

Global service
built around you

North

Forward thinking

Pre-Renewal Report 2020



Chairman's Statement

With our expert people, unique capabilities, strong management team and our financial strength, North has all of the attributes necessary to deliver long-term growth and value for our Members. This half-year point is marked by a number of significant strategic achievements that will underpin sustainable growth for North in the years ahead.



Chairman's Statement (cont.)

Twelve months ago, at the 2018 mid-year point, I noted how the marine insurance landscape was fraught with difficulties, with shipowners facing challenges from legal authorities and regulators, developing technologies, and demanding markets. Throughout this challenging period, we have persisted with our strategy of maintaining a balance between reliable financial management and our desire for continued growth.

Over the past six months, the number and value of pool claims reported by other International Group (IG) Clubs has had an adverse effect on our technical underwriting results; the very recent experience of this Club has shown that North is also not immune to those risks. We are currently projecting our combined ratio at 20 February 2020 to exceed last year's outturn of 105% and a negative impact overall on the Club's free reserves. We will remain comfortably within the target capital range set by the Board albeit below last year's position.

I highlighted in my statement last year that, absent corrective action, the continuation of the trend – of diminishing premium levels even against a background of level, if not slightly inflated claims – would eventually threaten the financial equilibrium of any Club.

Members will know from their discussions with their underwriters that North has been using individual Members' records as the basis for deciding premiums for many years and there will be no change to this approach for the coming renewal. The enduring legacy of reducing premium rates in the IG is only exacerbated by successive years without asking for general rate increases; at the same time our combined ratios confirm that we're not generating enough income to pay for the claims. Our projections now tell us that it is time to take remedial action and so the Board has decided that the Club will announce a General Increase in P&I and FD&D premium rates of 7.5% for the 2020/21 policy year. The Directors remain satisfied that in accordance with principles of sound corporate governance, a transparent general rating increase is the most appropriate and equitable mechanism by which to notify Members of the Club's overall budgetary requirements for the forthcoming policy year.

The half-year investment income of US\$28.2 million, representing a return of 2.88%, illustrates how a sensible investment strategy can provide meaningful and dependable returns in a time of market uncertainty and volatility. The retention of our Standard & Poor's 'A' ratings for the 14th consecutive year, this time under their new Insurers Rating Methodology, again demonstrates North's disciplined approach.

As part of ensuring and building financial strength, North's strategy does include an objective to grow our income. However, this is not to say that we 'chase' growth, or in any way abandon the standards that have led to North's development as a large insurer of high-quality tonnage.

On the contrary, we take a reasoned and careful approach, no more so than with our recent diversification into the fixed premium P&I insurance market. We will offer this to operators of smaller vessels – typically under 10,000gt – under the Sunderland Marine brand, which is already well known for its superior proposition and which is now delivering significant profit for North. This venture has provided us with the opportunity for opening a new office in London and, while Newcastle will always remain the spiritual home for North, we have no doubt that our new London base will be unlocking new opportunities for the Club. Most importantly, it will deliver valuable diversified income to help us ensure predictability in the rates of premium that our mutual Members contribute.

Despite the challenging conditions facing the maritime market and the higher number of reported pool claims, we remain intent on meeting our objectives of delivering predictability in the Club's performance and providing tangible value and exceptional services to our Members. As a mutual Club, we rely upon our Members to drive the business forward, and it is very encouraging to see the continuing level of support that the Club enjoys. It is this continued commitment from our Members which makes North exceptional.

Pratap Shirke,
Chairman
November 2019

Club Highlights – Financial Performance

Financial Results

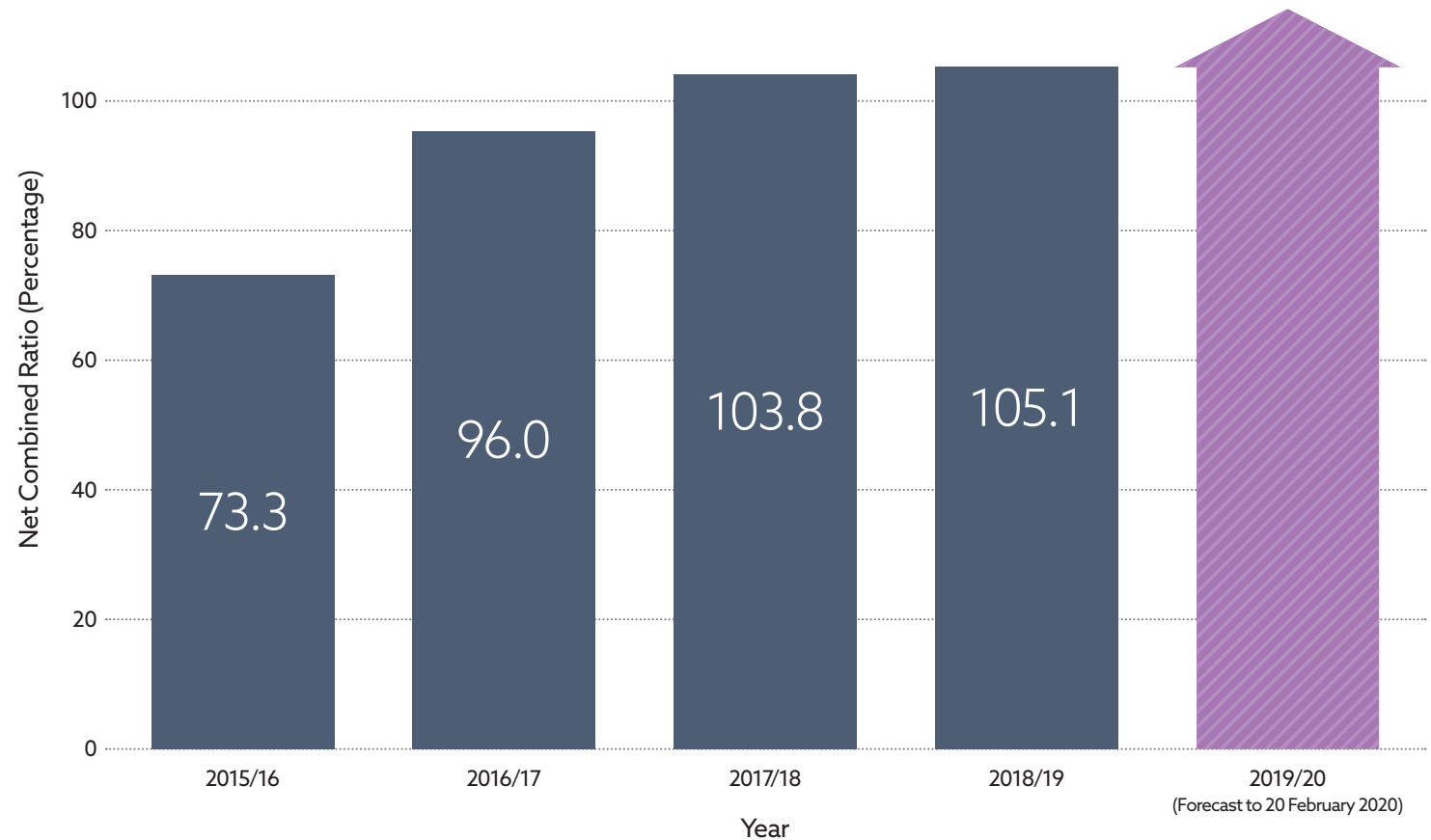
We are forecasting a combined ratio in excess of last year's 105%. This is expected given two key drivers – the continued suppression of rates and premium income set against rising International Group pool claims in the first half of the year.

At this stage we anticipate that the underwriting deficit will outweigh investment returns and that our free reserves will be lower in February 2020.

Capital Position

The Club's capital position remains strong and within the agreed target range, even with the projected fall in free reserves. We continued our Standard & Poor's 'A' (Stable) rating under the new rating methodology supported by capital sufficient to meet the 'AAA' capital requirement in the Standard and Poor's capital model.

COMBINED RATIO PERFORMANCE



Club Highlights – Investments

Investments

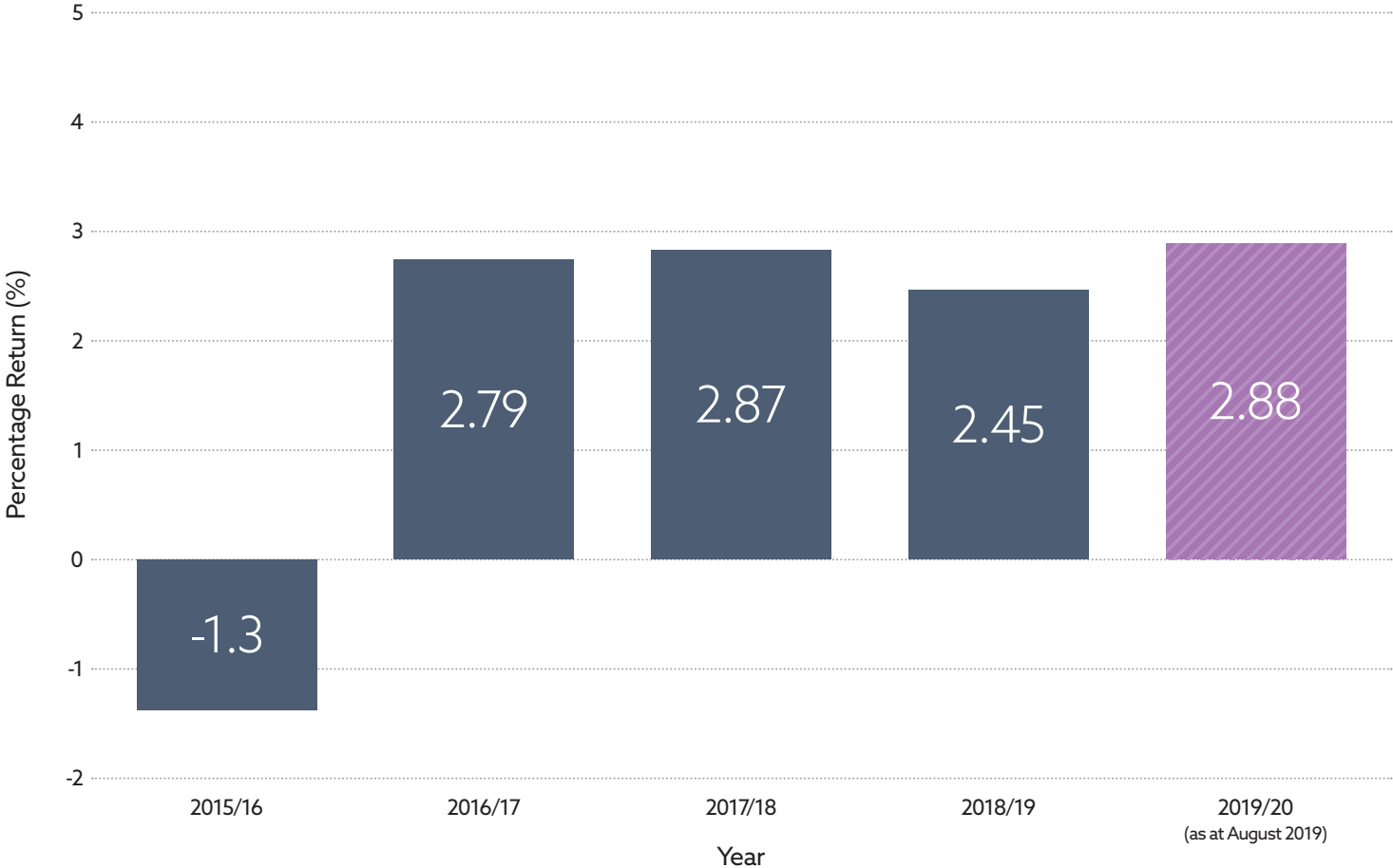
The Club’s investment income at the half-year point was US\$28.2 million, a return of 2.88% net of fees and across all classes of business. This is a satisfactory 6-month performance for a prudent portfolio focussed on financial security.

Investment Strategy

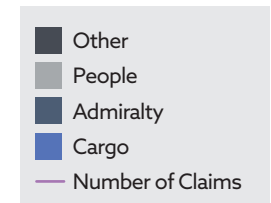
Since the half-year point we have developed our investment strategy to broaden the types of assets and sectors to which our surplus asset portfolio is exposed. This strategy will drive some income growth whilst retaining a similar overall risk profile. We continue to invest responsibly with our liabilities being matched for duration and currency in highly secure asset classes.

INVESTMENT RETURNS

At 20 February



Club Highlights – Claims



Attritional Claims

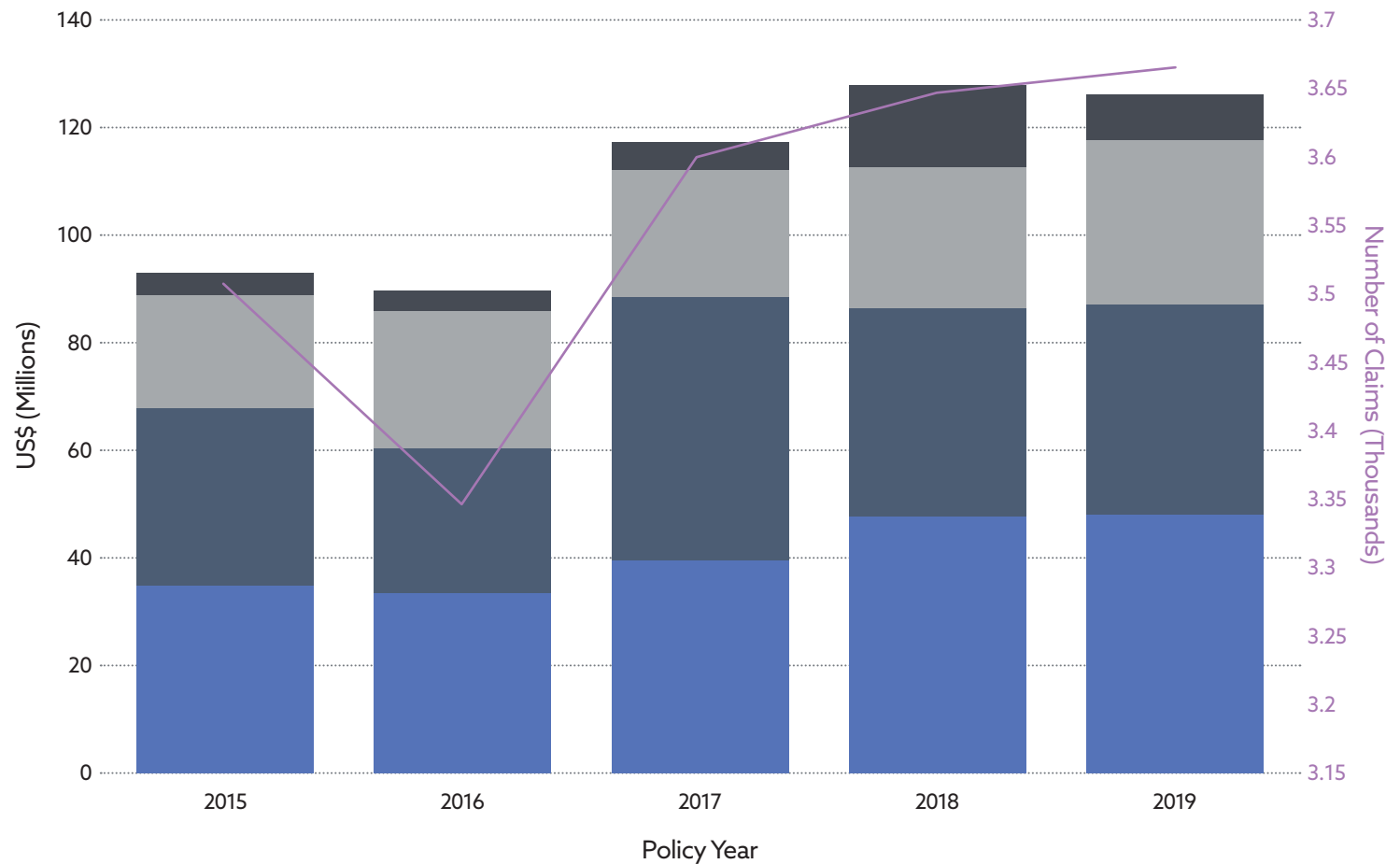
The total number of claims reported in the first half of the 2019 policy year was 3,655. This is in line with our claims experience since 2015, notwithstanding the significant growth in North's tonnage over that period. During the first six months of the year, there has been no significant departure from historical norms in any of the major claims categories.

Large Claims

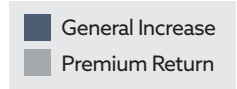
Although overall large claims are at similar levels to recent years, we have experienced two major casualties in the year so far in the "Grande America" and the "Golden Ray". Whilst it is too early in their development to accurately assess the cost of these incidents, both will be International Group pool claims. The strength of the pooling system, as well as the real depth of skills and experience we have in dealing with such complex incidents, allows us to respond confidently and with the best possible outcomes for our Members.

RETAINED CLAIMS

At 6-month development point



Club Highlights – Renewal



General Increase

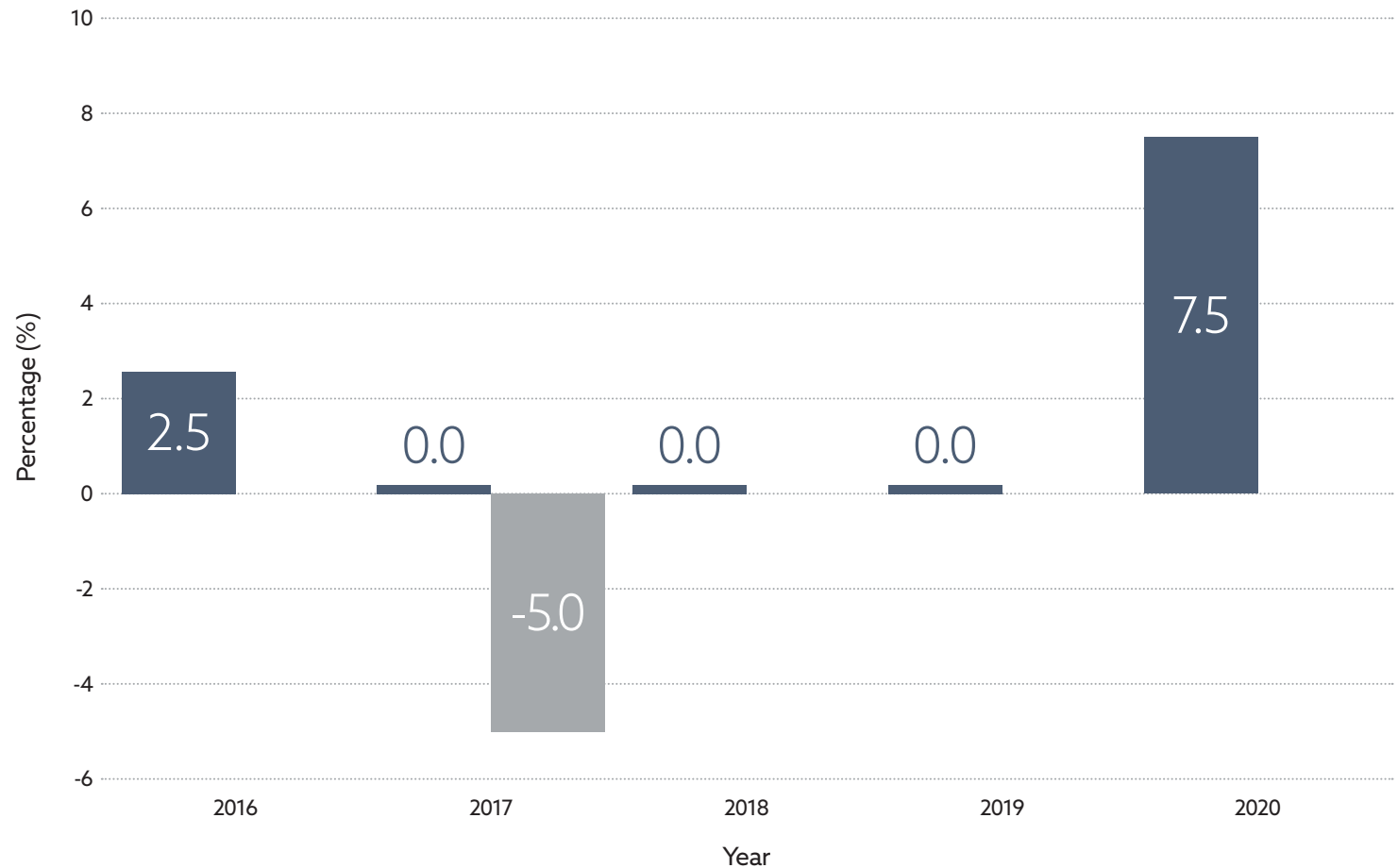
The Board has decided that the Club will announce a General Increase in P&I and FD&D premium rates of 7.5% for the 2020/21 policy year.

Membership

The Club's total entered P&I tonnage at the mid-year point increased to 210 million GT – a growth of 5% – with total FD&D tonnage increasing to 160 million GT.

GENERAL INCREASES AND PREMIUM RETURNED

At 20 February





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