MID-TERM REVIEW & RENEWAL 2012

NORTH

SERVICE, STRENGTH, QUALITY

JOINT MANAGING DIRECTORS' OVERVIEW

We are pleased to report that the year is progressing well with a growth in membership and an improved financial position. Both owned and chartered entries have increased to a total of 155 million GT at 31 October 2011, with a positive contribution from the investment portfolio and a positive underwriting result forecast to produce a modest increase in the free reserves at 20 February 2012.

Although the first part of the year has developed satisfactorily, we must remain vigilant and be prepared for changes in the marketplace. The Club's claims experience in 2010/11 proved to be exceptionally favourable but indications for the current year suggest that claims experience has returned to normal levels.

The cautious financial approach adopted by the Club in response to the recent global economic turmoil continues. Due to the unstable outlook of the world economy it is likely that there will be tough challenges ahead particularly given the unpredictable nature of shipping.

Although we truly appreciate that our Members are operating in a difficult and uncertain environment, we need to keep moving forward to ensure that we meet the challenges of a volatile claims environment and ensure capital preservation.

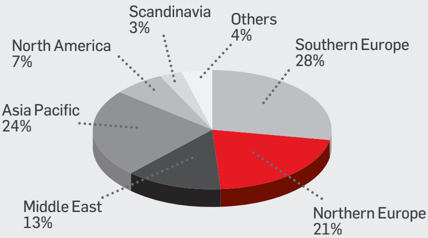
The Board's decision to apply a 5% general Increase on P&I premiums at the 20 February 2012 renewal reflects the Board's commitment to preserve our 'A' rated financial strength in the face of global economic instability (Standard & Poor's have recently reaffirmed the Club's 'A' (stable outlook) rating). We are about to enter our 21st consecutive year without calling on Members for unbudgeted premiums.

North stands by its pillars of quality membership, financial strength and service excellence. By providing high standards of service and care we underpin our values for the benefit of the membership as a whole.

Alan Wilson & Paul Jennings
Joint Managing Directors
December 2011

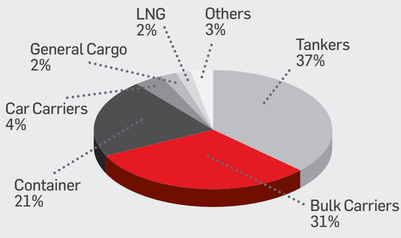
MEMBERSHIP DEVELOPMENT

Geographical Distribution – Owned Tonnage



Tonnage figures at 31 October 2011

Ship Type Distribution – Owned Tonnage



Tonnage figures at 31 October 2011

The membership has developed since the successful renewal at 20 February 2011 and we continue to attract additional tonnage from existing Members as well as a number of entries from new Members. This positive development is the result of our strategic objective to provide cost effective and sustainable insurance and to improve and maintain the quality of the membership through selective growth.

This continued growth reflects market confidence in the strength of the Club and importantly the high quality service provided to our Members. Since the February 2011 renewal, both the owned tonnage and chartered entries have increased resulting in a total entry of 155 million GT (at 31 October 2011).

The Club goes into the renewal season in a strong position and we are focused on renewing our existing Members and targeting cautious expansion through selective growth. Part of our long term strategic aim is to expand our product range, such that we will be looking to grow the chartered entry as well as to progress the offshore and specialist operations product. We hope to undertake these objectives with the continued strong support from both Members and their brokers.

FINANCIAL REVIEW

SUMMARY

- The financial position continues to develop in a satisfactory manner whilst the claims experience in the current policy year appears to have normalised following the extremely favourable year in 2010.
- A positive underwriting result and a positive contribution from investment income is forecast to modestly increase the free reserve of the Club at February 2012.
- Standard & Poor's have just confirmed a rating of A, (stable outlook) for the 7th consecutive year.
- Capital available is more than double that required to meet current and expected regulatory solvency requirements.
- Liquidity is high with the tactically defensive position of the investment portfolio resulting in a substantial allocation of funds to short dated government bonds.

FINANCIAL POSITION

We are forecasting that the free reserve will show a modest increase at 20 February 2012. The current policy year is at a very early stage in its development and there is therefore considerable uncertainty in projecting its ultimate outcome. Early indications are that claims have reverted to historically average levels following the very favourable experience of the previous policy year with the incidence of large value claims remaining subdued. Earlier policy years are improving as expected and the 2007/8 policy year was closed by the Directors at their meeting in October in surplus.

Our expectation is that we will produce a near breakeven underwriting result which (whilst not matching the exceptional 78.8% of 2010/11) is nevertheless satisfactory and we expect our long term average combined ratio to remain at below 103.0%.

The P&I Class investment portfolio has returned +2.34% compared to the benchmark of +2.04% for the financial year to 31 October 2011.

The strength of the balance sheet and the anticipated favourable development of completed policy years has enabled the removal of P&I Class release fees on all policy years, except for the 2011/12 year.

FINANCIAL REVIEW

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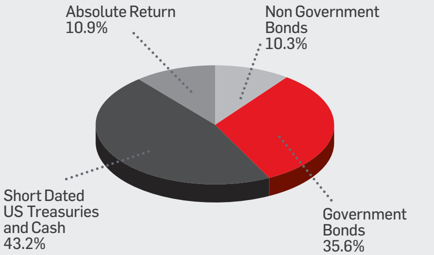

P&I Class Investment Portfolio at 31 October 2011

The portfolio is currently subject to a tactically driven defensive strategy which has been in place since 2008 and in view of the current market uncertainty, it is unlikely that this position will change in the near future.

INVESTMENTS

The investment portfolio is highly liquid with almost half of the portfolio invested in short dated US Treasuries and cash. Excluding the absolute return fund, 92% of all bonds and cash held are rated AA and above. The position of the P&I Class Portfolio at 31 October 2011 is shown above.

The Club's Investment Committee meets regularly to review the asset allocation of the fund and determine whether any adjustments are required. The portfolio is currently subject to a tactically driven defensive strategy which has been in place since 2008 and in view of the current market uncertainty, it is unlikely that this position will change in the near future.

GENERAL INCREASE

The most material and most difficult factors to predict in the General Increase (GI) assessment are investment income and claims. Investment markets are volatile at present and anticipating the likely return over a seven year policy year life is difficult. As mentioned above, our current strategy is conservative and consequently the GI assessment allows for a modest allocation of investment income.

Uncertainty in the shipping markets adds to the capricious nature of marine liability claims. Although the upward pressure on liabilities can sometimes be relieved by lower freight markets, history suggests they will merely plateau until the trading conditions in the market revive. Our assessment of liabilities for 2012/13 has involved an extensive actuarial exercise to help determine our forecast.

Allowance for the potentially corrosive effects of premium 'churn' has been made and the underwriting team recognise the importance of ensuring Members' premium levels reflect the performance and exposure of each relevant fleet.

FINANCIAL REVIEW
(CONTINUED)

SOLVENCY II

The Club's preparations for Solvency II compliance are continuing towards the revised implementation date of 1 January 2014. The Club's Managers prepared a Solvency II gap analysis which was considered by the Board in May 2011. A Solvency II implementation plan to address areas identified in the Gap Analysis was also approved by the Board in May 2011. Since the plan was approved by the Board, the Managers have undertaken work to meet the plan's objectives in the areas of Strategic Risk Appetite, Measurement and Reporting, Corporate Governance, Risk Management and Own Risk Solvency Assessment ("ORSA"). The Club's Enterprise Risk Management Committee has undertaken an extensive exercise to redevelop the Club's Risk Register. The Risk Register now incorporates risk valuations, risk limits (against which risks will be managed) and identifies risk owners responsible for managing risks within their respective risk limits. In order to support the quantitative element of the ORSA, North is developing an internal model using the Aon Benfield product 'ReMetrica'. A risk reporting framework has been developed which sets out the process by which risks are managed against risk limits.

Although exact capital requirements are due to be refined by the European Commission, it is unlikely that they will change materially to those established by QIS5.

The Board has extensively reviewed the Club's Capital requirements and has approved the Individual Capital Assessment (ICA) based on QIS5 parameters. Consequently the Board is satisfied with the level of regulatory capital held, which is 205% of the ICA.

NORTH OF ENGLAND P&I ASSOCIATION LIMITED

The Quayside, Newcastle upon Tyne, NE1 3DU UK
Telephone: +44 (0) 191 2325221 Fax: +44 (0) 191 2610540

www.nepia.com