

North

Club Financial Summary


September 2019

Highlights

Owned tonnage (P&I)

+3.5% 

Premium income (P&I)

-7% 

Incurred claims (P&I)

-12.1% 

Free Reserves (Group)

+2.8% 

Investment return (Group)

2.5% 

Combined ratio (P&I)

100.7% 

North only Highlights:

- Owned tonnage increased by **3.5%**
- Premiums reduced by **7%**
- Gross and net paid claims increased by **23.9%** and **15.8%** respectively
- **USD 22.2 million** reduction in provision for claims resulted in an overall **12.1%** decrease in total net incurred claims
- **USD 1.7 million** underwriting deficit (an improvement on the **USD 11.9 million** loss in 2018)

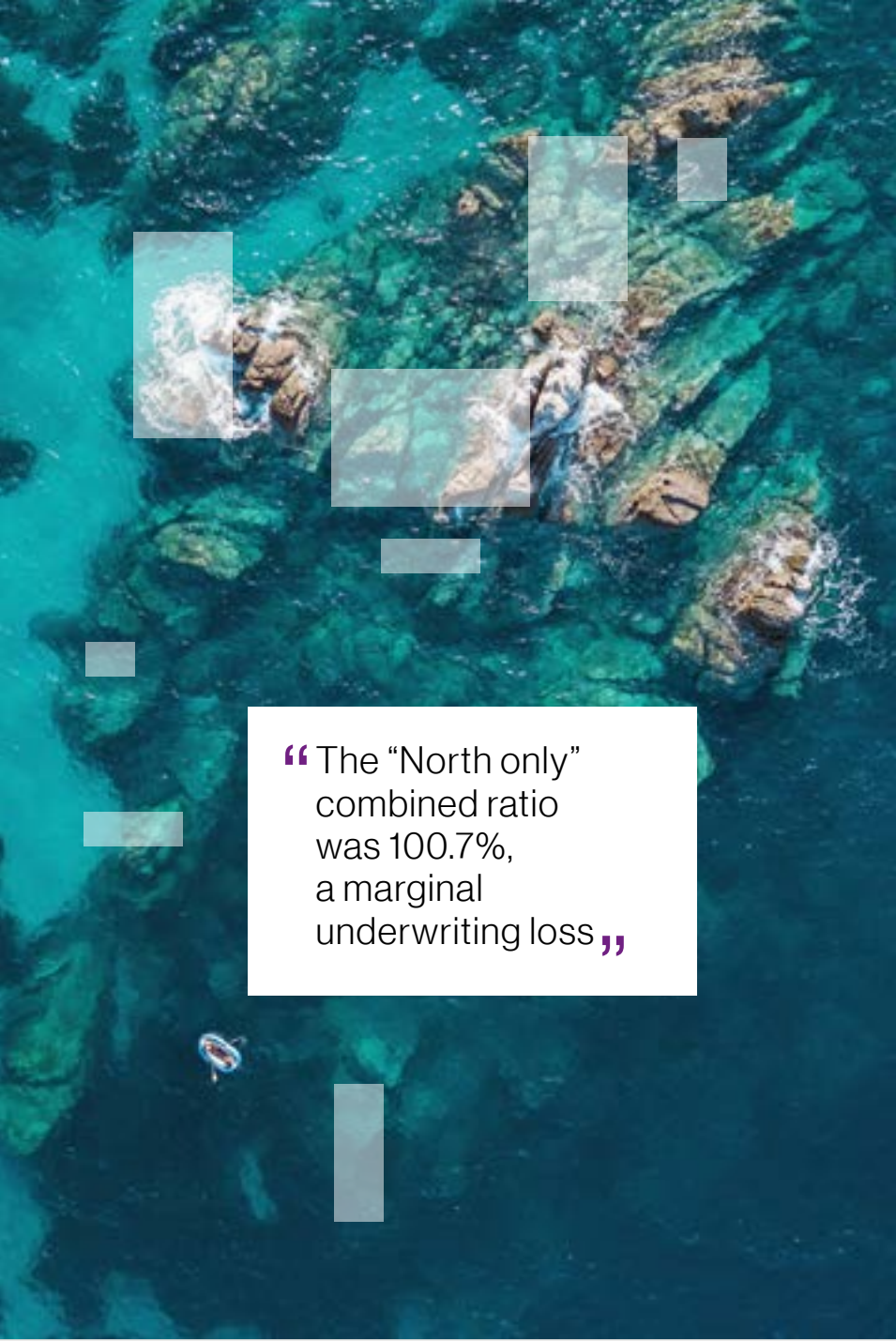
Highlights of the combined results for the North Group (Including Sunderland Marine):

- Overall North Group investment return **2.5%**
- North Group's net assets reduced by 0.9% and free reserves increased by **2.8%**

Combined ratio

The North 'only' combined ratio, as reported, was 100.7%

The North Group combined ratio (including Sunderland Marine) was at 105.4%



“The “North only” combined ratio was 100.7%, a marginal underwriting loss”

Consolidated financials

North acquired the Sunderland Marine on 28 February 2014. For the sake of consistency, the table and charts show the income, expenditure and balance sheet results for North only.

Consolidated Financial Year Summary (USD ,000's) North, Excluding Sunderland Marine

	2016/17	2017/18	2018/19
Calls and Premiums	348,561	327,765	304,783
Reinsurance Premiums	-63,767	-53,714	-49,321
Operating Expenses (policy year)	-50,730	-55,558	-54,585
Operating Income	234,064	218,493	200,877
Gross Paid Claims	244,463	213,439	264,420
Net Paid Claims	228,172	194,122	224,751
Net Change in Provision for Claims	-13,601	36,224	-22,163
Net Incurred Claims	214,571	230,346	202,588
Technical Surplus (Deficit)	19,493	-11,853	-1,711
Investment Income	-6,134	26,331	33,636
Overall Surplus for Year (Deficit)	13,359	14,478	31,925

The table outlines the income, expenditure and balance sheet for the North Group including Sunderland Marine

Consolidated Financial Year Summary (USD ,000's) North Group (Including Sunderland Marine)

	2016/17	2017/18	2018/19
Calls and Premiums	428,348	387,599	345,019
Reinsurance Premiums	-98,389	-81,326	-61,701
Operating Expenses (policy year)	-75,698	-77,410	-71,411
Operating Income	254,261	228,863	211,907
Gross Paid Claims	296,030	251,045	336,760
Net Paid Claims	255,562	213,518	257,711
Net Change in Provision for Claims	-9,549	30,476	-30,573
Net Incurred Claims	246,013	243,994	227,138
Technical Surplus (Deficit)	8,248	-15,131	-15,231
Investment Income	-5,736	34,943	27,859
Overall Surplus for Year (Deficit)	2,512	19,812	12,628

Consolidated financials

Consolidated Financial Year Summary (USD ,000's) North,
Excluding Sunderland Marine

Group result	2016/17	2017/18	2018/19
Net Assets (market)	977,154	1,007,480	1,035,240
(Net) Outstanding Claims	575,018	590,871	586,708
Free Reserves	402,136	416,609	448,532

	2017	2018	2019
S&P Rating			
	A	A	A
AER (Average Expense Ratio)			
Five years ending 20, February:	12	12.1	12.7

Consolidated Financial Year Summary (USD ,000's) North,
Including Sunderland Marine

Group result	2016/17	2017/18	2018/19
Net Assets (market)	1,043,711	1,093,874	1,084,621
(Net) Outstanding Claims	612,936	643,412	621,584
Free Reserves	430,775	450,462	463,037



Entered tonnage

	2017	2018	2019
Entered Tonnage (GT, millions)			
Owned / Mutual	140	142	147
Chartered / Fixed	50	53	60
Total	190	195	207



Glossary

Combined Ratio

Combined ratios provide a direct comparison of club underwriting performance. The combined ratio is essentially the net loss ratio for the club and is defined as follows:

$$\text{Net combined ratio} = \frac{\text{(Net incurred claims + operating expenses)}}{\text{(Premium - reinsurance costs)}}$$

- A combined ratio of 100% represents an underwriting break-even position
- Anything in excess of 100% would be an underwriting loss
- A combined ratio less than 100% would represent an underwriting surplus.

Average Expense Ratio (AER)

Average Expense Ratios (AERs) were introduced in 1999 following pressure from the European Commission in an attempt to enable direct comparisons of operating costs between clubs within the International Group. The formula that all clubs are required to adhere to when calculating their AER figure is as follows:

$$\text{The AER formula is the five-year average of:} \frac{\text{(Operating costs x 100)}}{\text{(Premium income + Investment income)}}$$

In principle the AER is a reasonable idea, but in reality it is only ever a very approximate guide to the relative operating costs of individual clubs. For example different membership profiles, disproportionately high levels of premium or investment, whether the club owns or rents their office space, how much the club spends on loss prevention, global office network, member portals etc all have an impact on the AER.

Basis of financial analysis

The main aim in the Willis Towers Watson analysis of club report and accounts has been consistency. Although there are still variations between the way clubs report, we try as far as possible to compare 'like with like' and to apply the same approach year after year.

A glossary of terms is provided below.

Glossary of terms

Calls and Premiums	All calls (gross basis, including brokerage)
Reinsurance Premiums	All reinsurance premiums
Operating Expenses	All general management, administrative and audit expenses (not including claims management costs)
Operating Income	Calls, less reinsurance costs, less expenses
Gross Paid Claims	Paid gross claims, including Pool contributions (including claims management costs)
Net Paid Claims	Gross paid claims less reinsurance and Pool recoveries
Net Change in Provision for Claims	Change in net estimated outstanding claims
Net Incurred Claims	Net paid claims plus change in provision for claims
Technical Surplus (Deficit)	Operating Income less Net Incurred Claims
Investment Income	All investment income, including exchange gains/losses, tax etc.
Overall Surplus for Year (Deficit)	Incurred technical surplus (deficit), plus investment income
Net Assets	Total assets, less creditors, less miscellaneous provisions for taxation etc
Net Outstanding Claims	Total net estimated outstanding claims
Free Reserves (Including Forecast Deferred Calls)	Net assets, less outstanding claims

Copyright 2018 Standard & Poor's Financial Services LLC. Reproduction of S&P Credit Ratings in any form is prohibited except with the prior written permission of Standard & Poor's Financial Services LLC (together with its affiliates, S&P). S&P does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of ratings. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.

S&P shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs or losses caused by negligence) in connection with any use of Ratings. S&P's ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Contacts

Ben Abraham

D: +44 (0)20 3124 7786

M: +44 (0)7799 415806

ben.abraham@WillisTowersWatson.com

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.



willistowerswatson.com/social-media

Willis Limited, Registered number: 181116 England and Wales.

Registered address: 51 Lime Street, London, EC3M 7DQ.

A Lloyd's Broker. Authorised and regulated by the Financial Conduct Authority for its general insurance mediation activities only.

Copyright © 2019 Willis Towers Watson. All rights reserved.
WTW249527/0519

willistowerswatson.com