WEST

Annual Review

2020

Financial Highlights

Margin in Excess of AAA on S&P Capital Model $m
At 20 February

Capital remains in excess of S&P AAA rating levels

Combined ratio at 107.2%

Standard & Poor's A- rated security

Solvency coverage 233%

Investment return of 6.5%

Chairman's Statement

I had expected to begin my statement this year with a celebration of the Club's 150th anniversary since its founding in the small Devonshire port of Topsham in 1870 and to recognise yet another strong financial performance resulting in a record Free Reserve.

But instead, all of our business and personal lives have been dominated by the Coronavirus pandemic and the unprecedented times we are all currently living through.

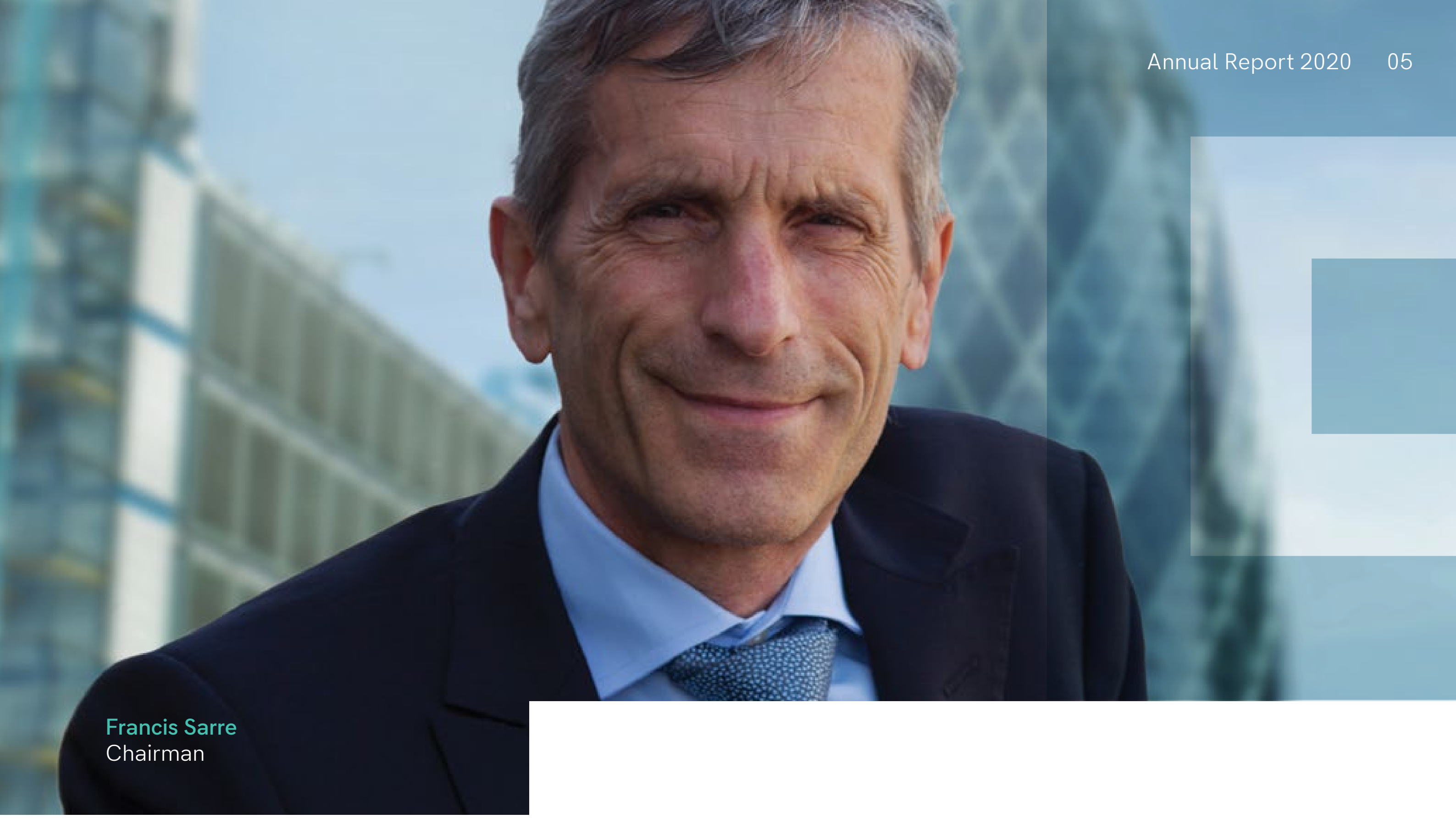
Our first concern must always be human health of course and I'm pleased to say that the Club was able to seamlessly move to remote working in all of our locations around the world in order to respond to governmental guidance and protect the health and welfare of our staff and their families. Our investment in robust business interruption procedures and technology systems has enabled the Managers to continue to provide a full service to our membership across all functions remotely and the Board has also had to adapt to this new way of working with meetings by video conferencing.

But just as important is the health of the seafarers on vessels across the world, who find themselves unable to disembark after completion of their duty period to return home to be with their families because of the restrictions on travel and movement imposed as a result of the pandemic. We as an industry must unite to call upon governments and regulators to treat seafarers as key workers that are essential to keeping the lifeblood of international trade flowing for the benefit of us all and allow them the earliest opportunity to return home safely.

The initiatives from the IMO and other industry bodies in this regard are very welcome and I am pleased to see the first signs of initiatives from some states to allow crew changes, but with seafarers now commonly marooned on board ships for what may be many months beyond their contractual period there are obvious concerns about mental health. The Club has responded by publishing a number of articles and guides on this important but too often ignored subject and we are also actively supporting charities such as the Sailors' Society in their outstanding work in this area.

Covid-19 and the devastating economic effects of the lockdown around the world have also severely impacted financial markets during the first part of 2020 but thankfully the Club is exceptionally capitalised after another strong financial result last year and consequently well placed to withstand the market turmoil to-date and the uncertainties which lie ahead. I am pleased to report that the Club's Free Reserve increased to a record $338.1m and our renewed A- rating reflects continuing exceptionally strong capitalisation. The investment performance prior to the onset of the Coronavirus exceeded expectations from the conservative investment allocation strategy set by our Board, with a return for the year of 6.5%. The benefits of this investment strategy are reflected in our subsequent ability to withstand the highly volatile financial climate caused by the pandemic during the first part of the current policy year.

The performance of our Members' own claims thankfully returned to forecast levels during 2019 following the abnormally high occurrence of particularly high value claims in the preceding two years but the picture was not as positive for other Clubs' Pool claims, with both a higher number of notifications and increased individual claim values seen throughout the year. There is no doubt that the magnitude of the largest claims within the system continues to grow and this is the primary reason that our combined ratio of 107% - whilst very positive when compared to many others - remains above the long term target set by the Board. We have made it very clear as a Club that premiums must ultimately match exposure and if these large and expensive claims continue, the price ship owners pay for their insurance cover must inevitably also rise



Francis Sarre
Chairman

commensurately. The recent renewal hopefully showed that this collective realisation is beginning to dawn.

This year has also seen the benefits of our diversification programme begin to emerge. We have been consistently clear that there is little merit in investing in activities or sectors where there is limited benefit to our Members or which puts the Club's capital at risk. The Managers and your Board have instead sought out strategic investments and joint ventures with experienced and knowledgeable partners and which, crucially, provide our Members and others with access to a range of products and services which complement the Club's core offerings. The aim is to support ship owners and other operators throughout the voyage lifecycle of a ship and to help them manage the wider risks and operational issues they face. Our ventures with Astaara in cyber security, Nordic Marine Insurance for primary delay cover and the striking new Qwest brand to represent our collaboration with C Solutions to provide a broad range of innovative services, when combined with the continued emphasis on our Fixed, Offshore and Defence products, all combine to position the Club as not just an insurer but as a leading provider of services to the maritime industry. We will continue to look at further opportunities to broaden the Club's product offering as we adapt to the changing operating and regulatory environment, however this will always be done with the objective of adding value to our Members and partners.

This strategic approach and our absolute commitment to providing the higher levels of service throughout everything we do has been reflected in continued loyalty amongst current Members and increased applications from new fleets to join. We will remain very selective when welcoming new Members into the Club but I am delighted to say that our entered mutual tonnage exceeded 100m GT for the first time in our 150th year, both milestones in themselves of which I believe we should be very proud.

But we must not rest on our laurels. Whilst it is gratifying to see the Club in such robust financial health and with a strong brand of products and services to support its Members, we should continue to embrace the entrepreneurial spirit of our founder John Bagwell Holman and continually search for ways to serve the shipping industry. This also means acting collectively with other Clubs to ensure that the combined purchasing power, knowledge and experience of all the International Groups Clubs are fully leveraged for the benefit of our industry. Your Club will therefore continue to play a leading role within the IG in support of its ethos of being "collectively stronger".

During the year we were pleased to welcome Olivia Lennox-King, Dimitra Dandolos, Lisa-Marie Perrella and Kim Chalmer to the Advisory Committee. I would like to thank all the members of the Advisory Committee whose valued opinions and advices play an such an important role in advising the Board.

I must finally thank the Managers and my colleagues on the Luxembourg Board for all their hard work and wise counsel throughout the last year. I am especially grateful to Tom and his team for bringing the diversification streams to fruition and to all our staff for their continued dedication and service through the very challenging circumstances the pandemic has thrust upon us. We all look forward to emerging back out into a more normal world again as soon as we can but until then I hope that you and your families remain safe and well.

Francis Sarre
Chairman

Managers' Review

The Club's Free Reserve increased by over 10% to $338.1m and consequently the capital strength of the Club remains extremely strong under all measures.

The increase in Free Reserve was driven mainly by an exceptional investment return of 6.5% with the Club's conservative strategic allocation generating a return in excess of expectations. The Club's operating performance markedly improved and, in summary, the year showed a $31.7 million surplus, consisting of a much-reduced overall underwriting deficit of $13.2 million and a net investment return, after tax and revaluations, of $44.9 million.

The full details are set out in the Reports & Accounts 2020.

Tom Bowsher
Group CEO

Capital and Rating Strength

The Club's solvency coverage as measured under Solvency II reached its highest ever level at 20 February 2019 following the decision taken by the Board to dispose of Tower Bridge Court and to reinvest the proceeds into more diversified and capital efficient real estate and infrastructure funds and this level of solvency coverage has been maintained in the current year.

Standard and Poor's again re-affirmed the Club's A- rating in December 2019 reflecting their view that the Club will sustain its "extremely strong" level of capitalisation and the margin in excess of their "AAA" capital requirement, a strategic threshold targeted by our Board, also increased.

Standard & Poor's

A-

rated security

233%

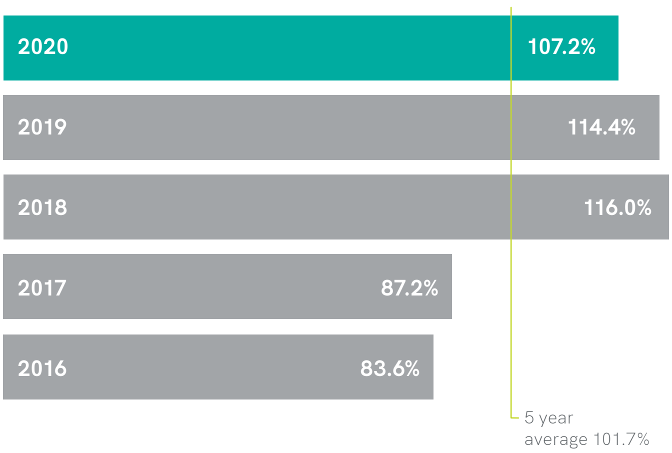
SCR coverage

Free Reserves $m

At 20 February

Combined Ratio

Year to 20 February



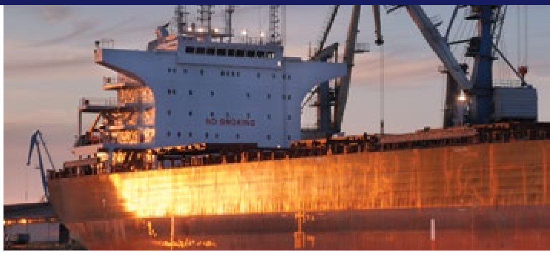
Underwriting Result

The Club's $13 million underwriting deficit gives rise to a combined ratio of 107%. Although significantly better than the preceding two years, the combined ratio of 107% is still higher than the Board's medium-term target of better than 100%. The average combined ratio of the last five years is 101.7% but the results of the last three years demonstrate that premium rates need to increase if operating results are to return to a positive position.

Members' Claims

Members' claims have generally run-off favourably in recent years and this has again been the case in the year-ending 20 February 2020. Policy Year 2018, particularly, developed better than was projected at this time last year and it is pleasing to report that the incurred cost is now some USD 25m better than Policy Year 2017 at the same stage. This development contributed positively to the operating result.

Policy Year 2019 also developed within expectations for its first 12 months. At the 12 month point Policy Year 2019 has a net incurred claims cost of USD 97.8m compared to USD 108.2m and USD 123.3m in the preceding two years.



Managers' Review (continued)

The net incurred claims cost for incidents up to $500k in value on our P&I Owned mutual class, which represent 99.5% of the claims received by the Club, continue to be predicted with reasonable certainty. Claims in the next band, $0.5m to $5m, exhibit more volatility and Policy Year 2019 experienced a higher than average claims cost in this band.

However, what drives the discernible improvement in claims performance in Policy Year 2019 compared to the two preceding years, is that in Policy Years 2017 and 2018 the Club experienced an abnormal and unforeseen level of large losses and in the 2019 this returned to a level around the historical average. In Policy Year 2019, two claims in excess of $5m in cost have been recorded at the 12 month point and by contrast, Policy Year 2017 had suffered seven claims and Policy Year 2018 five claims at the same point in time.

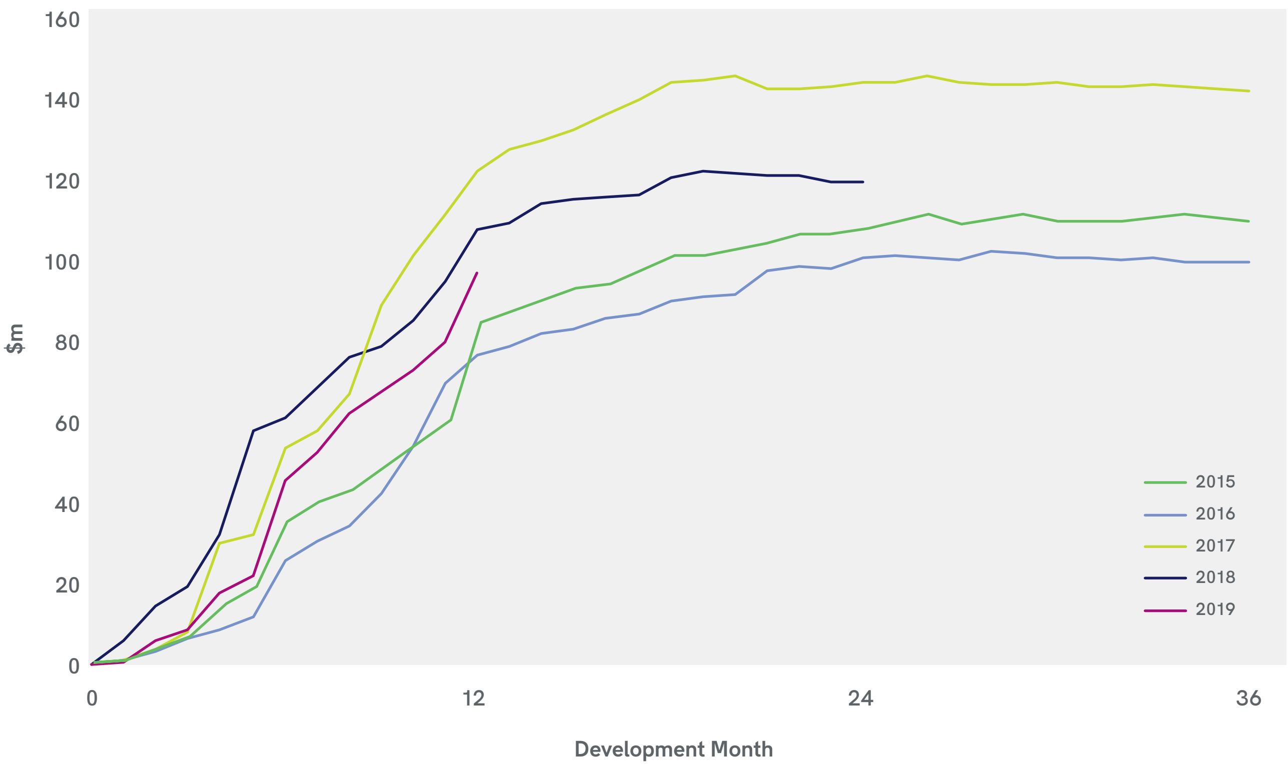
While the Club purchases reinsurance to minimise the volatility from deviant large claims losses, it is nevertheless clear from the two claims charts the impact that large loss claims experience has on the net incurred claims cost of any Policy Year.

Other Clubs' Pool claims

The Club continues to benefit from a positive loss record on the Pool which reduces the contribution it has to pay towards other Clubs' claims but the last two years have seen an increase in the number of claims notified to the Pool which has led to an increased claims cost across the International Group and ultimately towards the Club's share of these.

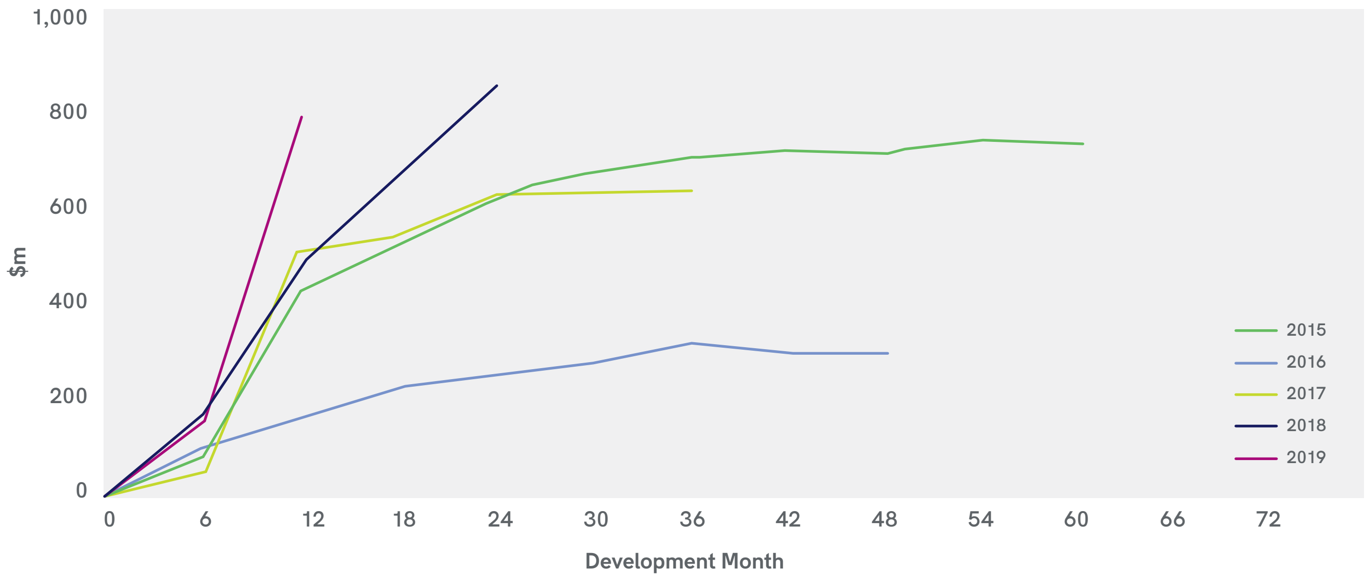
Policy Year 2019 also saw the second largest claim notified to the International Group, the Golden Ray, and our Club's share of this claim represents half of the incurred cost recorded at the 12 month stage. Pool claims are more volatile in their nature and consequently, the Club takes a prudent approach to reserving for these and now holds more IBNR for other Clubs' Pool claims than it does for its own Members' claims.

Development of Members' Net Incurred Claims
Policy Years 2015 to 2019



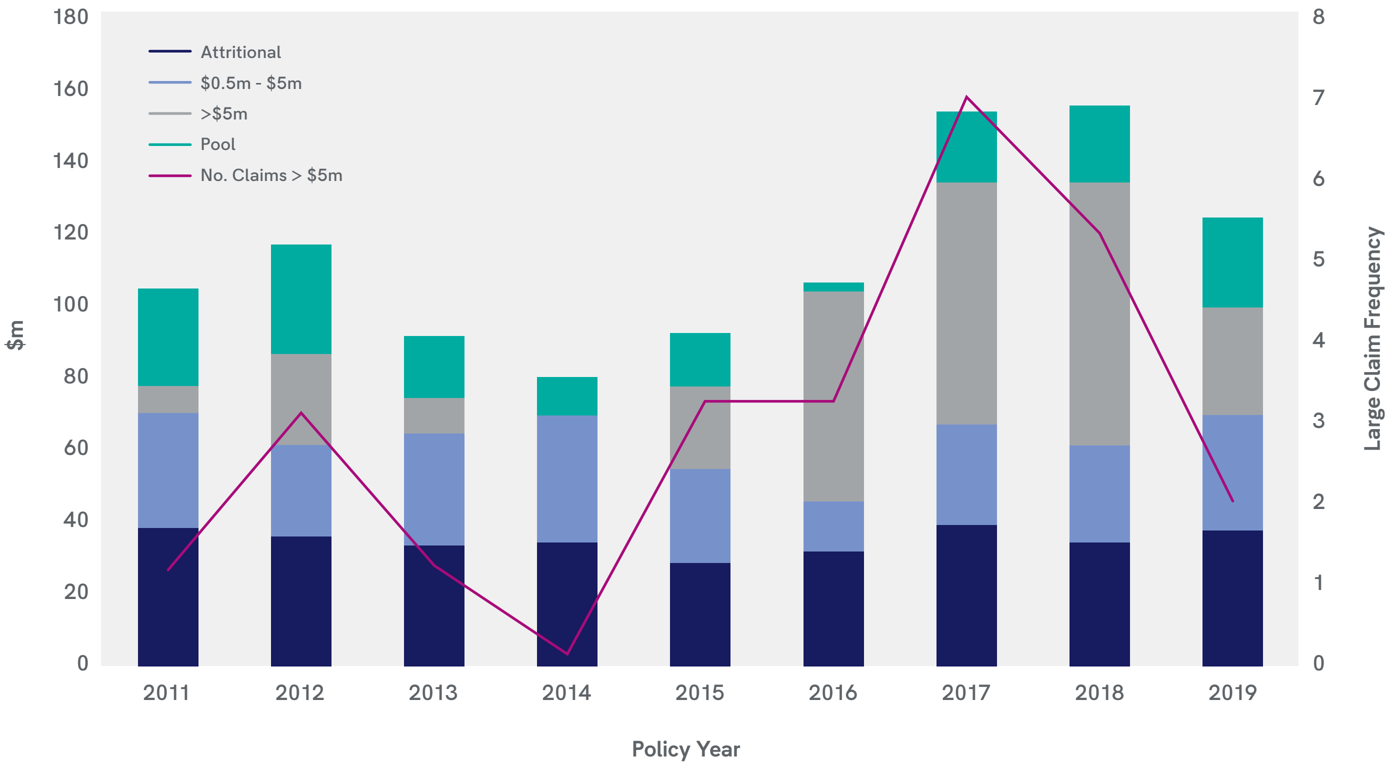
International Group Pool Claims Development – Gross Incurred

Policy Years 2015 to 2019



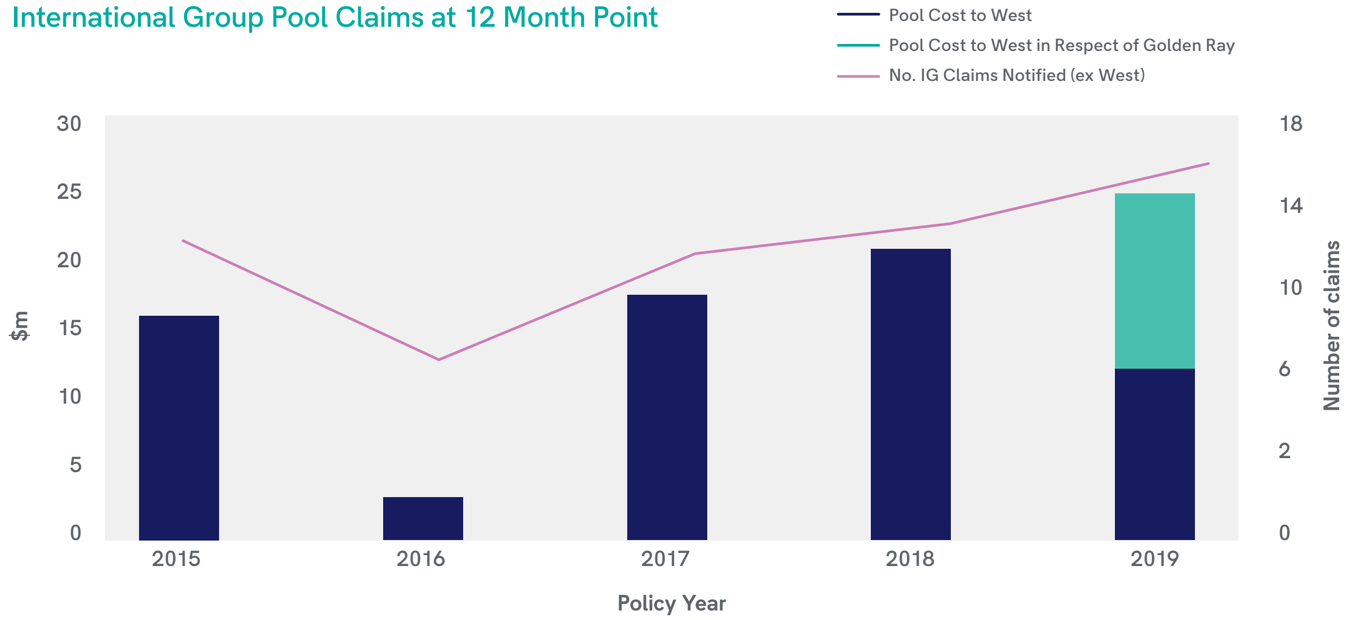
P&I Owned Gross Incurred Claims at 12 months

Developed - Attritional Vs Large



Managers' Review (continued)

International Group Pool Claims at 12 Month Point



Reinsurance

Large claims are fortuitous and inherently difficult to predict so it remains vital that the Club's claims continue to be underpinned by comprehensive reinsurance arrangements to mitigate the effects of extreme volatility in the underwriting result. Integral to this is the International Group Pool and Excess of Loss reinsurance programme which is illustrated in the chart on page 11 and the Golden Ray is a perfect example of a claim that has benefitted from the strength of these reinsurance arrangements. Following the structural changes made in 2019/20 year, no significant changes were made this year. The two expiring 5% private placements in the USD 1 billion excess of USD 100 million layer were replaced by two new 10% multi-year private placements in the first layer. There are therefore three 10% private placements for the 2020/21 policy year, with the remaining 70% balance placed in the reinsurance market.

The Club also places reinsurance for claims within its own retention and made significant changes to the structure for Policy Year 2019 resulting in a more comprehensive reinsurance programme. A long-term approach is fundamental to the Club's reinsurance buying strategy both in terms of the structure and our reinsurance partners so limited changes were made to either for Policy Year 2020.

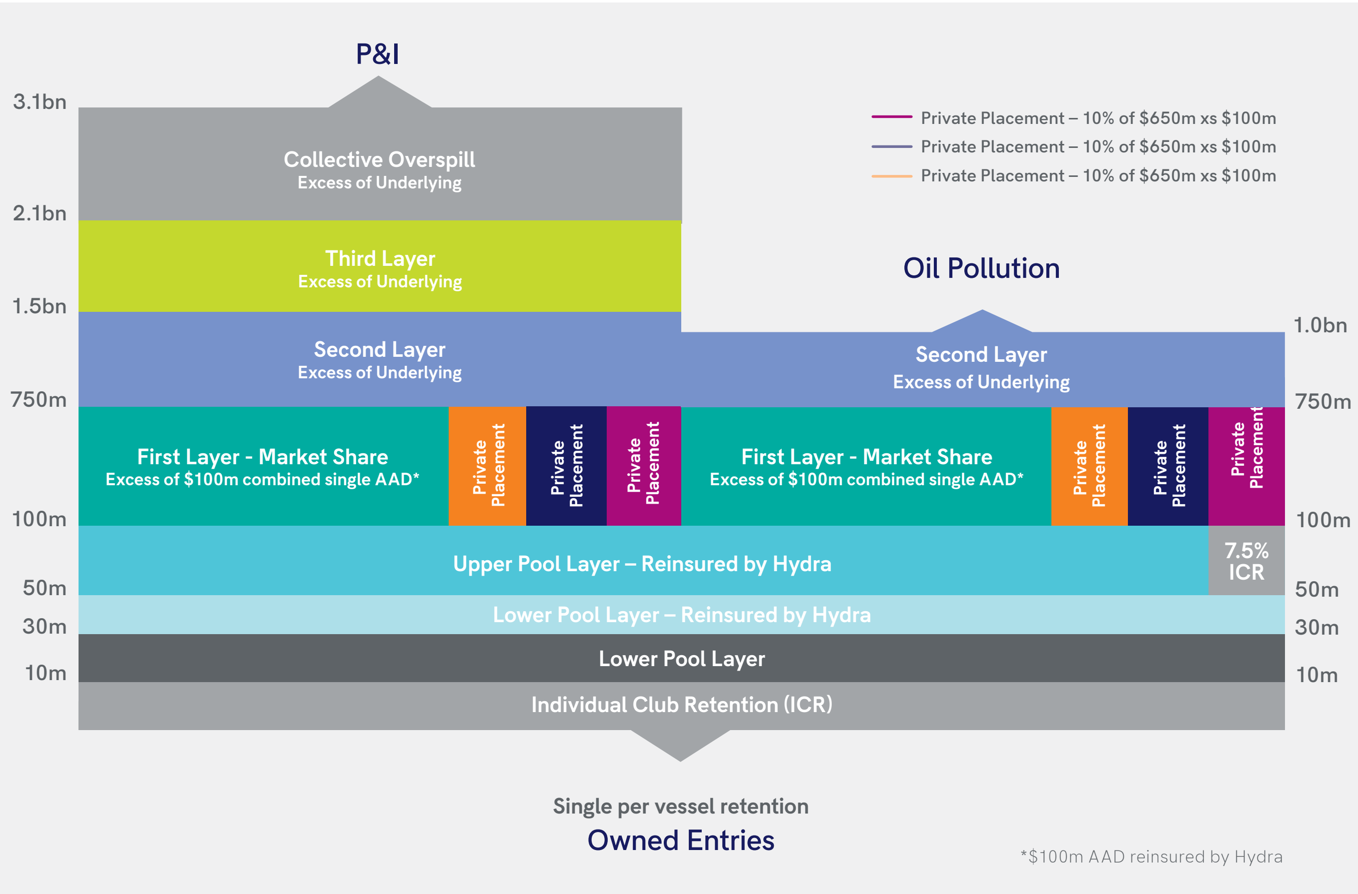
Investments

The Club's asset allocation remained broadly unchanged over the period with the Board retaining their low appetite for investment risk.

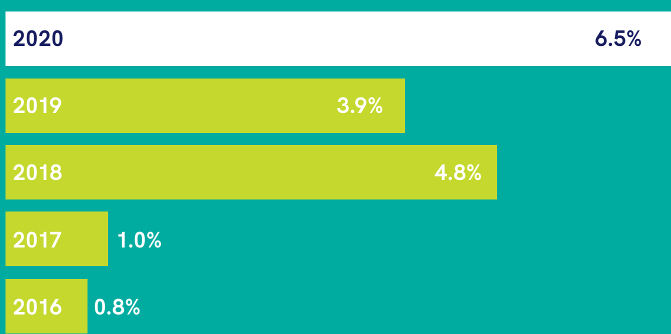
All asset classes performed well and the investment return for the year was a very strong 6.5%. This was the highest investment return since 2011 and continues a period of greater than ten years where the Club has earned a positive investment return for its Members.

Bonds, which are held primarily in the Liquidity Matching Portfolio but also the Growth Portfolio, returned more than 7%, supported by the decrease in U.S. interest rates across all maturities and tightening corporate credit spreads. Overall credit quality of bonds remained very strong due to the conservative guidelines set by our Board. The liquid component of the Growth Portfolio, exposed to a broad range of listed assets, returned some 11% with global equity holdings (c. 10% of the overall Investment Portfolio) returning 17%. The private assets component of the Growth Portfolio (c. 5% of the Investment Portfolio), invested in global real estate, global infrastructure and more recently private debt returned a strong 7%, benefiting from growing investors' appetite in a "lower for longer" yield environment.

Group Excess of Loss Reinsurance Programme
Policy Year 2020

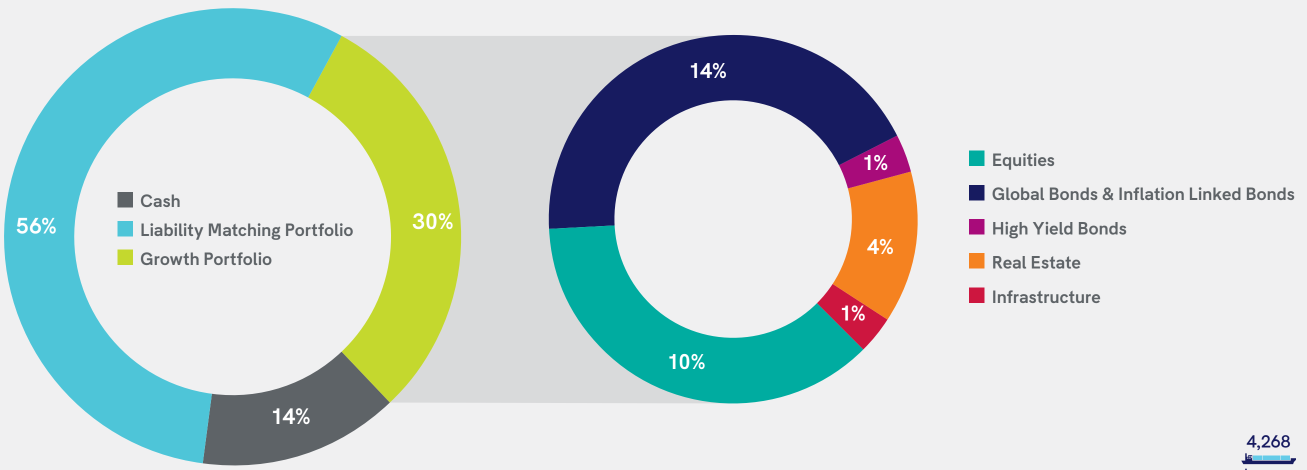


Investment Return
Year to 20 February

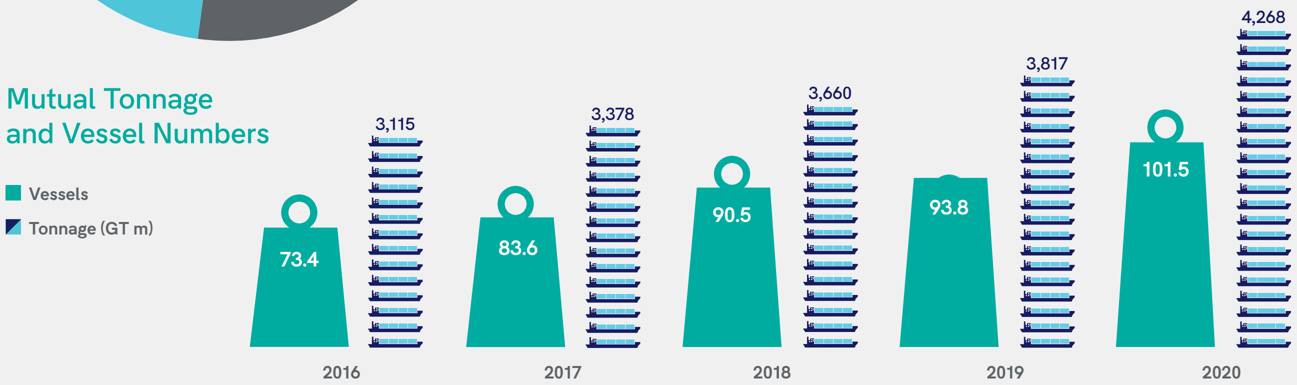


Managers' Review (continued)

Asset Allocation
At 20 February 2020



Mutual Tonnage and Vessel Numbers



Renewals

The continued focus of the Managers is to maintain the exceptional service levels to meet the growing needs of our Members however, it has been clear for some time that premiums have been at an unsustainably low level to meet the increased claims costs experienced throughout the industry.

However, whilst rates across the whole market need to increase, the Club's approach to renewal focussed on redressing rates for Members with adverse records and an overall increase in premium was achieved. At the same time there was increased support from both new and existing Members which has led to an increase in the Club's mutual entry to in excess of GT 100m for the first time.

Looking forward

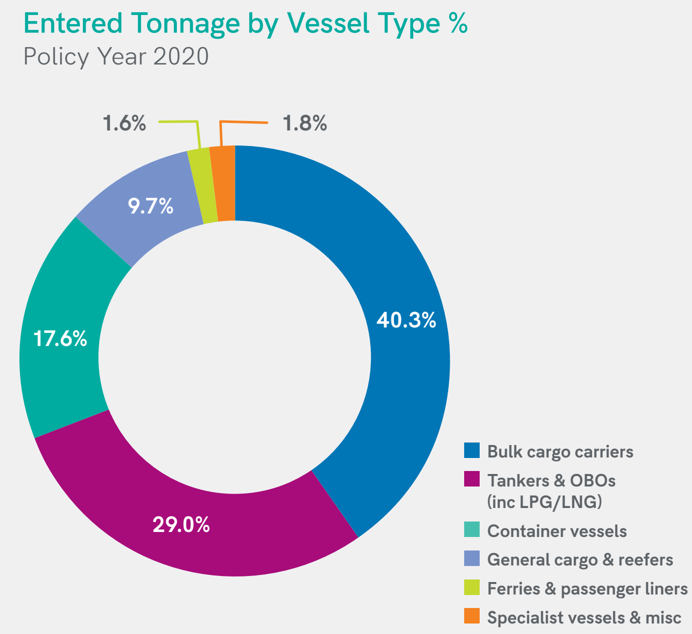
The start of the 2020 policy year has of course been dominated by the Covid-19 pandemic. Robust business interruption procedures and IT systems have however allowed the Club to continue functioning seamlessly and the Managers are able to deliver the full spectrum of services to its Members.

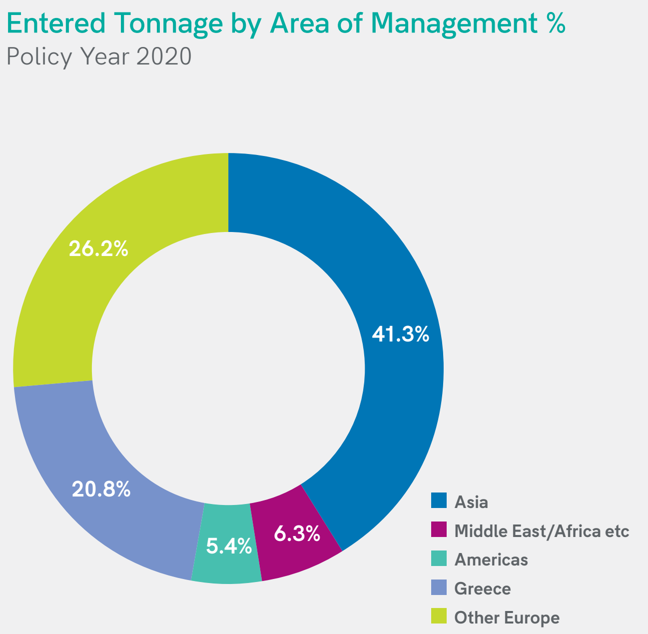
Significant specialist materials, advice and support have been provided to our membership to help them deal with the effects of Coronavirus on their operations and especially around the issues of crew welfare. Difficulties with crew changes remain and many seafarers are being asked to serve on ships long after the expiration of their contractual terms.

The Managers will continue to work together with the International Group and other industry bodies to find solutions to these issues.

Elsewhere, the strong capital position, high liquidity of the balance sheet and prudent investment strategy allowed the Club's investments to mitigate losses and recover quickly from the challenges of the market crisis in March 2020 caused by the pandemic.

In this the 150th year of its operation, the Club remains cognisant of the need to continue to support our Members and the wider maritime community in their operations. The management company is a wholly owned subsidiary of the Club





meaning that its interests are fully aligned with the Board's and strategic decisions are taken with a view to enhancing the service provided to its Membership and insulating the balance sheet from volatility.

The Board has consequently chosen to deploy capital in strengthening resources and investing in new initiatives that expand the product offering of the Club. Rather than exposing the Members' capital to the vagaries of market segments where competition is high and potential returns commensurately low, the Board has instead followed a clear path of entering into strategic alliances with experienced and knowledgeable partners to be able to deliver a growing portfolio of products and services to operators which are complementary to the Club's own core products. This has seen investments made in specialist provider Nordic Marine Insurance and cyber consultancy Astaara, as well as the joint venture with C Solutions and Qwest Maritime.

There have also been investments in expanding our Loss Prevention services with additional resources added to this vital function and new digital platforms have been launched enhancing the online interaction between the Club and its Members. A revised version of the Club's extranet system WestNet provides greater access to Members' data and documentation, whilst a brand new and market-leading information system enables Members to access a wealth of geospatial and other data that delivers superior situational awareness around their vessels' intended voyages.

This year has seen the implementation of the IMO's new regulations on the burning of low sulphur fuel in order to lessen the impact of the shipping industry on emissions and global warming. This is just one aspect of the increasing concentration on sustainability across all businesses and the Managers will be developing a comprehensive framework during the course of the year to align the Club's operations with industry and global sustainability standards. There will be a particular focus on decarbonisation in the shipping industry and the Club aims to be help lead the debate on the insurance and liability implications of shipowners moving away from fossil fuels to more sustainable methods of powering ships.


NO SMOKING
PROTECT THE ENVIRON

Global Coverage

Providing localised services to the world-wide membership.

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