

PRE-RENEWAL
Report
November 2015

NORTH 
SERVICE, STRENGTH, QUALITY

CHAIRMAN'S OVERVIEW

I'm pleased to report that the performance in the 2015/16 financial year has been positive. The value of claims incurred on the current policy year at 20 August 2015 was significantly lower than at the same juncture in the previous four years. This trend has continued such that our estimate of net claims in the current policy year, together with improvements on earlier policy years, has led us to revise our projection for the Free Reserve position at 20 February 2016, to approximately US\$380 million.



Pratap Shirke
Chairman

Freight markets are volatile although global trading is at record levels overall and this increases claims activity. This may not actually be apparent from the claims incurred this year, but it is certainly evident from the claims performance of the last several years. In addition, due to volatility in global investment markets, the Club has suffered an investment loss in the first part of the year. It is hoped this will be corrected by the year end.

For the February 2016 renewal, we have decided to set a general premium increase of 2.5% for both P&I and FD&D cover. The relatively low increases compared to recent years reflects an improvement in the Club's financial position during 2015/16, with favourable claims development more than offsetting negative investment income.

North remains financially secure, with a strong capital position evidenced by Standard & Poor's affirmation of its 'A' stable rating in January this year. This is our eleventh consecutive year with an 'A' rating and our consistently strong technical underwriting performance means Members have not been burdened by unbudgeted supplementary calls for 24 years.

While the Club remains mindful of the difficult trading conditions that its Members are operating under, the Directors believe it is imperative to maintain the financial strength of the Club and to continue with their strategic objective of not burdening Members with additional unbudgeted calls.

This is indeed the reason why the General Increase has been set as low as it has and will only really respond to the level of premium churn that the Club is currently experiencing this year.

The Directors and I are satisfied that North remains in a strong position and that our proactive renewal strategy will maintain this position. Our over-riding aim is to ensure that all Members continue to receive the high levels of service and financial security they have come to expect from us.

Pratap Shirke
Chairman

November 2015

FINANCIAL REVIEW

For the first 8 months of the year we have seen positive movement in our financial position and the claims development on current and prior policy years.

Favourable claims development in the current year and in older policy years has more than offset a small investment loss. The value of claims incurred on the current policy year is at lower levels than anticipated and the development on prior years is better than expected. As a consequence, North's projected Free Reserve at 20 February 2016 is in excess of US\$380 million.

The projected Free Reserve that was shown in the Half Year Financial Update Circular on 8 October 2015 followed our usual prudent approach and did not recognise the low level of claims incurred in the first six months of the current policy year. Claims on this year have continued to develop favourably and this together with the assistance we have received from our reinsurance partners has enabled us to increase our projected Free Reserve at 20 February 2016 to US\$380 million.

Rising bond yields have resulted in pension scheme liabilities falling by US\$10 million, although this improvement is not included in the projected US\$380 million Free Reserve in view of the volatile nature of financial markets.

The projected combined ratio for the financial year ending 20 February 2016 now stands at 87%.

Investments

The financial year to 31 October result was -0.65% against the benchmark return of -0.22% which equates to a loss of US\$4.5 million. The exposure to government and corporate bonds has produced negative returns of -0.21% and -1.6% respectively, whereas equities posted a flat (0.01%) return.

Regulation

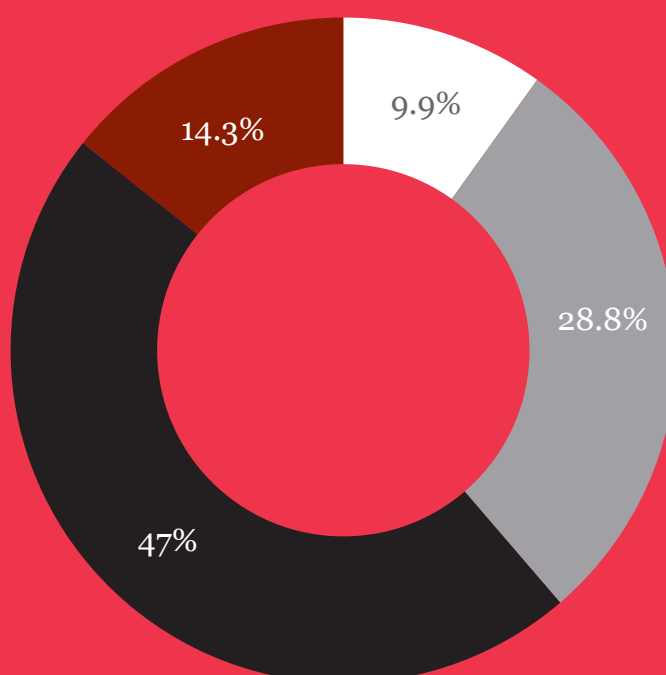
The implementation date for Solvency II (SII) has been fixed as 1 January 2016. We have been closely engaged with the UK regulator, the Prudential Regulatory Authority ("PRA"), over the summer to ensure North's compliance with effect from the implementation date. In September 2015, our Chairman provided an attestation to the PRA to the effect that North will be SII compliant from 1 January 2016, which was supported by a detailed independent expert's report. There are several streams of activity dealing with governance, financial and reporting aspects of the requirements, where we are supported by external consultants.

Rating

Standard and Poor's reaffirmed our 'A' (stable) rating in January 2015, for the 11th consecutive year. The rating reflects our strong competitive position, strong capital and earnings, robust risk management and conservative reserving practices.

P&I Class Asset Allocation at 31 October 2015

- Equities
- Non-Government Bonds
- Government Bonds
- Cash & Cash Equivalents



UNDERWRITING REVIEW

The Club's underwriting philosophy remains cautious and focused on achieving break-even or better underwriting results. Although North has experienced strong support from Members as the Club has grown in recent years, this has not been at the expense of underwriting discipline. At the 20 February 2015 renewal, we took action to enhance the financial strength of the Club, and consequently certain poorly performing Members were not offered renewal.

In light of the favourable claims experience during the first 8 months of the policy year, we believe that the robust approach we advocated at the February 2015 renewal has been vindicated. In last year's Pre-Renewal Report, our Chairman stated that maintaining the financial health of the Club was imperative and would be the fundamental objective of the 2015 renewal, ensuring that suitable premium levels were achieved across the membership to cover claims performance and anticipated exposure. Although this strategy did result in the Club not being able to conclude mutually agreeable renewal terms with approximately 10 million GT of business, the Club is now in a healthier financial position as a consequence of this.

Although North's claims experience has been favourable in the first 8 months of the policy year, the claims environment generally for shipowners continues to be hostile and as a consequence, the overall cost of claims shows 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.

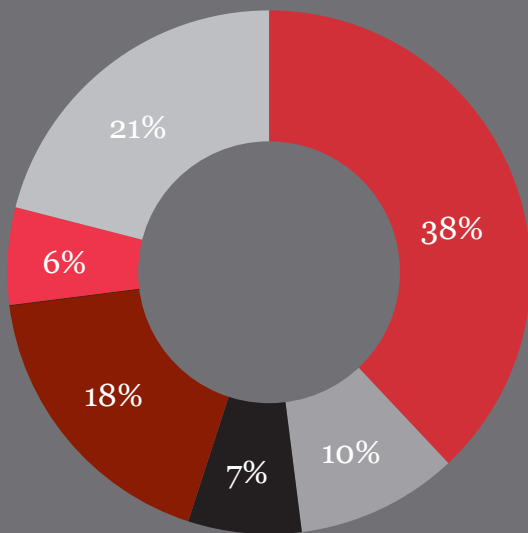
We were therefore pleased to report in our Half-Year Financial Update Circular last month, that at the half year point in our current policy year (at 20 August 2015), there were only 11 claims incurred in excess of US\$1 million, compared to 21 at the same development point in the previous policy year.

In reality, it is the claims experience in this volatile category of claims that will shape the overall claims performance of a policy year. Consequently, and whilst cautioning against making hasty judgements simply based on the claims experience at this early stage in the development, it does appear that the claims experience in this category is similar to that incurred in the extremely benign 2010/11 policy year, albeit the Club is now over 30% larger in terms of entered tonnage.



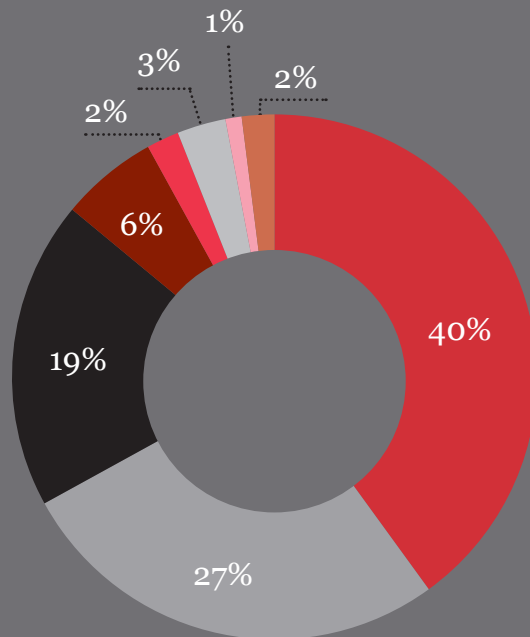
UNDERWRITING REVIEW CONTINUED

Entered GT (Owned & Chartered)
by Geographic Region at Half Year for 2015/16



- Asia Pacific
- Middle East
- North America
- Northern Europe
- Scandinavia
- Southern Europe

Entered GT (Owned & Chartered)
by Ship Type at Half Year for 2015/16



- Bulk Carriers
- Tankers
- Container Ships
- Car Carriers
- General Cargo
- Gas Carrier
- Passenger
- Other

Whilst we therefore appear to be in the midst of a relatively benign claims environment this year, we nevertheless continue to believe that the upward trajectory in the cost of claims will persist in line with the last several years, hence the decision by the Directors to apply an overall premium increase of 2.5% for both P&I and FD&D and to increase the P&I deductibles in order to mitigate the impact of this continuing claims inflation.

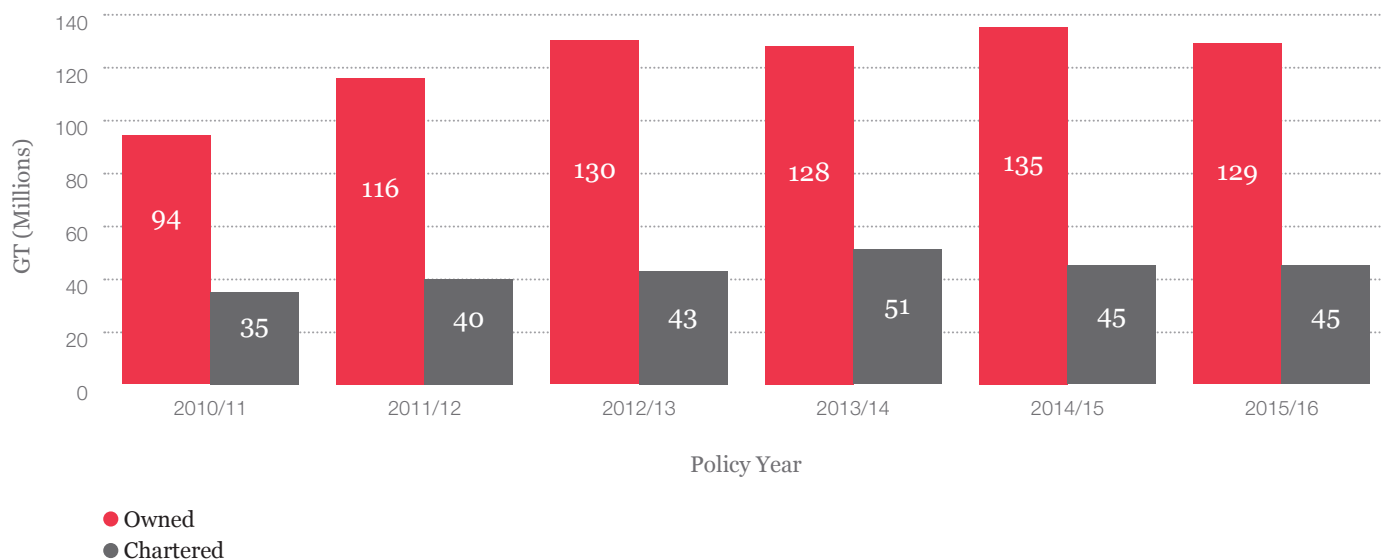
Finally, premium "churn" whereby older higher rated tonnage entered in the Club is being scrapped and replaced with lower rated newbuildings, continues to place sustained pressure on premium levels. Dry bulk scrapping in particular remains a significant factor influencing premium dilution for International Group Clubs.

These challenges will therefore impact on the Club's results going forward, but North remains focused on its cautious underwriting philosophy and continued aim of achieving a breakeven underwriting result. The Club's long term average combined ratio is still amongst the best within the International Group and the aim is to continue this performance by ensuring that Members continue to make a fair and mutual contribution towards their own claims experience and exposure.

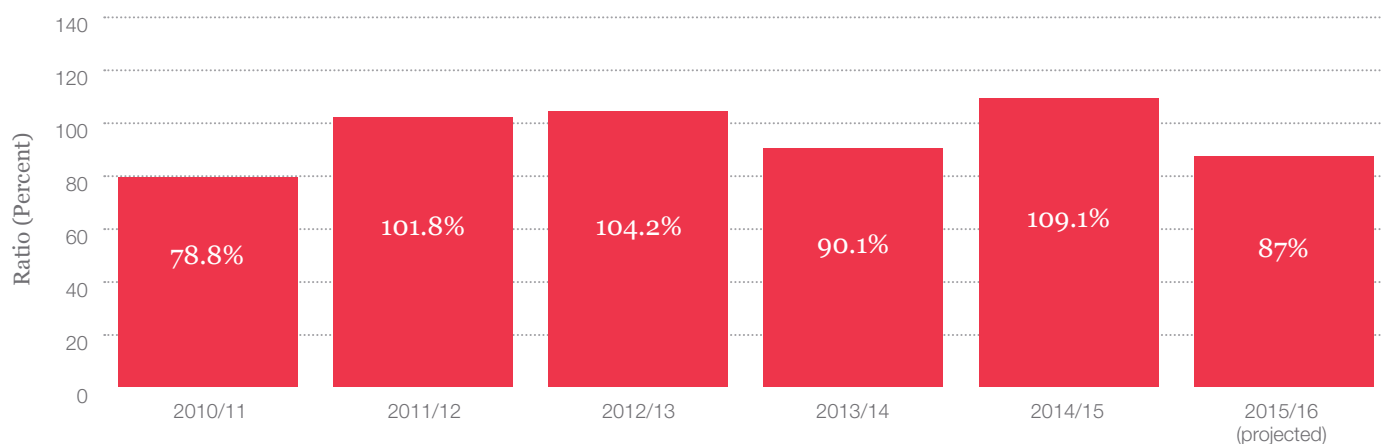


UNDERWRITING REVIEW CONTINUED

Entered GT at Half Year
for Policy Years 2010-2015



Combined Ratio
for Financial Years Ending 20 February 2011-2016



CLAIMS REVIEW

At the six month development point in the current policy year, we reported a reduction in both claim numbers and values compared with recent years. At 20 August 2015, we recorded 11 claims in excess of US\$1 million compared to 21 claims at the same development point last year.

The numbers of lower value, attritional claims are also much reduced and this improving trend has continued to date. Prior policy year claims have developed favourably compared with expectations and this has complemented the positive performance of the current policy year.

We have previously highlighted the very significant financial impact of such high value claims which is disproportionate to their number. The 11 claims in excess of US\$1 million represent 43% of our retained claim values for 2015/16. The final result for the year will be heavily influenced by the total number of such claims. Hopefully, even with the Northern Hemisphere winter approaching, their number will remain lower than last year, which currently has some 58 recorded claims in excess of US\$1 million.

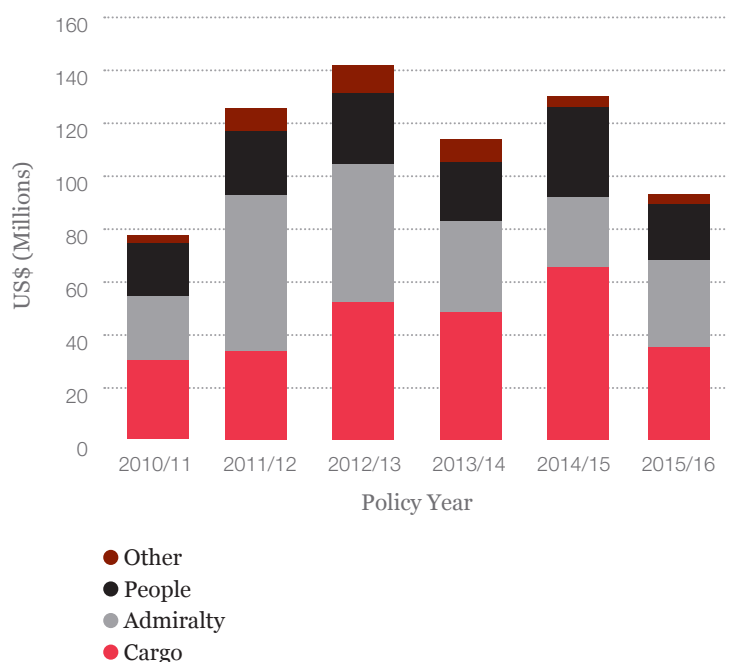
This year, at 20 August 2015, five claims above Pool retention have been reported by the International Group. This compares with 12 claims at the mid-point in the previous policy year. There are currently 14 reported International Group claims over the retention in 2014/15 which compares to 20 and 24 in the two previous years.

North has reported one Pool claim so far this year – a general cargo vessel which struck a submerged barge and subsequently, despite the salvor's early intervention, capsized and then sank some 42 miles off the Korean coast.

The skilful and discerning management of claims can make a significant difference to North's overall financial result. Our obligation is to provide Members with the highest possible level of cost effective service and we are committed to ensuring that our skills and experience stand us in good stead as a leading P&I Club, delivering the best possible financial outcome for our Members. The recently completed, successful wreck removal of the cape size bulk carrier, "MV Smart" from outside the port of Durban, within budget, serves to underline the benefits of prudent claims management, especially bearing in mind the well-publicised difficulties of such operations.

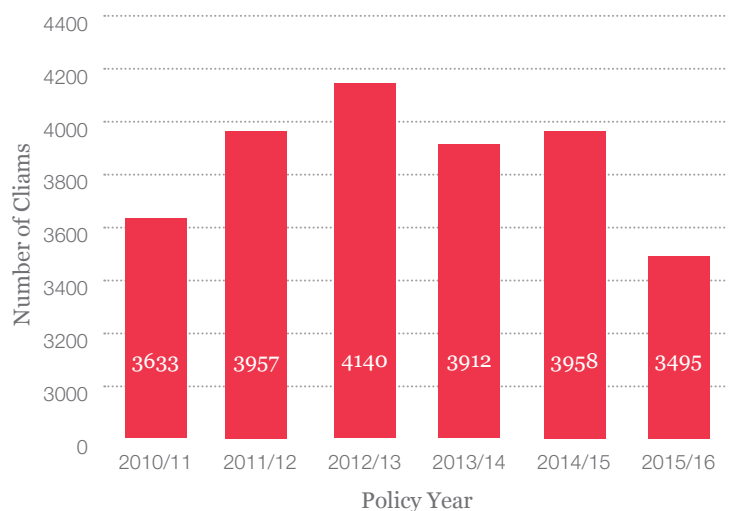
The claims team continues to work in close co-operation with our pioneering Loss Prevention Department to avoid or limit identifiable and manageable risks and to add to the range of long-standing and more recent initiatives developed to substantially reduce claim and cost expenditure.

Retained Claims Values at Six-Month Development Point for Policy Years 2010-2015

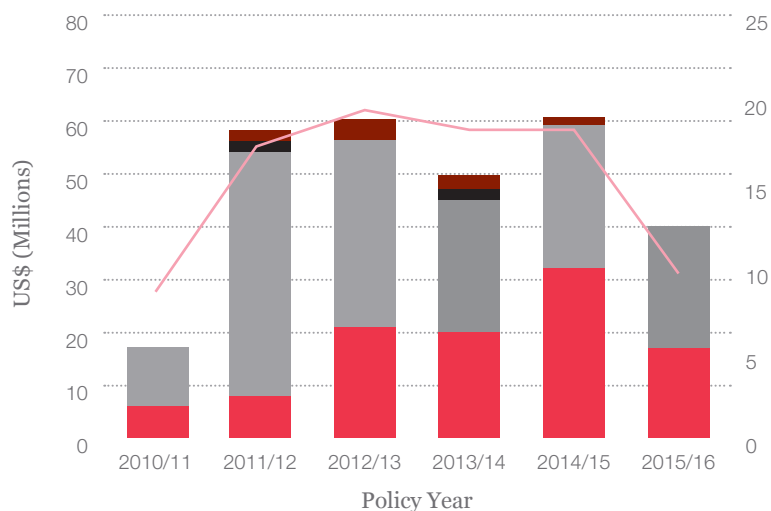


CLAIMS REVIEW CONTINUED

Number of Claims at Six-Month Development Point
for Policy Years 2010-2015



Major Categories of Claims over US\$1 million
at Six Month Development Point
for Policy Years 2010-2015



- Other
- People
- Admiralty
- Cargo
- Number of Claims



MEMBER SERVICE

To conclude, we would like to thank our staff, Members, clients and business partners for their ongoing commitment and support.

Providing high levels of personal and cost-effective service underpins everything we do and we will ensure this continues whilst maintaining the financial stability of the North Group.

During the year, we published the headline results of our first Member and Broker Survey and we were pleased to report that overall satisfaction was consistently high in all geographic areas, across departments and amongst both brokers and Members. Members highlighted that North was a trusted advisor and genuine partner.

The survey results highlighted that certain intangible factors have been identified as the key differentiators between North and International Group peers, namely our **People, Company Culture, Service Quality** and the strength of our **Relationships**. It is these factors that differentiate North and strengthens overall satisfaction levels.

We look forward to working with you during the rest of this year and in the new policy year, as we continue to deliver the highest levels of personal, cost-effective service that you expect from us.

Members

8.1



Brokers

8.1



Satisfaction with North is consistently high

The satisfaction scores are published on a scale of 1 to 10, with 1 = not satisfied and 10 = very satisfied.

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