NORTH
SERVICE, STRENGTH, QUALITY

Sunderland Marine

MANAGEMENT Report 2015

CONTENTS

Financial Summary 01
Chairman's Statement 02
Financial Overview 04
Renewal 2015 and Membership 06
Claims and Loss Prevention 07
FD&D Claims 08
Industry Issues and Developments 09
Sunderland Marine 10

FINANCIAL SUMMARY

Five Year Combined Summary

Income and Expenditure – US$ million

	2014/15	2013/14	2012/13	2011/12	2010/11
Premium income	394.9	383.5	365.3	346.3	314.2
Underwriting result	(28.3)	13.2	(10.3)	(7.5)	54.8
Investment result and foreign exchange	25.0	13.1	8.5	15.0	17.3
	–	–	–	–	–
Pension Scheme deficit	(19.1)	(26.3)	–	–	–
Revaluation of land and buildings	6.9	–	–	(5.9)	–
SMI free reserve at 20 February 2015	41.4	–	–	–	–
Increase / (decrease) in free reserve	25.9	–	(1.8)	1.6	72.1
Combined Ratio	**109.1%**	**90.1%**	**104.2%**	**101.8%**	**78.8%**

Balance Sheet – US$ million

	Feb-15	Feb-14	Feb-13	Feb-12	Feb-11
Investments, cash and cash equivalents	1,007.1	898.0	914.8	877.2	770.5
Other assets	249.1	122.8	59.3	58.1	61.6
	1,256.2	1,020.8	974.1	935.3	832.1
Creditors	(214.9)	(84.9)	(56.5)	(39.1)	(21.7)
Net assets	1,041.3	935.9	917.6	896.2	810.4
Net outstanding claims	(703.2)	(623.7)	(605.4)	(582.2)	(498.0)
Free reserves	**338.1**	**312.2**	**312.2**	**314.0**	**312.4**

CHAIRMAN'S STATEMENT

This has been an interesting and busy year for North with a number of challenges and positive developments. A difficult underwriting result, and increased pension impairment were partially offset by a solid investment return and the formal acquisition of Sunderland Marine helped to further strengthen and increase free reserves to US$338.1 million.

The formal completion of the acquisition of Sunderland Marine Insurance Company Limited on 28 February 2014 contributed US$41 million to the free reserves. We also received a healthy 4.3% investment return and a US$7 million property valuation gain. However, the unexpected number of large claims experienced during the 2014 policy year accounted for 51% of the value of overall claims within our US$9 million retention. Together with a further impairment in respect of a defined benefit pension scheme charge, the financial year result was an underwriting loss of US$28.3 million and a combined ratio of 109.1%, although our five-year average of 96.7% still remains extremely competitive.

The significant number of large claims in excess of US$1 million was unexpected, however this does of course happen from time to time and most International Group clubs have experienced similar volatility in recent years. Against this backdrop of an increasingly expensive claims environment, we set a target increase in mutual premiums of 4.75% at the 2015 renewal and we successfully achieved this thanks to the overwhelming support of our Members.

Our robust renewal strategy this year ensured that several Members who were not prepared to make a fair and equal contribution to the Club, and those with poor claims records, were not offered renewal terms and left the club at 20 February. As a result, owned tonnage reduced to 127 million GT and chartered tonnage reduced to approximately 43 million GT. However, we no longer have the adverse impact of a number of poorly performing former Members and we still remain a significant and large member of the International Group with over 11.5% of total owned tonnage.

Once again a major factor during the year was a further financial impairment recorded at 20 February 2015 in respect of the liabilities of our defined benefit pension scheme, due to a further fall in the yields of AA corporate bonds to unprecedented levels. Over a two-year period the total impairment for North since the change in accounting regulations required the full deficit to be recognised on the balance sheet has been US$57 million. This is quite unprecedented and is driven by financial uncertainty and quantitative easing throughout Europe.

Pratap Shirke
Chairman

CHAIRMAN'S STATEMENT CONTINUED

This is not a problem unique to North, and in context it has been estimated that the defined benefit pension liabilities of the FTSE 100 companies in the UK has increased by £80 billion since this change to accounting regulations. This impairment to the balance sheet is a technical short-term accounting assessment of a long-term liability and in my opinion, does not reflect the true performance of our operational activity over the year.

During the year our Members continued to operate in unpredictable shipping markets and the economic climate showed little signs of improvement. Despite a modest recovery in certain sectors of the market, freight rates are not expected to return to break even or profitable levels for another couple of years as the oversupply of tonnage remains an issue for the shipping industry.

Government intervention and regulation has continued to have a significant impact on the shipping industry and during 2015 we will see two further important pieces of maritime legislation. In April 2015 the Nairobi International Convention on the removal of wrecks 2007 entered into force, and in June the liability limits under the LLMC 1996 protocol were significantly increased. Both of these conventions have the potential to lead to a major increase in the cost of claims. It is important that the International Group acting on behalf of their members, the world's shipowners, continue to engage with government and maritime authorities wherever possible.

During the autumn of 2014, North invited its Members and brokers to participate in an independent survey, the results of which were published recently and demonstrate a very high overall level of satisfaction from the Club's membership. There are of course always areas for us to improve upon, in particular further enhancing our personal relationships with our Members and brokers which is seen as a key strength and differentiator of the Club.

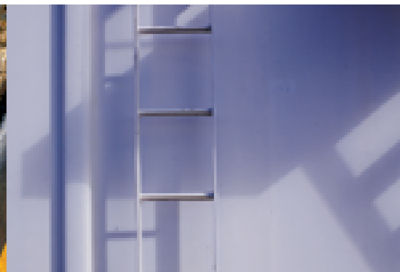
We would like to take this opportunity to thank our Members and brokers for taking part in this survey and we are extremely grateful for the very high response rate and level of interest shown, as well as the positive endorsement of the Club's service.

Turning now to the acquisition of Sunderland Marine, which is one of the most significant developments for the Club over the last few years. We have now fully integrated Sunderland Marine's head office operations with North's and although Sunderland Marine continues as a separately regulated company, we are beginning to reap the benefits of combining both businesses. The acquisition of Sunderland Marine is a major benefit for the mutual membership, providing us with both a significant financial boost at 20 February, but also with a diversification platform, without incurring the significant start-up investment costs normally associated with this level of diversification.

Looking forward we will continue to focus on maintaining the financial stability of North and we are pleased to report that during the first few months of the 2015 policy year, we have seen positive developments. The claims activity has reduced considerably both in terms of attritional claims and also larger claims, and there has been an increase in the yields of AA corporate bonds which has led to a substantial reduction in the pension deficit.

So a busy year but also an important year for North, and we would like to thank our staff, Members, policyholders, brokers and business partners for their continuing commitment and support, and we look forward to working with you during the coming months as we continue to deliver our strategic objectives in support of our vision to be **"the most cost-effective marine insurance group, providing the highest levels of service".**

Pratap Shirke
Chairman
July 2015



FINANCIAL OVERVIEW

This has been a challenging year financially; however North has shown that it is fundamentally strong and resilient and prepared to make robust financial decisions to protect the interests of Members and Policyholders.

The free reserve at 20 February 2015 has increased to US$338.1 million with the inclusion of Sunderland Marine ("SMI") following the formal completion of the merger on 28 February 2014. Some of the financial challenges we faced this year include the difficult underwriting year for North P&I Club, resulting in a combined ratio of 109% and for the second year in succession, an impairment as a result of an increase in the pension scheme impairment.

There were two key factors which underpinned the technical performance. Firstly, the large number of claims in excess of US$1 million which were incurred in the second half of the 2014/15 policy year which had a significant impact on the claims results. Secondly, the 2013/14 policy year claims have not developed as favourably as expected during the year.

As we reported last year, North absorbed an exceptional item resulting from a change in International Reporting Financial Standards ("IRFS") in respect of accounting treatment for the Club's defined pension scheme (the "Scheme"), where we were required to recognise a significant impairment on the balance sheet.

During the current financial year, the measure which underpins the discount factor applied to the Scheme liabilities by the Scheme Actuary, namely the market yield on AA rated corporate bonds, fell to an all-time low. As a result, the defined benefit pension scheme impairment increased by US$19.1 million.

SMI has a similar defined benefit pension scheme to North P&I club, and the SMI impairment increased by US$4.8 million toUS$5.3 million at 20 February 2015. Over a two year period therefore, the total financial impairment for North as a result of the accounting treatment of the pension scheme has been US$57 million.

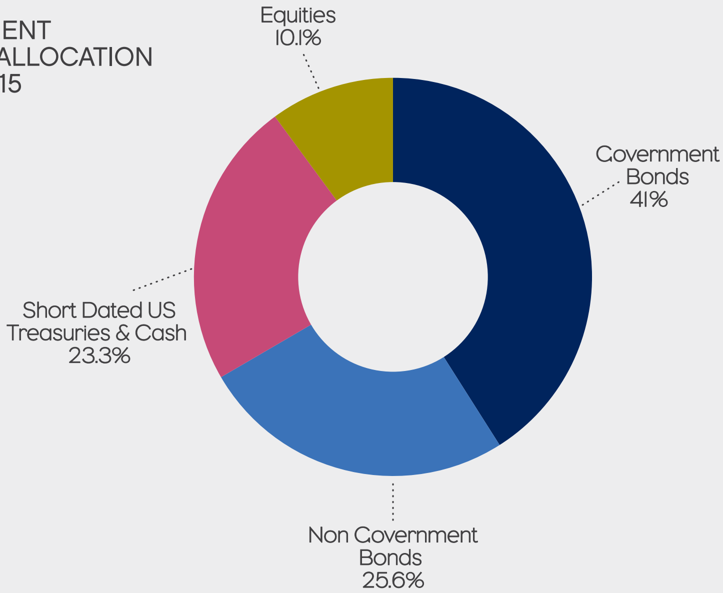
Investment Result

The P&I Class investment portfolio result of +4.29% outperformed the benchmark index at +3.05%. All Class investments together with those held in Hydra and other operational deposits contributed US$25 million net of fees and tax to the overall result.

North Building Revaluation

The Newcastle head office building was subject to its regular triennial valuation as at February 2015 which increased the carrying value of the building in the balance sheet by US$6.9 million to US$18.1 million.

P&I CLASS INVESTMENT PORTFOLIO ASSET ALLOCATION AT 20 FEBRUARY 2015



FINANCIAL OVERVIEW (CONTINUED)

SMI Free Reserve Contribution

The merger with SMI during the year has contributed US$41.4 million to the free reserve. The free reserve assumed by North at the merger date, 28 February 2014, was US$48.3 million. There was a small operational surplus in the financial period of US$0.8 million. The SMI pension scheme deficit increased by US$4.8 million and foreign exchange losses of US$3.9 million offset investment gains of US$1 million which reduced the SMI free reserve at 20 February 2015 to US$41.4 million.

Reinsurance

Efficient use of comprehensive and highly secure reinsurance remains critical to North's strategy allowing consistency in financial planning and ameliorating excessive volatility in underwriting performance.

A key component of this reinsurance programme is the pooling and reinsurance arrangements undertaken with other clubs as part of the International Group of P&I Clubs.

Continued deterioration on the 2011/12 policy year, which produced the first and third largest ever claims on the Group Pool, has further affected the Group's reinsurers, particularly those participating on the second and third layers of the programme. In contrast, the 2012/13, 2013/14 and 2014/15 policy years remain positive for our reinsurers which, together with increased market capacity and the use of a further multi-year private placement for 5% of US$1 billion excess US$ 100 million, allowed the Group to achieve renewal terms resulting in rate reductions for tankers and dry cargo vessels, and no increase for passenger vessels.

In addition to the further private placement, the structure of the Group's programme changed slightly with the absorption of a further 30% layer of US$40 million excess of US$80 million. The retention of the individual clubs within the International Group remains at US$9 million for the 2015/16 policy year

The number of Pool claims so far reported for 2014/15 is lower than in previous years and includes only one small claim from North. The ability of North's Members to benefit from the protection provided by the International Group Excess Loss contract (which remains the largest marine reinsurance contract in the world) and the sharing of retained risk through pooling and Hydra is a key feature and benefit of the International Group system.

Protection for claims within retention and across all classes remains in place through the excess loss programme created last year with the support of our long-term reinsurance partners. The Club has also arranged Pool Protection reinsurance for the 2015/16 policy year, which will protect the Club and its Members from any significant increase in North's total contribution to the cost of Pool claims.

North also places reinsurance to support the key strategic objective of conservatively expanding the range of products offered to its Members, including a range of non-poolable covers, such as comprehensive covers for charterers, with limits of up to US$1 billion.

In addition to the P&I Class, North also arranges stop loss protection cover for the FD&D Class whilst the War Class is fully reinsured through pooling and reinsurance arrangements of the Combined Group of War Risk Associations.

RENEWAL 2015 AND MEMBERSHIP

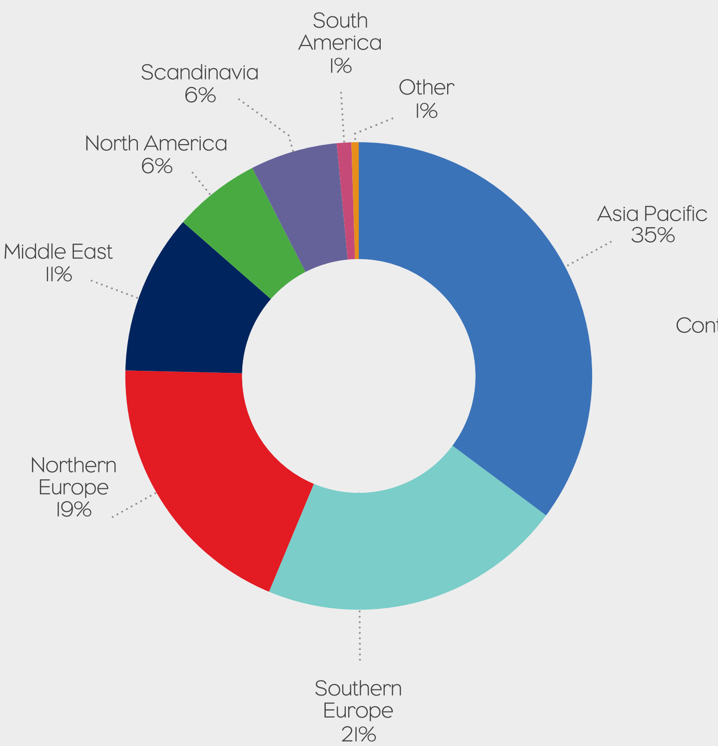
In North's Pre-Renewal Report in November 2014 it was apparent that maintaining the financial health of the Club was imperative and would be the fundamental objective of the 2015 renewal. A realistic target increase in mutual premiums of 4.75% was applied, and due to the overwhelming support of North's Members – this was successfully achieved.

North adopted a robust but consistent approach to meeting its financial objectives. This meant not offering renewal terms to some Members due to irreconcilable concerns over their technical and claims performance, and not agreeing renewal terms with Members with poor claims records who were not prepared to make a fair financial contribution to the Club.

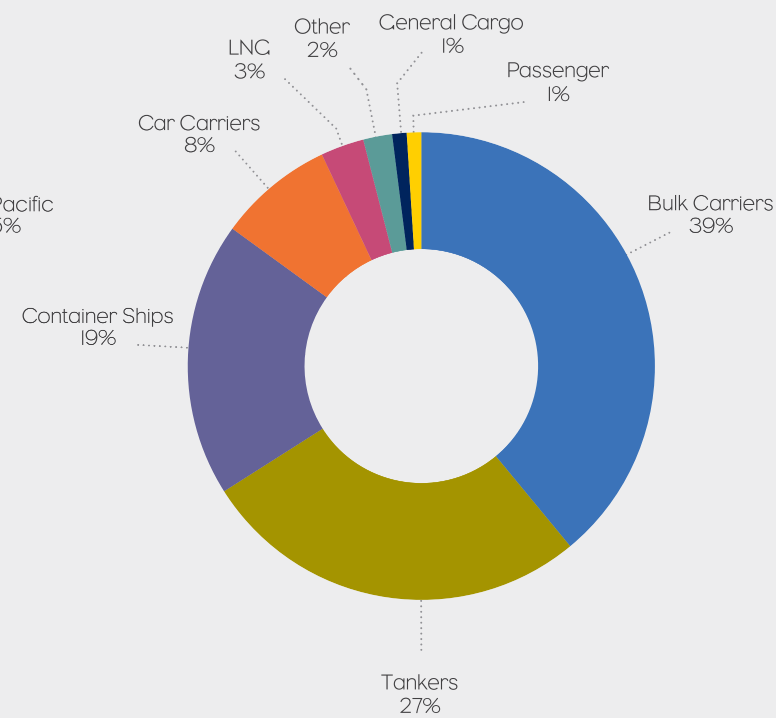
However, we now no longer have the adverse impact of these poorly performing former Members. Indeed, during the first few months of the 2015 policy year, we have already seen positive developments with claims having reduced considerably both in terms of attritional claims as well as larger claims, when compared with last year.

As a result therefore, and following the recent renewal, owned tonnage dipped to approximately 127 million GT and chartered tonnage reduced to approximately 43 million GT. North however still has a significant share of over 11.5% of total International Group tonage. The membership remains well diversified both in terms of ship type and size, as well as the geographical location of the Club's Members.

ENTERED GT (OWNED AND CHARTERED) GEOGRAPHICAL REGION
AT 20 FEBRUARY 2015



ENTERED GT (OWNED AND CHARTERED) SHIP TYPE
AT 20 FEBRUARY 2015



CLAIMS AND LOSS PREVENTION

The net claim result for the 2014/15 policy year, at the current stage of claims development, compares unfavourably with the 2013/14 policy year. The impact and volatility of high value claims is a key factor in claims patterns across all policy years but the number of such claims appears especially pronounced in 2014/15.

During the 2014 policy year there were more than 50 claims in excess of US$1 million, which accounted for about 50% of retained claims by value. In comparison, at the same development point for the 2013 policy year, there were about 30 claims in excess of US$1 million, representing about 40% of retained claims.

Claims over US$1 million have a significant impact on the overall claim position, in 2014 these large claims represented only 0.5% of the total number of claims but account for 50% of retained claims by value. Admiralty and cargo claims form the greatest proportion of such claims. However, in common with previous years, claims below US$1 million were stable.

In 2014 there was an increase in the proportion of claims, both in value and number, produced by container ships and this has been an area of focus as much for underwriting and loss prevention, as for the claims department.

The International Group has, to date, recorded 13 claims in 2014 in excess of the individual Clubs' retention, with a total net value of US$261 million. This is lower in claim numbers and value than for the two previous years.

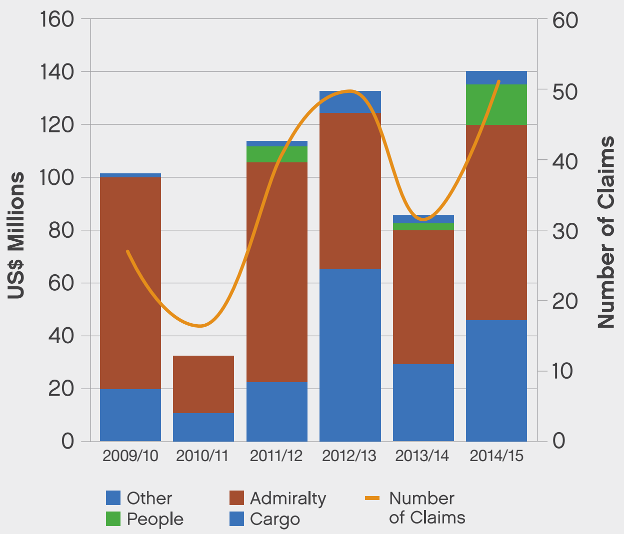
A review of all 2014 claims in excess of US$500,000 indicates that the most common root causes, across all types of large claims, relate to poor operational practices, in particular procedures which are not being properly implemented or in some cases, simply not fit for purpose. Good ship and shore-side management systems and properly trained and experienced sea staff are essential if such claims are to be reduced.

North remains committed to help Members address these issues. Our Member Review Programme, conducted by Loss Prevention in conjunction with Claims and Underwriting Departments, aims to identify Members, even those with a good claims record, who might present a higher claims risk and to work with them to help address the concerns that have been identified. Based on our continued analysis of industry issues and claims trends, North provides comprehensive information and advice on matters of concern to individual Members and the wider membership. As well as providing a set of topical loss prevention publications on our website, the Club answers a wide range of enquiries from Members on a daily basis and recent initiatives particularly include publications about avoiding grounding and dock damage and safe carriage of containers.

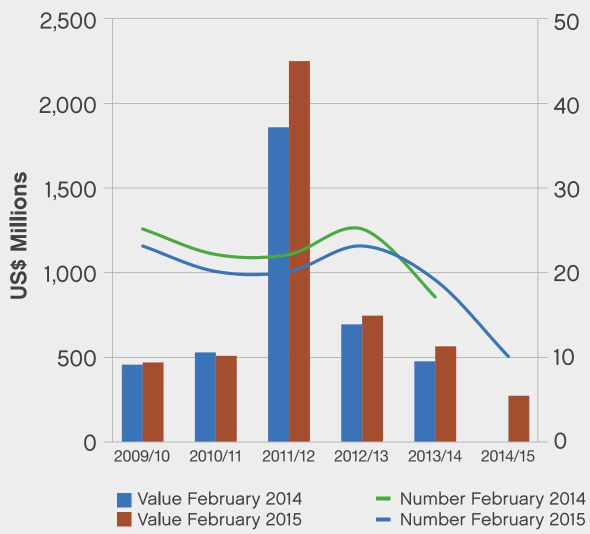
Against this challenging backdrop the claims department continues to develop and enhance the full range of claim resources, focusing on in-house skills, expertise and experience alongside value for money initiatives in order to deliver the optimum claim outcomes as cost effectively as possible.

Whilst the causes and incidence of claims in any given year are not within our direct control, it remains a priority for the claims, loss prevention and underwriting departments to work together to seek to reduce exposure to unnecessary and avoidable claims for the benefit of the membership as a whole.

MAJOR CATEGORIES OF CLAIMS AT THE 12 MONTH PERIOD VALUED IN EXCESS OF US$1M



DEVELOPMENT OF CLAIMS NOTIFIED TO THE IG POOL AND GROUP RI CONTACT BY VALUE* AND NUMBER OF CLAIMS



*Total estimated value of each claim

FD&D CLAIMS

Since 2008 the difficult worldwide economic conditions have continued to weigh heavily on the shipping markets with some commentators observing that, whilst there have been improvements in some sectors, overall this could be the worst sustained global shipping downturn in 30 years.

Although the number of claims and enquiries notified to North's FD&D team remained relatively stable when compared with the previous year, unpredictable trading conditions mean that now, more than ever, every dollar counts for our Members' operations. As a direct consequence, the FD&D team's services have once again been in high demand, with our lawyers assisting FD&D Members through a difficult claims environment, where many parties appear to have a greater appetite to fight than to settle.

It is a sad fact that each economic downturn results in corporate casualties, but this year the shipping industry was rocked by the sudden collapse of the OW Bunker Group. The team has been dealing with a large number of enquiries and claims arising out of this major bunker trader insolvency. It is very likely that the fallout from OW's collapse will be felt for a long period of time.

Alongside assisting Members with a variety of FD&D claims, the team has also worked closely with the P&I and loss prevention teams to provide assistance, guidance and support to our membership on a wide range of industry topics including bunker quality issues, regulatory developments and sanctions.

Over the past year we have strenghtened the FD&D team and we now have 31 FD&D lawyers working across our offices in Newcastle, Greece and Singapore. As is evident from the results of the survey last autumn, Members clearly value the service that they receive from this considerable in-house team of lawyers. The high level of personalised service that the team provides the Club's membership remains a key strength and differentiator of the Club and is equally aligned with our strategic objectives and vision.



INDUSTRY ISSUES AND DEVELOPMENTS

Two new conventions will have a significant impact on claims. In June, the liability limits under the LLMC 1996 Protocol increased by 51%. In April 2015, the Nairobi International Convention on the Removal of Wrecks 2007 entered force. Both Conventions have the potential to significantly increase the cost of claims but the impact is most likely to be felt under the LLMC Protocol which, by way of example, will cause the limit of a vessel of 150,000 GT to increase from US$57.5 million under the old regime to approximately US$85 million under the new.

The effect of the Nairobi Convention is limited by the fact that few signatory states have to date elected to apply the Convention to territorial seas. Without exercising this opt in the Convention applies only to wrecks in a coastal state's Exclusive Economic Zone which, possessing of deeper waters than in shore territorial seas, are less likely to present a threat to navigation and so trigger a wreck removal order.

The high cost of wreck removals continues to be a challenge. North's own experience, following the loss in 2013 of the MV Smart in Richard's Bay, South Africa, brought into sharp focus the benefits that flow from an open and early dialogue with the authorities responsible for management of a wreck site. It is therefore pleasing to note the progress made this year by the International Group's Large Claims Working Group initiative to conclude Memorandums of Understanding with States establishing protocols for the proper handling of maritime incidents. Three major coastal states have now signed the document and more are expected to follow.

On the related issue of places of refuge it is hoped that later this year the European Commission will publish guidelines for Member States handling situations involving a ship in distress and requiring assistance. It is hoped that the guidelines will encourage States to respond positively to requests for a place of refuge and in so doing minimise the cost of casualties and the risk to human life.

North was disappointed by the approach adopted by members of the IOPC 1971 fund towards the Nissos Amorgos case. The decision to wind up the 1971 Fund without reimbursing Gard P&I Club in respect of interim payments made on behalf of the Fund is likely to undermine the cooperation between the International Group of P&I Clubs and IOPC Funds in future pollution incidents.

The publication by the Centre for Effective Dispute Resolution (CEDR) of a new alternative dispute resolution procedure, named Shipping Early Intervention, was welcomed. This new initiative is aimed at resolving complex maritime disputes earlier than more conventional Alternative Dispute Resolution (ADR) procedures in a cost-effective manner, whilst recognising underlying commercial relationships. North welcomes the introduction of this new form of ADR and was pleased to be able sponsor an initial presentation by CEDR to senior shipping industry representatives in London at the end of 2014.



SUNDERLAND MARINE

The acquisition of Sunderland Marine ("SMI") provides financial stability to Policyholders, as well as establishing a significant diversification platform.

Marine

Hull claims were dominated by heavy losses in South Africa, Canada and Holland. This was offset by good experience in the UK and Australia. The number of total loss claims reported in 2014 was almost identical to 2013 although the gross cost was significantly less. By contrast, the number of partial damage claims reported was down slightly on 2013 but cost was significantly higher due mainly to a large claim from Holland.

As in previous years, the majority of total loss claims were the result of flooding/sinking incidents. Mechanical failures, in particular main engine damages, continue to represent the most frequently reported partial loss claims.

Since the introduction of the electronic Claims Portal in the UK in 2013, SMI has noted this has had a positive impact upon the management of small value claims, in particular in the passenger vessel sector.

We have noticed an emerging trend in the USA charter/sport fishing vessel sector where there have been a significant increase in the number of claims.

During the last 12 months, SMI has been involved in several claims involving significant medical repatriation costs. Early notification/intervention can have a positive impact upon the ultimate cost of the claim as this allows the medical repatriation company to research/negotiate the most suitable options available.

Aquaculture

During the year the Aquaculture division has endured an unusual and a particularly adverse run of high value claims from its many policyholders. Many regions were affected by a combination of natural perils and other environmental factors specifically superchill in Eastern Canada, and water quality combined with disease challenges in most other countries.

SMI has responded well to the increased claims servicing requirements supplemented with enhanced risk management practices to mitigate the effect of future problems.

It is anticipated that the unusual pattern of losses in 2014 will not be repeated in future years and a more usual and normal loss experience will prevail.