

Global service
built around you

North

Forward thinking

Pre-Renewal Report 2021

Chairman's Statement

Over the last nine months, the world has changed as a result of COVID-19. Our priority has been to safeguard the welfare of our people and to ensure that our Members can continue to trade with confidence in this time of unprecedented global uncertainty.



Chairman's Statement (cont.)

As I prepare my final statement as Chairman of North in this Pre-Renewal Report, it is a time of unparalleled global turmoil. The COVID-19 pandemic is a hugely testing time for families, communities, businesses, including the shipping sector, and society as a whole. I am proud to say that North's response to this crisis has been outstanding and strongly reflects our core purpose – to ensure our Members can trade with confidence.

Since the outbreak of COVID-19, many within North have altered their usual working practices and adapted to working from home. Their willingness and agility in making these changes have been remarkable and have formed the cornerstone of North's ability to operate so effectively during these difficult times. Under the leadership of Paul Jennings and his team, we have continued to deliver our exceptional service to Members without interruption or compromise. More importantly, we have been able to achieve this whilst prioritising the safety and health of our people and their families.

Irrespective of COVID-19's broader commercial impact, North's transition from a traditional P&I club to a leading global marine insurer remains uninterrupted. We continue to build strong strategic foundations to deliver predictability, security and reliability for our Members. Our drive for diversification and growth, which lies at the heart of our plans, complements our desire to be a large global insurer of high-quality tonnage and continues to deliver new income streams for the Club. Our diversified lines are on target to meet business plan objectives and we expect future growth in areas such as fixed premium P&I, hull and machinery and aquaculture.

Since our 20 February 2020 year-end, investment market volatility has intensified, and the importance of our strong capital reserves is clear. The S&P 500 index lost a third of its value by March before recovering to within a percentage point of its opening position by mid-year. Changes in corporate bond spreads were no less dramatic. Treasury yields were at least consistent and continued to move downwards with the yield on the benchmark US 10-year treasury falling from 1.52% at 20 February to 0.64% at our half-year point. Overall, we saw a positive investment return of 2.16% by August – around US\$20 million. However, with the prevailing market uncertainty around risk assets, and little yield available now on the defensive positions that make up the majority of any prudent insurer's portfolio, it is not sustainable to build a business plan around historical levels of investment return.

At the half-year point to 20 August 2020, the rapid escalation in the number and value of pool claims reported by International Group (IG) clubs suppressed our technical underwriting results. The aggregate value of the ten claims declared to the pool in the first half of the year, according to our records, is the highest in at least 25 years. Consequently, North's combined ratio is currently projected to surpass 110% at 20 February 2021, with a corresponding decline in the Club's free reserves.

In response to the rapid escalation in the number and value of pool claims reported by IG clubs, and their expected impact on club operating performance and technical

underwriting results, the rating agency S&P Global recently conducted an 'event review' across the whole P&I sector. This resulted in the outlook for a number of IG clubs, including Gard, North and the UK Club, being adjusted from stable to negative. In its review S&P reaffirmed North's 'A' rating and confirmed that North continues to hold capital adequacy above the 'AAA' benchmark.

The challenges presented by rapidly increasing pool claims are exacerbated by the prevailing unsustainable premium rates. Our experience of rising pool claims in 2018, 2019 and the first half of 2020, indicate that a new claims pattern is emerging. As I have reported for the last two years, premium levels that do not keep pace with rising claims threaten the longer-term financial strength and stability of all P&I clubs. Despite the raft of general increases announced by P&I clubs in 2019, further premium correction in response to the reported pool claims trend and the inadequacy of current rating levels is to be expected.

Against this background, renewal discussions with Members, including a comprehensive review of individual claims records, have commenced. Based on our financial projections, the Board has agreed that the Club will seek a 10% General Increase in P&I premium rates for the 2021/22 policy year. In continuing North's principles of strong corporate governance, the Directors continue to believe that announcing a transparent general rating increase remains the most equitable mechanism to communicate the Club's overall budgetary requirements for

the next policy year. Each specific individual Member renewal will, of course, be negotiated based on a detailed review and assessment of performance and risk exposure.

Despite the challenges presented by the higher number of reported pool claims and the ongoing global pandemic, the Club remains financially strong and stable, committed to delivering superior service to our Members, providing demonstrable Member value and, as far as possible, predictability in the Club's overall performance. It is reassuring to see the level of support and commitment that the Club continues to enjoy from its Members. Without this level of engagement and loyalty, it simply would not be possible to drive the business forward. With this in mind, I am delighted to report that James Tyrrell of Arklow Shipping, our current vice-chair, will succeed as Chair of North in the coming months (subject to regulatory approval). Ioanna Procopiou of Sea Traders S.A. was elected as vice-chair in September 2020, and I am confident that both James and Ioanna will help guide North through the next exciting stage of its development. North is an extraordinary organisation with a long and proud history, and I am honoured to have played a small role in its recent evolution. I offer James and Ioanna, along with Paul Jennings and everyone at North, my very best wishes for a successful future.

Pratap Shirke, *Chairman*
19 November 2020

Club Highlights – Financial Performance

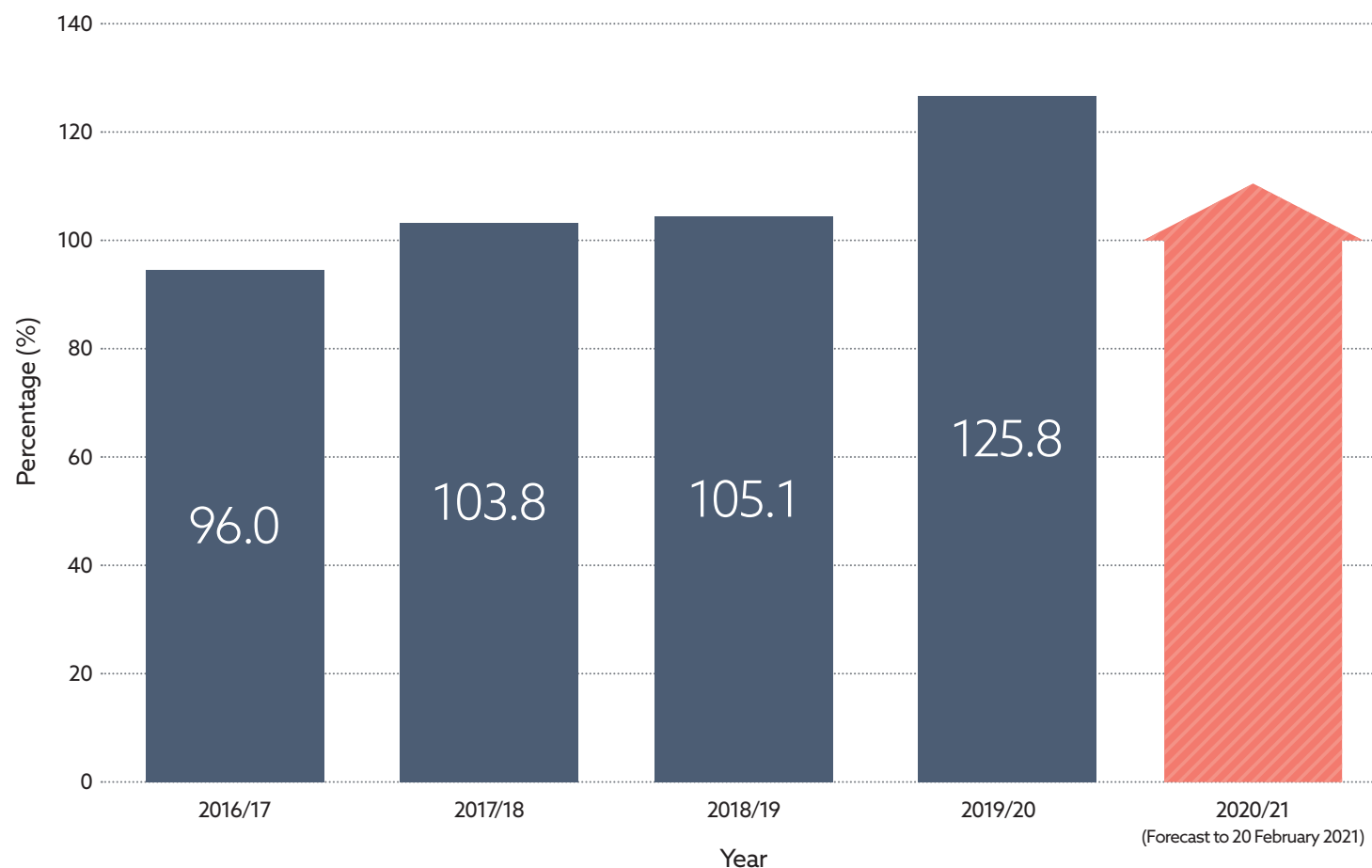
Financial Results

Our combined ratio is projected to be over 110% for the financial year ending 20 February 2021, improving upon last year's position. This projection is based upon a dramatic increase in the value of International Group pool claims and current premium rates restraining income. Some further correction is still required to the underlying premium rates to return our underwriting performance to our target range. We anticipate that our free reserves will reduce in February 2021 as the expected investment returns will not compensate for the forecast underwriting deficit.

Capital Position

The Club's current capital position remains strong and within our target range. We retain S&P 'AAA' capital coverage and continue to focus on writing our mutual book sustainably which, alongside the critical contribution from our diversified lines, is fundamental to our operating performance and future outlook with S&P.

COMBINED RATIO PERFORMANCE



Club Highlights – Investments

Investments

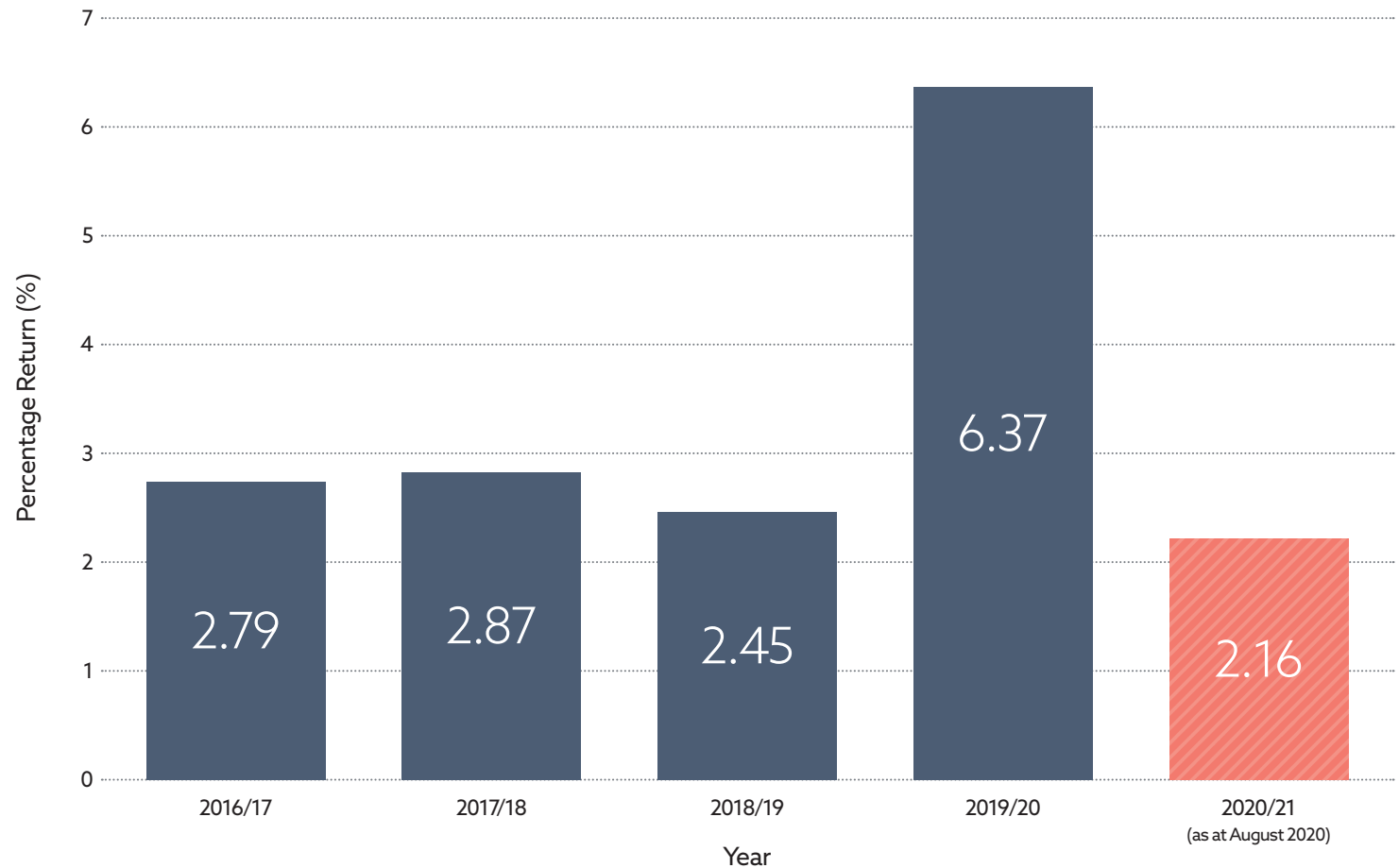
The COVID-19 pandemic has driven intense market volatility since our financial year-end in February 2020. Investments have moved over a considerable range during this period, and our gain of just over US\$20 million at the half-year point belies the fragility of investment markets. Our positive return of 2.16% was welcome in these circumstances. However, we see average returns being suppressed over the coming years as structural factors maintain interest rates at very low levels, albeit we may experience more dramatic swings in the near future. Across the market, we will need to be prepared for a shift in expected yields. Currently, the yield on US 10-year treasuries ranges from 0.5% to 1%, whereas a 2.5% to 3% yield might have been expected two to three years ago.

Investment Strategy

We continue to invest responsibly with our liabilities being matched for duration and currency in highly secure asset classes. Our investment strategy has a broad spread to reduce volatility whilst retaining acceptable levels of return. Our portfolio is now highly diversified by both investment type and by manager within our asset allocations. This is a long-term strategy, over which we hold modest dynamic (short-term overlaid) positions in response to the market.

INVESTMENT RETURNS

At 20 February



Club Highlights – Claims

Attritional Claims

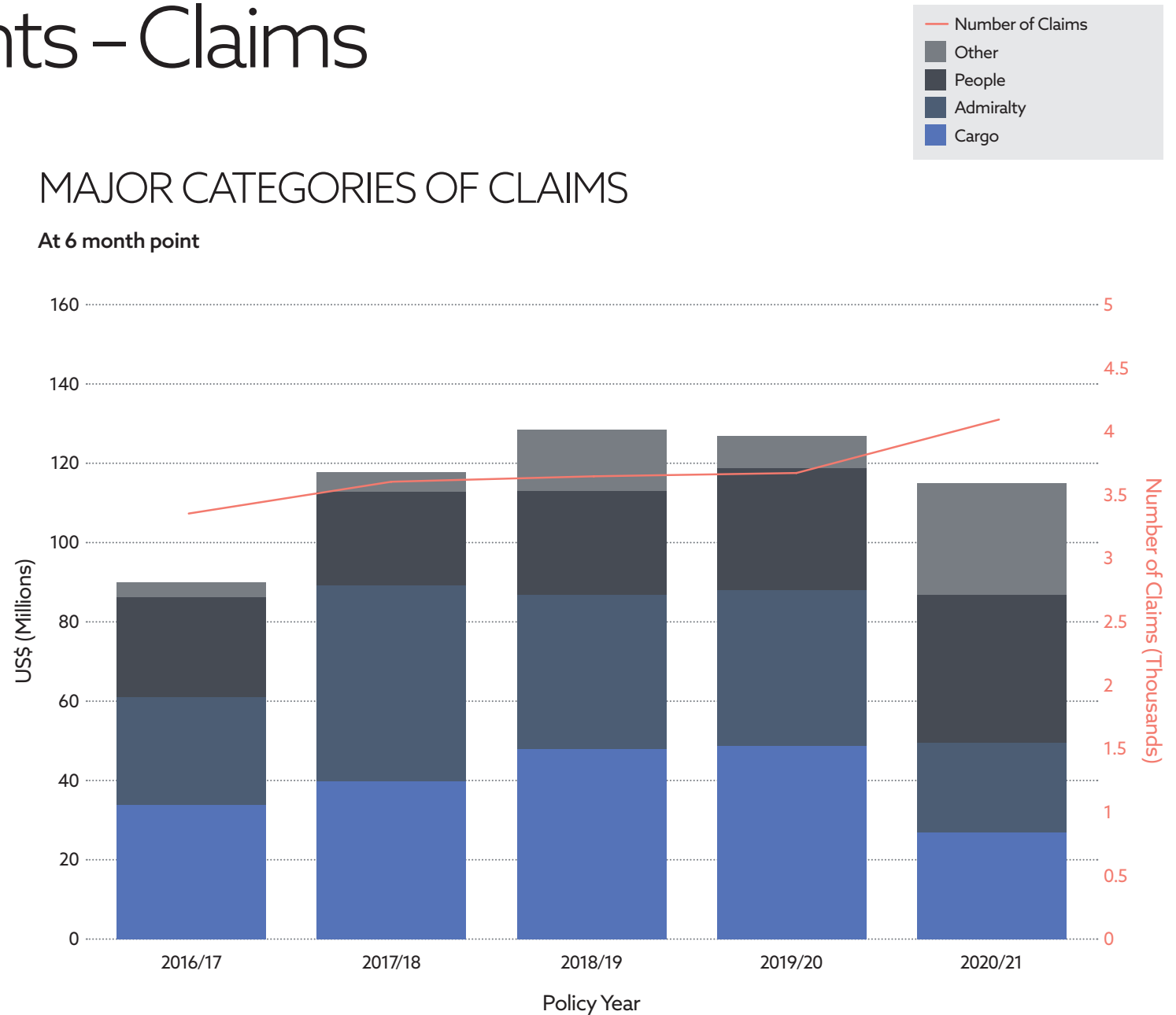
During the first half of the policy year, principally in the first quarter, we experienced a lower value of retained claims, with a notable absence of large claims over US\$1 million. Claims values returned to normal during the second quarter, although the good start to the year has meant that the overall value of retained claims has continued to trend at the lower end of the expected range. However, we have experienced significant deviations from the norm in terms of the breakdown of major claims types, with admiralty and cargo claims representing a lower share of the overall claims cost than usual. Claims relating to crew and other claims, which include charterers claims, have been higher. The overall number of claims handled has also increased significantly.

Large Claims

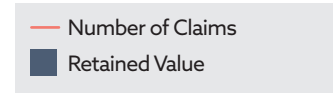
In the first half of the year, the Club recorded 15 claims over US\$1 million and no pool claims. These figures are better than the past year performance by number and value at this early stage in the year's development.

MAJOR CATEGORIES OF CLAIMS

At 6 month point



Club Highlights – Pool Claims

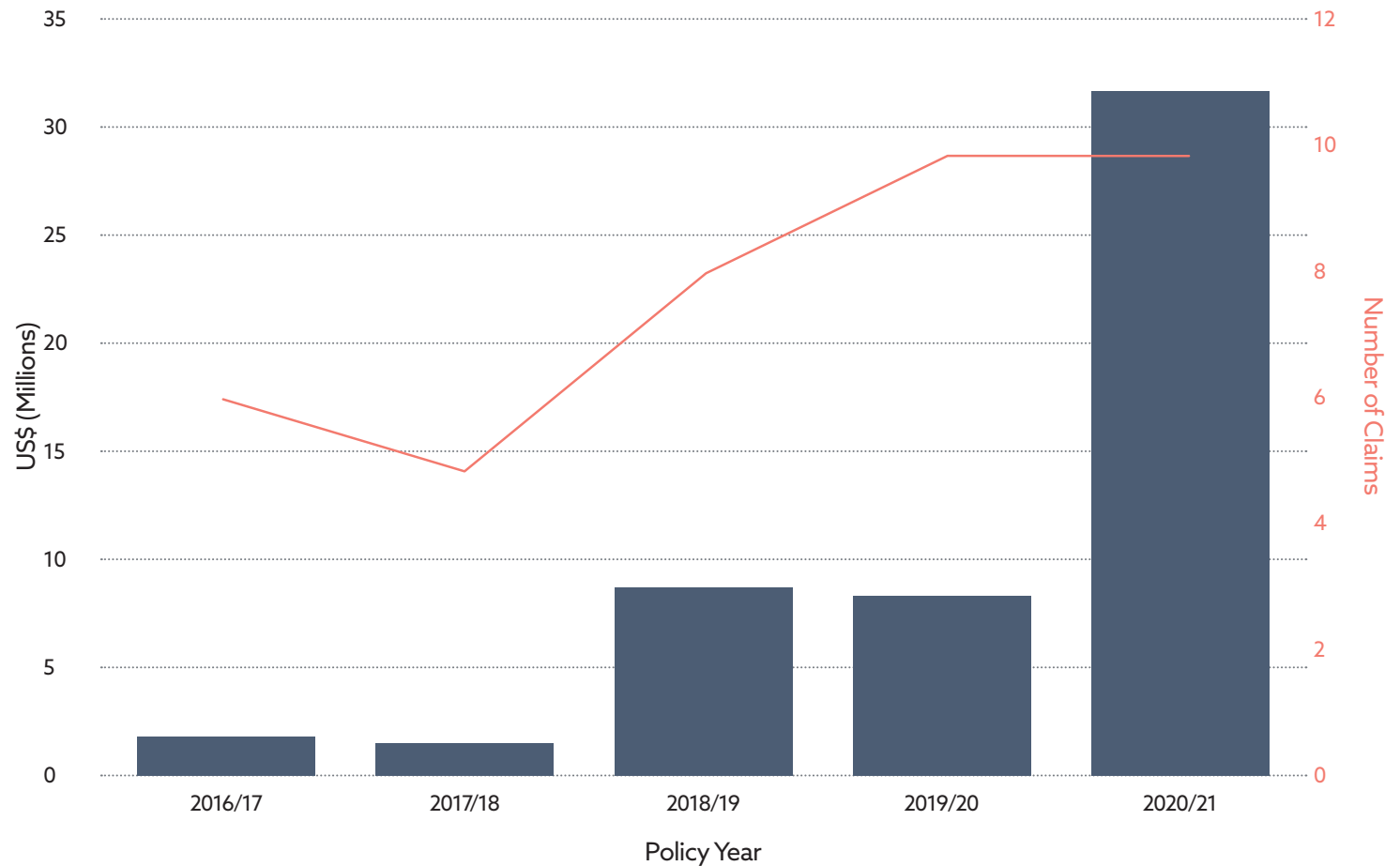


Pool Claims

At the mid-year point, the Club had not experienced any of its own pool claims, but it is obliged under the IG Pooling Agreement to contribute its share of other clubs' pool claims. At the six-month point, 10 pool claims have been declared by the IG clubs. The aggregate value of the claims declared at this stage in the year's development is the highest in at least 25 years. When coupled to the fact that, historically, the northern hemisphere winter months produce a greater number of pool claims than the first half of the year, we are concerned that 2020 may prove to be one of the most costly pool years on record should the current trend persist.

INTERNATIONAL GROUP POOL CLAIMS

At 6 month point



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