

27 May 2021

TO ALL MEMBERS AND ASSURED

Dear Sir or Madam

2020/21 Financial Year Result and Overview

This Circular summarises the result for the 2020/21 Financial Year and other recent developments in the Club's business. Further information will be provided in the Annual Report & Financial Statements, which will be issued in the near future.

2020/21 Financial Year Result

The products for charterers and the owners' of smaller ships recorded positive underwriting results but the Club experienced a challenging year on the mutual side of the business. Claims on the International Group Pool were high and included deterioration in the cost of the already expensive prior years in 2018/19 and 2019/20. The retained claims experience included an increase in higher frequency claims where coronavirus also played a part. The total outturn meant that claims costs have now increased in five consecutive years, to the point that in 2020/21 they were twice the level of five years ago.

These developments, at a time when rates in the sector had reached unsustainable levels, led to a combined ratio of 136.8%. The technical result was mitigated by a 5.3% return on the Club's invested assets but nevertheless the operating result was a deficit of US\$20.3m. The year-end free reserve stands at US\$153.6m and despite the pressure of what was undoubtedly a tough year the financial position remains secure and in full compliance with regulatory solvency requirements. However, the result is considerably outside of the Board's risk appetite even in a challenging claims environment. It therefore underlines the importance of the measures taken at the recent renewal (noted below), as well as the further progress required to enable the Club's long-term delivery of top-class support and service from a more sustainable financial base.

Overview

The Club's renewal strategy for the current year involved a determined focus on rating and deductible levels, including the setting of uplifted and bespoke terms for Members with challenging records, recognising that such an approach was likely to preclude the renewal of some such business. In the event the overwhelming majority of Members understood and backed the action being taken. This support enabled vital progress to be made in strengthening rates, essentially in line with targets, as well as deductible levels. The renewal also saw the withdrawal of some business, mainly where there was insufficient alignment between rating and

risk profile. The positive outcome of the renewal is projected to lead to a material improvement in the Club's combined ratio for the current year.

After a difficult 2020/21 the recent renewal therefore represents an important step in the right direction for the Club; although the discrepancy between rating / deductible levels and the prevailing risk environment is something which the Board is committed to addressing and on which further work is on-going.

The past year has been challenging on many fronts. Not least, coronavirus has impacted – and impacts - heavily on seafarers around the world and on our Members and Assureds who have worked tirelessly to maintain safe and efficient shipping operations. The Club has also been operating remotely for the past 12 months, striving to ensure no reduction in service standards or loss of efficiency. As we begin to emerge into a more hopeful period, we look forward to continuing to strengthen the Club and to delivering top quality service to all our Members and Assureds.

Yours faithfully
A BILBROUGH & CO LTD
(MANAGERS)