

Financial Review



Introduction

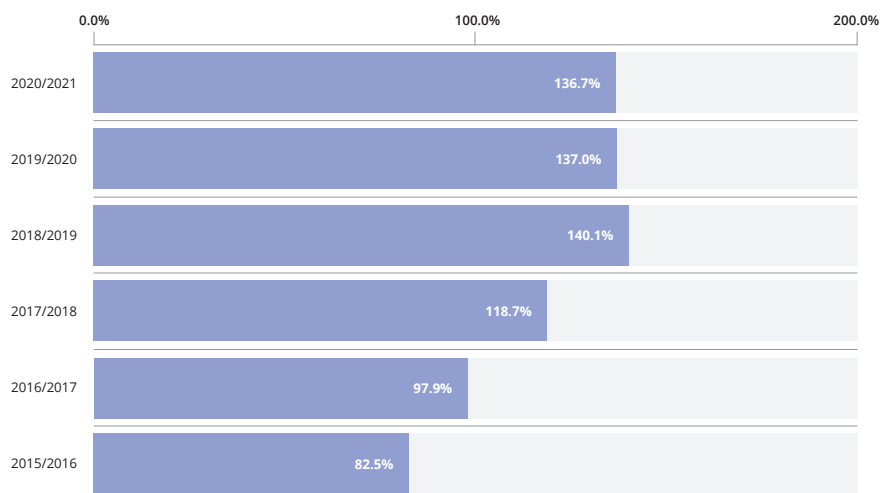
This Financial Review is issued in conjunction with Circular 5:598 which notified the Class 5 (Mutual P&I) Membership of the Board's decision to set Supplementary Calls on three of the open Mutual P&I Policy Years. This Review provides further insight into the financial performance of the Club in recent years and explains why it has been necessary for the Board to take the measures set out in the Circular.

Operating Performance

Core technical performance deteriorated year-on-year between 2015/16 and 2018/19 and has remained under particular strain over recent years. In contrast to the technical performance of the Mutual P&I Class, the Club's fixed premium product offerings have been profitable in five of the last six years with a six-year aggregate combined ratio comfortably below 100%.

The rate of growth in net earned premiums across all product lines over recent years has failed to keep up with the rate of growth in business volumes; net income for each unit of risk has been in decline. This trend has been most pronounced for the Mutual P&I product.

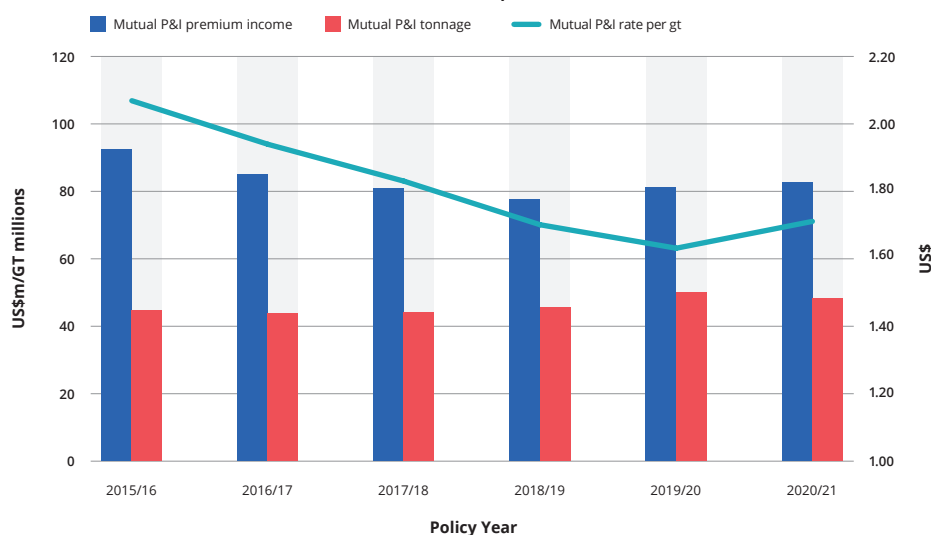
COMBINED RATIO OVER THE LAST SIX FINANCIAL YEARS



Mutual P&I

The Club's Mutual P&I premium income in 2020/21 was 11% lower than in 2015/16, despite an 8% increase in Mutual P&I tonnage on risk over the same period. The Club's average rate per gt for Mutual P&I business declined year-on-year between 2015/16 and 2019/20, before a strengthening of rates in 2020/21.

MUTUAL P&I GROSS PREMIUM INCOME, TONNAGE & AVERAGE RATE PER GT

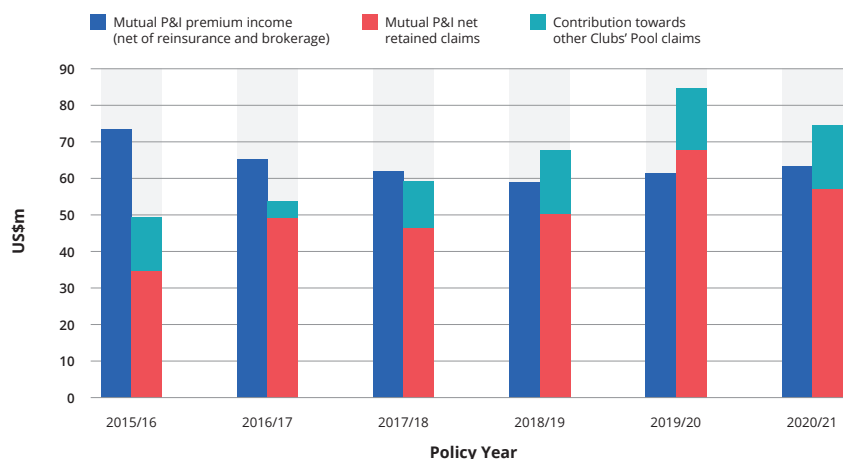


Mutual P&I (continued)

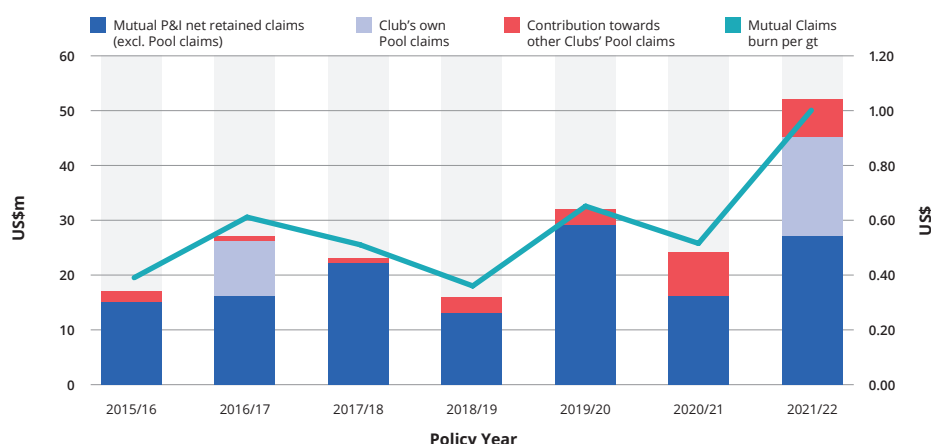
Claims incurred by the Club's Mutual P&I Membership in the most recent three expired Policy Years were 35% more expensive than in the preceding three-year period. The equivalent increase for the Club's share of claims on the International Group's Pooling system was 61%. Both claims' sources have contributed to the escalation in Mutual P&I claims costs seen in recent years. The challenge of an adverse claims environment has been amplified by the softening of rates.

Mutual P&I claims in the current year are at an elevated level. A high frequency of claims involving Covid-19 is a particular factor. The average severity of claims on the Pool was also unusually high at the half-year stage and included one claim brought by the Club. The chart to the right shows the increased cost of Mutual P&I claims in 2021/22 after six months compared to recent years at the same point in time.

MUTUAL P&I NET PREMIUMS AND NET CLAIMS RETAINED AND SHARE OF OTHER CLUBS' POOL CLAIMS



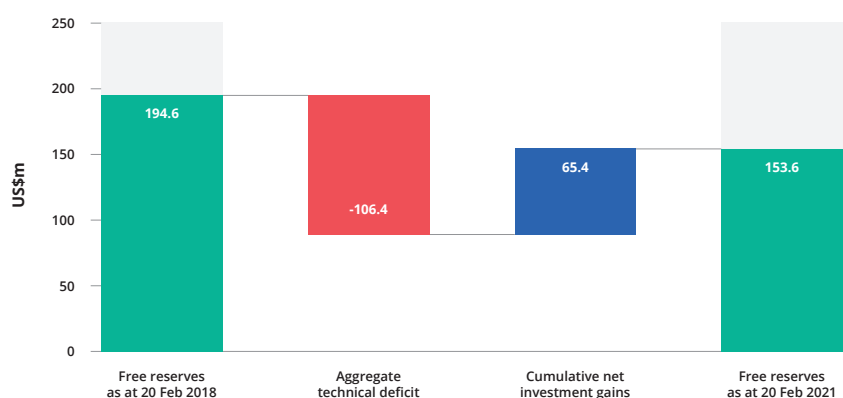
MUTUAL P&I NET CLAIMS INCEPTION + 6 MONTHS



Capital Management

This chart shows that the Club recorded an aggregate technical deficit of US\$106m over the three-year period ended 20 February 2021. Investment performance mitigated the impact of this on the Club's capital strength. However, the extent of the deficit and the very adverse claims experience in 2021/22 has led the Board to determine that action was required. The setting of the Supplementary Calls will strengthen the Club's capital position, in line with the Board's risk appetite.

DEVELOPMENT OF YEAR-END FREE RESERVES 20 FEB 2018 – 20 FEB 2021



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