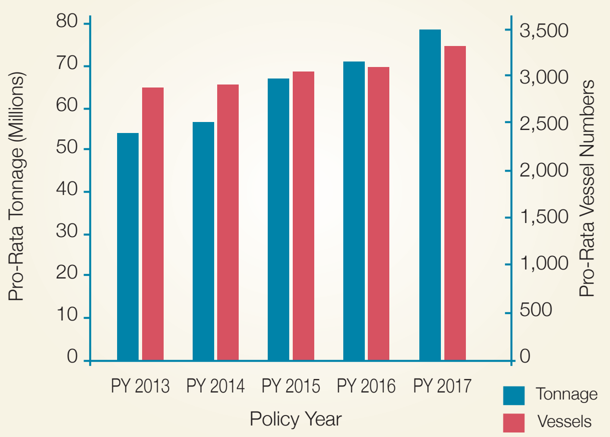
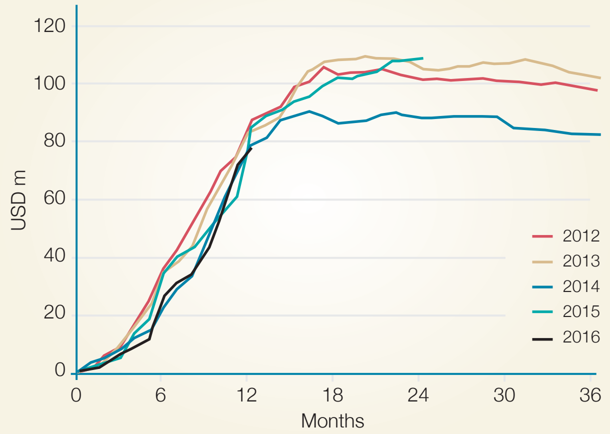


Fig. 4 – Class 1 Members' Claims Net Incurred Cost



Claims

Members' own claims continue to develop within the Club's forecasts and at the lower levels seen since Policy Year 2011. Whilst 2015 has developed later than other recent years, the older years have improved, with 2016 developing so far in line with 2014 (Fig.4).

The Club benefited from the exceptionally low International Group Pool result recorded for Policy Year 2016, allowing projections to be lowered from those adopted at the mid-year. This is a key reason why the Club's combined ratio, at 87.2%, has improved from that published at mid-year. The Club's own Pool contribution continues to benefit from its consistent satisfactory Pool record.

The Club remains cautious in its predictions of future claims and has maintained the reserving strength of its Balance Sheet at the same high level as for prior year-ends.

Investment Performance

The Club's conservative asset allocation has remained constant during 2016. A 3% ($15.8m) return on its financial assets was offset by valuation and currency movements, arising mainly from uncertainty surrounding Brexit that affected the sterling value of its London property which led to an overall investment return of 1% ($6.6m), after tax.

Looking Forward

The Club remains well positioned financially, with strong capital supported by conservative underwriting, reserving and asset management discipline. However, despite some recent encouraging signs for ship owners and operators in freight rates and other data after several years of difficult trading, the Club is mindful of the continued volatility in all sectors of the industry. Its approach is therefore to maintain capital at a level necessary to meet the pressures ahead, whilst remaining strongly committed to being a dedicated mutual providing cost effective cover for its Members through excellent, high quality service.

West of England Insurance Services (Luxembourg) S.A., Tower Bridge Court, 226 Tower Bridge Road, London, SE1 2UP

T: +(44) (0)20 7716 6000 F: +(44) (0)20 7716 6100 E: mail@westpandi.com W: www.westpandi.com