PRE-RENEWAL Report
December 2014

NORTH
SERVICE, STRENGTH, QUALITY

CHAIRMAN'S OVERVIEW

As we approach the busy renewal season, I am pleased to report that although North remains financially secure, we are mindful of the difficult trading conditions that our Members are operating under. The Directors however believe that it is imperative to maintain the financial strength of the Club and our renewal strategy for the 2015/16 Policy Year reflects this objective and our drive to maintain this position.

Pratap Shirke
Chairman

As a consequence therefore of an increasingly expensive claims environment, an increased Pool share and the impact of premium "churn", the Directors have decided on an overall increase of 4.75% for mutual P&I premiums, with the increased contribution to the Pool and the consequent club-wide impact of this necessitating the mandatory increase of 2.5%. Fixed premiums will be subject to a 5% increase. FD&D premiums for mutual and fixed will be increased by 2.5% and 5% respectively to reflect the high level of volatility of this Class.

We will adopt a robust approach to ensure that fairness between Members is maintained but to also ensure that suitable premium levels are achieved to cover claims performance and anticipated claims exposure. Members' rates will also be adjusted to incorporate any changes to the International Group's reinsurance costing and structure.

We are confident that these measures will ensure that the Club maintains its financial stability, which has been the cornerstone of our financial strategy for over two decades now. This is the tenth consecutive year that North has maintained its Standard & Poor's "A" rating and we have not burdened Members with unbudgeted supplementary calls for 23 years.

Our priorities are clear and I would like to thank our membership for their continued support and commitment.

Pratap Shirke
Chairman

December 2014

FINANCIAL REVIEW

North is in a strong position and has adopted a proactive renewal strategy to ensure this strong position is maintained. We are forecasting a small underwriting loss resulting in a combined ratio of circa 105% which, together with a modest investment return, should see free reserves increasing to over US$320 million at 20 February 2015. Sunderland Marine should provide free reserves of more than US$40 million, resulting in an overall North Group free reserve in excess of US$360 million at 20 February 2015.

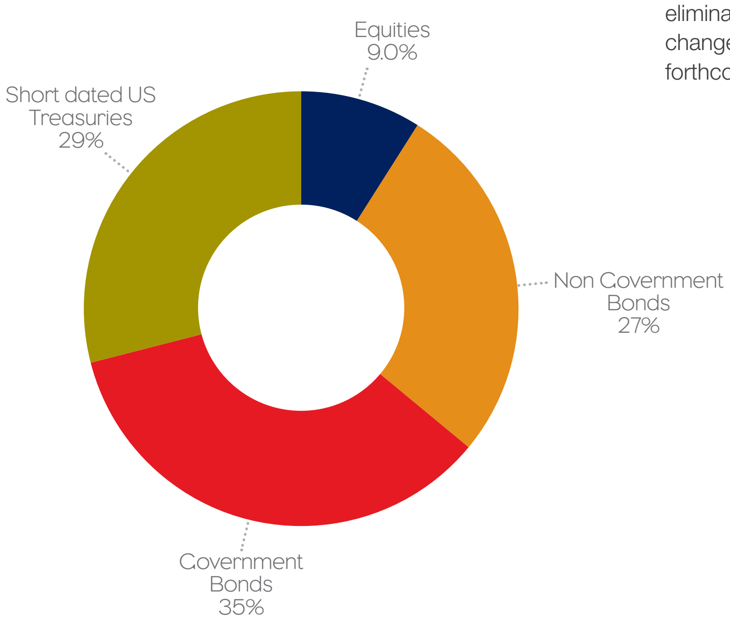
There have however been continuing financial challenges during 2014, including a decline in yields of "AA" rated corporate bonds which could further impact the pension liability on the Group balance sheet, this might be in the US$10 million range.

The 2014/15 Policy Year appears to be developing in line with expectations but this is nevertheless now at a higher level than in the previous year. The frequency and cost of high value claims is volatile and continues to trend upward as does the cost of attritional claims. Inflation affects all levels of claim, which is countered to some extent by the Club's continuing efforts at raising deductibles.

Rating & Regulation

North Group's capital remains strong and is rated at "AA" by credit rating agency Standard & Poor's, which reaffirmed our "A" credit rating and stable outlook for a tenth consecutive year following the merger with Sunderland Marine. The agency commented that its rating reflects the newly merged group's continuing strong business risk profile and strong financial risk profile, which is built on a strong competitive position and strong capital and earnings.

P&I CLASS ASSET ALLOCATION AT AUGUST 2014



The full implementation date for Solvency II is currently 1 January 2016 and North is well on target for full Solvency II compliance, in line with the Club's implementation plan. North and Sunderland Marine's Own Risk and Solvency Assessments ("ORSA") have been approved by their respective Board of Directors. North Group's regulatory capital comfortably exceeds that which will be required for Solvency II.

Investment Strategy

For a number of years and particularly following the financial crises in 2008, North has adopted a low risk investment strategy with the primary focus being on capital preservation, thus protecting the Club from the volatility of global investment markets.

Following a review of the risk budget at the 2014 mid-year point, the Directors determined that there was some latitude for a modest increased allocation to investment risk. Accordingly, US$30 million will be allocated to a Diversified Yield Bond Fund from the Short Dated US Treasuries position.

In the financial year period to 30 November 2014, the Club's cautiously positioned P&I Class investment portfolio produced a return, net of fees, of +3.23% which equates to US$23.1 million of net investment return, with positive contributions from all asset sectors.

Reinsurance

The renewal strategy for the International Group of P&I Clubs' reinsurance programme has not been finalised at the time of writing, however the International Group's reinsurance brokers predict some premium savings providing that there are no major claims before the renewal is concluded.

The Club's retention reinsurance programme is designed to manage volatility and to reduce exposure to large claims and/or an unusually large aggregation of attritional losses; although it should be recognised that the exposure cannot be entirely eliminated. Is it not expected that there will be any material change to the structure or pricing of the programme for the forthcoming Policy Year.

UNDERWRITING REVIEW

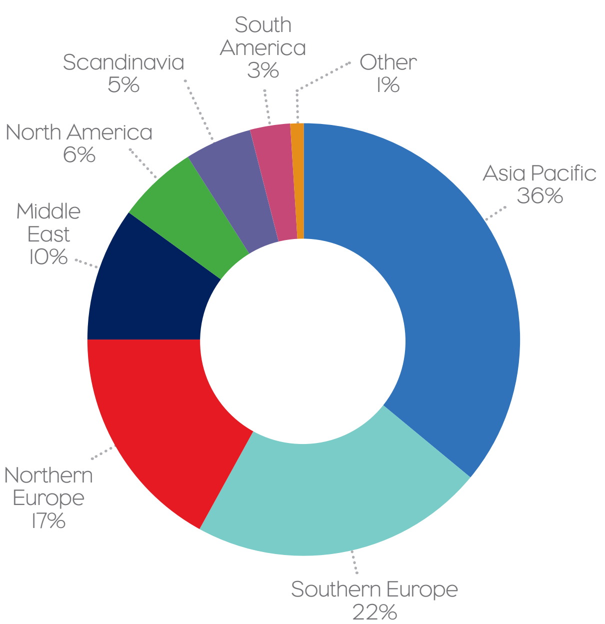
As mentioned earlier, we expect to see a small underwriting loss for the 2014/15 financial year, with a combined ratio of circa 105%. This contrasts with the result in 2013/14 which produced an underwriting surplus and a combined ratio of 90.1%. 2013/14 benefited from a relatively low level of Members' claims, which is an experience that has not unfortunately been repeated for 2014/15. In addition, the 2014/15 combined ratio will be adversely impacted by the increase in the Club's share of Pool contributions. The forecast result for 2014/15 has also finally been affected by a slowdown in the rate of claims improvement on a number of prior policy years.

The decision by the Directors to apply an overall premium increase of 4.75% and to increase deductibles, was driven by three major factors: an increasingly expensive claims environment, an increased Pool share and the impact of premium "churn".

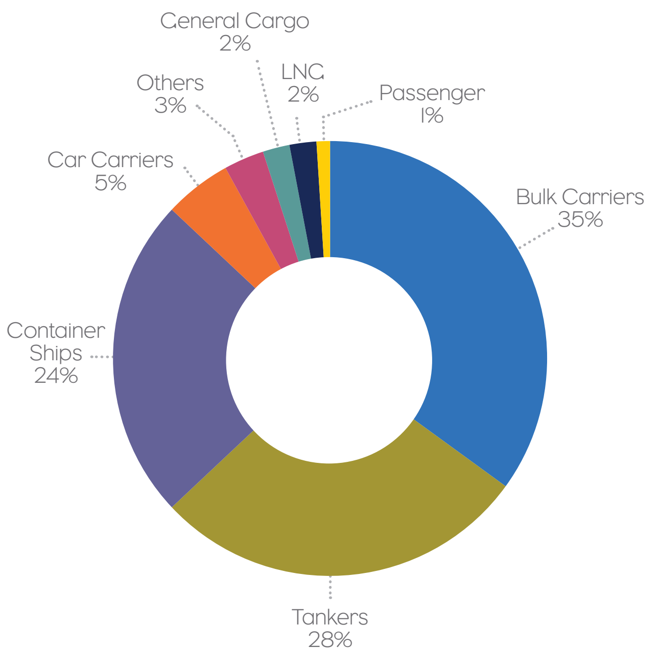
The claims environment for shipowners continues to be hostile and as a consequence, the overall cost of claims continues on an upward trajectory. This trend is driven by the effects of inflation together with the volatility associated with a relatively small number of high value claims.

We reported in North's Management Report (published in August 2014) that the Club experienced the two largest claims in its history – the grounding of the "SMART" and the berth contact involving the "WU YI SAN". Whilst the net exposure to the Club of these claims was limited by the International Group Pooling mechanism, there has been an impact on North's contributions to the International Group Pool (the "IG Pool"), and this will therefore require additional funding. North previously had a good claims record with the IG Pool and has consequently contributed a significantly reduced share to the first layer of the Pool (i.e. for claims up to US$45 million) in previous years. This was disproportionate to our share of entered tonnage in the International Group. The share of entered tonnage is the basis on which the Club's contribution to the second and third layers of the Pool (i.e. for claims excess of US$45 million and up to US$80 million) is calculated. In reality therefore, our recent claims on the Pool have simply brought the Club's Lower Pool share closer in line with our entered tonnage share and our level of contribution to the Upper Pool.

ENTERED GT (OWNED AND CHARTERED) BY GEOGRAPHICAL REGION AT HALF YEAR FOR 2014/15



ENTERED GT (OWNED AND CHARTERED) BY SHIP TYPE AT HALF YEAR FOR 2014/15

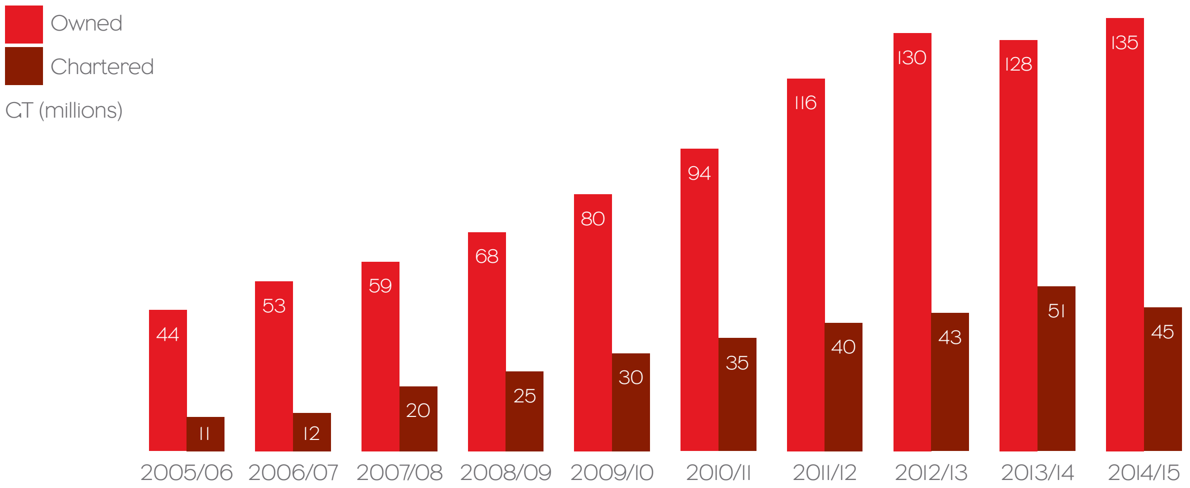


UNDERWRITING REVIEW CONTINUED

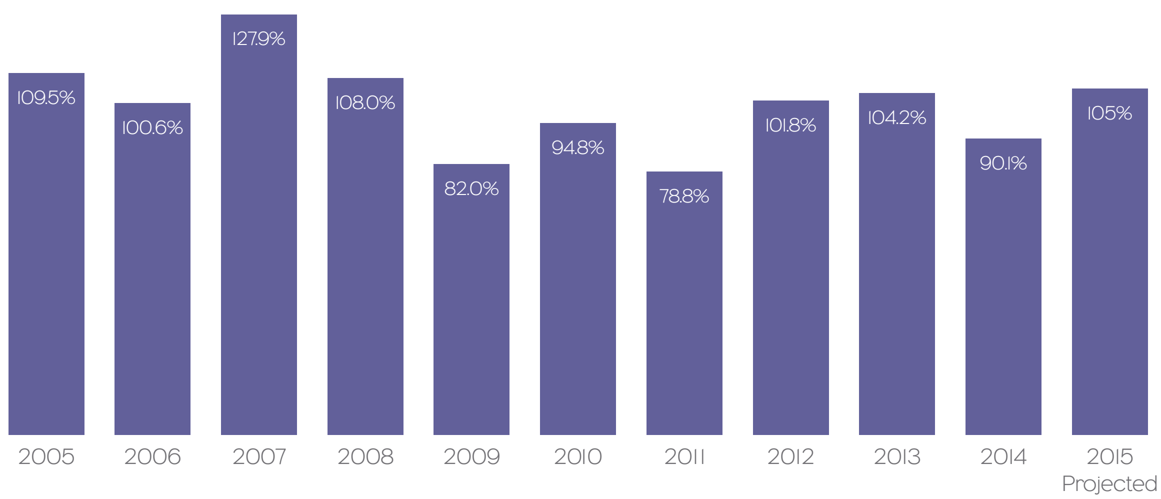
Finally, premium "churn" whereby older higher rated tonnage entered in the Club is being scrapped at record levels and is being replaced with lower rated new buildings, continues to place significant pressure on premium levels and also affects the combined ratio. To this end, although the scale of demolitions is not as high as it was when it reached record levels in 2012, scrapping remains a significant factor in terms of premium dilution for International Group Clubs.

Whilst these challenges will impact on the Club's results going forward, North remains focused on its cautious underwriting philosophy and our continued aim to achieve a breakeven underwriting result. Although North has grown in recent years, this has not been at the expense of underwriting discipline, with the Club's long term average combined ratio still amongst the best within the International Group.

ENTERED GT AT HALF YEAR FOR POLICY YEARS 2005-2014



COMBINED RATIO FOR FINANCIAL YEARS ENDING 2005-2015



CLAIMS REVIEW

Although claims were fewer by number to the six month point, the overall value for 2014/15 was approximately 10% higher than in the previous year. A significant factor in this increase in value was large claims: 19 claims valued in excess of US$1 million were notified at the six month point and which collectively accounts for 46% of retained claims by value. This figure represents a significant increase both in terms of number and value when compared with 2013 but follows a similar pattern to the 2011 and 2012 years. The unpredictable nature and frequency of these high value claims brings volatility and uncertainty and ultimately affects the premium requirements of the Club due to their significant impact on performance. Overall therefore, the average cost of claims continues to rise.

Two developing trends which are however also of concern are the increase in cargo and injury/illness claims which are significantly higher than at the six month development point in previous years.

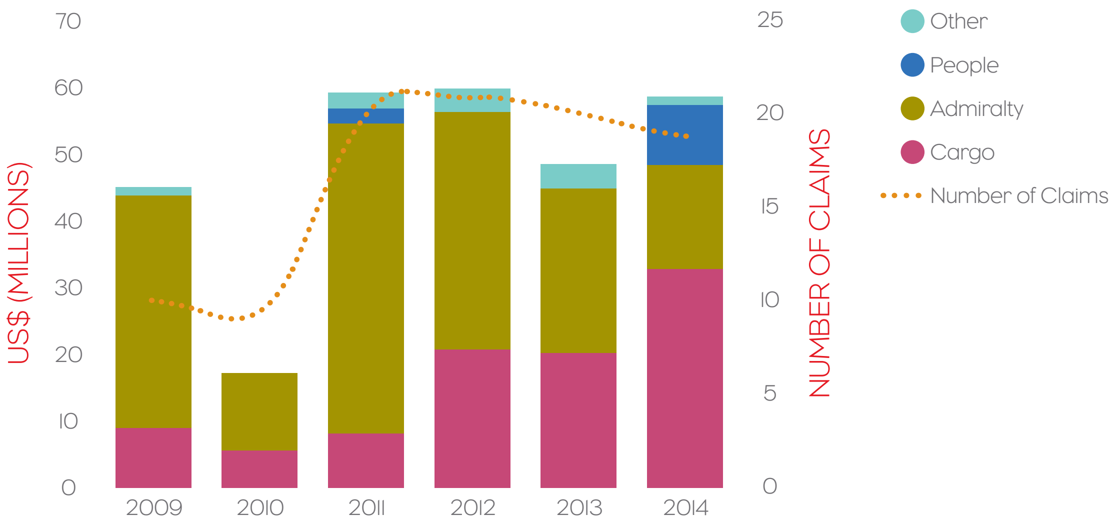
Whilst the total number of injury and illness claims has reduced over the last five years, their aggregate value has increased. This category of claims is increasingly affected by a number of high value claims which are in the main a consequence of a conservative reserving strategy adopted by the Club to take account of recent adverse decisions of the US courts. Past year claims reserves have also recently been reviewed in light of these adverse legal developments.

The number of cargo claims in excess of US$1 million has also increased significantly in terms of number and value when compared to recent years. Whilst affecting all sectors, the most marked increase has been seen in respect of container claims, which appears to be an industry wide issue. Preliminary investigations indicate that container ships are experiencing difficulties with stowage, and in particular with regard to container locking mechanisms, a situation which seems to be exacerbated by the larger design of container ships.

Ships' claims (admiralty and pollution, etc.) are currently running at lower levels than in previous years, however admiralty claims are notoriously volatile and as we approach the winter season in the northern hemisphere, it is worth noting that a relatively small number of claims can have a significant impact on the overall claims costs for the year.

The current year experience on the IG Pool appears to be better than in previous years however, given the volatile nature of this category of claim, we continue to maintain a prudent allowance in our projections.

MAJOR CATEGORIES OF CLAIMS AT 6 MONTH DEVELOPMENT POINT VALUED IN EXCESS OF US$ 1 MILLION FOR POLICY YEARS 2009-2014



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