

October 2020

North of England

Club Financial Summary



Highlights 2019/20 financial year

North 'only' highlights

- Owned tonnage increased by 8.8%
- Premiums reduced by 2.3%
- Gross and net paid claims increased by 36.6% and 8.6% respectively
- Net incurred claims increased by 25%
- USD 66.8 million underwriting deficit (a USD 65m deterioration on 2018/19)

Highlights of the combined results for the merged North Group

- Overall North Group investment return 6.4%
- A USD 16.1m contribution was required to address the North's pension deficit in 2019/20
- North Group's net assets and free reserves reduced by 1.2% and 4.2% respectively

Owned tonnage (P&I) increased by +8.8%



Premium income reduction (P&I) -2.3%



Net incurred claims (P&I) increased by +25%



-4.1% Free reserves (Group)



Investment return (Group) +6.4%



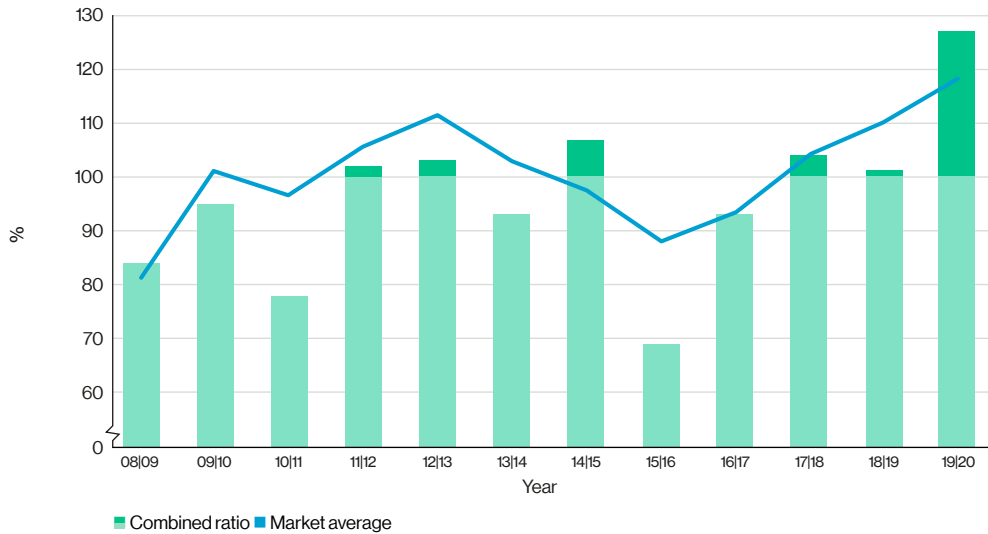
Combined ratio (P&I) 127%
from 101% in 2018/19



Combined ratio

The North 'only' combined ratio, as reported, was 127% (deteriorated from 101% in 2018/19). The North Group combined ratio (including Sunderland Marine) was 125% (a deterioration from 105.4% in 2018/19).

P&I combined ratio



USD 66.8 million underwriting deficit for 2019/20



Consolidated financials

(USD 000s)	2017/18		2018/19		2019/20	
	P&I	Group	P&I	Group	P&I	Group
Calls and Premiums	327,765	387,599	304,783	345,019	297,854	346,567
Reinsurance Premiums	-53,714	-81,326	-49,321	-61,701	-50,186	-65,512
Operating Expenses	-55,558	-77,410	-54,585	-71,411	-61,231	-77,082
Operating Income	218,493	228,863	200,877	211,907	186,437	203,973
Gross Paid Claims	213,439	251,045	264,420	336,760	361,270	415,537
Net Paid Claims	194,122	213,518	224,751	257,711	244,159	260,352
Net Change in Provision for Claims	36,224	30,476	-22,163	-30,573	9,120	14,138
Net Incurred Claims	230,346	243,994	202,588	227,138	253,278	274,490
Technical Surplus (Deficit)	-11,853	-15,131	-1,711	-15,231	-66,841	-70,517
Investment Income	26,331	34,943	33,636	27,859	49,226	51,412
Overall Surplus for Year (Deficit)	14,478	19,812	31,925	12,628	-17,615	-19,105

North acquired the Sunderland Marine on 28 February 2014. The above table includes the North results and the combined results of the merged Group. "P&I" figures are North excluding Sunderland Marine, "Group" figures are North including Sunderland Marine.

For the sake of consistency, the charts on the right show the income, expenditure and balance sheet results for North P&I only.

P&I underwriting development



P&I overall result - including investment income



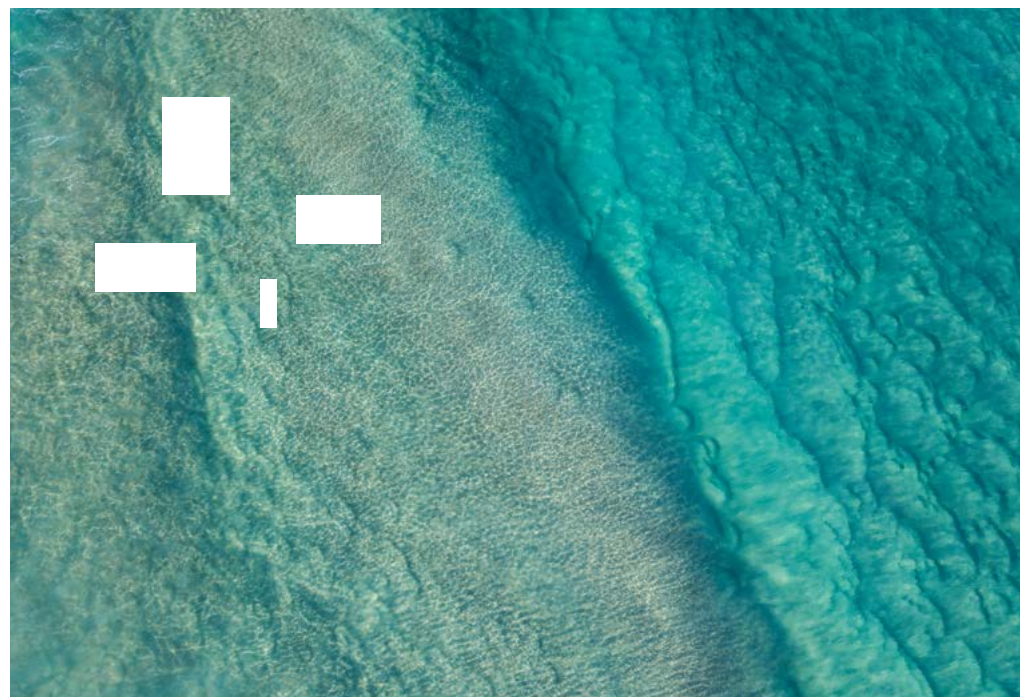
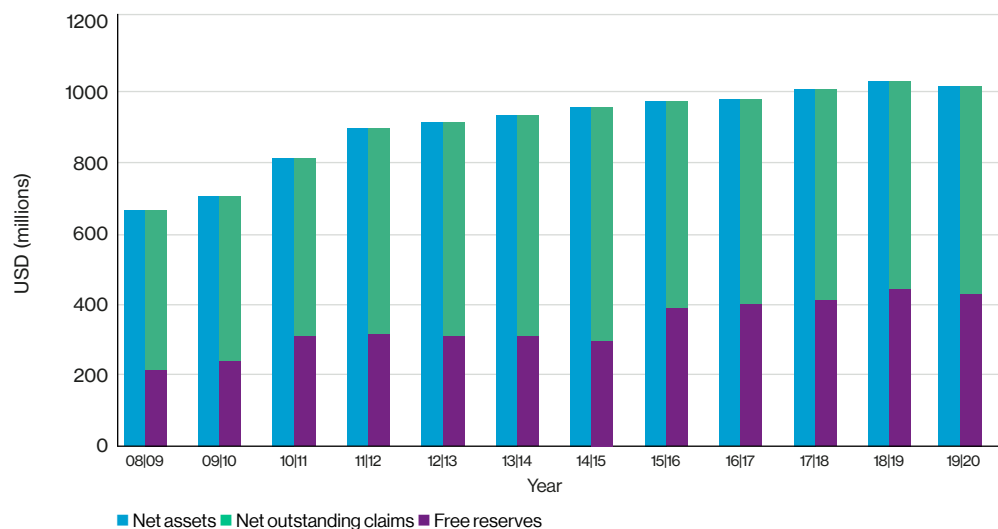
Consolidated financials

(USD 000s)	2017/18		2018/19		2019/20	
	P&I	Group	P&I	Group	P&I	Group
Net Assets	1,007,480	1,093,874	1,035,240	1,084,621	1,026,745	1,071,449
Net Outstanding Claims	590,871	643,412	586,708	621,584	595,828	627,639
Free Reserves	416,609	450,462	448,532	463,037	430,917	443,810

	2018	2019	2020
S&P Rating*	A	A	A
AER (Average Expense Ratio)			
Five years ending 20 February:	2018	2019	2020
	12.1	12.7	13.7

* Stable outlook. Figures are correct at the time of release.

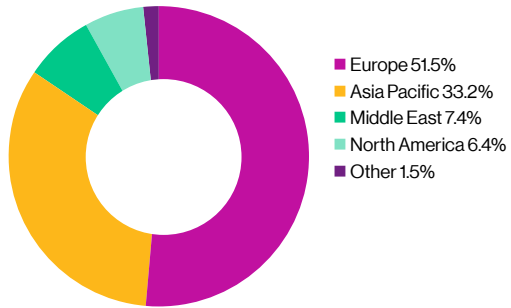
P&I assets and free reserves



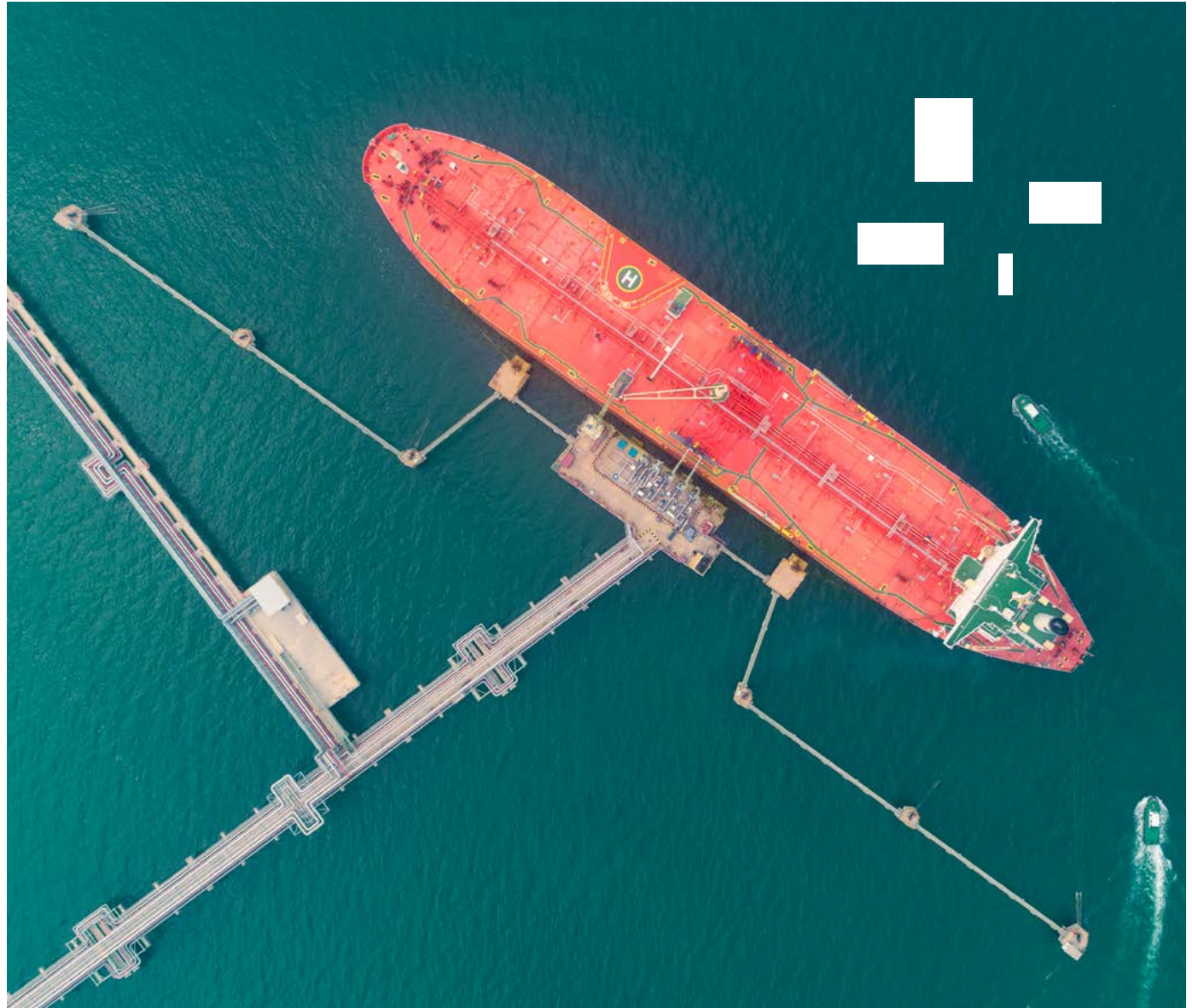
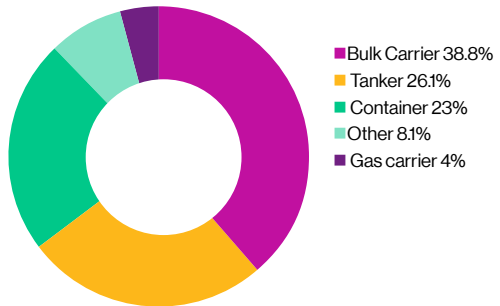
Entered tonnage

(GT, millions)	2018	2019	2020
Owned / Mutual	142	147	160
Chartered / Fixed	53	60	70
Total	195	207	230

Tonnage split by nationality of management



Tonnage split by vessel type



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:

$$\text{The AER formula is the five-year average of: } \frac{\text{Operating costs x100}}{\text{(Premium income + investment income)}}$$

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



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