

1. EXECUTIVE SUMMARY

1.1. SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

Sunderland Marine Mutual Insurance Company Limited (“SMMI”) is a mutual insurer of hull and machinery (“H&M”), protection and indemnity (“P&I”), personal accident (“PA”) and aquaculture risks. SMMI was established in 1882 with a traditional focus on insuring H&M risks for the United Kingdom fishing fleet.

In its more recent history SMMI has expanded to become a worldwide specialist insurer and, besides the United Kingdom, has an office presence in the US, Canada, Australia, New Zealand, South Africa and the Netherlands. SMMI has diversified the vessels it insures to include tugs, barges, offshore supply and small passenger vessels amongst others.

SMMI has achieved notable success in the field of aquaculture insurance where its Aquaculture Risk Management team has led the way in developing risk management techniques for the aquaculture industry. SMMI’s technical expertise is shared with its aquaculture policyholders and delivers mutual benefit in reducing insurance risk. This unique approach has seen SMMI become a world market leader in aquaculture insurance.

SMMI’s focus is on maintaining an exemplary level of service to its policyholders whilst also providing them with financial security. This combination has ensured that retention rates are commonly in excess of 90% - a level of loyalty which is testament to the enduring popularity of this business model with SMMI’s policyholders.

SMMI currently holds a stake in an intermediary Knighthood Corporate Assurance Services plc (“Knighthood”). Knighthood is a marine insurance broker which also provides general insurance and financial services. Knighthood has a separate management team and no changes are envisaged to Knighthood’s business model, management team or systems and controls as a direct result of the merger proposal detailed in this document.

1.2. NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED

North of England Protecting and Indemnity Association Limited (“North”) is a mutual insurer of P&I, Freight Demurrage and Defence (“FD&D”) and War risks. North was established in 1860 in Newcastle upon Tyne – still North’s head office – and is an established member of the International Group of P&I Associations (“IG”).

Over recent years North has developed into the second largest of the IG clubs – measured by mutual tonnage – on the basis of its commitment to service excellence and financial stability. North’s financial strength is a component of its core strategy and the Club has held an “A” rating from Standard & Poor’s for nearly ten years and has not burdened its members with an unbudgeted supplementary call for over twenty years.

Alongside Newcastle upon Tyne, North’s market leading Member service is now provided by regional offices in Hong Kong, Piraeus, Singapore and most recently Japan.

North continues to be foremost a mutual P&I insurer working on behalf of its Members and strives to be the “most cost-effective marine insurance mutual providing the highest levels of service”.

1.3. STRATEGIC ALLIANCE

Since 1 January 2012 SMMI and North have been formally working together in a Strategic Alliance. The Strategic Alliance was developed on the basis that both organisations shared much in common between their goals, policyholder focus and locations whilst having little or no real overlap between the positions held in their respective markets. The purpose of the Strategic Alliance was for both organisations to come to better understand each other and to promote each other’s development.

The Strategic Alliance is formally enshrined in a quota share reinsurance contract whereby SMMI cedes 75% of its retained P&I risks to North. This contractual arrangement has benefitted not only SMMI, providing a financially secure reinsurance partner to reduce capital exposure, but has also resulted in sharing of knowledge and best practice across the two organisations. For example a North claim handler worked with SMMI’s team for a number of months on a part time basis and staff across the two organisations also worked closely together to develop a risk assessment and disaster plan for the passenger vessels operating during the London Olympics in 2012.

Underwriting knowledge and contacts have also been shared and a number of underwriting opportunities have been developed as a result.

1.4. CHANGE IN CONTROL PROPOSAL

Our proposal is that the Strategic Alliance be developed further and that a change in control takes place whereby North becomes the sole Member of SMMI and SMMI operates within a wider North Group. The Group hereafter referred to is the group of entities regulated in the UK being North, SMMI, MSMI and Knighthood as well as other subsidiaries of North and SMMI. The entities within this Group will all be subject to the control or indirect control of North with the exception of Knighthood in which SMMI currently has a significant shareholding.

There will be indirectly a change in significant holding of SMMI’s stake in Knighthood. The Knighthood entity will continue to be run as a subsidiary of SMMI as currently and following change in control preliminary discussions this entity has been included within this change in control application.

We have undertaken a significant amount of work together to come to this point and the Boards of both organisations have played a leading role in directing activities to ensure that a change in control would be in both of our best interests. Most notably North has undertaken an extensive Feasibility Study exercise which looked at the robustness of a shared strategy supported by business models which are aligned across the Group. This is supported also by a Standard & Poor’s Rating Evaluation Service which provided an independent third party review of that business model.

The proposal results in compelling benefits for both SMMI and North, many of which will be common across the two organisations. Our respective Boards consider that these benefits will flow directly or indirectly to the Group’s policyholders and customers.

Benefits	SMMI	North	Group
Financial and capital security	<ul style="list-style-type: none"> Policyholder access to S&P “A” rated combined institution with capital headroom over regulatory requirements Consistent financial outturn based on prudent forecasting in combined business plan 	<ul style="list-style-type: none"> Continued development of the capital base through a diversified income stream and reduced underwriting volatility Ability to deliver improved financial performance through selective underwriting 	<ul style="list-style-type: none"> Strategy to develop a stable financial and capital base Maintain regulatory capital headroom and good buffers over rating agency requirements No dilution of capital through robust underwriting for the long term
Diversification	<ul style="list-style-type: none"> Opportunity to build on development opportunities identified through the Strategic Alliance 	<ul style="list-style-type: none"> Delivery of Board strategy to diversify where this benefits the mutual membership 	<ul style="list-style-type: none"> Target new underwriting opportunities through the wider reach of the Group and the shared skills and experience Always placing robust underwriting for the future ahead of growth

Benefits	Combined Group
Synergies and economies of scale	<ul style="list-style-type: none"> Opportunity to negotiate efficient wider reinsurance programmes across the combined organisations Greater efficiency in corporate governance and delivery of a single strategy across the combined organisations Improved opportunities for employee development within a wider group
Service excellence	<ul style="list-style-type: none"> Extended global presence and policyholder support – SMMI and North have offices in complementary locations worldwide, availability of support in all time zones Sharing of skills and exchange of best practice – development of the information established through the Strategic Alliance Combined experienced and stable management team

2. BACKGROUND TO THE CHANGE IN CONTROL APPLICATION

2.1. NORTH'S BACKGROUND (THE APPLICANT)

2.1.1. NORTH'S BACKGROUND – LINES OF BUSINESS

North operates three classes of business – P&I, FD&D and War Risks – which together constitute North's current product offering. Of these lines P&I predominates, FD&D is a significant line and War Risks is a small line of business with minimal retained exposure which does not materially impact on North's financial or capital position. North is managed on behalf of its mutual membership to whom the risks and rewards of operating the Club accrue.

North's P&I insurance is a wide-ranging cover for Members' third party liabilities arising out of the operation of vessels. Members may be insured under an owned or mutual entry or by way of a chartered or fixed entry. P&I liabilities include cargo, seamen and passengers, pollution, property damage, wreck removal, salvage and collision. P&I cover is written primarily under the Club's Rules although charterers' cover or extensions to cover may be written through additional terms of entry.

North's FD&D insurance provides Members with cover for the legal costs and expenses associated with pursuing or defending a claim and is a discretionary cover. Disputes which typically fall to the scope of FD&D cover include charter party disputes, bunker disputes, sale and purchase agreements or new-building contracts and disputes relating to bills of lading. To the greatest extent possible North uses its extensive and experienced in-house legal team to provide FD&D cover.

North's management team has experience in the H&M market having for a number of years managed Marine Shipping Mutual Insurance Company Limited ("MSMI"). As of 30 June 2011 MSMI ceased underwriting new business as market conditions no longer favoured its business model. MSMI had a positive capital position on cessation of business and made a distribution of funds to its Members whilst North took over the run-off of its liabilities. North has retained H&M claim handling knowledge to manage the run-off of MSMI.

2.1.2. NORTH'S BACKGROUND – MEMBERSHIP DISTRIBUTION

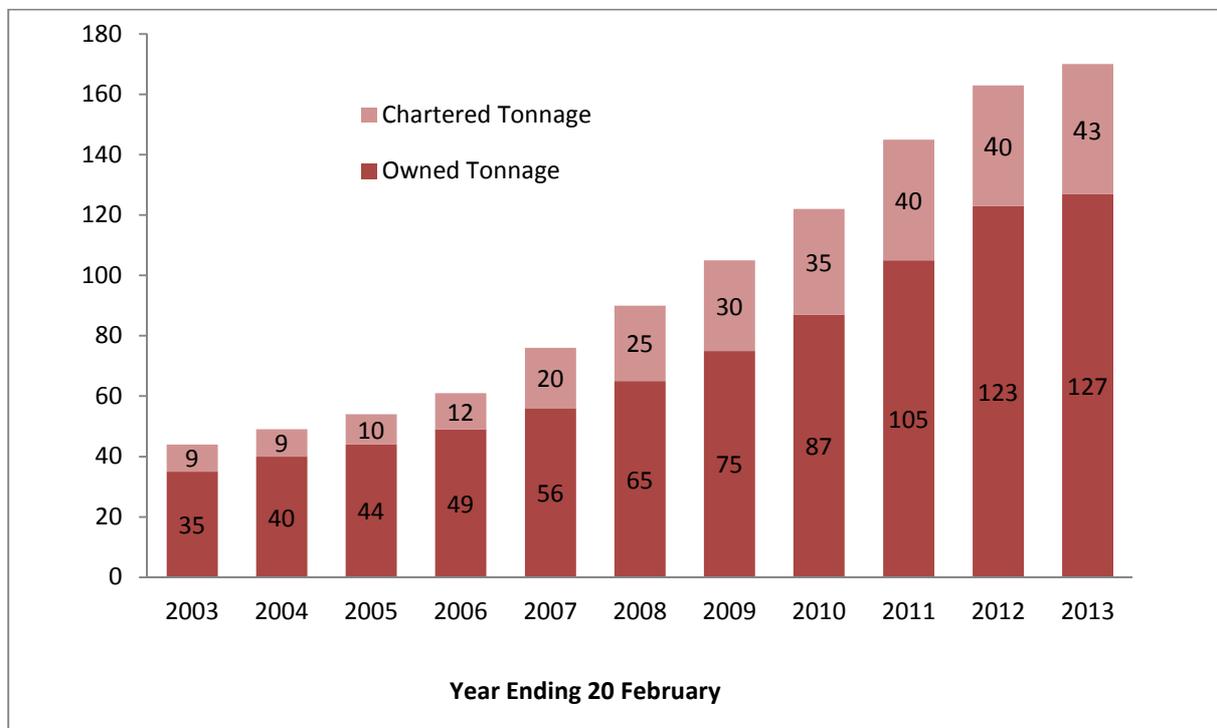
Over the last decade North has managed growth ahead of that experienced in the wider market and total entered tonnage has moved from 44 million GT at 20 February 2003 to 170 million GT at 20 February 2013. Although North has built a fixed premium book of chartered underwriting business this is typically written for existing mutual members and only around 3% of premium is written in respect of fixed premium for policyholders for whom no mutual entry exists.

All of North's policyholders are also Members with two membership categories – mutual Members and fixed premium Members. Members are grouped into Fleets under the Club's Fleet Entry rule. Within a Fleet there may be a number of individual Members each having their own entry but the Fleet is taken as a whole for underwriting purposes and the entities within each Fleet are jointly and severally liable for the obligations of the group.

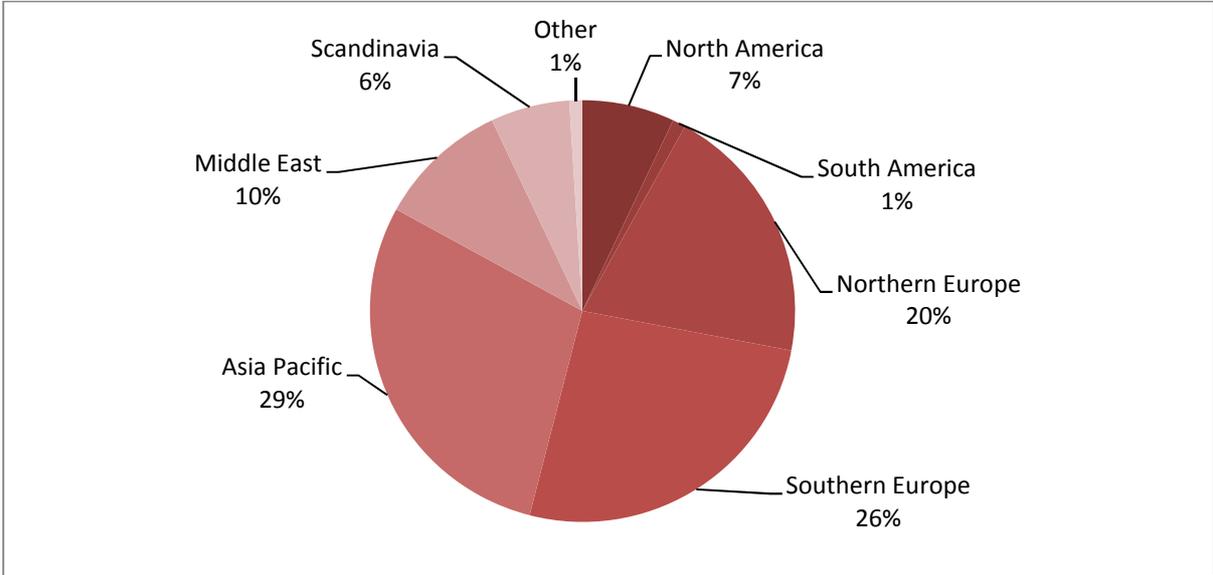
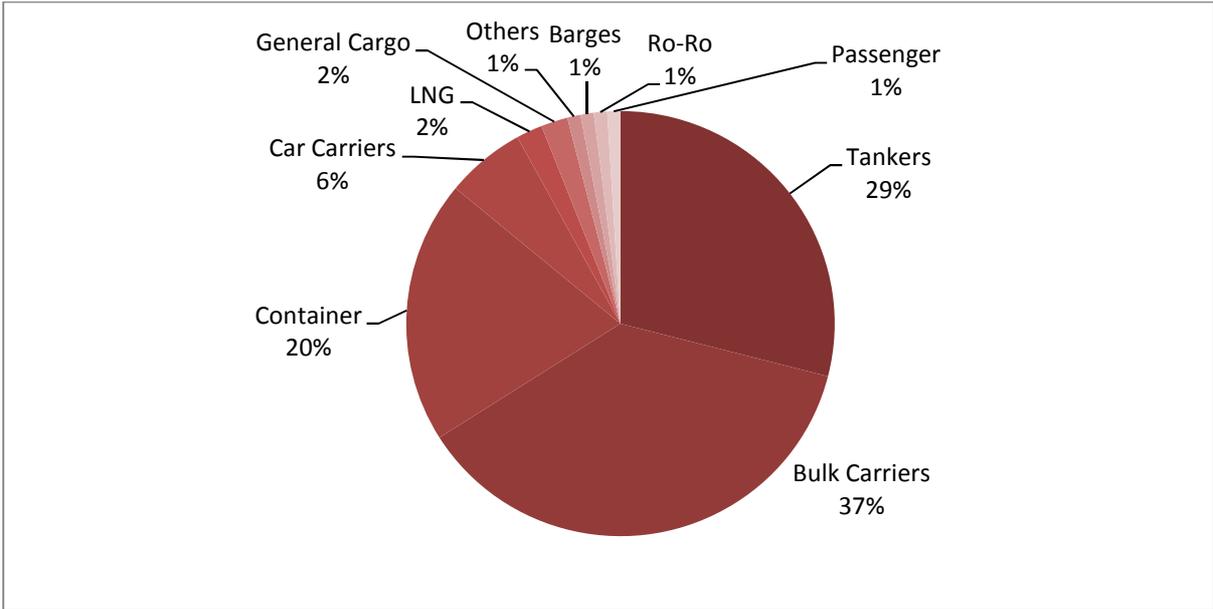
North has 404 Fleets of Members for the 2013 policy year of whom 361 have a mutual premium entry. When taking into account Fleets which have related ownership or other close connections there are 345 related Fleet groupings of which 310 have a mutual premium entry.

The benefits and obligations of each membership category are summarised in the table below:

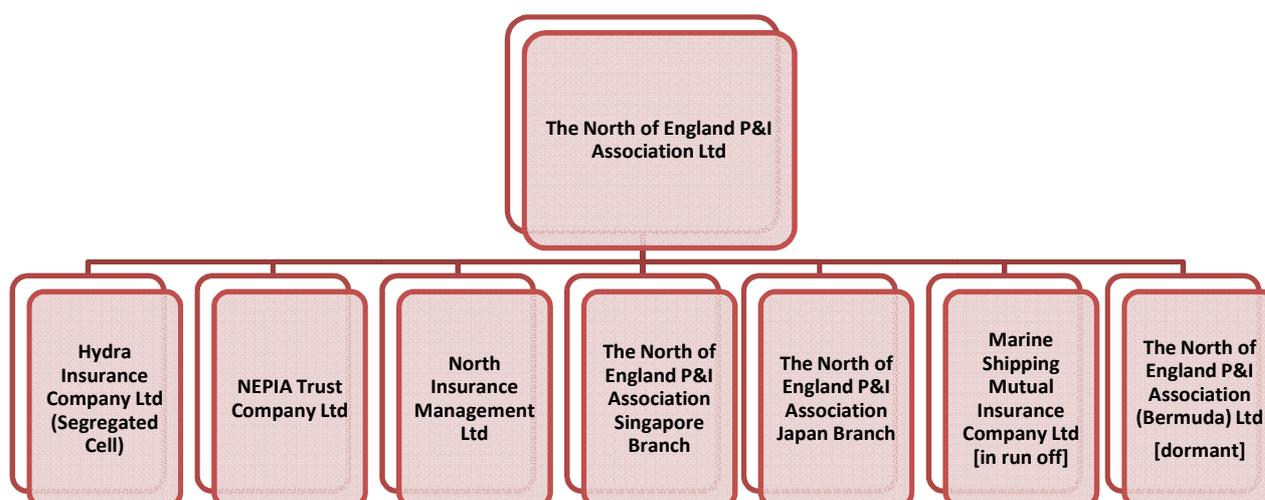
Rights and Obligations	Mutual Member	Fixed Premium Member
Can attend General Meetings	Yes	No
Voting Rights at General Meetings	Yes	No
Participation in a distribution of surpluses	Yes	No
Participation in assets on a wind up of North	Yes	No
Subject to supplementary calls	Yes	No



North has a worldwide membership and a share of the worldwide shipping market which approximates to world distribution by vessel type with a small weighting in favour of tankers and underweighting in passenger vessels.



2.1.5 NORTH'S BACKGROUND – LEGAL STRUCTURE



North has a relatively simple legal structure. Insurance business is written by the primary legal entity The North of England P&I Association Limited being the mutual controlled by its Members. All holdings are 100%. The functions of the entities controlled by North are as follows:

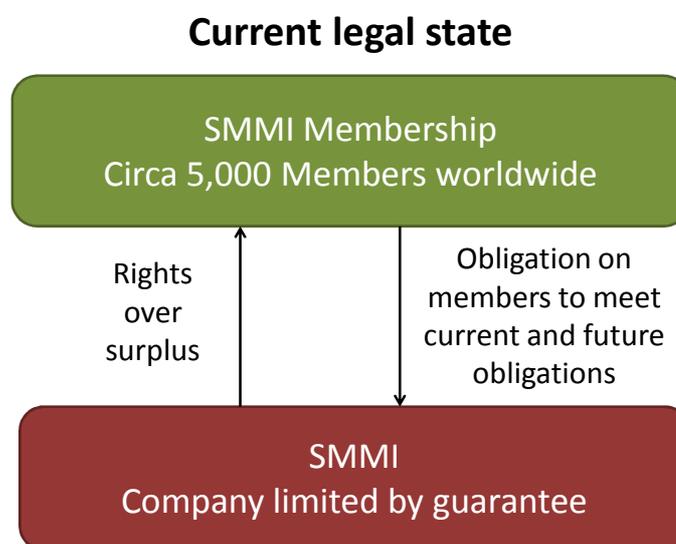
Entity	Legal status	Function
Hydra Insurance Company Limited (segregated cell)	Bermudian company	Captive reinsurer for certain elements of North's share of International Group pool risks
NEPIA Trust Company Limited	UK corporate trustee	Trustee for North employee bonus arrangements
North Insurance Management Limited	UK company	Management services company providing services to North and MSMI
The North of England P&I Association Limited Singapore Branch	Singapore registered branch of a foreign company	Registered branch through which North is licensed in Singapore to provide marine insurance to Singapore domiciled business
The North of England P&I Association Limited Japan Branch	Japan registered branch of a foreign company	Registered branch through which North is licensed in Japan to provide marine insurance to Japan domiciled vessels
Marine Shipping Mutual Insurance Company Limited	UK company	Marine mutual insurer now in run off
The North of England P&I Association (Bermuda) Limited	Bermudian company	Dormant and with no current function

2.3 STEPS TAKEN FOR THE BUSINESS COMBINATION

2.3.1 STEPS REQUIRED TO ACHIEVE TRANSFER OF CONTROL

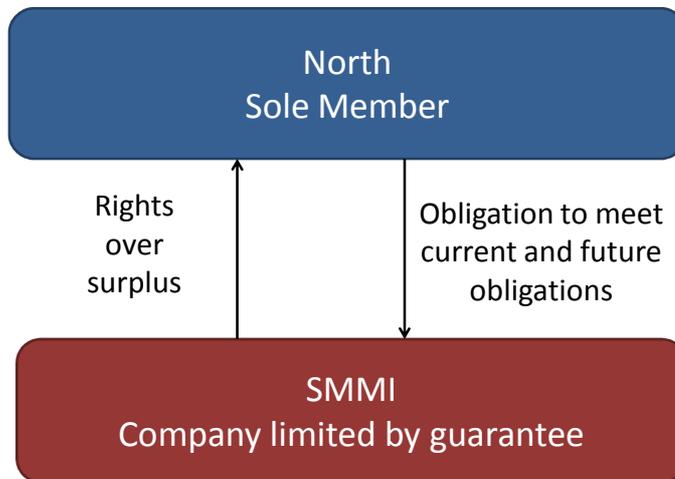
Currently control of SMMI rests with a large number of Members worldwide. SMMI's Members hold an interest in any surplus that SMMI might have and are equally liable to meet any obligations that SMMI might have in excess of the funds it holds. Risks and rewards ultimately fall to the mutual membership.

The control of Knighthood arising out of SMMI's holding remains with SMMI and no change is effected in respect of Knighthood or its customers.



The proposed form of change in control is that SMMI's Members relinquish their membership rights and obligations and that North becomes SMMI's sole Member. This would take place pursuant to a Framework Agreement agreed prior to the completion date the completion of which is subject to a number of conditions being satisfied e.g. obtaining approvals from: SMMI's members; North's members; and all relevant regulators.

Demutualisation



North will provide a guarantee to SMMI in respect of all obligations. This will include past, present and future obligations and demonstrate North's acknowledgement of its responsibility to support SMMI and its policyholders.

2.3.2 TIMETABLE TO ACHIEVE TRANSFER OF CONTROL

The timetable for the change in control process can be considered as falling under three main heads:

1. Regulatory – approval for change in control
2. Members – approval of merger
3. Legal agreements
 - Framework Agreement;
 - Changes to Articles, Rules (North) and General Conditions (SMMI); and
 - Terms of reference.

A high level summary timetable has been drawn up and included below. This is not comprehensive but covers the key dates in decision making for the main heads of the change in control process.

The timetable for communicating with the Members of North and SMMI is set out in sections 5.2.2 and 5.3.2 respectively. This timetable fits with those of the Boards of Directors who will be agreeing the form and content of Member communications and considering the result and impact of Member votes.

ID	Task Name	Start	Finish	Resource Names	Qtr 4, 2013			Qtr 1, 2014		
					Oct	Nov	Dec	Jan	Feb	Mar
1										
2	FRAMEWORK AGREEMENT	Mon 14/10/13	Wed 19/02/14							
3	Review draft framework agreement	Mon 14/10/13	Mon 14/10/13	NORTH/SMMI						
4	Agree process for finalising framework agreement	Mon 21/10/13	Mon 21/10/13	NORTH/SMMI						
5	Execute legal agreements subject to conditions precedent	Wed 04/12/13	Wed 04/12/13	NORTH/SMMI						
6	Pre-approve SMMI Directors on North Board	Tue 14/01/14	Tue 14/01/14	NORTH						
7	Pre-approve SMMI Directors on North Board	Tue 28/01/14	Tue 28/01/14	NORTH						
8	Appoint North as sole Member and execute Director retirements	Wed 19/02/14	Wed 19/02/14	SMMI						
9										
10	CORPORATE GOVERNANCE	Mon 14/10/13	Thu 20/02/14							
11	Review draft terms of reference	Mon 14/10/13	Mon 21/10/13	NORTH/SMMI						
12	Amend terms of reference agreed with subjectivities	Wed 04/12/13	Wed 04/12/13	NORTH/SMMI						
13	NEPIA - meeting	Mon 14/10/13	Mon 14/10/13	NORTH						
14	NEPIA - board meeting	Mon 21/10/13	Tue 22/10/13	NORTH						
15	SMMI board meeting	Thu 24/10/13	Thu 24/10/13	SMMI						
16	SMMI board meeting	Tue 03/12/13	Tue 03/12/13	SMMI						
17	NEPIA EGM, Directors meeting & Members Board Meeting	Wed 15/01/14	Thu 16/01/14	NORTH						
18	SMMI board meeting	Mon 27/01/14	Mon 27/01/14	SMMI						
19	SMMI EGM	Wed 29/01/14	Wed 29/01/14	SMMI						
20	SMMI completion meeting	Thu 20/02/14	Thu 20/02/14	SMMI						
21										
22	MEMBER APPROVAL	Mon 14/10/13	Mon 24/03/14							
23	Review draft announcement	Mon 14/10/13	Mon 21/10/13	NORTH/SMMI						
24	Recommend announcement to Members Board	Mon 21/10/13	Mon 21/10/13	NORTH						
25	Receive results of Member vote	Tue 14/01/14	Tue 14/01/14	NORTH						
26	Finalise Member announcement	Tue 14/01/14	Tue 14/01/14	SMMI						
27	Receive results of Member vote	Tue 28/01/14	Tue 28/01/14	NORTH						
28	Finalise Member announcement	Tue 28/01/14	Tue 28/01/14	SMMI						
29	Receive results of Member vote	Mon 24/03/14	Mon 24/03/14	SMMI						
30										
31	ARTICLES, RULES & GENERAL CONDITIONS	Mon 14/10/13	Wed 04/12/13							
32	Review draft Articles and Rules	Mon 14/10/13	Mon 21/10/13	NORTH						
33	Review draft Articles and General Conditions	Mon 14/10/13	Mon 14/10/13	SMMI						
34	Articles and Rules agreed with subjectivities	Wed 04/12/13	Wed 04/12/13	NORTH						
35	Articles and General Conditions agreed with subjectivities	Wed 04/12/13	Wed 04/12/13	SMMI						

Project: CiC project plan 3.mpp Date: Thu 17/10/13	Task		Rolled Up Task		External Tasks	
	Progress		Rolled Up Milestone		Project Summary	
	Milestone		Rolled Up Progress		Group By Summary	
	Summary		Split		Deadline	

2.4 FINANCING OF THE MERGER

2.4.1 MERGER RETAINS EXISTING CAPITAL

The proposed change in control does not involve a distribution of existing capital to support the business or additional financing (a supplementary call or external financing).

No cash consideration will be provided to SMMI Members by way of a distribution. The consideration for the transaction is North's assumption of the obligations of SMMI Members being most significantly the run-off of existing claims liabilities and the SMMI defined benefit pension obligation. The value to SMMI's Members of this form of consideration is considered more fully in sections 2.4.3 and 5.3 below.

Additional financing is not built into the combined business plan and is not deemed necessary for capitalisation of either SMMI or the combined organisation. The ultimate assumption by North of SMMI claims liabilities and the defined benefit pension scheme obligation represent a significant benefit to SMMI Members. It is acknowledged that there are longer term liabilities which the combined organisation has planned to manage through with good buffers over regulatory capital requirements.

2.4.2 IMPACT ON SMMI MEMBERS AND KNIGHTHOOD CUSTOMERS

SMMI's members will give up their membership rights in SMMI as part of the change in control process and will be compensated for the loss of such rights through, inter alia, the assumption of their liabilities by North.

Knighthood customers will continue to be treated in exactly the same way as they currently are.

3 PROPOSED BUSINESS

3.1 BUSINESS RATIONALE

3.1.1 GROUP STRATEGIC VISION

The long-term strategic vision for the change in control is to:

- Bring together two organisations with a focus on our mutual ethos and service excellence
- Combine financial and capital strength
- Provide a platform to diversify and develop stability through
 - Leveraging the depth of the combined worldwide reach, experience, knowledge and skills base; and
 - Robust underwriting for the future.
- Strive to be the most cost effective whilst providing the highest levels of service.

Our initial financial forecasts do not build in growth beyond business as usual given the inherent uncertainty in predicting where opportunities will arise. Nonetheless we are confident that opportunities exist and that we will be well placed to develop them without compromising our overriding aim of robust underwriting to ensure a stable future.

As the two organisations work together post change in control the Group strategy will develop from the opportunities that we identify together and over the first 12 months we will update our Group Strategic Plan accordingly.

3.1.2 FINANCIAL AND CAPITAL SECURITY

The enlarged North Group will have a significant capital base to support its policyholders. Considerable prudence has been maintained within the business forecasts to ensure that the outturn is reliable and that the capital can support the Group strategy. Notwithstanding the prudence held within the forecasts, the Group expects to maintain significant headroom over regulatory capital requirements.

Having a stable financial base provides the security to allow the Group to maintain a selective underwriting approach. No policy need be written in order to maintain underwriting volumes but rather the Group will apply strict underwriting criteria. We anticipate that loss ratios will be driven downwards as a result of this selective approach across the Group.

Conversely, Group capital is available to pursue valuable underwriting opportunities as they arise and where they will benefit the Group's financial position as a whole over the longer term.

3.1.3 STRATEGIC FIT

North's core aims are:

- To provide insurance for marine risks
- To provide insurance which is cost effective and which is supported by the highest levels of service; and
- To maintain mutual status and to continue as a member of the International Group of P&I Associations.

SMMI's business represents a particularly strong strategic fit with North. SMMI has consistently sought to differentiate itself through quality of service and has strong policyholder loyalty and retention as a result of this. SMMI has a strong mutual ethos which complements that of North.

The extended global presence of the combined entity may improve policyholder support over time. The sharing of skills and exchange of best practice between the enlarged employee base within the North Group will be to the benefit of policyholder service.

3.1.6 LOW TRANSACTIONAL RISK

An important component of the business case or rationale for North and SMMI undertaking this combination is that we have considered the transactional risks and assessed them as being either low or capable of being managed to an acceptably low level.

Through the Strategic Alliance, North and SMMI have come to gain a good understanding of each other's businesses. This has continued in a collaborative approach which reduces the potential for "surprises" as the transaction progresses. Through working together in the Strategic Alliance and through the subsequent Feasibility Study exercise, we are confident of continuing a strong working relationship into the combined operations.

The high level of strategic fit identified translates to less adjustment in the ethos of both organisations and the focus on service excellence and mutual ethos will be familiar to everyone. Where change is required – at a strategic level – we are engaging early and working together to move in a common direction.

Our integration strategy is one of "lowest impact" on the day of change in control. Operationally the two organisations will retain their existing platforms with change being restricted to that required to deliver the Group strategy and KPIs.

For example, IT services will remain as current on day one and the IT environment and platforms will be unchanged. At the strategic level IT reporting will be reconfigured to feed into a Group IT Leadership Team which will consider strategic IT issues and KPIs for the organisation as a whole.

The opportunity to make improvements through common operational arrangements will be considered on a case by case basis. Where a future development may benefit the North Group – for example North is developing a new core IT system in its Quay Change programme – then a cost benefit analysis will inform the decision as to whether this should be rolled out across the group as a whole.

No change will be made to the operations of Knighthood and its management team will not change as a result of the change in control.

The senior management teams of North and SMMI both have a significant amount of experience and expertise and have operated successfully within their markets for many years. The collective abilities within the combined management team will contribute much to the successful management of the transaction and its risks.

Both North and SMMI have successfully engaged in transactional activity in the past. North merged with Newcastle P&I in 1998 and integrated a significant proportion of the Newcastle P&I workforce, many of whom now occupy senior positions within North including one of North's Joint Managing Directors. North's current Joint Managing Directors were also the architects of the Newcastle P&I merger transaction. SMMI have managed a number of acquisitions in recent years and gained a good working knowledge of the transactional risks involved

and the mitigation of those risks. For example SMMI have in recent years acquired stakes in Harlock Murray Underwriting in Canada (100%), the UK brokerage Knighthood Corporate Assurance Services and the Netherlands brokerage Van Olst de Graaff & Co (82%).

5.3 SMMI MEMBER INTERESTS

5.3.1 SMMI MEMBERS MERGER BENEFITS

The benefits of the proposed merger for SMMI members are significant. A summary of the merger benefits for the SMMI members is illustrated in the following table:

Board Criteria	Met	Achieved Through
Retention of mutual ethos	✓	<ul style="list-style-type: none"> North committed to mutual ethos Member engagement – but no voting rights Maintenance of current service standards through staff retention
No risk of calls	✓	<ul style="list-style-type: none"> SMMI Members released from current / future liabilities
Stable pricing	✓	<ul style="list-style-type: none"> On the basis merged structure will result in cost reductions, e.g. reinsurance and governance costs
Capital strength / security	✓	<ul style="list-style-type: none"> Merger with an “A” rated entity with a strong capital base
Fair compensation for Members	✓	<ul style="list-style-type: none"> SMMI Members released from significant liabilities Continuation of current service ethos and standards Ability to share in proceeds of a future sale of SMMI business (although no sale anticipated)

SMMI believes the key benefit of the proposed merger with North is the on-going maintenance of the mutual ethos with the principles referred to in section 3.2.4 “Group Strategic Vision” forming the foundations of the enlarged group. As a niche insurer with a number of assureds represented at Board level, the SMMI board believes its members place significant value on the ongoing maintenance of the mutual ethos where premium rates are not set to deliver profit returns to external investors. The SMMI Board is, therefore, of the view that SMMI’s members and policyholders would want to see current service standards maintained together with a stable pricing environment. Consequently, it is believed that the proposed merger with North will preserve the mutual ethos with pricing stability being supported through the cost efficiencies that can be achieved as part of an enlarged group.

No cash payment will be made to the SMMI members as part of SMMI’s demutualisation / change in control. This is because the SMMI board believes the immediate and on-going benefits as detailed in the above table represent fair compensation to the SMMI members for their loss of membership rights. In particular, when considering the on-going liabilities associated with the SMMI defined benefit pension scheme, the potential liabilities from which SMMI’s mutual members will be released are significant.

5.3.2 SMMI MEMBERS COMMUNICATIONS PLAN

SMMI members are being kept informed of the merger proposals through mailed briefings. A detailed prospectus will be circulated to all members in advance of the members’ meeting at which approval for the proposed merger will be sought. The prospectus will include areas such as:

- What the transaction means for Members and policyholders – changes for Members and policyholders, benefits for Members and policyholders, maintenance of mutual ethos post-transaction and Framework Agreement conditions
- How the transaction has been evaluated – the Strategic Alliance, due diligence and other advice, evaluation of the transaction

- Information on SMMI – background, financial and rating information
- Introduction to North – background, International Group, financial and rating information
- Next steps – Board’s recommendation, how to raise queries, attendance and voting at EGM, Directors’ voting
- Additional information – responsibility, Directors of SMMI and North, regulatory approvals required, documentation available for inspection

The contents of the prospectus remain under development and subject to approval of the Board of Directors.

5.4 POLICYHOLDER STRATEGY

The primary policyholder strategy is to maintain mutual ethos, service levels and financial and capital strength on behalf of existing policyholders. This change in control application is intended to further that aim for the reasons set out in section 3.1 “Business Rationale”. Through a focus on policyholders the Group aims to retain a high proportion of existing policyholders as they renew whilst obtaining a premium which is a fair reflection of the risk being written.

No growth in premiums has been assumed in the combined business plan as a result of growth in underlying business. The growth forecast represents renewal increases on existing business or a turnover of new business equivalent to business not renewing.

These assumptions are considered to be prudent and the secondary policyholder strategy is to grow the book where (a) premium levels are appropriate to the underlying strategy of developing capital and financial strength and where (b) the risks are fully understood by the Group. The potential for such opportunities is considered to be good as a result of:

- The impact of the change in control on SMMI’s financial strength rating which Standard & Poor’s have indicated is likely to move positively. A higher rating provides increased opportunities where potential policyholders have creditworthiness requirements or where a higher rating is a material consideration for policyholders when placing policies;
- North and SMMI have a complementary presence worldwide and have the opportunity to build on existing relationships where these are relevant to the wider product offering across the Group. For example certain opportunities in smaller vessel P&I insurance have been identified in the Far East which are appropriate to SMMI’s profile but for which North has existing relationships and a local reputation; and
- North and SMMI have established reputations in marine insurance markets and the association of the two is considered to be positive for building up the policyholder base across the differing product lines offered. The strategic fit of North and SMMI and commitment to mutual ethos and service allows for crossover of policyholders and cross selling.

5.5 MANAGING RISK TO POLICYHOLDERS

As set out in section 3.1 “Business Rationale”, and more specifically section 3.1.6 “Low Transactional Risk”, a key component of the proposition is the relatively low levels of risk associated with the change in control compared to that which might typically be associated with a merger. Because the policyholders of North and SMMI are at the centre of the proposal it has been structured such that the risk to them is as low as possible.

- **Continuity of operations:** policyholders will continue to have (a) service available at the same high levels from (b) the same group of people using (c) the same operational platform. No changes will be made at an operational level unless it can be demonstrated that policyholders will not be disadvantaged and such changes will not be made until after the merger date when both organisations have a full understanding of one another.
- **Continuity of products:** as set out in section 3.2.1 “Group Services” the Group will offer the same range of covers as currently provided by North and SMMI. Given the continuity of operations noted above they will be offered by the same people and in the same manner as before. There are no current plans to expand beyond these products which are well understood within the two organisations and for which North and SMMI have strong market reputations arising out of their experience and skill in delivering to their policyholders.
- **Continuity of policyholder focussed strategy:** the Group strategy set out in section 3.2.5 “Group Strategy and Business Model” demonstrates that the Group will build on the existing strategic fit between North and SMMI and their focus on delivering a mutual service to policyholders.
- **Financial and capital security:** the Group’s policyholders will benefit from the combined financial and capital security that obligations towards them will be met in full. Prudent combined financial forecasts have been made in which policyholders can have confidence. There will be no under-pricing of risks to pass on benefit to North policyholders – any return of value will be in the form of rebates and will not be made in the absence of an excess of capital.
- **Transactional risk management:** there is a risk to policyholders arising out of the failure to manage transactional risk. This is considered to be mitigated to the greatest extent possible as set out in section 3.1.6 “Low transactional risk” including the integration strategy based around continuity, the knowledge gained through the Strategic Alliance and successful experience of past transactional activity.