

PRE-RENEWAL
Report
December 2016

NORTH 
SERVICE, STRENGTH, QUALITY

CHAIRMAN'S OVERVIEW

At North we have continued our objective of providing our Members with the highest levels of service, whilst ensuring the Club remains financially solid and is strongly positioned to meet future challenges. We have maintained our Standard & Poor's 'A' rating and we are justifiably proud of our record of having made no unbudgeted calls for 25 years.



Pratap Shirke
Chairman

So far, this year has been positive in terms of claims development and investment performance. However, along with many other companies in the UK, we have again been negatively impacted by our pension scheme deficit. Due to the Club's strong capital position, we have been able to absorb the impact on our balance sheet and we will review our strategy to address the volatility of the scheme.

Despite the turbulence in the bond markets we are financially strong and, together with my fellow Directors, we have agreed a strategy for the appropriate level of capital for the Club to hold which enables us to withstand any financial strains in the event of adverse years.

In recognition of the difficult trading conditions facing our Members, we have decided not to apply any general increase next year and we will be returning 5% of the mutual premiums collected during the current policy year. This premium return is not conditional upon Members renewing at February 2017, however credit notes for this return will be issued to allow renewing Members to offset the return against premiums payable during the course of the 2017 policy year.

Delivering service to Members the 'North way' remains at the heart of what we do and we will continue to focus our attention on meeting the needs of our Members, as we strive to achieve our vision of being

“a world leading marine insurance group, providing the highest quality of cost-effective service”

Pratap Shirke
Chairman

9 December 2016

FINANCIAL REVIEW

The first 8 months of the financial year have seen positive operating performance across our current year claims experience, back-year claims development and investment returns.

Nonetheless, we do not expect to see an increase in our Free Reserve at the financial year-end due to adverse movements in the accounting deficit of our defined benefit pension scheme. The outlook for the investment markets and the associated impact on the valuation of the pension scheme liabilities remains highly uncertain with high profile political factors having an impact. Fortunately, we benefit from greater certainty on our current year claims due to the continuing strength of our reinsurance coverage and our strong reinsurance partnerships.

Defined Benefit Pension Scheme Liabilities

Like other UK companies, the current accounting standard for defined benefit pension schemes has exposed North to greater volatility. Although the schemes have seen satisfactory performance from an investment perspective, increases in deficits have been driven by a fall in bond yields where movements in the near-term can have a disproportionate effect on the assessment of long-term pension obligations. This creates technical short-term liabilities due to the unprecedented quantitative easing and low interest policies of Western Governments. We would anticipate that the deficit would begin to unwind over the medium term.

Investments

The investment return for the P&I class fund for the period 20 February 2016 to 31 October 2016 was +3.16% against a benchmark of +2.83% which equates to a net investment income of US\$25 million.

Capital and Risk Management

North manages its capital and risks holistically. The Club's target capital is informed by the level of risk it is taking. In turn the Club operates against risk limits which govern the losses to which the Club is exposed. Taking these together, we ensure that we control our risks down to an appropriate level and that the capital we hold is commensurate with that amount of risk. In addition the Club's target is always to maintain capital in excess of its regulatory requirements.

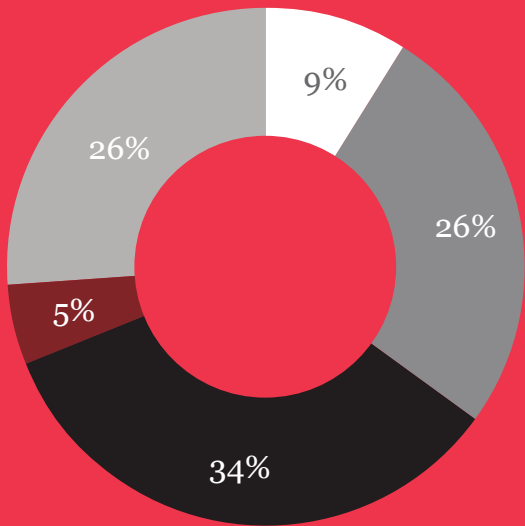
In July we reported that we would be updating our strategy for setting an appropriate level of capital to be held by the Club. This has now been established as a capital buffer over the S&P "AA" requirement by reference to an overall risk limit. We use internal modelling to establish our risk exposure across a range of potential outcomes for the year – the risk profile – and set the overall risk limit as being equivalent to a realistic but adverse year.

We also reported in July that we were working to refresh our investment strategy. The Board has identified a risk-based approach and the strategy ensures that investments are closely matched to the liabilities of the Club and reconfirms that our primary business is managing claims exposures for our Members rather than taking investment risk.

Our focus on managing risk and maintaining appropriate levels of capital for the business is reflected in our strong business and financial risk profiles as assessed by Standard & Poor's who confirmed our 'A' financial strength rating with a stable outlook in January 2016 for the 12th consecutive year. Standard & Poor's recognise the Club's strong competitive position and robust capital and earnings.

P&I Class Asset Allocation
at 31 October 2016

- Equities
- Non-Government Funds
- Gov Funds
- Cash & Cash Equivalents
- Short Dated Treasuries



OPERATIONAL UPDATE

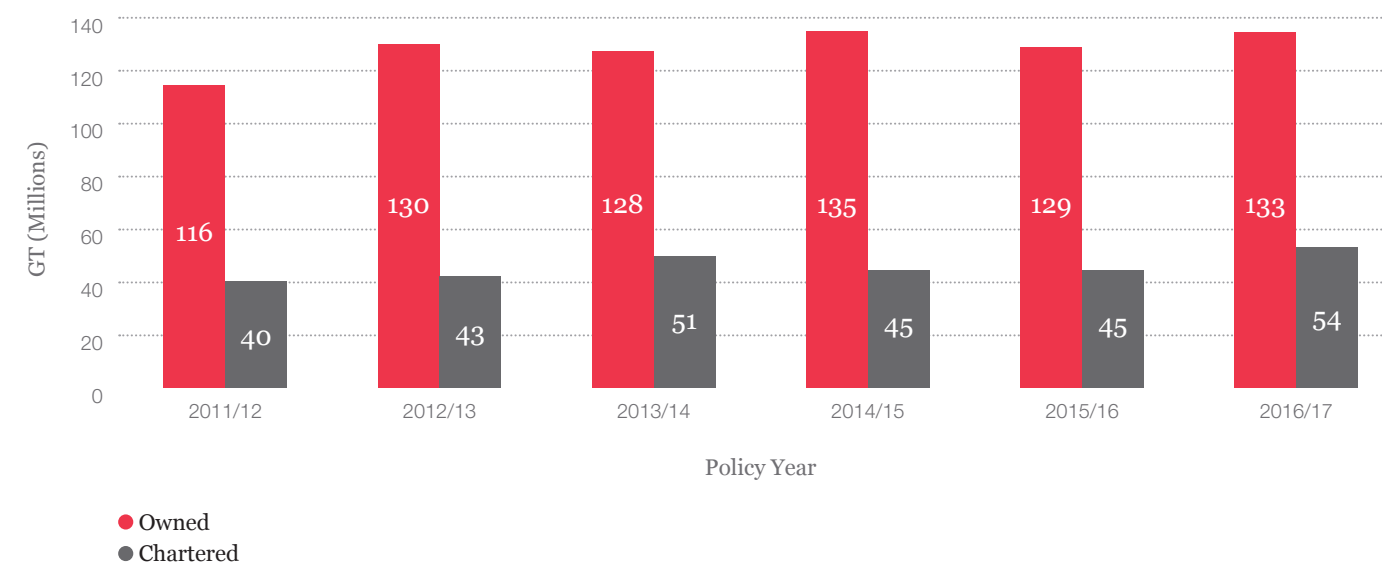
Membership Overview

Our 2016 Management Report highlighted that owned tonnage had increased by 4% year on year at the February 2016 renewal. At the half-year point of the current policy year, it has increased further to 133 million GT and chartered tonnage has reached 54 million GT. We maintain a balanced portfolio and the type of ships entered in the Club continues to be in line with the world fleet average. Geographically, 34% of entered tonnage is from the Asia Pacific region, 20% from southern Europe and 17% from northern Europe.

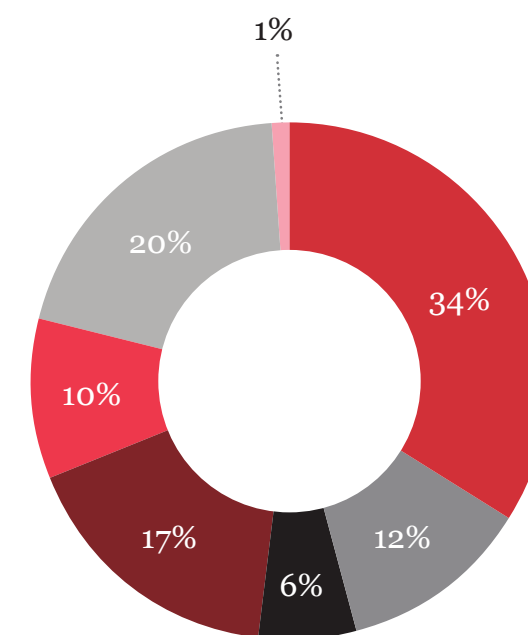
In November 2016, we further strengthened our position in the Asia Pacific region by opening a new claims consultancy in Shanghai, complementing existing regional offices in Hong Kong, Japan and Singapore. North of England Marine Consultant (Shanghai) Ltd Co. provides a cost-effective claims handling service in China for the benefit of the whole membership.



Entered GT at Half Year
for Policy Years 2011-2016

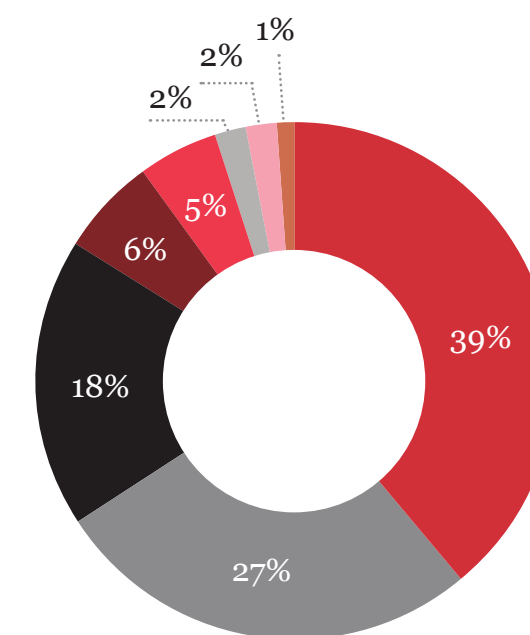


Entered GT (Owned & Chartered)
by Geographic Region at Half Year for 2016/17



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

Entered GT (Owned & Chartered)
by Ship Type at Half Year for 2016/17



- Bulk Carriers
- Tankers
- Container Ships
- Car Carriers
- LNG
- General Cargo
- Other
- Passenger

CLAIMS REVIEW

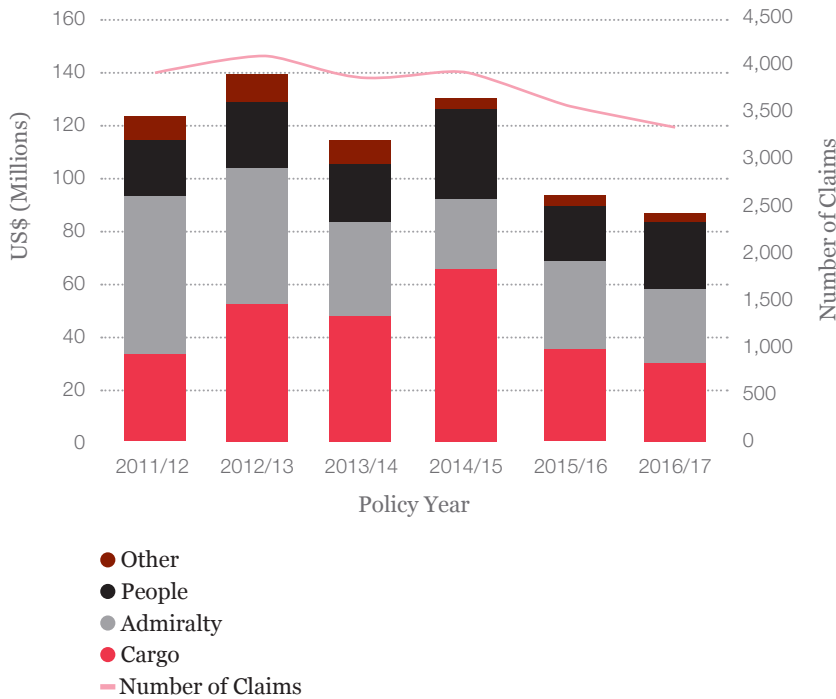
The claims experience at the six-month development point in the current policy year is on par with our claims experience during the same period last year, with a low number of both attritional claims and high value claims. At August 2016, we recorded 13 claims in excess of US\$1 million (we recorded 11 in August 2015). We expect back-year claims to improve over time given the prudent level at which we account for them and this is evident in the financial results.

The benign claims performance for this year so far is a positive development given the operational and financial challenges facing the shipping industry. It is too early to establish the extent to which the results are driven by our membership consolidation, the generally quieter trading environment, simply good fortune or better risk management by Members. However, we do believe that our Member Review Programme, which has been in operation for several years, has helped us to better identify risk indicators for the fleet that we insure.

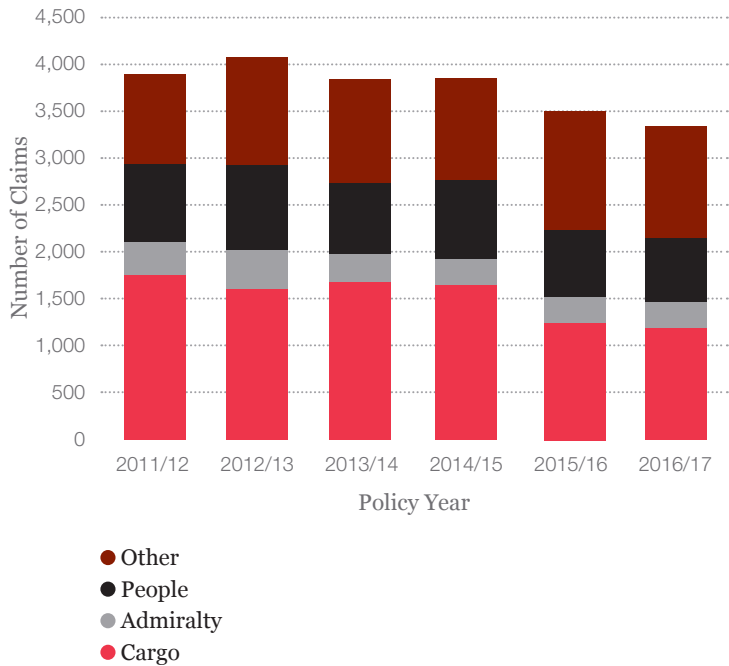
Our Members collaborate with us to share trends, emerging risks and best practice within the industry. By taking this information together with our extensive internal analysis and benchmarking across our book we are able to work with our Members and other partners in the industry to help reduce claims exposures.



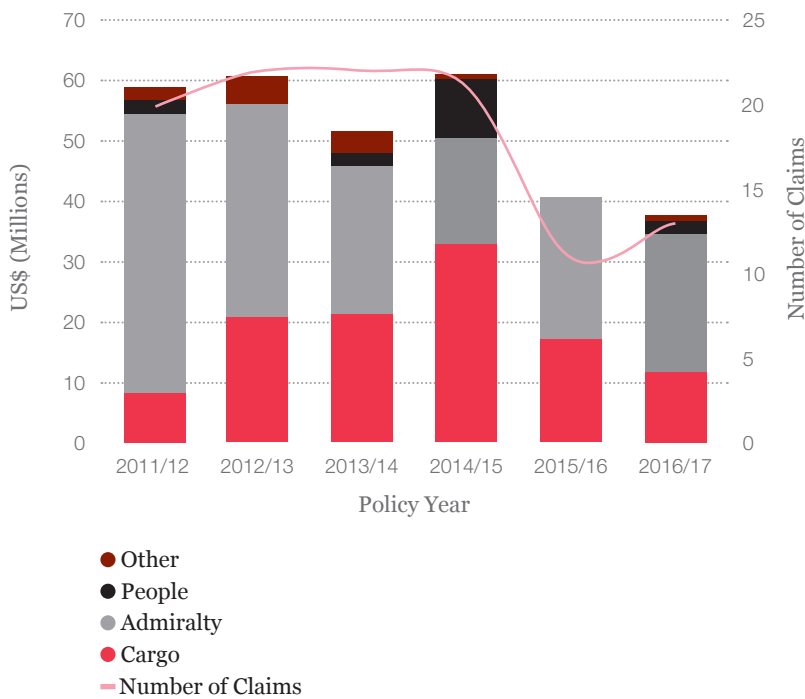
Retained Claims at Six-Month Development Point for Policy Years 2011-2016



Number of Claims at Six-Month Development Point for Policy Years 2011-2016



Major Categories of Claims over US\$1 million at Six Month Development Point for Policy Years 2011-2016



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