

Global service
built around you



North

Forward
thinking

Annual Review 2019

Highlights

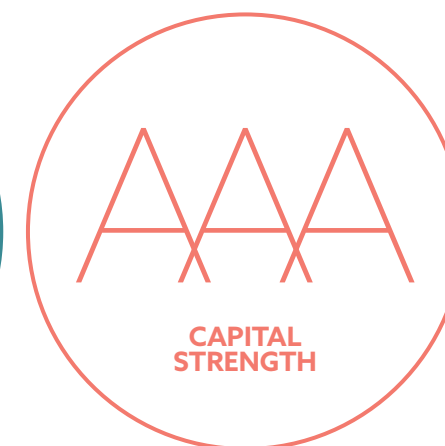
Five Year Combined Summary

Income Statement (US\$ millions)

	2018/19	2017/18	2016/17	2015/16	2014/15
Premium income	345.0	387.6	429.5	489.8	394.9
Underwriting result	(13.1)	(8.0)	11.0	87.4	(29.2)
Investment result and foreign exchange	29.5	28.6	21.0	(12.8)	25.9
	16.4	20.6	32.0	74.6	(3.3)
Movement in pension scheme deficit	(3.8)	2.1	(30.2)	18.2	(19.1)
Revaluation of land and buildings	-	(2.9)	0.6	(2.5)	6.9
SMI free reserve at 20 February 2015	-	-	-	-	41.4
Increase / (decrease) in free reserve	12.6	19.8	2.4	90.3	25.9

Balance Sheet (US\$ millions)

	Feb-19	Feb-18	Feb-17	Feb-16	Feb-15
Net assets	1,084.7	1,093.9	1,043.7	1,050.9	1,041.3
Net outstanding claims	(621.6)	(643.4)	(612.9)	(622.5)	(703.2)
Free reserves	463.1	450.5	430.8	428.4	338.1
Combined ratio	105.1%	103.8%	96.0%	73.3%	108.6%



Welcome

Enabling our Members to trade with confidence underpins everything we do at North.

Our commitment to, and delivery of service excellence means that our Members know they can rely on a trusted and proven team to support their business. Our rapid growth from one of the smallest Clubs in the International Group of P&I Clubs (IG) in the late 1980s to now one of the largest is the clearest endorsement of our passion and commitment to delivering excellent Member service.

The very individual nature of providing outstanding service, supported by the development of a strong regional network in our primary Member locations, is a key factor in attracting and retaining a high calibre Membership. Our extensive office network covers Greece, Asia, North America and, most recently in February 2019, Europe (Ireland).

In reviewing the positive performance of the Club over the last twelve months, it is heartening to see the benefits of the Club's business diversification strategy generating new and complementary income streams to support the evolving expectations of our Membership.

We can look back at 2018 and view it as a landmark year in the development of the Club. We enjoyed the highest retention levels in both the mutual and fixed sides of our business, complemented with new Members and policyholders selecting North as their insurance partner.

Renewal saw our Membership tonnage in P&I, both owned and chartered, exceed 200m GT for the first time in the Club's history, along with FD&D surpassing 150m GT. I believe this to be testament to our commitment to the fundamental purpose of the Club, which is to enable our Members to trade with confidence. At the same time, the investment in our fixed premium subsidiary, Sunderland Marine, has seen this category of business return to positive growth.

Only six months ago, at the mid-year point, I noted how the landscape was fraught with problems, with shipowners facing challenges from legal authorities and regulators, developing technologies, and difficult markets. Since that time the Club has protected its premium income through a careful and considered approach to renewal negotiations with Members. In early January we were the first Club to confirm our post-Brexit trading arrangements with the establishment of our subsidiary in Ireland, North of England P&I DAC. In addition, we have continued to invest in our greatest strength – our people – to ensure that we continue to deliver the very best service to our Members now and in the future.

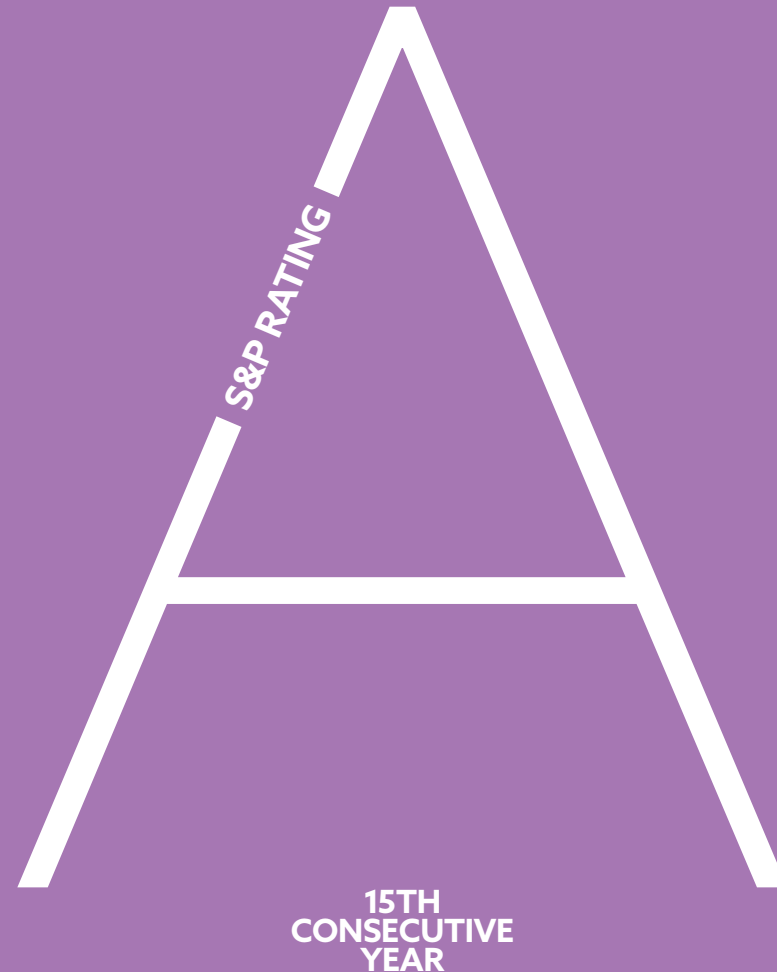


Pratap Shirke,
Chairman

Financial Strength and Stability

Our Members continue to draw great confidence from the strength and stability of the Club's financial position, which has provided premium predictability and no unbudgeted calls for over 27 years.

However, uncertainty continues to dominate the global financial landscape with macro-economic and political factors driving volatility in markets throughout the past year. We have responded and will continue to respond to this uncertain world in the way our Members have come to expect from the Club – an unwavering focus on the prudent management of our financial risks and ensuring our Members can be confident in everything that we do on their behalf.



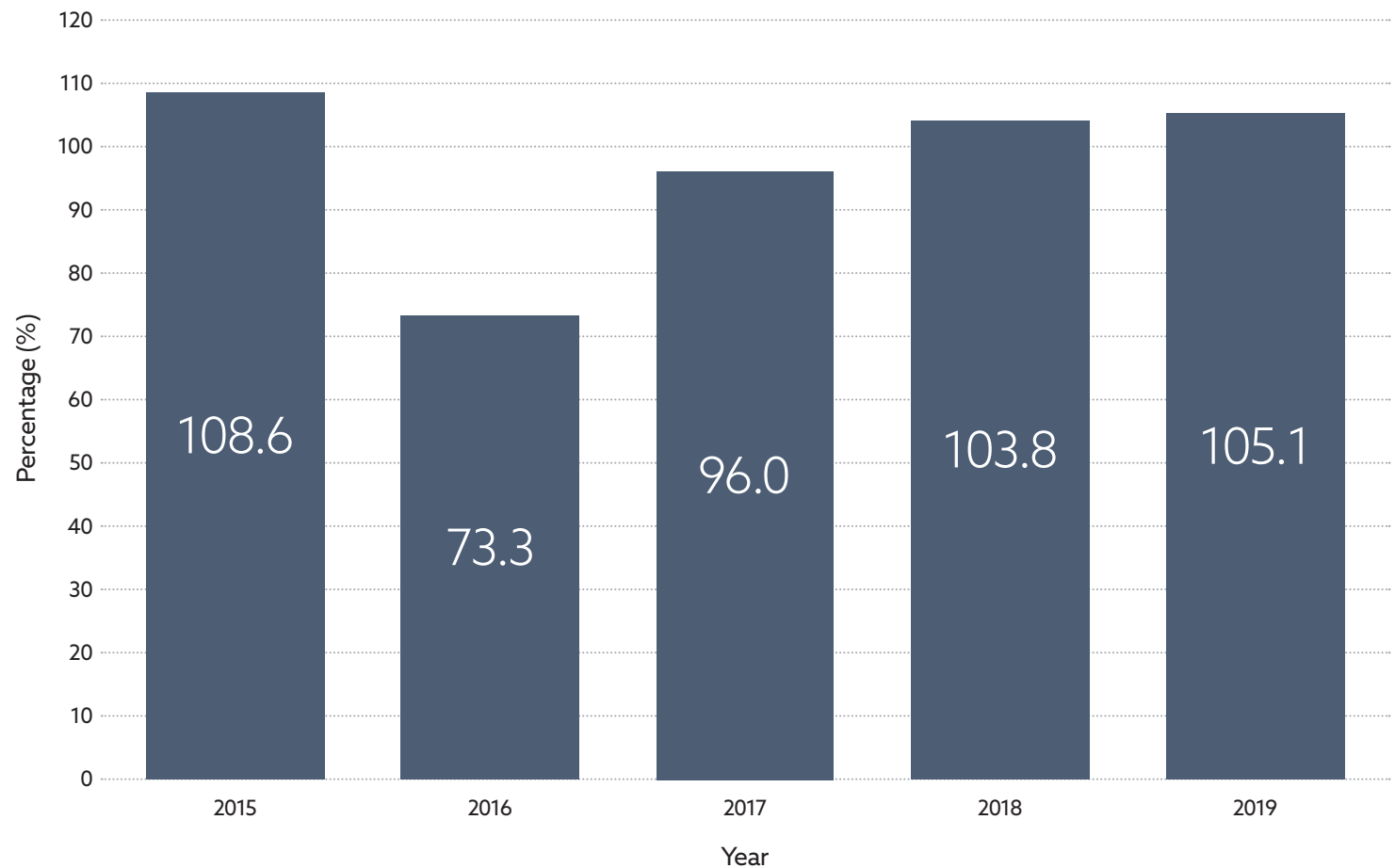
Financial Strength and Stability (cont.)

Addressing unsustainable mutual rates

Overall the P&I sector has seen the dilution of premium rates over the last 5 years and this is the single largest contributor to our overall combined ratio of 105% for 2018/19. We continued supporting our Members at the 2019/20 renewal by not announcing a general increase and renewal negotiations were both robust and fair, with individual Member premiums reviewed and adjusted to ensure that they were commensurate with operational performance. Because of our rigorous approach, the Club's premium base was protected with minimal levels of erosion at the February 2019 renewal. Whilst we will endeavour to keep premiums as low as we can to support our Members going forward, we continue to believe that an adjustment is needed to premium levels over future renewals if clubs are to underwrite sustainably.

COMBINED NET RATIO PERFORMANCE

At 20 February



Financial Strength and Stability (cont.)

Business diversification


Adjustments to mutual premium rates are not the full solution to the premium dilution problem. A properly considered and measured approach to diversification is a tangible point of differentiation for a modern and successful P&I club such as North. The contribution this year of US\$11 million from our Sunderland Marine fixed premium business and another solid performance across our chartered and other fixed lines has been a welcome and predicted return on our business diversification strategy. Over recent years we have acted responsibly in a difficult market and stepped back from unprofitable fixed premium exposures. Today, we are well placed to continue developing our diversified lines of business from a well-managed and profitable base. It is a fundamental part of our business model that we embrace diversification opportunities that are not speculative but instead make a positive and quantifiable contribution to the success of our Members and the Club.

Low-risk investment strategy

We saw equity volatility through much of 2018/19, with the S&P 500 index reaching its low-point at some 20% below its peak. Somewhat fortuitously for P&I clubs with a traditional 20 February year-end, the major world equity markets recovered to finish 2018/19 a little higher than they began the year. North's funds are invested appropriately for an uncertain environment and produced an investment return (net of fees) of 2.45% across our portfolio; a respectable contribution given the economic background, albeit not one which is sufficient on its own to subsidise current rating levels in the longer term.



"...continue developing our diversified lines of business from a well-managed and profitable base..."

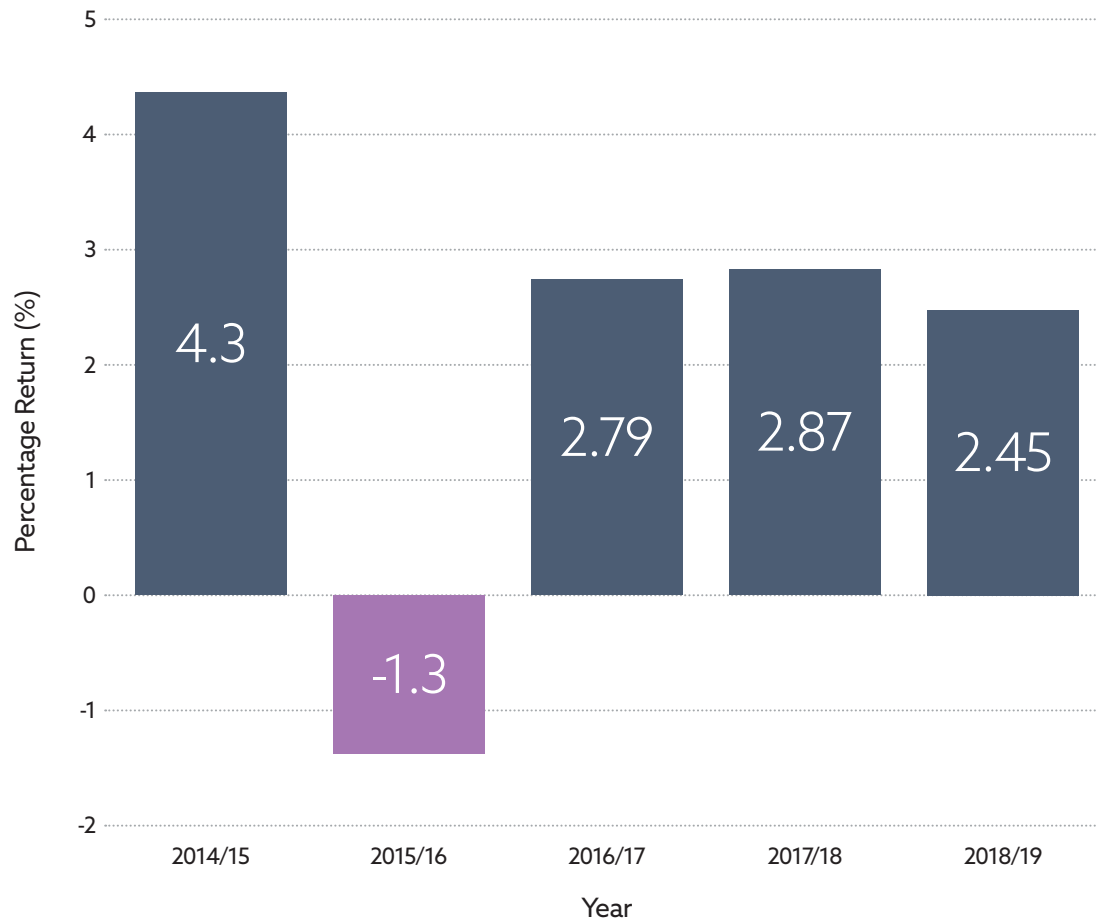


"...premium base was protected with minimal levels of erosion..."

Financial Strength and Stability (cont.)

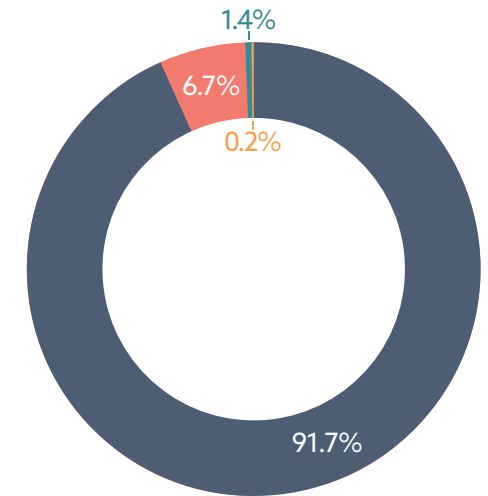
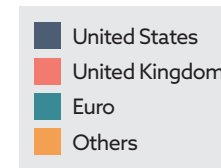
INVESTMENT RETURNS

At 20 February



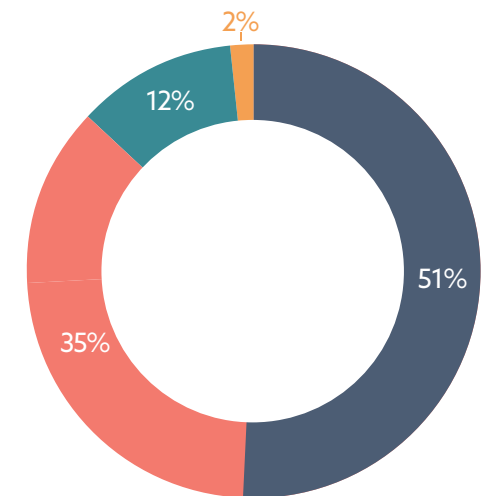
ALL CLASSES CURRENCY ALLOCATION

At 20 February 2019



ALL CLASSES ASSET ALLOCATION

At 20 February 2019



Financial Strength and Stability (cont.)

Ready for Brexit

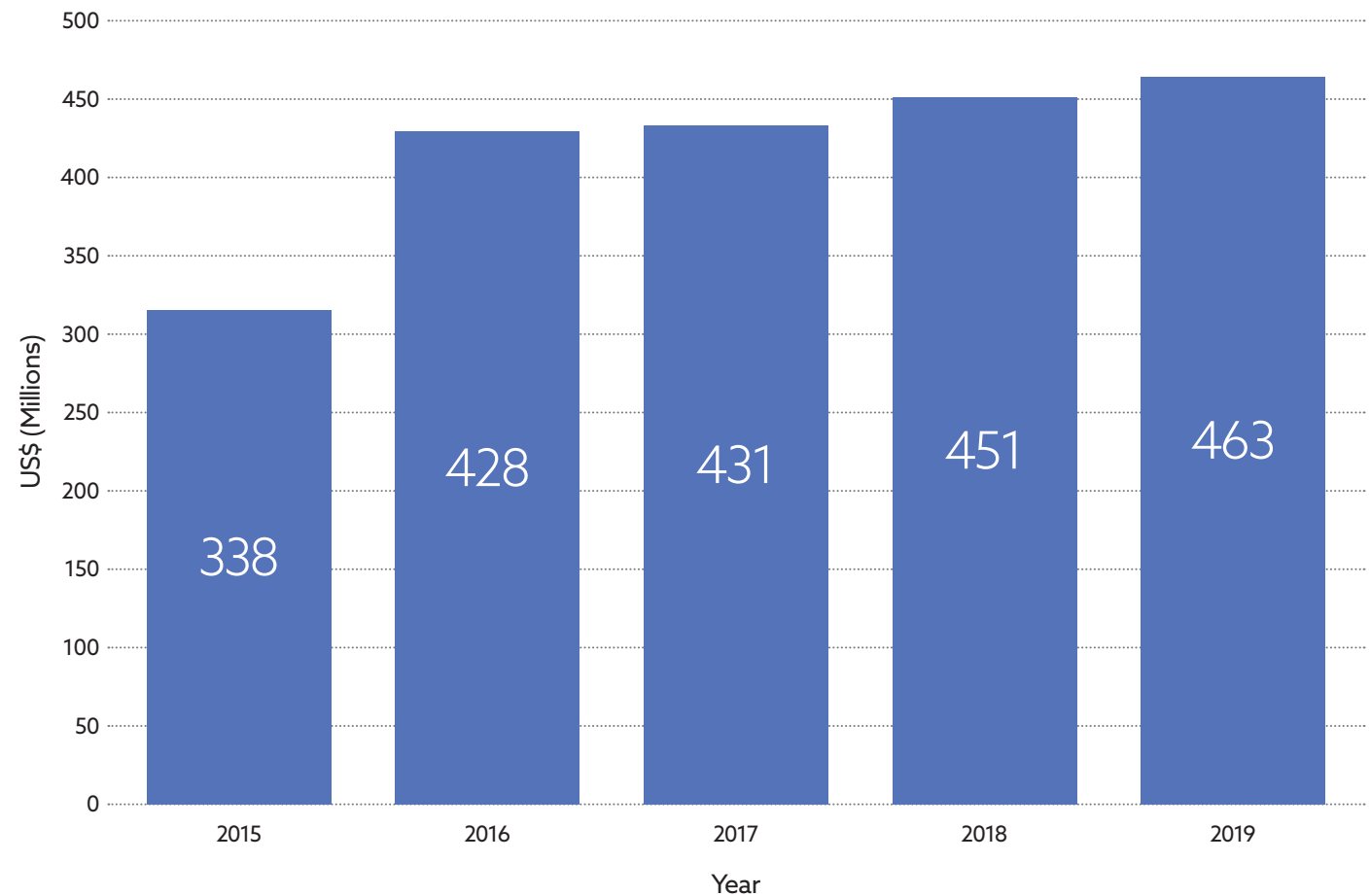
The outcome of Brexit continues to represent one of the greatest political and economic uncertainties, but our plan was always clear. North's 2019 renewal for EEA Members and policyholders was undertaken by our Irish subsidiary, North of England P&I DAC. We are fully licensed in Ireland and able to continue providing the same high levels of seamless service throughout Europe regardless of political negotiations and outcomes. As with everything we do, we have taken no chances when it comes to ensuring that our Members can continue to trade with confidence throughout this period of international political uncertainty.

Acting responsibly - delivering our strategy and managing risk

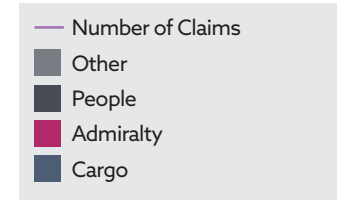
As Standard & Poor's reported in February 2019, North "has a good track record of executing on its strategic initiatives". The rating agency also recognised our "risk management culture and effective underwriting, reserving, and investment risk controls". Against a background of uncertainty, we have been able to deliver financial stability by increasing our free reserves which are now US\$463 million. We are also operating within a prudent capital range set by the Board. Our Members can be confident that we will continue to deliver on our strategic objectives in a measured and responsible way.

FREE RESERVES

At 20 February



Financial Strength and Stability (cont.)



Dealing with claims trends

Based on our 2018/19 claims experience, it is not possible to conclude that we are seeing an upwards claims trend. However, what we can say is that the year did produce a greater number of large claims (over US\$1 million) for North and more incidents reported across all clubs involved in the International Group pool. This is where strong reinsurance relationships demonstrate their value and so North has a programme in place to protect against unexpected outcomes across our own retained and International Group pool claims.

P&I claims

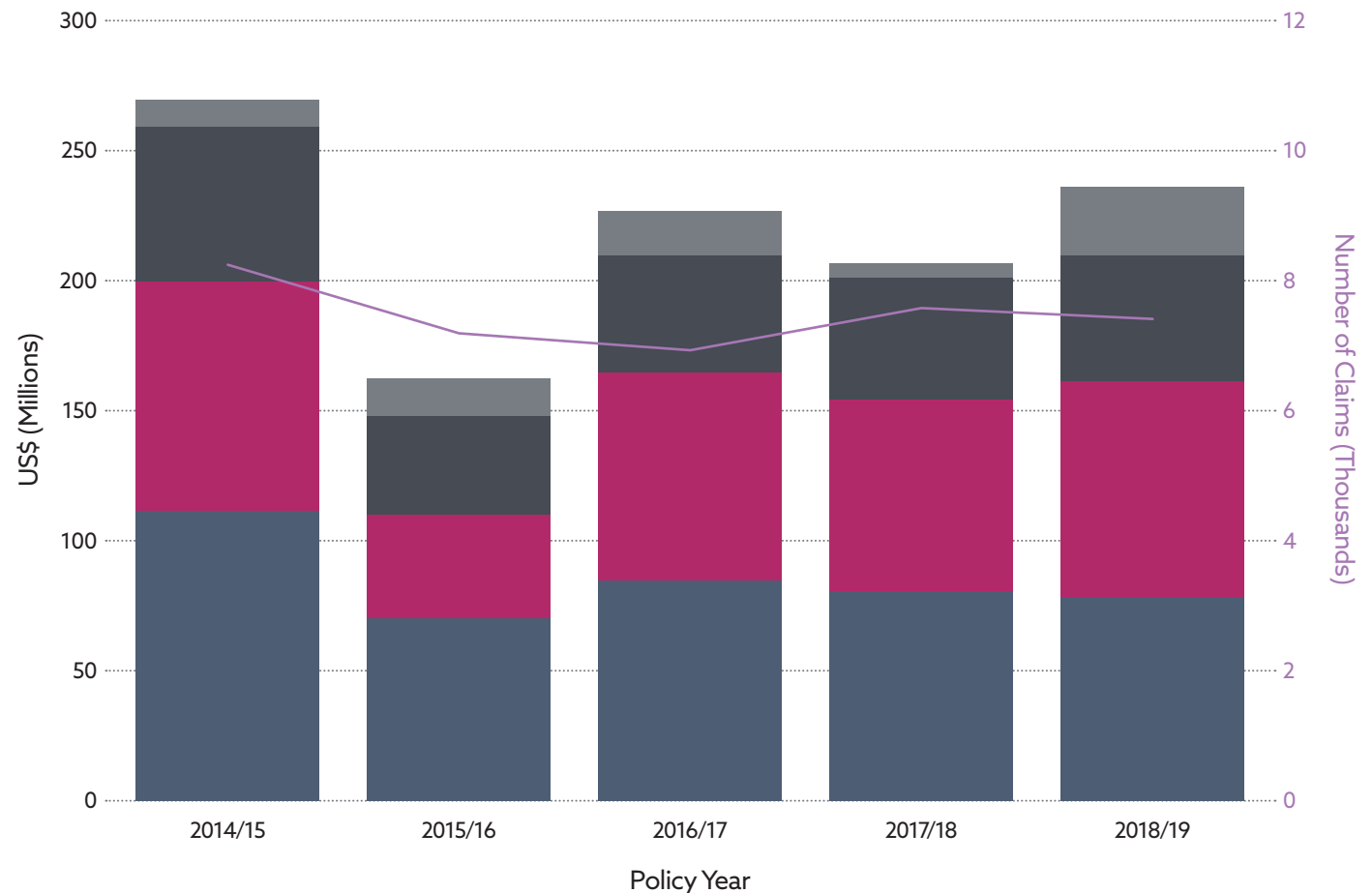
The 2018 policy year showed an increase in the retained values of claims with estimated values US\$23 million higher than 2017. Nevertheless, these values remain in line with the relatively benign claims environment experienced by the Club since 2015 and are significantly below the average retained claims cost over the 2011–2014 period, notwithstanding year-on-year growth in tonnage and ship numbers over the same timeframe.

Claims numbers were also consistent with recent experience falling slightly from the 7,625 claims reported in 2017 to 7,063 in 2018. This figure tracks experience since 2015, with claims numbers averaging 7,331 per year since 2015 compared to an average of 8,350 claims per year in the four years preceding 2015.

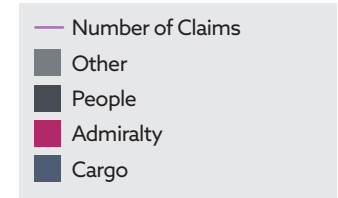
Claims numbers generally track economic activity and the lower average numbers of the past four years reflect relatively weak freight markets over that period. As freight markets strengthen and return to pre-2015 levels we would expect to see both the number of claims and the aggregate values increase.

MAJOR CATEGORIES OF CLAIMS

At 12 month development point – all claims



Financial Strength and Stability (cont.)



Large claims experience

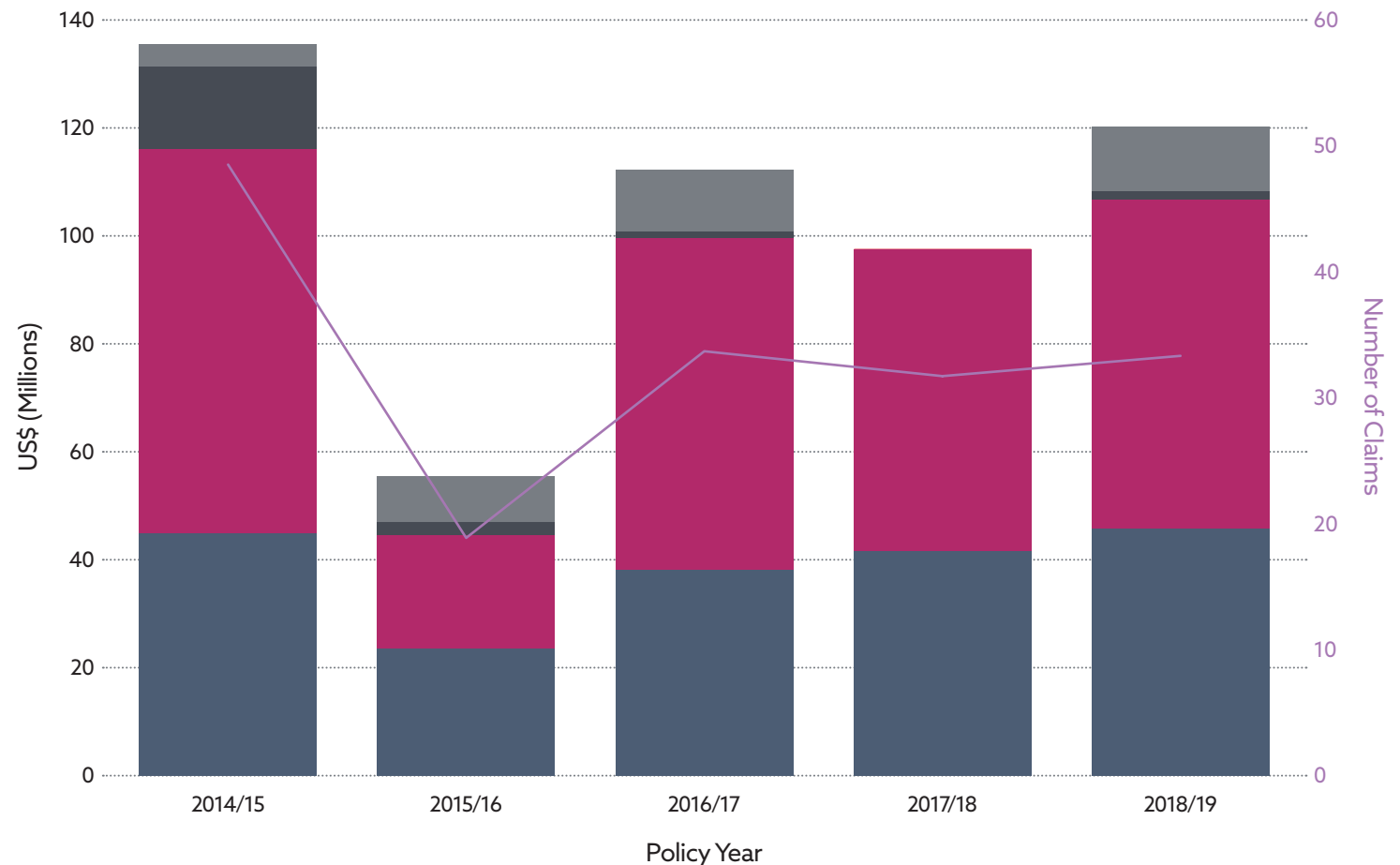
As we reported last year, the most significant factor influencing the cost of claims in any given year is the number of high value claims. Approximately half of one percent of all claims by number account for over 50% of the value of retained claims.

In 2018 Members had 34 claims which were estimated to cost more than US\$1 million at the twelve-month point. These 34 claims accounted for 53% of the value of retained claims. In 2017 there were 33 such claims accounting for 51% of retained claims by value. Most of these large claims were admiralty-related.

Whilst the shipping industry has a good record of reducing the number of major casualties over the last 25 years the cost of such incidents when they occur has increased significantly, particularly in relation to wreck removal and cargo recovery operations. We firmly believe that the key to tackling such claims depends on good ship-board procedures, effective training and an embedded safety culture. Our Loss Prevention team continues to devote time and significant resources to advising our Members on best practice in these areas.

MAJOR CATEGORIES OF CLAIMS

At 12 month development point valued in excess of US\$1 million



Financial Strength and Stability (cont.)

- North Lower Pool %
- Pool Cost to North
- Number of IG Pool Claims

International Group Pool Claims

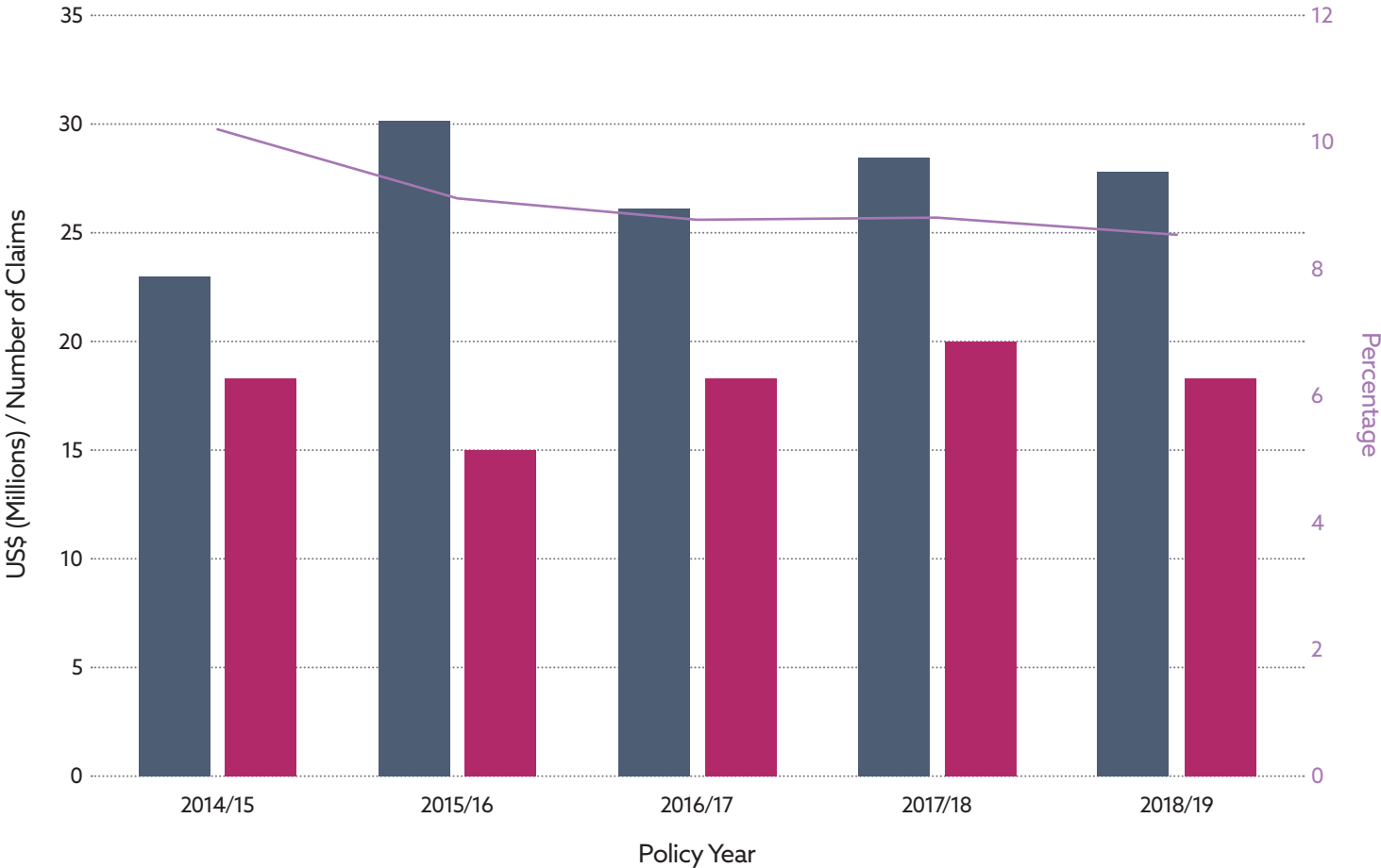
By the twelve-month point of the 2018 year 18 claims had been declared to the IG pool. This is higher than the 2017 year which only had 13 claims declared at the same point.

North's pool record remains good. Our contribution to the lower pool consistently tracks at a level which is less than our share of tonnage entered in the International Group. Last year the Club had two pool claims and only one claim in the year before.

Claims at this level can show considerable variation across years but the Club's share of the lower pool has remained relatively constant since 2015.

INTERNATIONAL GROUP POOL CLAIMS

Development of IG Pool Claims by value & number of claims



Financial Strength and Stability (cont.)

Reinsurance

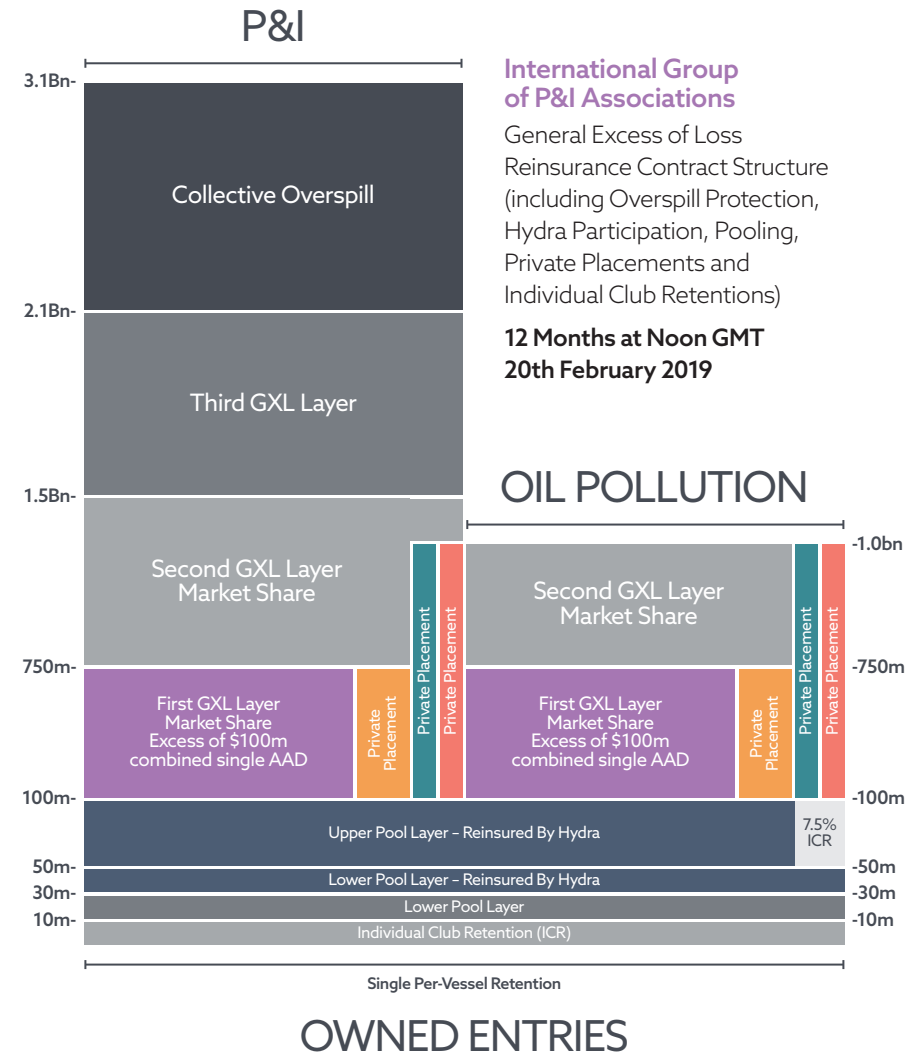
The Club's retention programme continues to benefit from long-term partnerships and secure risk transfer in the commercial market, with attachment points that represent an efficient use of our Members' capital. Our retention under the International Group (IG) pool structure remains at US\$10 million and the attachment point for the IG's General Excess of Loss Reinsurance ("GXL") programme stays at \$100m.

Shortly after the February 2018 renewal, the IG launched a formal tender process inviting applications for the role of broker for the placement and servicing of the Group's Reinsurance Programme. In June 2018, Miller Insurance Services LLP was appointed as 'flag-broker' for both the GXL and Hydra reinsurance programmes, with Aon Benfield as co-broker on both programmes. This new arrangement is expected to deliver even greater value to the Group by enhancing the broking expertise and skills available through the co-broking arrangements, as well as delivering financial efficiencies.

Following the completion of the tender process, the IG's GXL contract was again renewed on a timely basis to give Members certainty. Rate reductions were achieved across all vessel categories for a fifth consecutive year, reflecting an acceptable loss experience, notwithstanding the claims development during the 2018/19 Policy Year and continuing surplus market capacity. The main changes to the programme structure for 2019/20 involve adjustments of the second and third layer attachment points, the introduction of a new multi-year private placement, and the introduction of a US\$100 million Annual Aggregate Deductible (AAD) within the 80% market share in first layer of the programme.

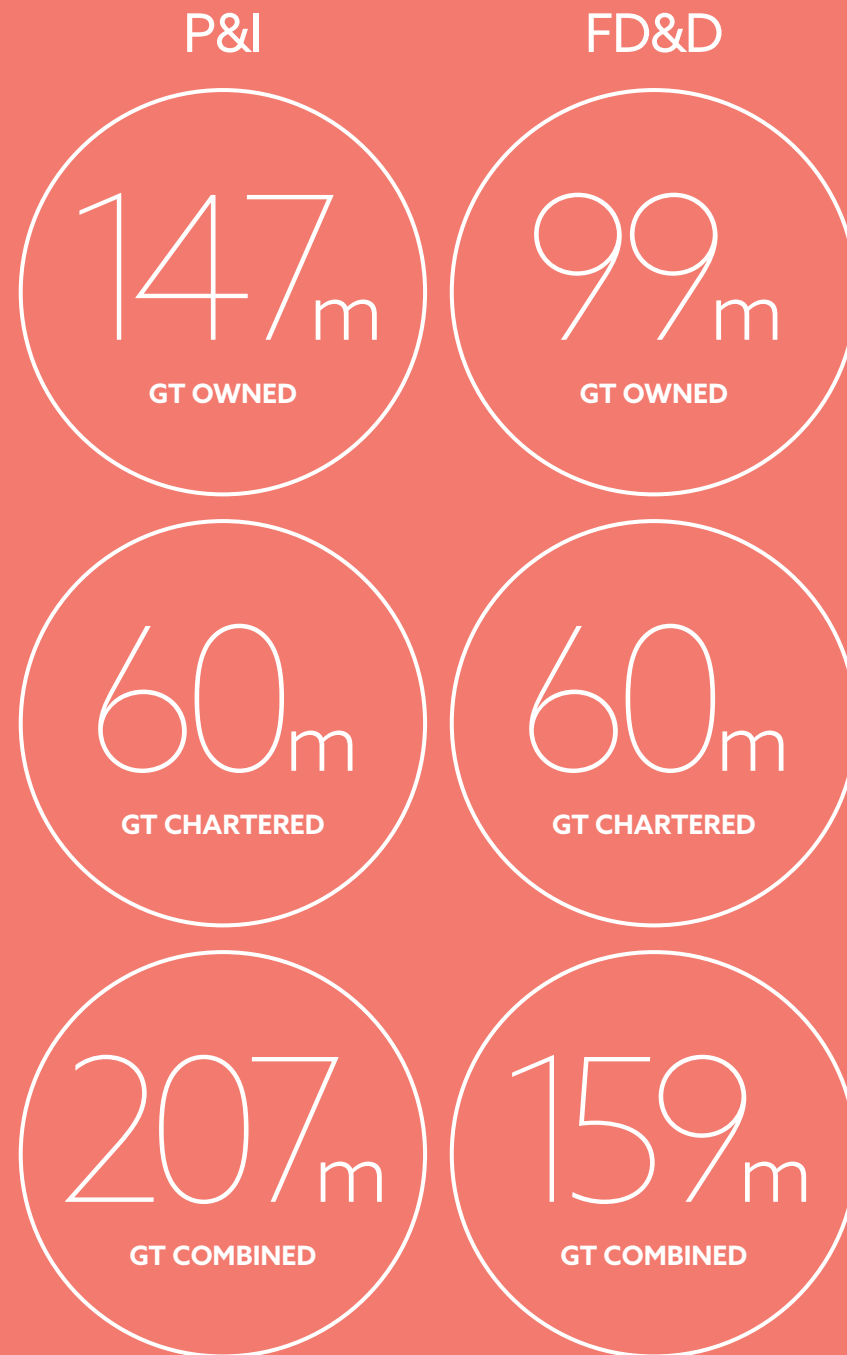
2019 IG GXL STRUCTURE

- 2019-2022 Multi-year Private Placement
- 2015-2020 Multi-year Private Placement
- 2017-2020 Multi-year Private Placement



Growth and Diversification

North's approach to all forms of business growth has been controlled and considered, avoiding speculative plays in markets and risk categories. This approach is common to our core mutual P&I business as well as to our diversified activities and our strategy is shaped by the fundamental underlying principle of benefitting our Members in everything we do.



Growth and Diversification (cont.)

Chartered
Owned

Controlled growth

Maintaining the balance between ensuring the financial viability of the Club by seeking to arrest the decline in premium levels over the last few years, whilst recognising the economic pressures experienced by our Members by deciding not to announce a general increase in premium for the 2019 policy year, presented some significant challenges at this renewal.

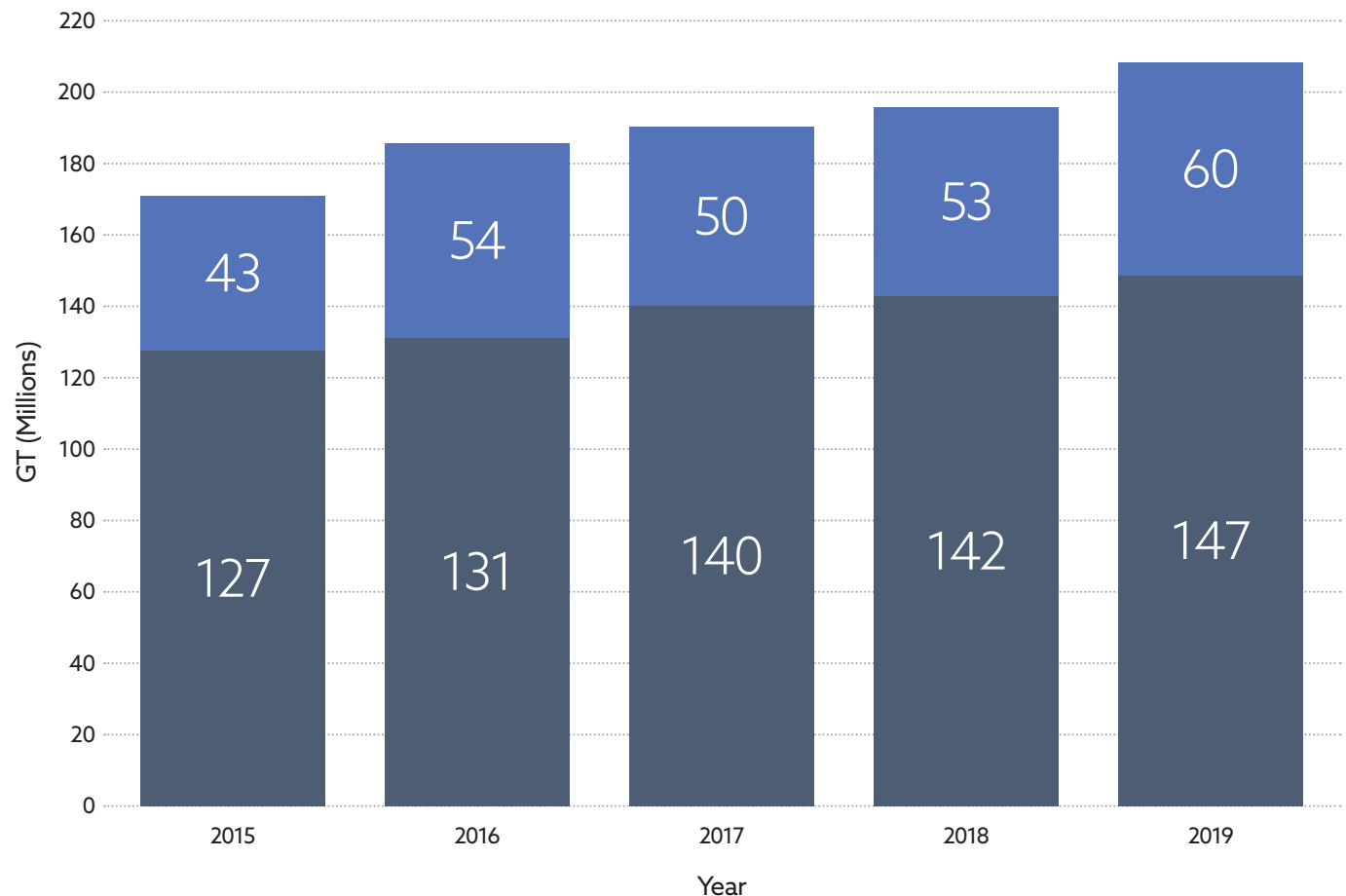
We were therefore very pleased that, not only has our Membership overwhelmingly renewed for the new policy year with a 99% retention rate, but both P&I and FD&D owned tonnage increased through the renewal period. At the conclusion of the 2019 renewal the Club, for the first time in our 159-year history, saw total entered tonnage exceed 200 million gross tonnes. This landmark achievement has resulted from a combination of existing Members adding ships and to our welcoming new mutual Members to North. Notable amongst the new Members is a significant level of support from operators based in Asia and Greece along with Members choosing 'standalone' FD&D.

On the Chartered side, the projected tonnage for 2019 now exceeds 60m GT for each of P&I and FD&D for the first time in the Club's history, which is testament to the dedicated service and value-add proposition from the claims teams.

The positive diversification benefits gained from our increasing Chartered book has helped the Club avoid having to adjust mutual premium rates at this time.

P&I TONNAGE DEVELOPMENT

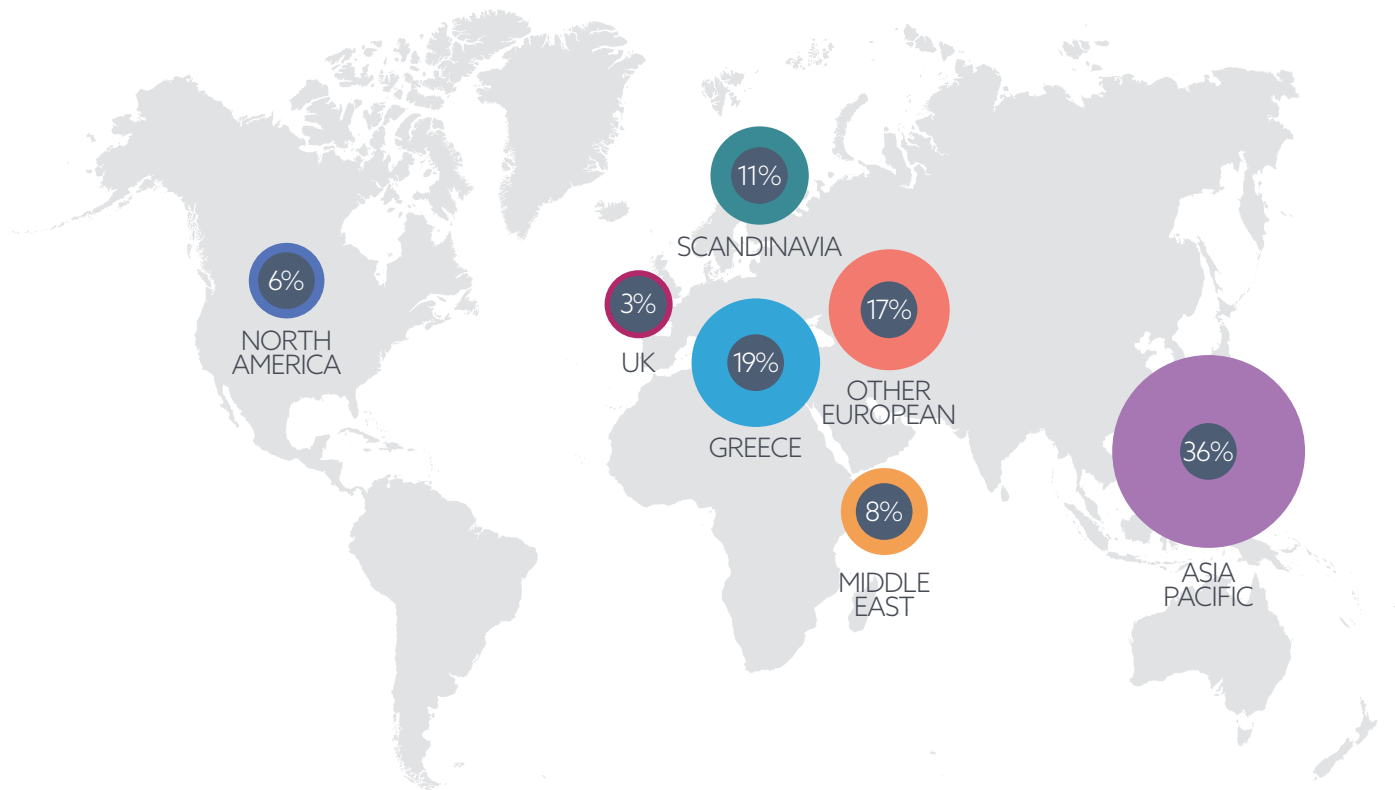
At 20 February



Growth and Diversification (cont.)

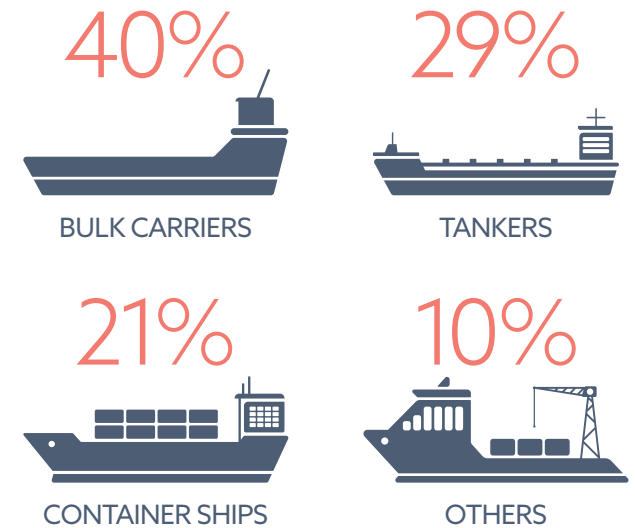
ENTERED GT BY DISTRIBUTION

Owned & Chartered



ENTERED GT BY SHIP TYPE

Owned & Chartered

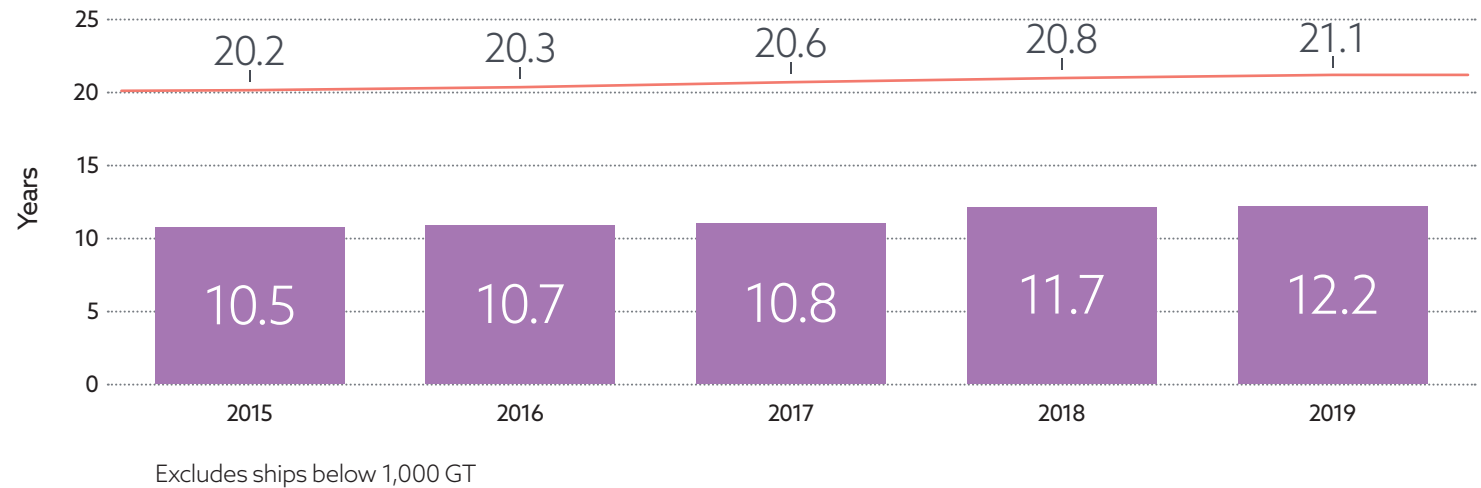


Growth and Diversification (cont.)

— Average World Fleet Age
(Projected by Clarksons)

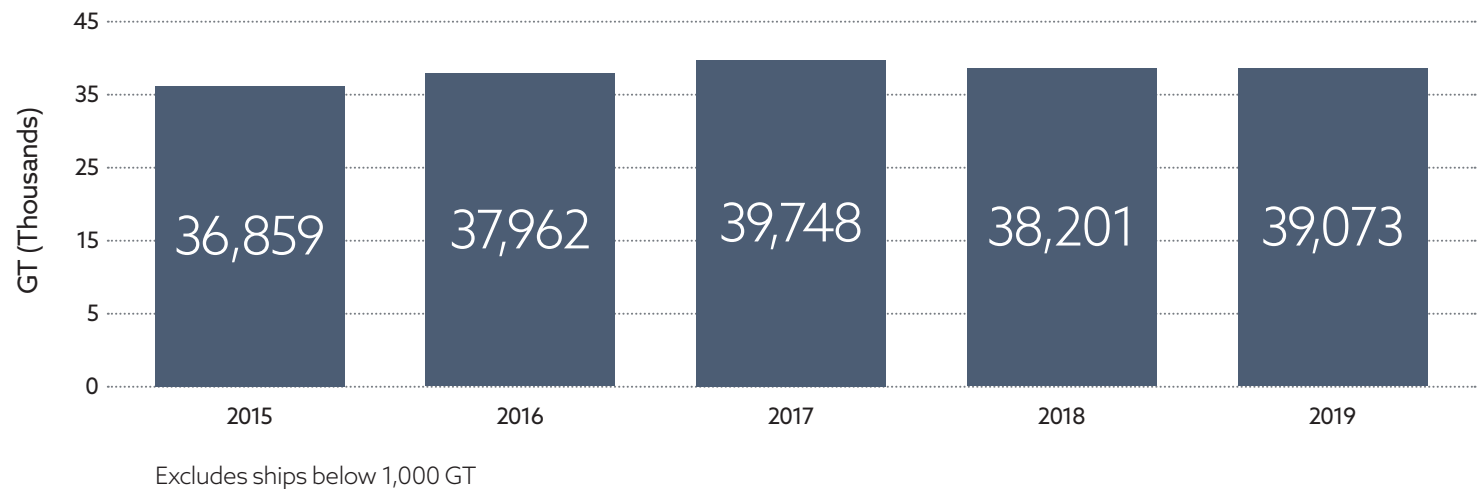
AVERAGE SHIP AGE (P&I) (North Owned Tonnage Only)

At 20 February



AVERAGE SHIP SIZE (P&I) (North Owned Tonnage Only)

At 20 February



Growth and Diversification (cont.)

Benefits of diversification

Our fixed premium hull and P&I business, Sunderland Marine, also enjoyed strong support through its major renewal season, with a very high retention rate and nearly 10% premium growth over the year coming from the core European, Australasian and Latin American markets. The attractive proposition offered by SMI has enabled it to expand beyond its traditional sector of fishing vessels and into other classes of small ships trading in coastal waters and beyond.

Equally, the leading reputation established by the Aquaculture team at SMI has enabled us to grow that class of business over the last year in new jurisdictions, and the projections for growth in this sector worldwide will offer further opportunities for the provision of insurance and risk management services in the coming years. Our strategy is not a complicated one: we can work to support our mutual Membership through the successful growth of our fixed premium insurance business, but this relies on disciplined risk selection and underwriting as well as on rigour in our business planning and execution.

"...a good track record of executing on its strategic initiatives and has successfully integrated Sunderland Marine..."

S&P GLOBAL RATINGS 2019

Our People

"...for the first time in our 159-year history... total entered tonnage exceeded 200 million gross tonnes..."

"...our passion and commitment to delivering excellent Member service..."

Our continued success depends on our greatest strength: our people.

We're introducing new ways of working to empower our people to be the best they can be; this includes creating the right culture, investing in technology and helping them develop the right skills for now and the future to ensure that we meet the evolving demands of our Members. It is the continuing dedication and commitment of all our people that allows us to deliver the outstanding service that our Members expect each and every day.

The Board of Directors

There were no appointments to, or resignations from the North Board of Directors during the year. James Tyrrell (Arklow Shipping) was appointed to Vice Chairman in May 2018 alongside Job de Groot (Van Oord NV), and both were appointed to the Group Nominations Committee. Tom Rutter retired as Chief Executive of Sunderland Marine on 30 June 2018 and was succeeded by Paul Jennings.

Members' Board

The Members' Board represents the interests of our mutual Membership alongside the North Board's existing Member representatives. New appointments to the Members' Board this year were Mats Berglund (Pacific Basin), Antonis Kanellakis (Alpha Bulkera Shipmanagement Inc & Pantheon Tankers Management Ltd), Captain David Stockley (Oman Shipping Management Co Ltd), Ioanna Procopiou (Sea Traders SA), Dr Nikolas Tsakos (Tsakos Shipping & Trading SA Ltd), Captain Xie Chunlin (China Merchants Energy Shipping Ltd, and his alternate Zhang Baoliang who replaced Yang Yuntao), Andrew Roberts (Teekay Multigas Pool, who replaced Tim Horne) and Adam Emilianou (Eastern Pacific Shipping Pte Ltd, replacing Steve Kunzer). We would like to thank Yang Yuntao (Sinotrans Ltd), Atle Sebjornsen (Bahri Chemicals), Tim Horne (Teekay Multigas Pool), Steve Kunzer (Eastern Pacific Shipping Pte Ltd) and Spyros Polemis (Seacrest Shipping and Fairsea Shipping) for their service on the Members' Board.

Looking Forward

The Club's strong and stable financial position, considered underwriting approach, proactive claims and risk management ethos combined with a shrewd diversification strategy all provide a solid foundation for our future growth.

Looking forward we aim to continue delivering predictability in the Club's performance. Providing that predictability depends on keeping our focus on some key areas, notably maintaining financial strength and stability, and providing truly industry-leading and innovative service. It also requires us to continue pursuing our strategy of growth and diversification in a way that positively contributes to our overall business results.

In doing so, we hold fast to the concept of mutuality. Our Members know that they share their risks with other quality Members, and that our robust underwriting and a continuing focus on proactive loss prevention are the cornerstones of this approach. In addition, our strong inhouse claims handling and legal teams are available to minimise the impact of incidents, whether actual or potential.

Their focus on mitigating the costs of dealing with claims by utilising early intervention tools helps to ensure that our Members get the personal service that they need.

All of this adds up to a compelling proposition that will endure for the longer term. It has stood the test of time, and I am confident it will form the basis of a deepening relationship with Members, policyholders and the wider broker community going forward.

Pratap Shirke
Chairman
May 2019

"...experienced management team in all areas of operation..."

S&P GLOBAL RATINGS 2019

"...early intervention tools – Members get the personal service that they need..."

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