

MID-YEAR REVIEW ²⁰¹⁷



CHAIRMAN'S OVERVIEW



A review of the Club's performance in the first six months of the 2017 financial year must acknowledge some of the extraordinary events that have taken place since our last report. These include the continuing fallout from the UK vote to leave the EU in June 2016, the subsequent exit negotiations and resulting economic uncertainty, and an unexpected General Election in the UK in June 2017. Notwithstanding the impact of these events which has been felt both domestically and internationally, the Club's performance has been solid so far this year.

We have seen claims (particularly those in excess of US\$1M) increase to more typical levels this year and we have enjoyed a positive investment return at the six month point. Together with the stabilisation of our defined benefit pension schemes, this means that we are currently projecting an overall positive financial position and a modest increase in our free reserves at year end.

Whilst we are pleased to see slight improvements in a number of sectors across the shipping market, we are still very aware of the continuing economic pressures facing our Members. We remain determined to support our Members by minimising vessel downtime and providing value for money in everything we do. In recognition of this, and the financial strength of the Club, we have decided not to declare a General Increase in premium rates at the forthcoming Renewal. There are, however, indications that a change in claims trends may be underway and we are currently projecting a combined ratio in excess of 100% for the current year. In view of this, we have therefore decided not to make a return of premium to Members at this time, although we will of course continue to review the position, particularly once the financial year has ended.

Contingency planning for a post-Brexit business environment continues to be a key priority for the Club. A transitional arrangement involving a temporary extension of EU passporting rights for UK insurers remains a possibility. However, our current expectations are that it will be necessary to establish a subsidiary company in the European Union in order to maintain long term access to EU markets. The location and structure of a subsidiary company is subject to ongoing review and we expect to be in a position to make further announcements regarding this in the near future.

To ensure we remain responsive to the challenges ahead, we announced two new appointments to our Board of Directors. Philipp Reith joins as a Non-Executive Director representing the interests of our mutual membership alongside the Board's six existing Member representatives. Nick Taylor also joined as an independent Non-Executive Director and we look forward to their insightful contributions to the Club. In addition, we have also appointed a new Global Director of People, which is part of a company-wide focus on driving forward leadership and development over the next 18 months to support and enhance the Club's effectiveness.

Service excellence is at the heart of the Club and has been instrumental in the Club's successful development. We pride ourselves on understanding the needs of our membership and refining our services accordingly. We have continued to support the early intervention initiative, along with other industry partners, as a positive and cost-effective dispute resolution method. The Club's secure financial position, rigorous underwriting approach, and proactive claims and risk management ethos enable our Members to trade with the confidence of having North as a strong and committed partner.

Pratap Shirke
Chairman

FINANCIAL REVIEW

The Club's disciplined financial approach is enabling us to navigate through a period where pressure on premium levels is set against reversion to a more typical claims experience. We remain focused on supporting the best interests of our Members through prudent management of the Club's financial risks within an appropriate capital framework.

Our foundations are first and foremost a high-quality membership backed by effective reinsurance partnerships and a risk-based investment strategy. Our assessment of the current year position is that the Club is likely to see a modest increase in the free reserve at 20 February 2018.

Underwriting performance

Attritional claims have been reducing in frequency in recent years, reflecting both a more benign claims environment and the quality of the membership. Larger and less predictable claims are, however, more determinative of the underwriting outcome. In the current year, claims in excess of US\$1 million have reverted to levels more typical of average experience over the last five years than the benign environment seen in 2015/16 and through the first half of 2016/17.

Given the competitive level at which premiums were agreed at the last Renewal, the underwriting result is likely to be a combined ratio in excess of 100%, albeit not significantly so.

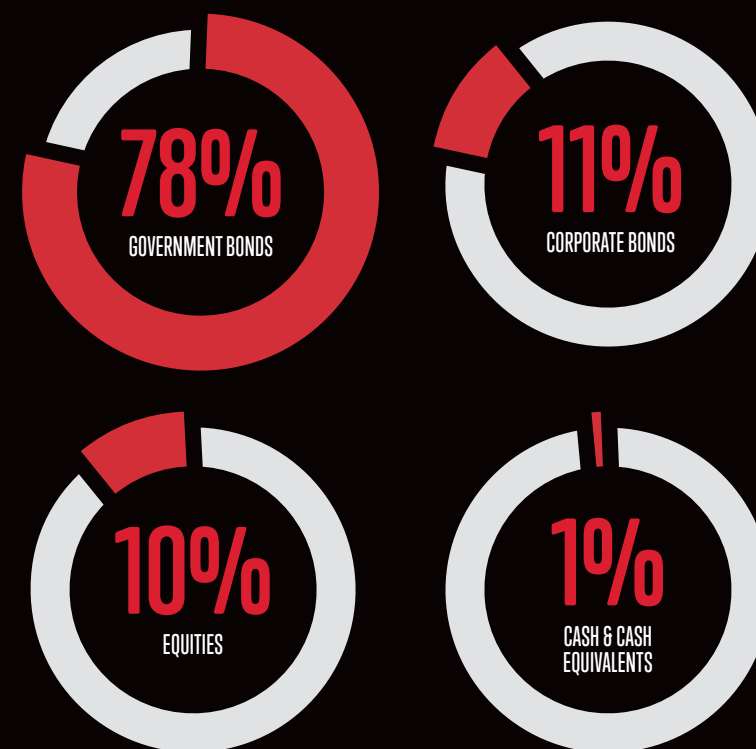
Investments

Our investment strategy is aligned with the Club's objective to manage its financial risks. Investments are held of appropriate quality, liquidity, currency and duration to secure the Club's liabilities. A risk budget has been set for investments which ensures that the Club has an appropriate balance between potential returns and exposing Members' capital. At the half-year point, investment returns net of fees across all of our classes of business were 2.36%, which represented income of US\$21.9 million. On a risk-adjusted basis this represents a good return but one which remains uncertain in a market where interest rates remain exceptionally low and equity markets sit at very high levels in comparison with historical experience.

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ALL CLASSES ASSET ALLOCATION

AT 20 AUGUST 2017



FINANCIAL REVIEW

Other operational performance

Movement in the liabilities in the defined benefit pension schemes has been a feature of previous financial results and may yet have an impact in 2017/18, although the year-to-date position has been neutral. Forecast rises in UK interest-rates indicate that there is greater potential for the position to improve rather than deteriorate.

Following extensive consultation, those employees remaining in our defined benefit schemes will no longer accrue new benefits and this will restrict the scheme's future volatility. We retain exposure to our past obligations under the schemes and will work towards a roadmap for reducing this, as and when economic conditions allow.

We expect to start to see some return on our strategy to create a sustainable platform for Sunderland Marine to develop its business. We anticipate that Members of the Club will benefit from a small contribution in 2017/18, with a strategy to build on this diversification opportunity over the next five years.

Capital and risk management

The Club's capital requirements are set by the Board at a range which ensures that the Club holds sufficient capital to maintain the thresholds set by Standard & Poor's to support its "A" rating in the event of an adverse experience, whether as a result of the claims environment or investment markets. Prudent management of underwriting, investment and other exposures means that the amount of Members' capital required to achieve this strong level of coverage is minimised.

Solvency and Financial Condition Reports (SFCRs) have now been filed in common with other clubs complying with EU regulation. North meets regulatory capital requirements and has a framework in place to ensure that this remains the case over its planning horizon.

When considering the financial position of North as a whole, our Members can combine the statutory financial information for the UK-regulated group of companies with the information for the North of

England Mutual Insurance Association (Bermuda) Limited, the parallel mutual company. The regulatory returns for the UK-regulated group are not comparable to this combined position nor are comparisons with other clubs meaningful given the diversity of corporate structures across the International Group.



Our foundations are first and foremost a high-quality membership backed by effective reinsurance partnerships and a risk-based investment strategy.



OPERATIONAL REVIEW

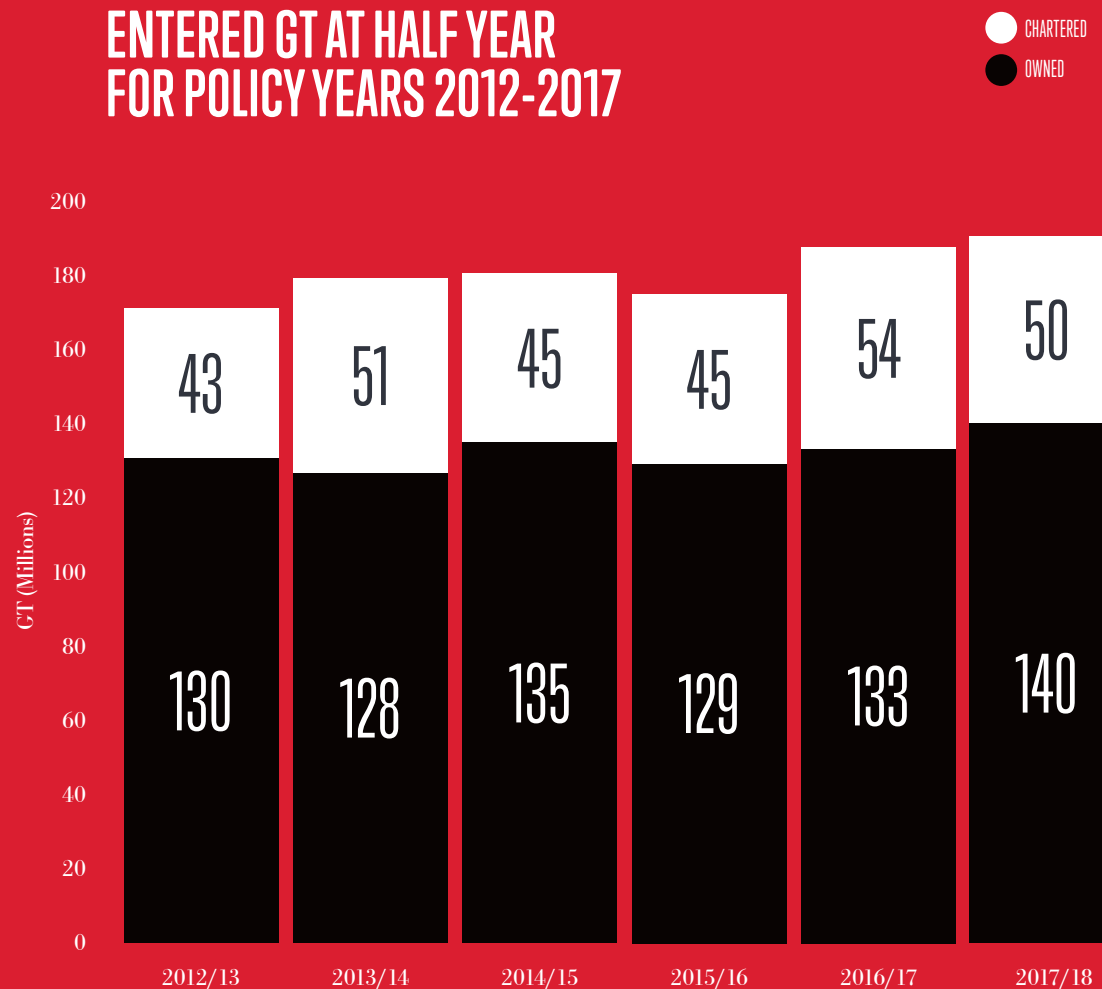
Membership

Our 2017 Annual Review highlighted the successful 7% growth in owned tonnage year on year as at the February 2017 Renewal. During the year there has been some further growth in owned tonnage, so at the half way point in the current policy year this has increased to just over 140 million GT and chartered tonnage is now 50 million GT. This growth is largely organic, from existing Members, although there has also been the welcome addition of new Members from the Asia Pacific and Middle East regions, as well as from Europe and the USA. Owned tonnage declared to the International Group clubs is circa 1.178 billion GT and our share of this is 12%.

The long-standing economic challenges facing shipowners have also abated to a certain extent (at least for some segments of the shipping market) during the course of this year, which will be welcome relief. There are however, continuing structural challenges to be overcome because of the ongoing issues with over-capacity in shipping. Our owned tonnage growth during this year has therefore been impaired by M&A and consolidation activity in shipping and that has had a particular impact on our Membership in the Asia Pacific and Middle East regions, and also in Norway.

We nevertheless continue to maintain a balanced portfolio, with the type of ships entered in the Club being in line with the world fleet average.

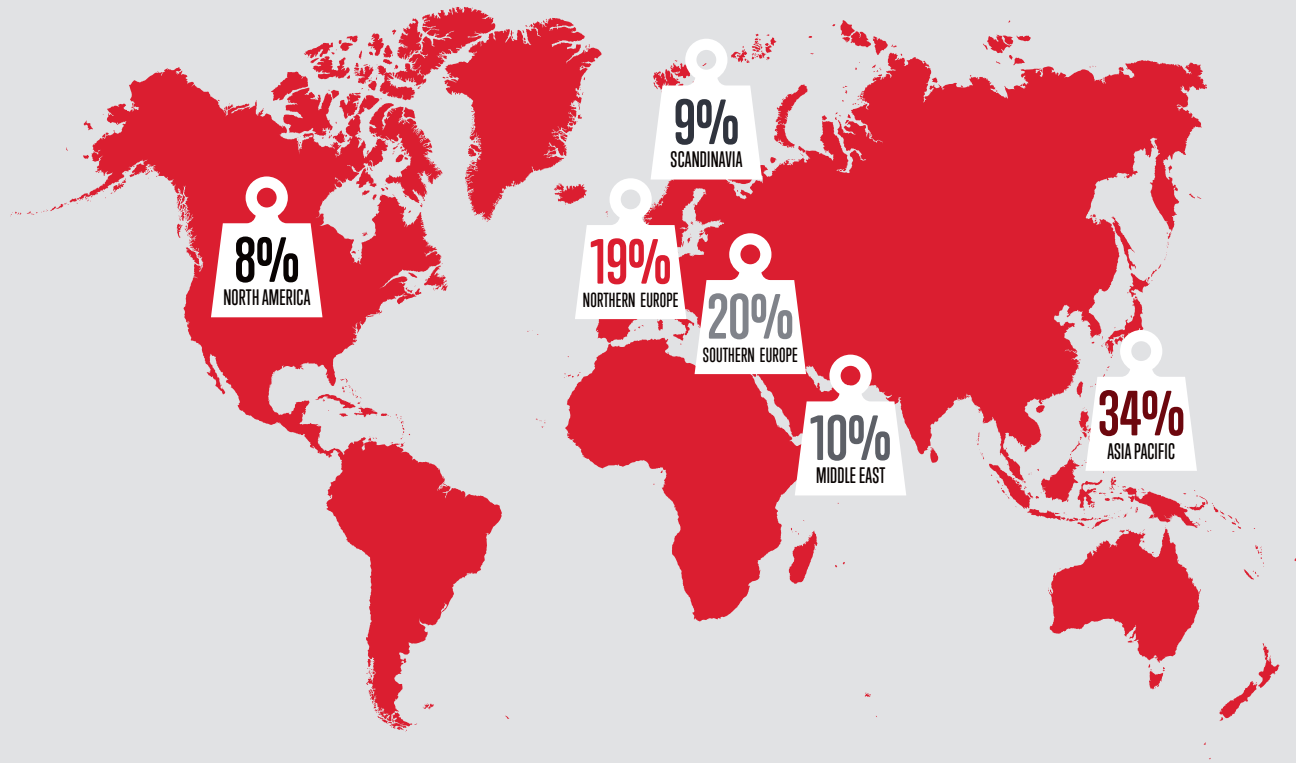
ENTERED GT AT HALF YEAR FOR POLICY YEARS 2012-2017



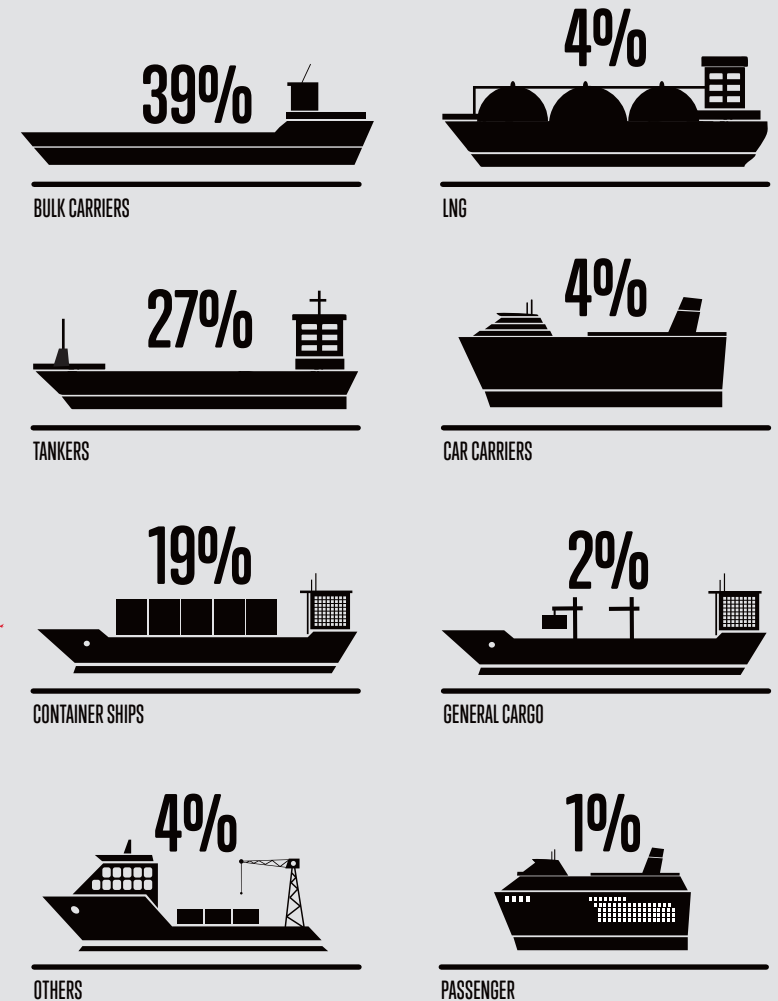
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OPERATIONAL REVIEW

ENTERED GT (OWNED AND CHARTERED) BY GEOGRAPHICAL REGION AT HALF YEAR FOR 2017/18

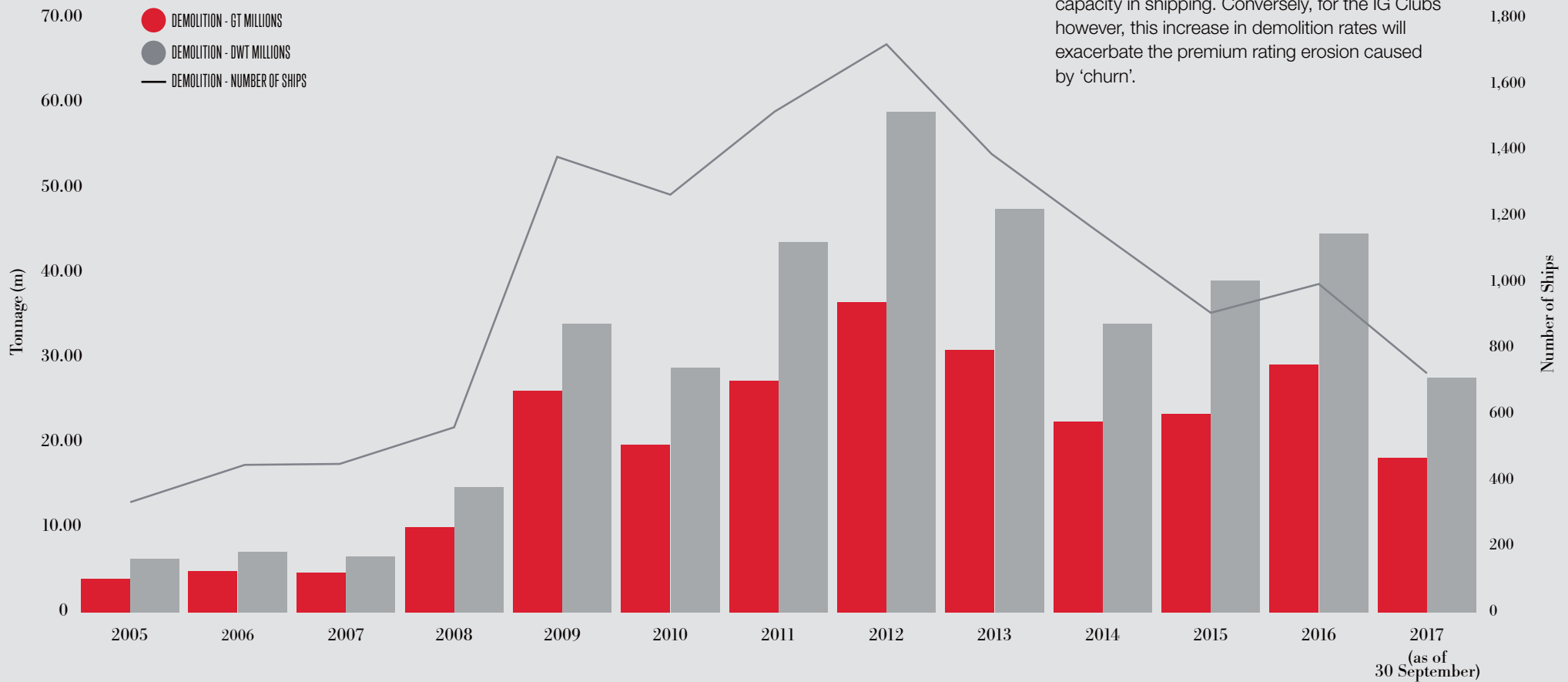


ENTERED GT (OWNED AND CHARTERED) BY SHIP TYPE AT HALF YEAR FOR 2017/18



OPERATIONAL REVIEW

DEMOLITION RATES



The recent increase in demolition activity will no doubt assist in alleviating the structural over capacity in shipping. Conversely, for the IG Clubs however, this increase in demolition rates will exacerbate the premium rating erosion caused by 'churn'.

CLARKSONS RESEARCH SERVICES LIMITED 2017

OPERATIONAL REVIEW

Claims

The total number of claims reported in the first six months of the 2017 policy year is higher than the previous two years. Total claim values at the 2017 mid-year point are likewise higher than 2015 and 2016.

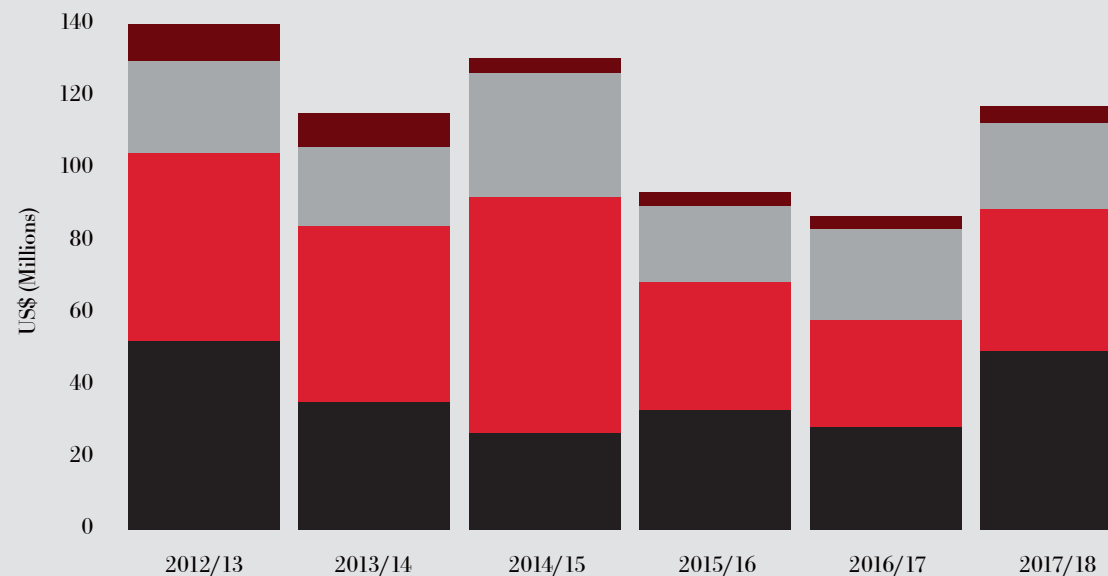
As with all policy years, it is the number of high value claims which is most critical to any year's performance. These large claims are volatile and unpredictable. As at August 2017, we recorded 18 claims in excess of US\$1 million. This is more than at the mid-year point in 2015 and 2016.

Over recent years we have worked closely with Members to help them improve their risk management practices. Whilst we believe this initiative has been successful and may have contributed, at least in part, to a reduction in claims in 2015 and 2016, this reduction was set against a background of difficult trading conditions for Members which has reduced the overall trading activity of many fleets. As trading conditions begin to recover, a rise in the number of reported claims can be expected as operational activity increases. Economic pressures are likely to have had a negative impact on vessel maintenance and resourcing, both of which are critical factors in claim causation.

Our work on a range of initiatives to reduce our Members' vessel downtime and claims exposure continues. The Club is supporting a number of International Group initiatives aimed at managing and reducing claim numbers including advice on preventing liquefaction, the acceptance of IG Club letters, liaison with Chinese insurers regarding soya beans and dealing with mis-declared cargo in collaboration with CINS. Other ongoing initiatives include supporting the Large Casualty Working Group engaging with ISU in relation to risk management/transfer for wreck removal.

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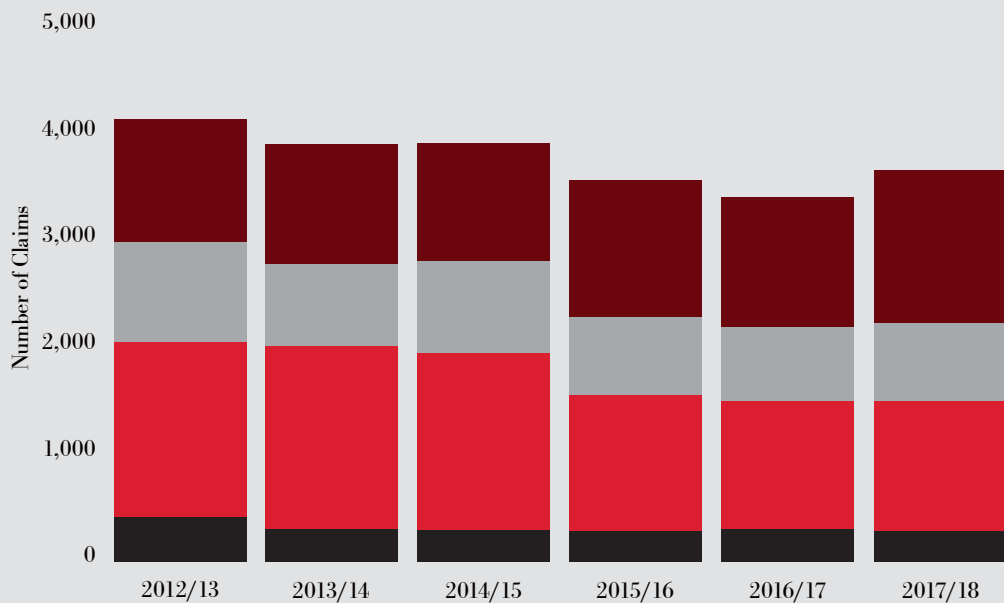
RETAINED CLAIMS AT SIX-MONTH DEVELOPMENT POINT FOR POLICY YEAR 2012 - 2017



OPERATIONAL REVIEW

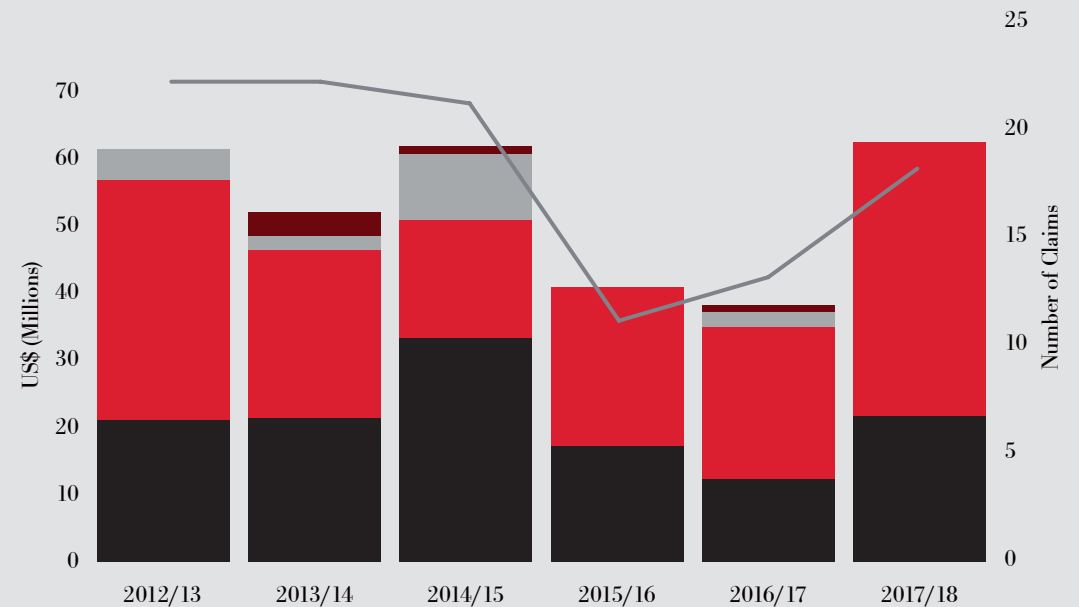
NUMBER OF CLAIMS AT SIX-MONTH DEVELOPMENT POINT FOR POLICY YEARS 2012 - 2017

- ADMIRALTY
- CARGO
- PEOPLE
- OTHER



MAJOR CATEGORIES OF CLAIMS OVER US\$1 MILLION AT SIX MONTH DEVELOPMENT POINT FOR POLICY YEARS 2012 - 2017

- CARGO
- ADMIRALTY
- PEOPLE
- OTHER
- NUMBER OF CLAIMS



OPERATIONAL REVIEW

Loss Prevention

Loss Prevention efforts continue to concentrate on ship-board operational effectiveness and claims prevention, with a particular focus on large claims. Our ongoing analysis of the root causes underpinning large claims has identified two critical factors - company safety culture and crew operational competence and training. A significant proportion of our resource is committed to assisting Members in these areas through participation at crew training seminars, promoting best practice through publications such as our Right Crew briefings, and via our ongoing Member Review Programme.

In addition, our focus on emerging risks helps Members to take the necessary steps to protect their organisation from a range of new and rapidly evolving threats. These risks, such as cyber security, pose a very real threat to everyday business operations across the globe and demand serious consideration.

Building on the direct assistance that Loss Prevention can provide, we have also been involved in identifying and developing a range of value added benefits for Members through affiliations with a number of leading

industry partners. These include the cyber risk self-assessment platform with Hudson Analytix and the CSO Alliance, which now includes Airbus Industries as a partner.


We were delighted to win The Insurance Day Maritime Insurance Award at the 2017 Lloyd's List Global Awards, and to receive recognition from the judging panel for our Right Crew and Cyber Security Loss Prevention initiatives.

FD&D

Low hire and freight rates, together with sustained over capacity in the market, have contributed to a difficult trading environment in which owners and charterers are fighting to make a profit. Against that background, the support and assistance provided by our in-house FD&D team has proved itself to be an extremely cost-effective way of ensuring that Members receive first-class advice and achieve the best results on their claims, whilst also protecting their commercial position.

Much of the assistance relates to charterparty disputes for outstanding hire, freight or demurrage. These disputes vary in size, value and complexity. In addition, many other types of disputes continue to challenge

owners including off-spec bunkers, stevedore damage, and sale and purchase disputes. More recently, new issues such as regulatory disputes, cyber related risks, and sanctions disputes and queries have emerged, all of which can have a significant impact on Members' balance sheets. The environment remains litigious and, as such, the advice and assistance provided by our team of 34 specialist FD&D lawyers can be a critical component in Members' drive for profitability.



...delighted to win The
Insurance Day Maritime
Insurance Award at the 2017
Lloyd's List Global Awards...

