

PRE-RENEWAL  
*Report* NOVEMBER 2012

**NORTH**   
SERVICE, STRENGTH, QUALITY

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# CHAIRMAN'S OVERVIEW

In our 2012 Management Report, I reported a stable and positive performance for the Club. However, I also highlighted the challenges that face the shipping industry as a whole, and their impact on P&I clubs and other marine insurers.

The overriding issue for our Members continues to be the uncertain global economy, which has led to extremely challenging freight markets - in fact, the most challenging many of us in the industry have experienced for decades.

Although the pace of new-building deliveries and orders has eased off, there is still a considerable imbalance between supply and demand in the shipping industry. This is compounded by the alarming increase in available tonnage over the last few years and the lingering economic consequences of the 2008 global financial crisis, which has reduced anticipated global demand. The outlook for shipping markets for the next 18 months remains challenging.

It is against this challenging economic backdrop that our Members look to the Club for support, guidance and the provision of excellent service, as well as financial stability. North has a long record of financial stability and thanks to our strategy of prudent financial discipline, we have not made any unbudgeted supplementary calls on our Members for more than 20 years. We are one of only a small number of P&I clubs in this strong category.

Maintaining financial stability is a key objective of the Club, and at a time when the P&I industry is experiencing an increase in claims, it is important we ensure premium levels are sufficient to deal with current and anticipated claims experience. Our strategy has always been proactive. We do not view unbudgeted supplementary premium adjustments in the future as an appropriate option, and our conservative investment policy emphasises the requirement for sustainable underwriting results.



We have therefore decided to implement a series of renewal measures this year, which are detailed in our separate Financial Review and Renewal Circular to Members. We fully understand that the cumulative effect of these measures, coupled with what could be a significant increase in the International Group reinsurance programme for the 2013 policy year, will be challenging. However, we are confident our Members will understand and support our strategy of maintaining the Club's ability to provide high levels of service without resorting to additional calls. In consideration of the financial pressures currently facing our Members, we will change the way we collect premiums next year, in order to provide our Members with a very significant cash flow advantage.

We have decided to collect the annual premium for the next policy year in five instalments (instead of the current four). We will only require four of the instalments, or just 70% of the estimated total premium, to be paid during the policy year (and we are only requiring payment of just 20% of the premium during the first six months of the year), and then in October 2014 we will review what proportion of the final premium (payable 1 December 2014) instalment is actually required. We are sure our Members will welcome the cash flow benefit of deferring part of their premium.

North is in a sound financial position, with a strong solvency position, and an "A" rating from Standard & Poor's. This is underpinned by a long tradition of financial stability, which the Directors are committed to maintaining for the overall benefit of the membership.

Pratap Shirke  
Chairman

# UNDERWRITING REVIEW

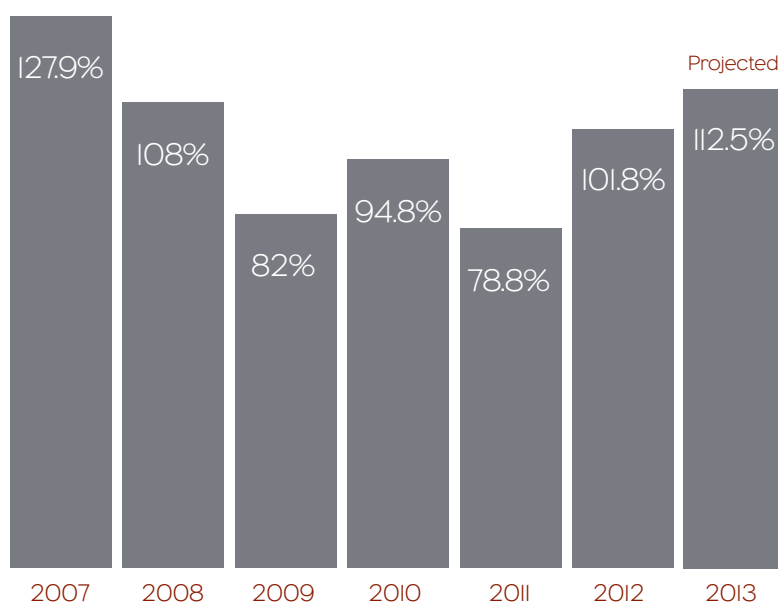
The Club's underwriting philosophy is cautious, and focused on achieving break-even or better underwriting results. Although North has experienced tremendous support from Members as the Club has grown in recent years, this has not been at the expense of underwriting discipline. The Club's long-term average combined ratio is still among the best within the International Group.

However, as a result of an increase in claims (both retained and particularly the Club's contribution to International Group Pool claims) the Club's combined ratio has increased above the target level of 100%, and it is clear that premiums have not kept pace with the increase in claims. As Members may be aware, at last year's renewal the Club significantly moderated the level of General Increase which was assessed as being necessary.

This was done in the knowledge that an underwriting loss might well result and that any deficit would be balanced from the Club's free reserves. We believe this was the correct approach to assist Members during a difficult trading environment and this policy of recognising our Members' financial pressures will continue, whilst at the same time recognising the need to maintain the Club's financial stability. The renewal measures recently announced by the Club's Directors are designed to restore premium levels and to maintain the financial stability of the Club in a controlled manner.

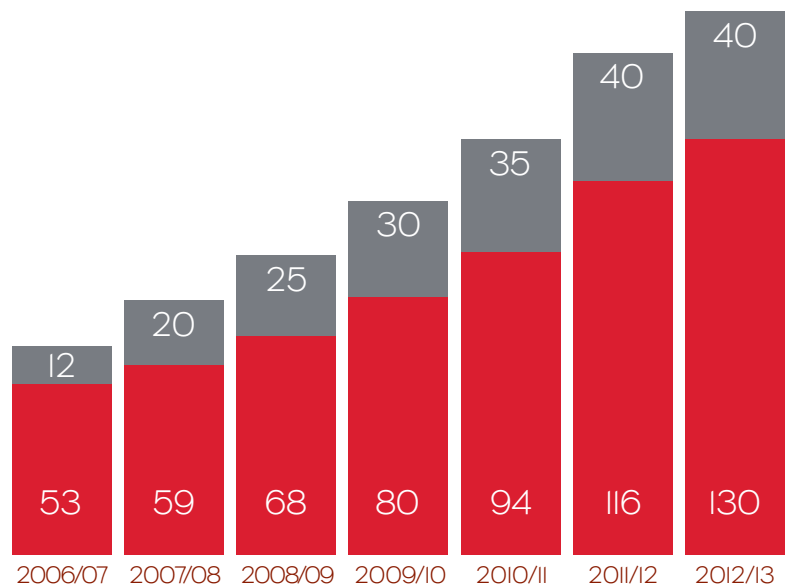
The membership of the Club has grown again in the first six months of the year, with owned tonnage increasing to approximately 130 million GT and chartered tonnage to 40 million GT. North has a cautious approach to further growth, and will only accept business that meets the Club's strict underwriting criteria in relation to quality and financial sustainability.

COMBINED RATIO FOR  
FINANCIAL YEARS ENDING  
20 FEBRUARY 2007 - 2013

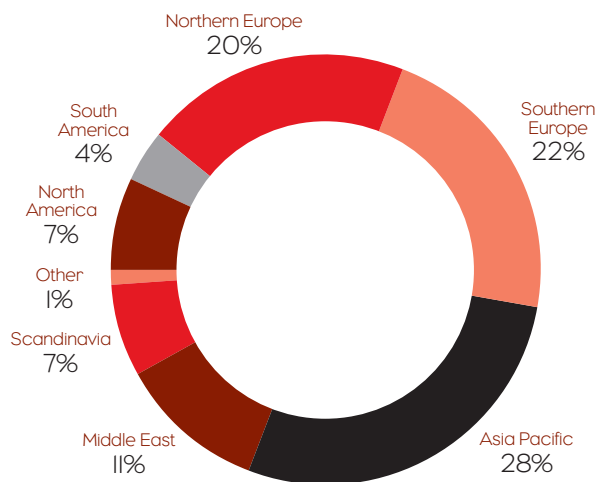


ENTERED GT AT HALF YEAR FOR  
POLICY YEARS 2006 - 2012

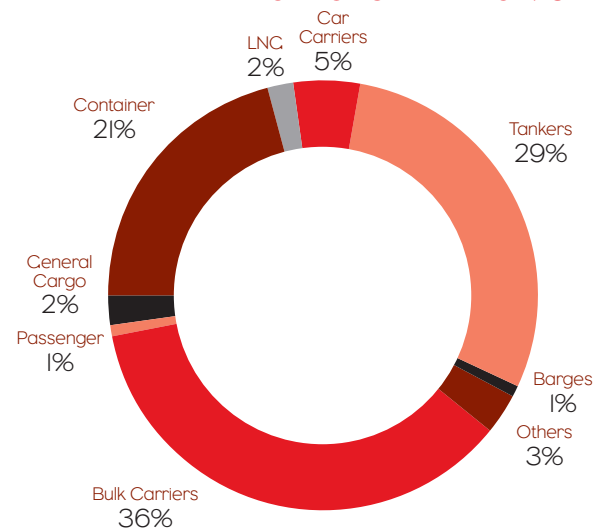
GT (millions)  
■ OWNED  
■ CHARTERED



ENTERED GT (OWNED AND CHARTERED)  
BY GEOGRAPHICAL REGION AT HALF  
YEAR FOR POLICY YEAR 2012/13



ENTERED GT (OWNED AND CHARTERED) BY SHIP  
TYPE AT HALF YEAR FOR POLICY YEAR 2012/13



# CLAIMS

The number and value of claims has continued to increase, although the true underlying inflationary pressures on claims may be somewhat mitigated by the continuation of the depressed and recessionary shipping markets.

The number of retained claims notified to the Club in the first six months of the 2012 policy year has increased in comparison with the position in 2011 by approximately 1.32%, while the value of retained claims is also some 12.1% higher.

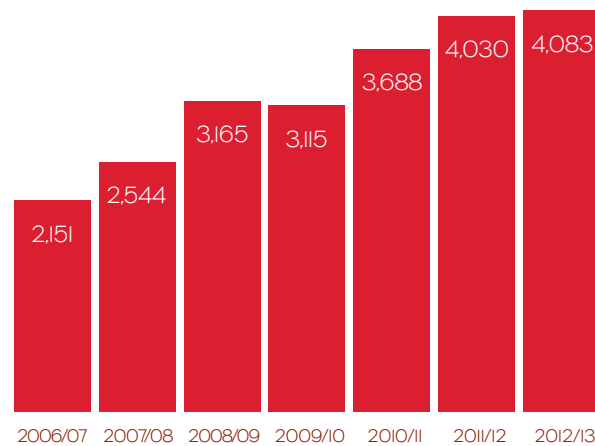
In addition, the total incurred value of Pool claims at the six month point in the 2012 policy year was US\$245.0 million, with the Club's share being US\$12.1 million (this compares with total claims of US\$108.3 million and a share of US\$4.5 million at the six month point in 2011). The number and value of 2012 Pool claims has continued to increase significantly in the two months since 20 August, and at 20 October 2012, our estimated share of Pool claims had increased to US\$16.0 million.

North continues to have a favourable Pool record, which is one of the reasons for the Club's current low Pooling contribution percentage, but this percentage is set to increase in 2013 as a result of proposed changes to the mechanism for calculating Pooling contributions.

During the 2010 policy year the Club experienced a very low level of claims. However, the subsequent claims levels in 2011 and 2012 have resumed their upward spiral. It is now clear that the experience of 2010 was an exception and that the trend of claims is increasing. So far in 2012, the Club has experienced a substantial increase in the total value of cargo-related claims, as well as a small increase in both collision and people claims.

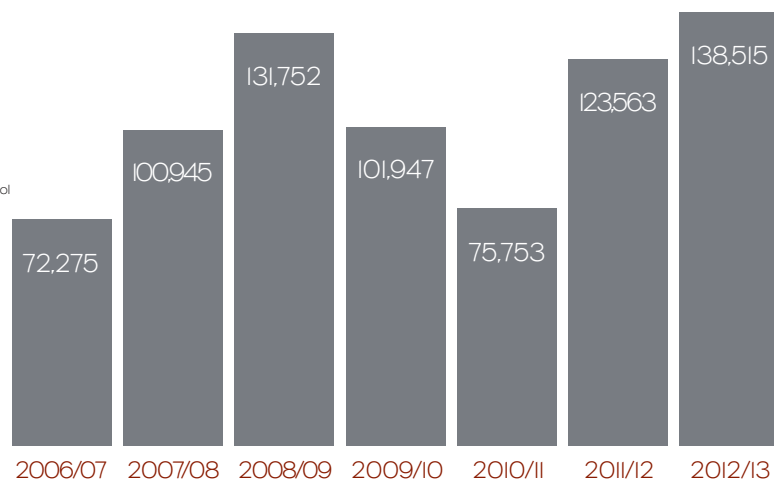
The Club's reserving methodology is extremely cautious and on an actuarial assessment, the balance sheet reserving of Members' claims is at a 95% confidence level (95th percentile). This traditionally leads to improvement of historical claims, which contributes to the Club's financial strength and stability.

NUMBER OF MEMBERS' CLAIMS AT HALF YEAR FOR POLICY YEARS 2006 - 2012



VALUE OF RETAINED MEMBERS' CLAIMS AT HALF YEAR FOR POLICY YEARS 2006 - 2012

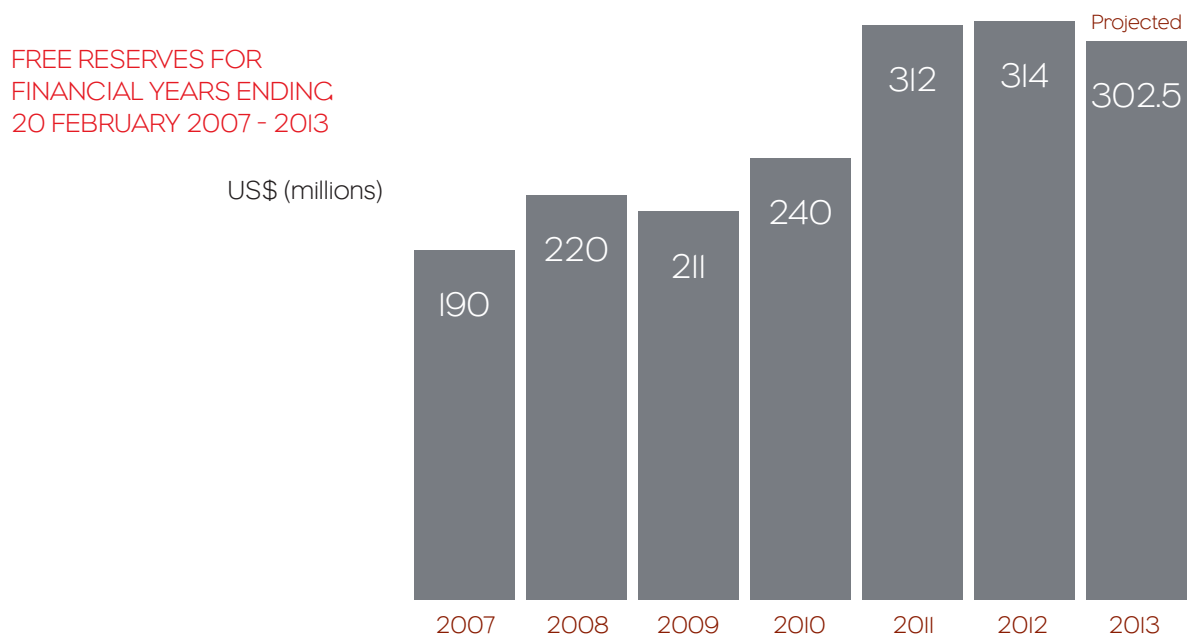
US\$000s  
Net of recoveries on the Pool



# FINANCIAL REVIEW

In the six months since 20 February 2012, there has been an increase in claims for the current policy year, compared to the same period last year. This includes both the Club's own retained claims and International Group Pool claims, which are running at a particularly high level. However, there has also been an improvement in claims on earlier policy years, and a modest but positive investment return during the first six months of the financial year.

It is anticipated that the cost of claims will continue to increase at the current elevated levels during the remainder of the year. Depending upon ongoing investment performance and the development of claims in earlier years, this could result in a modest reduction in free reserves at the year end. Members will appreciate it is difficult to forecast with certainty the development of claims over the remainder of the current policy year.

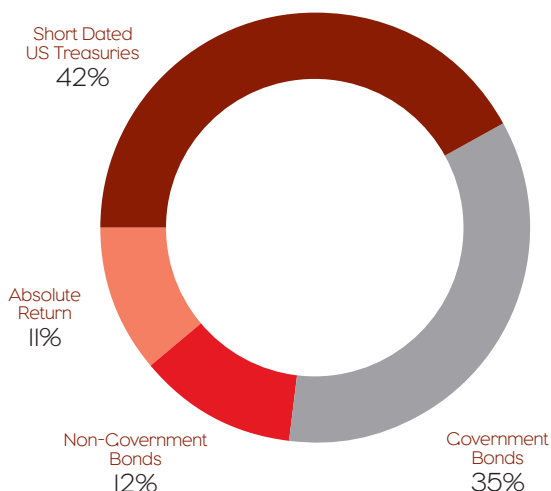


# INVESTMENTS

North has, for a number of years, adopted a low risk investment strategy, with a primary focus on capital preservation. This has protected the Club from much of the volatility of global investment markets. The corollary to a secure investment strategy is that North must ensure break-even underwriting without relying on investment income to subsidise underwriting performance.

In the six months to 20 August, the Club's cautiously positioned investment portfolio produced a return of 1.3% or some US\$10.3 million. This return was higher than the benchmark, and while it is a welcome contribution to the Club's funds, it cannot be guaranteed to continue for the remainder of the year because of the increasingly volatile global investment environment.

P&I CLASS ASSET ALLOCATION AT AUGUST 2012



# REINSURANCE

It is recognised that the overall cost of the International Group's reinsurance programme for the 2013 policy year will be subject to some increase for all clubs and their Members.

The well-publicised casualties involving the "RENA" and "COSTA CONCORDIA" in 2011 have led to substantial claims on the International Group's Excess of Loss reinsurance contracts, as well as to the International Group Pool. The Club will continue to transparently apply any reinsurance adjustments to Members' rates, in addition to any other premium adjustments at the forthcoming renewal.



# RATING, REGULATION AND GOVERNANCE

North has an “A” interactive rating with Standard & Poor’s, and our target remains “AA” capital within Standard & Poor’s capital model. In addition, the Club’s capital comfortably exceeds that which will be required for Solvency II purposes. North’s preparations for Solvency II are well-progressed, and North expects to be fully compliant by the original implementation date of January 2014. However, it now appears that the actual implementation date may be beyond January 2015.

In light of the current regulatory and governance environment, and as part of Solvency II implementation, it will also be necessary to restructure the Club’s governance arrangements slightly. Details of the proposed changes are being notified to Members separately in the next few weeks. The proposals will involve a reduction in the number of Non-Executive Directors, and the establishment of a separate Members Board, which will represent the Club’s membership.

The proposals are designed to meet existing and proposed regulatory requirements, while at the same time maintaining the existing values of the Club and the overriding control of the Club by its shipowner Members. North’s Directors and Managers remain committed to maintaining the Club’s mutual status, and to remaining a financially strong and stable partner providing first class service and assistance to our Members.

