MANAGEMENT
Report 2012

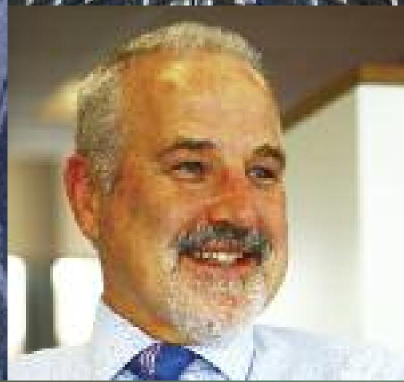
NORTH

SERVICE, STRENGTH, QUALITY



NORTH

SERVICE, STRENGTH, QUALITY








FINANCIAL SUMMARY

Five Year Combined Summary

Income and Expenditure – US$ million

	2011/12	2010/11	2009/10	2008/9	2007/8
Premium	348.3	314.2	285.1	255.1	213.0
Investment result and exchange movements after tax	13.9	17.3	18.0	(43.6)	41.8
Reinsurance costs	(55.4)	(59.7)	(47.6)	(44.2)	(34.5)
Net claims incurred	(246.1)	(156.0)	(190.5)	(142.2)	(162.1)
Expenses (including brokerage)	(51.6)	(43.7)	(35.8)	(34.0)	(28.4)
Building revaluation	(7.5)	-	-	-	-
Increase / (decrease) in free reserve	1.6	72.1	29.2	(8.9)	29.8

Balance Sheet

	Feb-12	Feb-11	Feb-10	Feb-09	Feb-08
Investments, cash and cash equivalents	877.3	770.5	671.3	640.7	650.3
Other assets	58.2	61.6	51.6	45.6	50.0
	935.5	832.1	722.9	686.3	700.3
Creditors	(39.3)	(21.7)	(16.2)	(22.8)	(21.5)
Net assets	896.2	810.4	706.7	663.5	678.8
Net outstanding claims	(582.2)	(498.0)	(466.4)	(452.4)	(458.8)
Free reserves	314.0	312.4	240.3	211.1	220.0

CHAIRMAN'S STATEMENT

It has been an eventful 12 months for North and against a background of difficult shipping market conditions, a volatile investment landscape and a trend of increasing claims, we are pleased to report a stable and positive result.

Pratap Shirke
Chairman

This is my first year as Chairman and I look forward to continuing the excellent progress North has made under the stewardship of my predecessor Albert Engelsman, who completed his successful four and a half year term of office in October 2011. During his time as Chairman, the Club had grown to over 150 million GT of entered tonnage, and boosted the financial reserves by over 65%. Despite uncertain economic times ahead, I will ensure that we continue to build further upon North's three strategic pillars of service excellence, financial strength and maintaining a quality membership.

Our Members have faced some serious economic challenges over the past few years with no abatement during 2011/12. After the dramatic peaks of 2008, world seaborne trade has been increasing more steadily, although freight indices have fallen dramatically. This turn of events can quite simply be put down to the imbalance that exists between the supply and demand for ships. It is this oversupply of tonnage that threatens the economic livelihoods of our Members and shipowners worldwide.

It has been a notable year for claims, with retained claims returning to much higher levels following the particularly benign claims experience in the 2010/11 policy year. In addition, there have been a number of high profile International Group Pool claims, particularly the "RENA" and "COSTA CONCORDIA" which have significantly increased the overall cost of Pool claims, and which will continue to influence pooling and reinsurance costs in the future.

It was against this challenging backdrop that we set our renewal objectives for the 2012/13 policy year. We focused our renewal on very clear financial objectives, seeking a General Increase of 5% and 10% for P&I and FD&D respectively. We achieved our target increases, which ensures that North continues to be financially resilient and able to respond to the challenging claims environment.

The Club marginally raised its free reserves to US$314.0 million at the annual renewal in February 2012 despite a modest investment return and a disappointing revaluation of our Newcastle based head office. The Newcastle office was valued some US$7.5 million lower than anticipated due to the weak commercial property market in the region. Our underwriting result was very close to breakeven, producing a combined ratio of 101.8%. This, together with a return of 2.76% on our low risk investment portfolio produced an overall surplus for the year of US$1.6 million.

I am pleased to report that the Club remains financially robust with a Standard & Poor's 'A' (stable) financial strength rating, reflecting the Club's strong financial flexibility, strong capitalisation and competitive position. Although the implementation date for the European regulatory framework Solvency II has been delayed until 1 January 2014, we have made significant progress with our preparations and our capital adequacy is comfortably in excess of anticipated regulatory requirements.

The implementation of Solvency II will include some restructuring of the Club's governance arrangements. The Board has been carefully considering this matter for a considerable period of time, with a view to ensuring that the existing values and culture of the Club, as well as the strong relationship with the Club's Members, is maintained. Detailed proposals are being finalised for Members' approval in the next few months, which will propose a reduction in the number of non-executive Directors, and the establishment of a separate Members' Board, to represent the interests of the Club's membership. The proposals are designed to meet the regulatory requirements, whilst at the same time maintaining the existing values of the Club and the overriding control of the Club by its shipowner Members.

We continue to maintain the quality of our membership and during the year to 20 February 2012 the Club's membership has grown steadily. Owned tonnage increased to 123 million GT, together with estimated chartered entries of approximately 40 million GT, the total entered tonnage in the Club was 163 million GT at the end of the 2011/12 policy year.

The Club is focused on continuing to make progress against our strategic objectives and I am pleased to report that during the year we have made significant progress in a number of areas. Although we are firmly committed to providing our core mutual products of P&I, FD&D and War Risks, we continue to explore opportunities to expand and diversify our products and to develop into new markets; this is a significant feature of our overall strategic direction.

In November 2011, North acquired its former "sister" company Marine Shipping Mutual Insurance (MSMI) in run-off, which is now a wholly owned subsidiary of North. We would like to thank all former MSMI Members and business partners for their loyalty and support over the years. Although we did investigate the feasibility of commencing a "North" Hull and Machinery facility in July 2011, we concluded that it would be appropriate to postpone such a facility until the market conditions became more favourable.

In February 2012, we announced the formation of our new strategic alliance with Sunderland Marine Mutual Insurance Company Limited (SMMI), by way of reinsurance of SMMI's P&I liabilities. This venture is part of our diversification strategy which allows us to explore new business opportunities.

During the year, we also moved back and settled into our newly extended and refurbished headquarters on Newcastle Quayside and we are delighted to have welcomed many Members and other visitors to our new office over the past 12 months. In January 2012, we finally opened our branch office in Tokyo, this is an important strategic development, which will enable the Club to further develop relationships with the very important Japanese shipping market.

I would like to take this opportunity to thank the Board for their continued commitment to North's affairs. During the year we were pleased to welcome Mr Theodore Veniamis and Lord Nicholas Fairfax to the Board. Mr Henry Pfeiff and Mr Clarence Lui retired from the Board and I would like to thank them both for their valuable contribution and dedication to the affairs of the Club. I would also like to thank the management team and staff at North for their continued service and dedication to the Club's membership.

There continue to be ongoing challenges for the shipping industry, namely the continuing threat of piracy and the usage of economic sanctions, both of which are referred to in more detail in this report. At the time of writing, we were pleased to hear that the European Commission had closed its review of the International Group's claims-sharing and reinsurance arrangements. We have always emphasised the importance of the International Group system to the membership and to the wider shipping community and welcome this good news.

A major challenge for the shipping industry continues to be that of a shortage of experienced personnel. In North's Management Report of 2007, the then Chairman Bill Thompson said *"the shortage of experienced seafarers is nothing new – we have been reading the warning signs and discussing the situation for years. Now we are facing the reality of that shortage, with inexperienced and often poorly trained crews, the ongoing difficulty of recruiting seafarers and the knock on effect of the shortage of experienced personnel to take on the vital shore based jobs".*

The concerns which we highlighted back in 2007 still remain; however, today we are actually seeing the reality and this is a major challenge for the shipping industry to respond to. The impact for liability insurers is also significant, with many major claims directly caused by and contributed to by a lack of experience or expertise of personnel either at sea or on shore, which will lead to increased premiums and insurance costs. It is imperative that the challenge is dealt with as the economic consequences of failing to do so could well be catastrophic for the shipping industry. It is vitally important that the value of shipping as an industry and as a career is enhanced, and that professional staff with a sense of pride and responsibility are encouraged to commence and to remain in a career at sea and within shipping.

I would like to conclude by thanking all of the Club's Members for their loyalty and trust, and despite the challenges facing the shipping environment, North's strategic priorities are clear: to remain a financially strong and stable partner, providing first class service and assistance to our Members.

Pratap Shirke
Chairman
August 2012

Annual Highlights

- 'A' rating from Standard & Poor's
- Free reserves at US$314.0 million
- Net assets of US$896.2 million
- Total entered tonnage 163 million GT

JOINT MANAGING DIRECTORS' STATEMENT

Service, Strength and Quality have long been the values that underpin our Club and their importance is increasing as we continue to support our Members through the current economic challenges and their impact upon world trading patterns.

Through our commitment to maintaining a financially strong and stable Club, supported by a quality membership and service ethos, we are in a strong position to support our Members through this continuing period of global economic uncertainty.

We are pleased to report another successful twelve months as we continue to make significant progress towards achieving our strategic objectives:

Financial stability is very important to our Members. North has maintained a Standard & Poor's 'A' financial strength rating with stable outlook for the eighth consecutive year, reflecting the Club's very strong financial flexibility, strong capitalisation and strong competitive position. The Club is also entering its 21st consecutive year of no unbudgeted supplementary funding. The Club remains in excellent shape with free reserves increasing to US$314.0 million achieved through a positive financial result of US$1.6 million with a combined ratio of 101.8%.

Although the implementation date for Solvency II has been delayed until 1 January 2014, we continue to make significant progress in our preparations for compliance with the regulatory requirements, including a review of our corporate governance structure, and the size and composition of our Board and Committee structure.

We have experienced strong growth for a number of years, with owned and chartered tonnage reaching 123 million GT and 40 million GT respectively at 20 February 2012, resulting in a market share of approximately 13% of International Group tonnage.

During what has been a difficult economic period for shipowners, we were encouraged by the high levels of organic growth from our loyal membership and we were also delighted to welcome a number of new Members throughout the year. Through enhancing the financial strength of the Club and maintaining high levels of service, we aim to continue to grow in a controlled manner.

JOINT MANAGING DIRECTORS' STATEMENT
CONTINUED

Although North has a diversified membership by ship type and geographical region, one of our key objectives is to actively increase our market share in our core geographic regions and to balance the membership base. During the year, we reinforced our position in Asia Pacific with the opening of our office in Tokyo. The Tokyo branch is the Club's third office in the Asia Pacific region, reflecting steady growth in tonnage over recent years to reach 26% of the total membership.

Throughout the year, we have made further progress on expanding our product range and identifying opportunities for diversification. Our chartered P&I tonnage entries have increased significantly over the past five years, from 25 million GT in 2008 to 40 million GT in 2012.

Through forming a strategic reinsurance alliance with Sunderland Marine Mutual Insurance Company Limited (SMMI), the Club has also begun to identify joint ventures which will strengthen our overall position. SMMI is one of the world's leading hull and machinery insurers of commercial fishing vessels and covers a wide spread of high-volume, small-tonnage risks. Our alliance will provide an opportunity to broaden and expand upon a combined liability portfolio.

The acquisition of North's "sister" hull and machinery Club – Marine Shipping Mutual Insurance Company Limited (MSMI) – was completed in November 2011, with claims continuing to be handled by North's experienced team. This followed our decision to postpone the launch of a fixed premium Hull & Machinery product due to current market conditions. Preparations are ongoing to transfer the remaining business of MSMI to North under Part VII of the Financial Services and Markets Act 2000.

In response to the on-going piracy issues facing the shipping industry and the evolvement of numerous armed maritime security providers, North partnered with investigation and crisis management specialists, Gray Page, to launch the *Armed Maritime Security Provider (AMSP) Vetting Programme*. North's aim is to help Members identify AMSPs whose governance and operations meet, at the time the vetting is carried out, the professional, legal and ethical standards required by a shipowner or operator contemplating the use of privately contracted armed security personnel on board a vessel entered with the Club.

North's culture and ethos is centred around providing excellent and consistent service levels to all of our Members. Throughout the year we have recruited 14 new members of staff across our five offices who share our values and attitudes towards providing care and service to our Members.

In March 2011, the refurbishment and expansion of our Newcastle head office was completed, which gave us the opportunity to review and refine some of the ways in which we work, bringing real benefit to our staff and Members for many years to come. The office provides staff with an inspiring environment, promoting collaboration and sharing ideas. The expansion enables us to comfortably accommodate additional staff, as part of our ongoing strategic objective to continue providing excellent service to our Members.

In order to maintain our high service standards, we are embarking on a strategic Human Resource Programme, which includes a Management Leadership Programme, which will prepare and further equip our management team to lead North into the future.

We also continue to invest in our infrastructure with the implementation of Quay Change, our business systems project. Quay Change will replace our existing business systems with the aim of improving the processing and management of data, enabling us to provide a more efficient and responsive service to Members.

The first step in this process was the implementation of WorkSite, an electronic document management system which was successfully rolled out during August 2011 across the business.

Industry-wide, we continue to support initiatives which promote and protect the interests of shipowners by representing their views at International Group level and hosting seminars and training through various Loss Prevention initiatives.

Our strategy is under continuous review to ensure that the Club develops in a controlled manner, but what remains constant are our values of *Service, Strength, Quality*, which guide our strategic development and are at the heart of all that we do.

This has been another successful but challenging year for the Club and we move forward with caution, as the greatest challenge over the next twelve months is to ensure that as our Members face global and shipping related economic challenges, we continue to provide them with service and care.

Alan Wilson & Paul Jennings
Joint Managing Directors
August 2012

FINANCIAL OVERVIEW

Financial Position

The Club has found the global economic environment in 2011/12 challenging, with difficult conditions in the shipping market, a trend of increasing claims and a volatile investment landscape. We are, however, able to report that despite this background, a satisfactory result was achieved, with an overall financial surplus of US$1.6 million, leading to an increase in free reserves to US$314.0 million.

The position in respect of retained claims for the policy year to 20 February 2012, showed a return to much higher levels of activity and value, after the particularly benign claims experience in the previous policy year. This was reflected in the underlying P&I Class underwriting result which showed a loss of US$17.6 million. However, following a US$4.9 million positive contribution from the MSMI transaction, the overall P&I Class underwriting result was a loss of US$12.7 million. The underwriting surplus on the FD&D Class was US$8.0 million and therefore the All Class underwriting result was a loss of US$4.7 million, this resulted in a combined ratio of 101.8% (2010/11-78.8%).

Investment income net of fees, tax and exchange movements produced US$13.9 million; however, the triennial valuation of the office building resulted in a write down of US$7.5 million, due to the weak commercial property market in the region.

Following the exceptionally benign 2010/11 policy year for P&I Class Members' claims, the 2011/12 year has been worse than expected, particularly the experience in the second half of the year. The year has notified net retained claims of US$258.4 million at 20 February 2012. At the same 12 month development point, the 2010 year had net retained claims of US$152.5 million and the 2009 policy year US$215.7 million.

In respect of larger claims, 40 claims were incurred in excess of US$1.0 million at 20 February 2012 compared to 17 on the 2010/11 policy year at 20 February 2011 and 24 on the 2009/10 policy year at 20 February 2010. Despite the large number of losses in excess of US$1.0 million, only one has been notified to the IG Pool by North for the 2011/12 policy year.

In accordance with North's reserving policy, P&I and FD&D Members' net claims have been reserved at a very prudent 95% confidence level, as assessed by an independent actuary.

Other clubs' Pool claims in 2011/12 have had significant impact on this year's result, costing the Club US$36.2 million based on gross reserves at 20 February 2012. The two high profile losses to the IG Pool, "RENA" (US$300.0 million - Swedish Club) and "COSTA CONCORDIA" (US$500.0 million - Standard Club/Steamship Club) were among the 11 Pool claims notified, with a gross incurred cost for the 2011/12 policy year of US$718.9 million at 20 February 2012.

Notified claims on the 2010 policy year at 20 February 2011 were US$237.8 million and on the 2009 policy year at 20 February 2010, US$382.3 million.

Investment Result

The P&I Class investment result was +2.76%. This was against a benchmark return of +2.51% which equates to US$16.8 million, net of fees. Although satisfactory, in view of the low risk nature of the investment portfolio, this was still lower than anticipated. In addition, the Club's Newcastle based head office was subject to a building revaluation charge of US$7.5 million. The P&I Class portfolio was and remains very conservatively positioned with almost 79% of the portfolio invested in Government bonds and cash. The FD&D and War Risks Classes portfolios are invested in money market funds and Short dated US Treasuries respectively. The portfolios and other currency exposures suffered marginally from an unfavourable movement in exchange rates as Sterling weakened from US$1.62 at 20 February 2011 to US$1.58 at 20 February 2012.

Investments, cash and cash equivalents held by North increased by US$106.7 million to US$877.3 million. The increase is attributed to US$49.0 million of net investment, US$16.8 million of investment return, US$15.6 million from MSMI and US$25.5 million of other net cash flow. The balance sheet remains very liquid – reflecting the very uncertain nature of investment markets.

Risk Management & Regulation

The Club is well advanced with preparations for Solvency II. This is an important area for the Club and has been the subject of extensive reporting and discussion at Board and committee meetings. Significant management resource has been invested to ensure the Club is prepared in advance of the implementation date.

Solvency II will require European insurance companies to meet the requirements of three "pillars":

- **Pillar 1:** Companies will be required to demonstrate that they have adequate financial resources to meet their risks;
- **Pillar 2:** Companies will be required to demonstrate that they have adequate systems of governance and risk management to manage their risks;
- **Pillar 3:** Companies will be required to make public disclosures and report to their regulator on Pillars 1 and 2 (their financial resources, systems of governance and risk management).

FINANCIAL OVERVIEW
CONTINUED

With respect to Pillar 1, the Directors and Managers are entirely satisfied with the capital position of North. The ratio of net assets to outstanding claims is 1.54 and the solvency ratio which measures the capital resources to minimum capital requirement, is 382%. There is a significant Regulatory Capital buffer in excess of the Club's Individual Capital Assessment ("ICA"), (ICA is very close to the expected Standard Formula capital requirement under Solvency II).

In relation to the requirements of Pillars 2 and 3, the Club has made substantial progress in moving towards readiness for Solvency II. As part of its ongoing preparations, the Board of Directors has an approved Solvency II Implementation Plan which sets out how North intends to meet the required regulatory governance standards. In addition, the Directors are finalising proposals to restructure the existing governance arrangements by way of reducing the number of non-Executive Directors, and consolidating the oversight and compliance function of the Directors.

Outlook

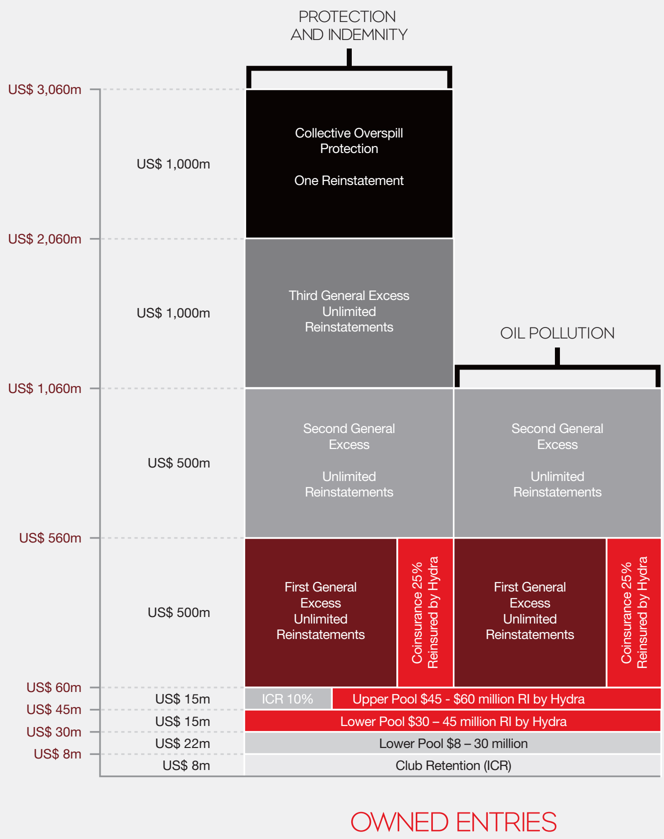
The financial year to 20 February 2012 has been a challenging but nontheless successful year for North and our Members. A financial surplus, derived from a resilient underwriting performance and a positive investment return, has maintained in a substantial free reserve level which underpins the development of the Club.

Reinsurance

The efficient use of comprehensive and highly secure reinsurance remains one of the key financial principles central to North's strategy, allowing consistency in financial planning and reducing the effects of extreme volatility in underwriting performance.

A key component of North's reinsurance programme is the pooling and reinsurance arrangements undertaken with other clubs as part of the International Group of P&I Clubs.

For the 2012/13 policy year, the retention of the individual clubs within the International Group remains at US$8.0 million, with the International Group Pool's own retention before purchasing reinsurance also remaining at US$60.0 million. The structure of the Pool has, changed slightly, with the upper pool that had previously been wholly reinsured by the International Group's captive, Hydra, now being split into two layers of US$15.0 million, with the upper of these layers (i.e. US$15.0 million excess US$45.0 million) including a 10% retention for the individual Club making the claim and with Hydra covering only 90%.



International Group of P&I Clubs General Excess of Loss Reinsurance Contract Structure

20 February 2012

It has been widely reported that the renewal of the International Group's reinsurance programme proved less than straightforward this year. As a result of a hardening market following a significant deterioration in the "RENA" claim and the occurrence of the "COSTA CONCORDIA" claim, the programme was renewed on the same structure as in previous years but with payment of a Loss Additional Premium. As this occurred after publication of the International Group reinsurance rates for 2012/13, it was considered inappropriate to pass these costs on to Members and therefore, on the basis of the published rates, Members actually benefitted from a reduction in rates for the 2012/13 policy year.

The number of Pool claims so far notified for 2011/12 are below the numbers reported during 2010/11 but with a higher overall aggregate value. North has so far notified just one claim since 2009, and currently remains a net contributor to the Pool. The ability of North's Members to benefit from the protection of the International Group Excess Loss contract (which remains the largest marine reinsurance contract in the world) and the sharing of retained risk through pooling and Hydra is a key feature and benefit of the International Group system.

The Club also continues to protect claims within the US$8.0 million retention by way of an excess of loss programme that replaced the previous stop loss programme in 2011/12. The Club has also arranged for the 2012/13 policy year, a Pool Protection reinsurance which will protect the Club and its Members from any significant increase in the cost of North's contribution to the cost of Pool claims. These policies meet the need to reduce volatility in a cost effective manner, whilst maintaining our longstanding relationships with reinsurers.

In addition to the P&I Class, the Club also arranges stop loss protection cover for the FD&D Class, whilst the War Risks Class is fully reinsured through pooling and reinsurance arrangements of the Combined Group of War Risk Associations.

North also utilises reinsurance to support the key objective of prudently and conservatively expanding the range of products offered to its Members. This includes a range of non-poolable covers, including comprehensive covers for charterers, with limits of up to US$750.0 million, and the continuing development of an offshore facility.

BUSINESS & OPERATIONAL OVERVIEW

Entered GT (owned and chartered) by Geographical Region

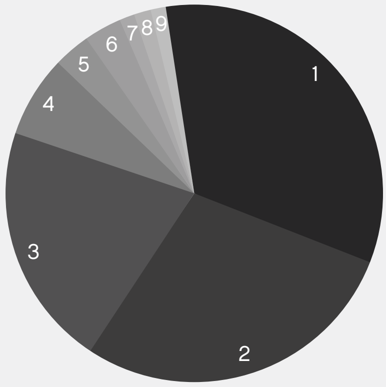
at 20 February 2012

1. Asia Pacific	26%
2. Southern Europe	22%
3. Northern Europe	21%
4. Middle East	11%
5. North America	8%
6. Scandinavia	6%
7. South America	5%
8. Others	1%

Entered GT (owned and chartered) by Ship Type

at 20 February 2012

1. Bulk Carriers	34%
2. Tankers	30%
3. Container	23%
4. Car Carriers	6%
5. General Cargo	2%
6. LNG	2%
7. Passenger	1%
8. Barges	1%
9. Others	1%



Membership

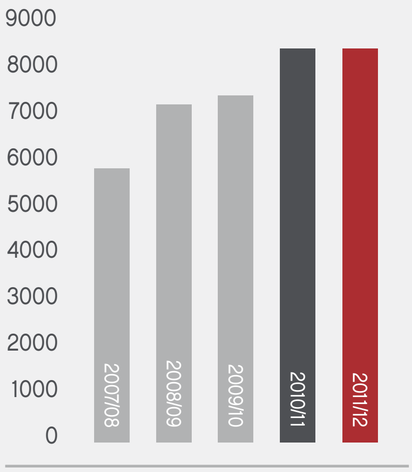
It has been a successful 12 months for the Club, culminating at the renewal date of 20 February 2012. Considerable progress has been made towards the Club's strategic objective of enhancing and continuing to develop the quality of the Club's membership and entered fleet. However, the renewal was characterised by a generally tough claims environment, difficult shipping markets and a membership objective to reduce operating expenses.

The global economic environment in which our Members operate continues to be very uncertain. They also face the ongoing challenge of a material over-supply of ships which has increased the emphasis on cost reduction. As we write this report there is no credible prospect of a turnaround in the near future.

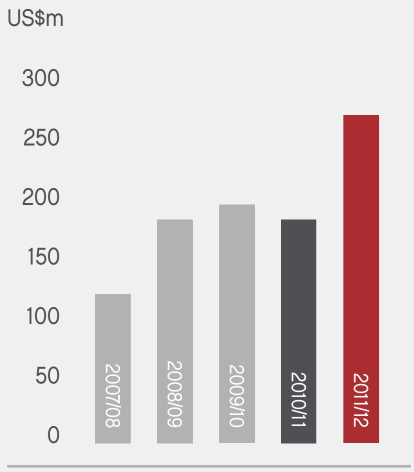
It was against this economic setting that we planned our renewal objectives for the 2012/13 policy year with the aim of maintaining our financial stability whilst improving the quality of our book of business for the benefit of the membership as a whole.

Over a 12 month period the membership of the Club has continued to grow with owned tonnage at 20 February 2012 up from 105 million GT to 123 million GT, an increase of approximately 17%. In addition to this, chartered tonnage is projected to increase to approximately 40 million GT, which has increased the total entered tonnage in the Club to approximately 163 million GT at 20 February 2012.

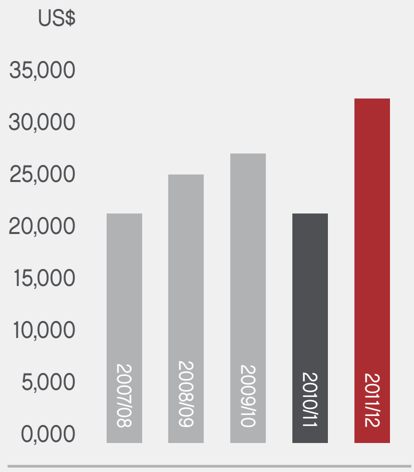
One of the Club's strategic objectives is to maintain controlled growth within core areas, whilst also enhancing the membership base. Membership development will continue to be based upon sustainable premiums and quality of operation.



Total Number of P&I Claims (Retained)



Total Value of P&I Claims (Retained)



Average Value of P&I Claims (Retained)

P&I Claims

The claims position for the policy year to February 2012 showed a return to higher claim levels, with an increase in the number of larger claims. The 2011/12 policy year experienced 40 claims with incurred values in excess of US$1.0 million. This accounted for 44% of retained claims, which demonstrates that large value claims continue to have a disproportionate impact on claim exposures. On average, claims by value are higher than in the unusually benign 2010/11 year. To date, for the 2010/11 and 2011/12 policy years, we have only notified one Pool claim. This is set against the five Pool claims we notified in 2009, evidencing that the occurrence of large value P&I claims are random and erratic in nature.

The frequency and value of people claims (illness and injury) and cargo claims have risen slightly and we have experienced a significant rise in the value of admiralty claims (collision, dock damage, fixed and floating objects). Of the 22 claims with values above US$2.0 million, 14 are admiralty claims. The majority of these high value matters have occurred in confined waters, particularly at anchorage. Container ships, which represent 23% of the Club's entered ships (owned and chartered), have been the ship type most involved in collisions, whereas bulk carriers have been the largest group involved in property damage and groundings. Over 40% of these incidents occurred with a pilot on board.

Human error, particularly within the bridge team, continues to be the most significant contributing factor in the majority of incidents. However, engine room team failure has also been an issue on a number of occasions.

The number of general Member enquiries and requests for advice has risen by 37%, with 2,683 enquiries received in 2011/12 compared with 1,962 in 2010/11. These enquiries cover a large variety of issues, with recent "hot topics" including the persistent problems with cargo liquefaction and the developing issues surrounding Chinese pollution regulations. In order to collate, consolidate and share the collective experiences of our team we have formed a number of specialist working groups; currently, we have focus groups looking at the tanker sector, admiralty issues, container industry, general dry cargo issues, pollution regulation and liquefaction of concentrates. These groups include colleagues from P&I, FD&D and Loss Prevention departments, and enable us to explore chartering, operational, technical, regulatory and any legal issues, to ensure the relevant field is exhaustively considered. We will continue to invest time and resources to provide guidance and assistance to Members in respect of future industry issues, which in turn assists in avoiding or minimising exposure to liabilities and operational downtime.

BUSINESS & OPERATIONAL OVERVIEW CONTINUED

FD&D Claims

During boom times Members and their counterparts were less concerned about minor disputes or were more willing to allow concessions, but the mood has changed, with parties now driven to make full recoveries or more determined to defend any claims. While the FD&D team encourages settlement in appropriate cases, the environment has led to an increase in the number of claims being advanced through what can be protracted and expensive legal proceedings, with an increased proportion of these proceeding to mediation, final arbitration awards or court judgments.

In this difficult economic climate we continue to see both owners and charterers encountering severe financial difficulties and potential insolvency. When dealing with such companies, Members often require immediate support to ensure any contractual obligations are performed and to pursue, secure and enforce any claims. This can lead to time-consuming and costly investigations and legal action in different jurisdictions around the world.

Our Members are also taking precautions by regularly seeking our help to protect their legal position. This, together with developments in areas such as piracy, sanctions and liquefaction of bulk cargoes, has led to increased demand for our support. Whilst the number of ships entered in the class increased by 14% over the year, the total number of claims and general enquiries increased by 16% to 4,300, a significant high compared with previous years.

To ensure Members receive the best possible service, we have recruited additional lawyers to join our already strong team and now have 27 lawyers working in the FD&D department, including four in Greece and three in Singapore. Given the size and experience of our team, we are well equipped to ensure that Members continue to enjoy the highest levels of legal advice, service and care available, in what will surely remain an extremely tough economic and claims environment in the year ahead.

Loss Prevention

North's loss prevention service provides general and targeted loss prevention information to the membership as a whole and a bespoke service for individual Members. The service continues to evolve and an increasing emphasis is being given to providing information and assistance directly to Members.

The department also promulgates loss prevention information through a wide variety of different publications and online resources that are distributed to Members' offices and entered ships.

The bespoke service for individual Members provides responses to specific enquiries and requests for information. The nature of information requested continues to evolve as political, economic, environmental and commercial circumstances change. We responded to over 1,000 enquiries during the year and we anticipate that demand for this service will grow.

To meet this expected growth the department has introduced a dedicated enquiry response team which is permanently staffed during working hours by two loss prevention executives and supported by colleagues in the P&I and FD&D departments.

Risk based services

A risk based approach, supported by the use of third party vetting tools, is used to identify and analyse claims causation. We use this information to provide customised loss prevention services such as benchmarking, internal reviews and, if required, external loss prevention reviews with Members. This risk analysis capability will be developed and new predictive techniques using risk profile modelling will be reviewed to identify high risk areas before claims occur.

Due to the lower average age of ships entering the Club, the number of entry condition surveys is declining and greater emphasis is placed on targeted surveys such as those instigated by port state detention or defect related matters. Such targeted surveys accounted for almost one third of condition surveys completed during the year.

Loss prevention working parties

North's European based Loss Prevention Working Party continues to meet twice a year to discuss the Club's general loss prevention activities, to consider current industry issues and advise on means by which the Club's loss prevention services can be utilised to address such issues.

A particular concern that has been identified is the number of large Admiralty claims in the industry. An analysis of large Admiralty claims experienced by the Club during the policy year showed that over 40% occurred with a pilot on board and that human error, particularly within the bridge team, was a contributing factor in the vast majority of incidents. Following this, the Club's Loss Prevention Working Party has identified concerns about the current system of seafarer training and qualification, which is proving inadequate due to excessive emphasis on classroom training, insufficient practical education with appropriate supervision and lack of time to gain experience. A crew experience matrix record has been introduced into condition survey reports to help ascertain the level of experience of senior officers and time served in rank and employment.

The working party believes these matters need to be addressed if the industry is to make improvements in its record and its public image. This may require a radical rethink of the way in which the industry as a whole approaches issues such as crew training, vessel operation, management and succession. We are garnering support with the intention of raising the profile of these concerns in order to debate and determine a suitable course of action.

The Club set up the Asia Pacific Loss Prevention Working Party in early 2012, and the party will meet twice per year to consider industry issues and advise on loss prevention initiatives, with particular emphasis on the Club's large Asia Pacific membership.

Topical issues

Problems associated with the liquefaction of bulk cargoes and ore cargoes shipped from Indonesia and the Philippines in particular have dominated the shipping headlines. The Loss Prevention Department continues to work with industry partners and local authorities to improve operating practices in the region and protect the lives of seafarers. The department has issued comprehensive advice on the risks associated with the carriage of these cargoes to support recommendations issued by the International Group of P&I Clubs.

International and national authorities continue to introduce new and amended requirements that ship operators need to meet. Members' operating and commercial situations also continue to change under the influence of political, economic and environmental factors. There are significant regulatory changes expected in the near future including the pending adoption of the Maritime Labour Convention and amendments to the International Convention for the Control and Management of Ships Ballast Water and Sediments, the Convention on Limitation of Liability for Maritime Claims, International Maritime Solid Bulk Cargoes Code and the International Convention for the Safety of Life at Sea. The Club will report and provide advice to Members on these issues.

Corporate Social Responsibility (CSR)

North is aware of its wider social and environmental responsibilities and has implemented several initiatives over the year as part of a new dedicated Corporate Social Responsibility (CSR) Programme. We believe in behaving ethically, protecting the environment and building relationships with the communities in which we live and work.

During 2010 we established our charitable North 150 Fund which included the donations received as part of our 150th anniversary celebrations. We are extremely grateful for the very generous donations we received from our Board, shipowners, maritime brokers, maritime lawyers, our correspondents around the world and North's staff. Together we raised US$150,000 for our nominated charities RNLI (North East), Sailors' Society and various charities in North East England nominated by our staff.

Our staff are dedicated to fundraising initiatives both in-house, locally and within the wider shipping market and therefore the North 150 Fund continues to be used to support our CSR initiatives going forward.

NORTH 150 FUND

INDUSTRY ISSUES

The P&I industry has faced a diverse range of challenges over the preceding twelve months. Some have been of a conventional nature such as the high profile casualties of the “RENA” and the “COSTA CONCORDIA”, which have only served to demonstrate the robust nature of the mutual model and its ability to respond promptly and effectively to major casualties. Such casualties underline the importance of P&I cover to shipowners and operators who are unfortunate enough to be involved in such accidents.

Some of the other challenges have been less conventional. Prior to the announcement on 1 August 2012 that the investigation had closed, the European Commission review into the International Group’s claims-sharing and reinsurance arrangements had nearly entered its second year. Legislators have been active on other fronts with the clubs finding themselves on the frontline of the campaign to persuade Iran to comply with United Nations resolutions in relation to its domestic nuclear programme. Piracy continues to disrupt shipping in the Gulf of Aden and elsewhere in the world. And increasingly the shipowners and their clubs are being looked to fund claims costs which increase at a much greater rate than inflation.

Review of the International Group

On 1 August 2012, the European Commission announced that it had closed its review of the International Group's claims-sharing and reinsurance arrangements. This is a welcome development and North continues to support the International Group and stresses the importance of the invaluable pooling system, which enables shipowners to trade and comply with the increasingly complex and regulated world of international maritime conventions.

Sanctions

In 2010 the United States introduced CISADA which, with its extra territorial jurisdiction, directly targeted P&I clubs and other insurance providers of vessels trading in breach of US trade sanctions. Not to be outdone, European legislators have now sought to criminalise the provision of P&I insurance to vessels trading with Iran in circumstances where the underlying trade remains legal. This is the effect of European Union (EC) Council Regulations 267(2012) and 36(2012) and (in the United Kingdom) their accompanying Statutory Instruments. This policy is deeply flawed as it ignores the fact that the beneficiaries of P&I are not themselves the target of the sanctions but rather the innocent victims of a marine casualty. It raises the frightening prospect of vessels either trading with limited insurance (that would cover only a small proportion of the owner's liabilities in the event of a major claim) or no insurance at all.

It would be naive to assume that the withdrawal of P&I insurance would in itself prevent the export of oil from countries such as Iran and Syria, rather such measures marginalise those owners who, for personal gain or because of their nation's own energy needs, have chosen to carry such cargo pushing them towards less effective insurance programmes. The measures run contrary to recent IMO liability conventions, all of which are predicated upon the existence of comprehensive liability insurance such as that provided by the International Group. These measures also, alarmingly, propel the clubs into the role of policing the world's sanctions regimes. This is a role ill-befitting the clubs which have no means of monitoring the cargoes or even the fuel used by the vessels they insure and whose only defence when it becomes apparent that one of their Members has carried such cargo is to cancel the insurance contract leaving the innocent victims of a maritime casualty without compensation.

INDUSTRY ISSUES CONTINUED

Piracy

Piracy in the Gulf of Aden remains a potent threat to shipping. It is extraordinary and derisible that countries allow a situation to persist in an area in which 36% of the world's traded materials pass. The annual cost of piracy has been estimated at between US$7 billion and US$12 billion per year. Increasingly shipowners have had to look to themselves for protection by employing armed guards, creating a situation not dissimilar to the armed merchantmen of the 17th and 18th centuries. However, the use of armed guards raises it own issues. Quite rightly the transportation and handling of firearms and the right to use force in self defence has moved on since the 1700s, but the development of armed maritime security companies operating in the Gulf of Aden has been rapid and many have struggled to provide services that comply with the legal and operational requirements of shipowners. The consequences for masters and owners of a ship whose guards kill persons wrongfully (possibly innocent fishermen) are potentially very serious and could, in certain circumstances, result in criminal prosecutions against the Master and owners of the vessel concerned. In such circumstances the ability to demonstrate that proper due diligence was performed by the owner on the armed guard company will be key to a successful defence.

An incident involving an alleged pirate attack is not the time to find out that the weapons used to defend the ship were not properly licensed, that the operative did not have appropriate training and the security contractor's insurance is ineffective. To assist Members, North has arranged for a number of armed security contractors, frequently used by Members of North, to undergo a documentary vet, in conjunction with specialist marine and security consultants Gray Page. Initial results were disappointing with only two of the thirteen companies vetted being able to demonstrate that they are operating to the required minimum standards expected of a company providing armed guards. Encouragingly, more recent vets have shown some improvement in the performance of the security contractors, but overall this remains an industry which shipowners should treat with caution. On a positive note, the vetting programme has enabled North to provide guidance to Members when selecting security contractors for operation on board their vessels.

Legislative Developments

The P&I industry has also been called upon to consider a range of issues arising out of obligations imposed on owners by newly adopted or forthcoming legislation. In January, the Club's Board decided in favour of providing cover for liabilities arising out of the EU Passenger Liability Regulation. The development of the Regulation, which broadly follows the 2002 Protocol to the Athens Convention, dismayed shipowners who were concerned that the development of such regional legislation undermined the role of IMO. Equally, EU governments did not necessarily understand shipowners' objections to measures that did no more than give effect to an IMO convention, albeit with certain additional liabilities. The Club's Directors adopted a pragmatic approach, agreeing to insure and provide certificates for liabilities arising out of the Passenger Liability Regulation whilst laying down a marker to states that the Club expected EU member states to proceed with ratification of the 2002 Protocol, reserving the Club's right to revisit their decision in the event that EU member states failed to live up to their commitment to implement the treaty.

In other areas, the clubs have had greater success in representing the shipowners' point of view. In particular, in the recent review the limits of liability in the Protocol of 1996 to the Convention on Limitation of Liability for Maritime Claims, the clubs have been able to demonstrate that the high levels of increase sought by some states (up to 147%) were not justified based on past claims experience.

Such success, of course, comes at some cost. Over recent years the IG secretariat has recruited more personnel and is now much more effective at promoting shipowners' views on legal and other developments than was the case perhaps ten years ago. However, given the range of issues currently relevant to the P&I industry such investment in personnel is clearly worthwhile.






COMBINED FINANCIAL STATEMENTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

20 February 2012

The North of England P&I Association Limited's ("NORTH") financial statements for the year ended 20 February 2012 are enclosed as a separate document and North of England Mutual Insurance Association (Bermuda) Limited's ("NoE (Bermuda)"), collectively "the Associations", financial statements for the same period will be issued to Members on behalf of the Managers of that company. Financial Statements which combine the results and financial position of the Associations follow on pages 21 to 45. All Members are Members of both Clubs and the combined financial statements have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Financial Services Authority is based upon the combined position.

Any reference to the Club in the preceding narrative relates to the combined position.

ACCOUNTANTS' REPORT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

20 February 2012

Accountants' Report to the Members of North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

We report on the unaudited combined financial statements and policy year statement of NORTH and NoE (Bermuda) for the year ended 20 February 2012 ("the combined financial statements"). Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to perform agreed upon procedures". The procedures were performed solely to assist the Directors with the preparation of the combined financial statements.

Our report is prepared solely for the confidential use of NORTH and NoE (Bermuda), and solely for the purpose of informing the Members of NORTH and NoE (Bermuda). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NORTH and NoE (Bermuda) and of the common Members of NORTH and NoE (Bermuda) as a body, for our work, for this report, or for the opinions we have formed.

Responsibilities

NORTH's and NoE (Bermuda)'s Directors are responsible for the preparation of the combined financial statements and the policy year statement.

It is our responsibility to carry out the procedures below designed to enable us to report as to whether the combined financial statements and policy year statement have been properly extracted from the financial statements of NORTH and NoE (Bermuda) for the year ended 20 February 2012.

Agreed upon procedures

We have performed the procedures enumerated below with respect to the combined financial statements as follows:

1. We agreed NORTH's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of NORTH as at 20 February 2012. The auditor's report on the statutory consolidated financial statements of NORTH was issued by ourselves on 30 May 2012 and was unqualified;
2. We agreed NoE (Bermuda)'s figures used in the combined financial statements working papers to the signed statutory financial statements of NoE (Bermuda) as at 20 February 2012. The auditor's report on the statutory financial statements of NoE (Bermuda) was issued by ourselves on 30 May 2012 and was unqualified;
3. We checked the numerical accuracy of the combined financial statements working papers, including the policy year statement; and
4. We reviewed the accounting policies adopted by NORTH and NoE (Bermuda), as defined in their respective statutory financial statements, to review whether they are consistent.

Findings

We report that:

a. With respect to items 1 and 2 we found that the combined financial statements and policy year statement have been properly compiled from the statutory financial statements of NORTH and NoE (Bermuda); and

b. With respect to item 3 we found that the combined financial statements working papers, including the policy year statement, are numerically accurate; and

c. With respect to item 4 we found that consistent accounting policies have been adopted by NORTH and NoE (Bermuda).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statement as at 20 February 2012.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

Ernst & Young LLP
London
30 May 2012

COMBINED STATEMENT OF FINANCIAL POSITION

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

	Note	2012	2011
Assets			
Intangible assets		2,788	2,844
Property, plant and equipment		15,982	24,058
Reinsurance contracts	5	232,226	198,042
Financial assets			
Equity securities – at fair value through income	3	51	52
Debt securities – at fair value through income	3	675,073	585,456
Absolute return fund – at fair value through income	3	77,317	77,487
Loans and receivables including insurance and reinsurance receivables		25,021	14,959
Derivative financial instruments			–
Retirement benefit asset		14,418	19,603
Current tax asset		–	221
Cash and cash equivalents	4	124,834	107,432
Total assets		1,167,710	1,030,154
Accumulated Surplus			
Income and expenditure account		20,581	53,007
Contingency funds	15	293,432	253,437
Revaluation reserve		–	5,990
Total accumulated surplus		314,013	312,434
Liabilities			
Insurance contracts	5	814,450	696,008
Derivative financial instruments		257	997
Reinsurance payables		13,717	11,953
Trade and other payables		25,273	8,762
Total liabilities		853,697	717,720
Total accumulated surplus and liabilities		1,167,710	1,030,154

These financial statements were approved by the Board on 30 May 2012

AA Wilson
Joint Managing Director

COMBINED INCOME STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

	Note	2012	2011
Insurance premium revenue		346,348	314,243
Insurance premium ceded to reinsurers	7	(55,432)	(59,738)
		290,916	254,505
Investment income		387	331
Net fair value gains at fair value through income	8	19,675	15,640
Other gains and losses	9	440	–
Net income		**311,418**	**270,476**
Insurance claims and loss adjustment expenses	10	(246,420)	(66,257)
Insurance claims and loss adjustment expenses recovered from reinsurers	11	348	(89,699)
Net insurance claims		(246,072)	(155,956)
Expenses for the acquisition of insurance and investment contracts	12	(28,315)	(24,278)
Expenses for marketing and administration	13	(23,301)	(19,443)
Expenses for asset management services rendered		(1,065)	(963)
Operating expenses		(52,681)	(44,684)
Total expenses		**(298,753)**	**(200,640)**
Results of operating activities		12,665	69,836
Finance (expense) / income	14	(3,430)	2,285
Surplus before tax		9,235	72,121
Tax expense		(1,665)	(511)
Surplus for the year		**7,570**	**71,610**

COMBINED STATEMENT OF COMPREHENSIVE INCOME

	2012	2011
(Loss) / gain on revaluation of land and buildings in revaluation reserve	(5,990)	562
Surplus for the year	7,570	71,610
	1,580	**72,172**

NOTES TO THE ACCOUNTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

1. Accounting Policies

The principal accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of presentation

These combined financial statements do not constitute NORTH'S statutory accounts for the years ended 20 February 2012 and 20 February 2011. They are the non-statutory combined financial statements of NORTH and NoE (Bermuda).

These combined financial statements have been prepared in accordance with recognition, measurement and presentation principles of International Financial Reporting Standards (IFRS's) as adopted for use in the European Union. However, whilst the financial information included in these combined financial statements has been computed in accordance with IFRS's, these financial statements do not themselves contain sufficient information to comply with IFRS's and UK company law.

The combined financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The Associations have also adopted the corridor method under IAS 19 'Employee Benefits', recognising a portion of the scheme's actuarial gains and losses as income or expense as required under the standard. The Associations have applied the amended IAS 19 taking into account amendments to paragraphs 32A, 34, 61 and 121.

At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9 Financial Instruments – Periods commencing on or after 1 January 2015
IAS 19 Employee Benefits – Periods commencing on or after 1 January 2013

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Companies' accounting policies.

1.2 Combination

The combined financial statements combine the consolidated financial statements of NORTH and the financial statements of NoE (Bermuda) made up to 20 February each year.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by NORTH.

All intra-group transactions, balances, income and expenses are eliminated on consolidation or combination.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The combined financial statements are presented in thousands of United States Dollars, which is the functional currency of NORTH and NoE (Bermuda).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as land and buildings, are included in the revaluation reserve.

1.4 Property, plant and equipment

Land and building is comprised of the office occupied by NORTH. Land and building is shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NORTH and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve. Decreases that offset previous increases of the same asset and other decreases are charged to the revaluation reserve in the first instance.

Depreciation on property, plant and equipment is calculated to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land	No depreciation charged.
Buildings	2% per annum reducing balance method.
Computer Equipment	20% per annum straight line method.
Motor Vehicles	25% per annum reducing balance method.
Office Equipment and Fittings	20% per annum straight line method.

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate.

An asset's carrying amount is written down immediately through the Income Statement to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

1.5 Intangible assets

Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the statement of financial position and amortised over the expected life of the software of up to 5 years.

Goodwill, either positive or negative, arising on business combinations is written off to the income and expenditure account in the year of acquisition.

1.6 Investments

Financial assets at fair value through income

The Associations classify their investments as financial assets at fair value through income. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income category are included in the Income Statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the Associations commit to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Associations have also transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The Associations do not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Associations intend to sell in the short term or that they have designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

1. Accounting Policies (Continued)

1.7 Impairment of assets

The Associations assess at each statement of financial position date whether there is objective evidence that a financial asset or non financial asset is impaired. An asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Associations about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount fro m an asset or group of assets since the initial recognition of those assets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.9 Revenue and expense recognition

Premium income

All elements of revenue arising from insurance contracts and other related services offered by the Associations are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. The Associations' policy years run from noon GMT on any 20 February to noon GMT on the next following 20 February. The Associations' financial years are coterminous with their policy years.

Reinsurance premiums and recoveries

Reinsurance premiums, less returns, are charged to the Income Statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies. Recoveries under policies purchased by the Associations are accrued so as to match the relevant gross claims and associated provisions and reserves upon which the Associations are entitled to make recoveries.

Claims and related expenses

Claims paid are defined as those claims transactions settled up to the statement of financial position date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the statement of financial position date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Any changes to the amounts held are adjusted through the Income Statement. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the statement of financial position date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

(All amounts in US Dollar thousands unless otherwise stated)

1.9 Revenue and expense recognition (continued)

Interest

Interest comprises interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial year in which they are awarded.

Retirement benefit scheme

NORTH operates a pension scheme providing benefits based upon final pensionable salary, known as a defined benefit scheme. The assets of the scheme are held separately from those of NORTH, being invested with professional managers.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. In accordance with IAS 19, NORTH recognises a portion of the scheme's actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the preceding reporting period exceeded the greater of (a) 10% of the present value of the defined benefit obligation at that date; and (b) 10% of the fair value of any plan assets at that date. The portion of actuarial gains and losses to be recognised is the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

Leases

Where a significant portion of the risks and rewards of ownership is retained by the lessor, they are classified as operating leases. Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the relevant leases.

Taxation

UK Corporation Tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2012 (2011 – nil).

The principal rates of exchange ruling at the statement of financial position date were as follows:

		2012				2011
United Kingdom	£	0.632	=	US$1	(£	0.617)
Euro	€	0.759	=	US$1	(€	0.733)
Japan	YEN	79.47	=	US$1	(YEN	83.35)

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

2. Segmental Analysis by Class

The segment financial positions for the year ended 20 February 2012 are shown below:

Statement of Financial Position

	Note	P&I	FD&D	War Risks	Total
Assets					
Intangible assets		2,788	–	–	2,788
Property, plant and equipment		15,982	–	–	15,982
Reinsurance contracts	5	226,456	5,770	–	232,226
Financial assets					
Equity securities:					
– at fair value through income	3	51	–	–	51
Debt securities:					
– at fair value through income	3	671,358	–	3,715	675,073
Absolute return fund	3	77,317	–	–	77,317
Loans and receivables including insurance and reinsurance receivables		22,202	2,720	99	25,021
Retirement benefit asset		14,418	–	–	14,418
Cash and cash equivalents	4	78,513	45,169	1,152	124,834
Total assets		1,109,085	53,659	4,966	1,167,710
Accumulated Surplus					
Income and expenditure account		20,762	(5,455)	5,274	20,581
Contingency funds	15	272,483	20,949	–	293,432
Revaluation reserve		–	–	–	–
Total accumulated surplus		293,245	15,494	5,274	314,013
Liabilities					
Insurance contracts	5	778,624	35,826	–	814,450
Derivative financial instruments		257	–	–	257
Reinsurance payables		12,200	1,467	50	13,717
Trade and other payables		24,759	872	(358)	25,273
Total liabilities		815,840	38,165	(308)	853,697
Total accumulated surplus and liabilities		1,109,085	53,659	4,966	1,167,710

(All amounts in US Dollar thousands unless otherwise stated)

2. Segmental Analysis by Class (Continued)

The segment results for the year ended 20 February 2012 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		322,334	22,430	1,584	346,348
Insurance premium ceded to reinsurers	7	(52,929)	(1,372)	(1,131)	(55,432)
		269,405	21,058	453	290,916
Investment income		269	118	–	387
Net fair value gains at fair value through income	8	19,665	–	10	19,675
Other gains and losses	9	440	–	–	440
Net income		**289,779**	**21,176**	**463**	**311,418**
Insurance claims and loss adjustment expenses	10	(244,440)	(1,980)	–	(246,420)
Insurance claims and loss adjustment expenses recovered from reinsurers	11	5,393	(5,045)	–	348
Net insurance claims		(239,047)	(7,025)	–	(246,072)
Expenses for the acquisition of insurance and investment contracts	12	(26,911)	(1,369)	(35)	(28,315)
Expenses for marketing and administration	13	(19,297)	(3,869)	(135)	(23,301)
Expenses for asset management services rendered		(1,063)	–	(2)	(1,065)
Operating expenses		(47,271)	(5,238)	(172)	(52,681)
Total expenses		**(286,318)**	**(12,263)**	**(172)**	**(298,753)**
Results of operating activities		3,461	8,913	291	12,665
Finance income / (expenditure)	14	(3,451)	20	1	(3,430)
Surplus / (deficit) before tax		10	8,933	292	9,235
Tax expense		(1,665)	–	–	(1,665)
Surplus / (deficit) for the year		**(1,655)**	**8,933**	**292**	**7,570**

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

2. Segmental Analysis by Class (Continued)

The segment financial positions for the year ended 20 February 2011 are shown below:

Statement of Financial Position

	Note	P&I	FD&D	War Risks	Total
Assets					
Intangible assets		2,844	–	–	2,844
Property, plant and equipment		24,058	–	–	24,058
Reinsurance contracts	5	187,227	10,815	–	198,042
Financial assets					
Equity securities:					
– at fair value through income	3	52	–	–	52
Debt securities:					
– at fair value through income	3	581,365	–	4,091	585,456
Absolute return fund	3	77,487	–	–	77,487
Loans and receivables including insurance and reinsurance receivables		13,067	1,571	321	14,959
Retirement benefit asset		19,603	–	–	19,603
Current tax asset		221	–	–	221
Cash and cash equivalents	4	61,671	45,008	753	107,432
Total assets		967,595	57,394	5,165	1,030,154
Accumulated Surplus					
Income and expenditure account		60,569	(12,544)	4,982	53,007
Contingency funds	15	234,330	19,107	–	253,437
Revaluation reserve		5,990	–	–	5,990
Total accumulated surplus		300,889	6,563	4,982	312,434
Liabilities					
Insurance contracts	5	648,258	47,750	–	696,008
Derivative financial instruments		997	–	–	997
Reinsurance payables		10,876	1,065	12	11,953
Trade and other payables		6,575	2,016	171	8,762
Total liabilities		666,706	50,831	183	717,720
Total accumulated surplus and liabilities		967,595	57,394	5,165	1,030,154

(All amounts in US Dollar thousands unless otherwise stated)

2. Segmental Analysis by Class (Continued)

The segment results for the year ended 20 February 2011 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		294,969	18,557	717	314,243
Insurance premium ceded to reinsurers	7	(58,115)	(1,133)	(490)	(59,738)
		236,854	17,424	227	254,505
Investment income		222	108	1	331
Net fair value gains at fair value through income	8	15,635	–	5	15,640
Net income		252,711	17,532	233	270,476
Insurance claims and loss adjustment expenses	10	(47,628)	(18,629)	–	(66,257)
Insurance claims and loss adjustment expenses recovered from reinsurers	11	(92,454)	2,755	–	(89,699)
Net insurance claims		(140,082)	(15,874)	–	(155,956)
Expenses for the acquisition of insurance and investment contracts	12	(23,185)	(1,091)	(2)	(24,278)
Expenses for marketing and administration	13	(15,740)	(3,573)	(130)	(19,443)
Expenses for asset management services rendered		(961)	(1)	(1)	(963)
Operating expenses		(39,886)	(4,665)	(133)	(44,684)
Total expenses		(179,968)	(20,539)	(133)	(200,640)
Results of operating activities		72,743	(3,007)	100	69,836
Finance income / (expenditure)	14	1,750	537	(2)	2,285
Surplus / (deficit) before tax		74,493	(2,470)	98	72,121
Tax expense		(490)	(21)	–	(511)
Surplus / (deficit) for the year		74,003	(2,491)	98	71,610

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

3. Fair Value Securities

	At 20 February 2012			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	51	–	–	51
Debt securities – at fair value through income	671,358	–	3,715	675,073
Absolute return fund – at fair value through income	77,317	–	–	77,317
	748,726	–	3,715	752,441
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	671,246	–	3,734	674,980
Absolute return fund – at fair value through income	77,560	–	–	77,560
	748,807	–	3,734	752,541

	At 20 February 2011			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	52	–	–	52
Debt securities – at fair value through income	581,365	–	4,091	585,456
Absolute return fund – at fair value through income	77,487	–	–	77,487
	658,904	–	4,091	662,995
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	584,058	–	4,119	588,177
Absolute return fund – at fair value through income	73,174	–	–	73,174
	657,233	–	4,119	661,352

4. Cash and Cash Equivalents

	At 20 February 2012			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	26,005	960	1,152	28,117
Short-term bank deposits	51,691	–	–	51,691
Money market funds	817	44,209	–	45,026
	78,513	45,169	1,152	124,834

	At 20 February 2011			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	20,504	996	753	22,253
Short-term bank deposits	25,000	–	–	25,000
Money market funds	16,167	44,012	–	60,179
	61,671	45,008	753	107,432

(All amounts in US Dollar thousands unless otherwise stated)

5. Insurance Contracts

Policy Year Analysis

	Closed Years	Open Policy Years 2009	2010	2011	Handling Reserve	Total
All Classes						
At 20 February 2012						
Gross outstanding claims	237,416	111,792	136,277	309,299	19,666	814,450
Reinsurance amount	76,330	43,901	31,160	80,835	–	232,226
Net outstanding claims	161,086	67,891	105,117	228,464	19,666	582,224
At 20 February 2011						
Gross outstanding claims	323,700	158,646	186,762	–	26,900	696,008
Reinsurance amount	106,211	67,036	24,795	–	–	198,042
Net outstanding claims	217,489	91,610	161,967	–	26,900	497,966

	Closed Years	Open Policy Years 2009	2010	2011	Handling Reserve	Total
P&I Class						
At 20 February 2012						
Gross outstanding claims	–	–	–	–	–	–
Members	202,540	93,896	112,261	252,845	15,385	676,927
Pooling agreement	23,450	13,892	17,411	46,944	–	101,697
	225,990	107,788	129,672	299,789	15,385	778,624
Reinsurance amount	–	–	–	–	–	–
Recoveries due under the pooling agreement	19,698	32,421	–	575	–	52,694
Recoveries due from reinsurers	50,862	11,480	31,160	80,260	–	173,762
	70,560	43,901	31,160	80,835	–	226,456
Net outstanding claims	155,430	63,887	98,512	218,954	15,385	552,168
At 20 February 2011						
Gross outstanding claims	303,971	149,764	173,823	–	20,700	648,258
Reinsurance amount	97,934	65,354	23,939	–	–	187,227
Net outstanding claims	206,037	84,410	149,884	–	20,700	461,031

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

5. Insurance Contracts (Continued)

	Closed Years	Open Policy Years 2009	2010	2011	Handling Reserve	Total
FD&D Class						
At 20 February 2012						
Gross outstanding claims	11,426	4,004	6,605	9,510	4,281	35,826
Reinsurance amount	5,770	–	–	–	–	5,770
Net outstanding claims	5,656	4,004	6,605	9,510	4,281	30,056
At 20 February 2011						
Gross outstanding claims	19,729	8,882	12,939	–	6,200	47,750
Reinsurance amount	8,277	1,682	856	–	–	10,815
Net outstanding claims	11,452	7,200	12,083	–	6,200	36,935

War Risks Class

There were nil outstanding claims at 20 February 2012 (20 February 2011 – nil).

(All amounts in US Dollar thousands unless otherwise stated)

6. Business Combinations

As at 2 November 2011, the Association assumed the assets and liabilities of Marine Shipping Mutual Insurance Company Limited ("MSMI"), which ceased underwriting on 30 June 2011. The primary reason for the acquisition was to maintain the Association's relationships in MSMI's market whilst utilising existing knowledge and resources to create value for the Association's Members through the run-off of MSMI's claims liabilities. The transaction involved the MSMI Board and Members appointing the Association as the sole member of MSMI. At the same time, a payment equal to 75% of the agreed net asset value ("NAV") of MSMI at 30 June 2011 was distributed in accordance with a distribution formula determined by the MSMI Board. At the same time, the Association entered into a Reinsurance to Close ("RITC") contract with MSMI under which the Association has assumed all of the net claims liabilities after MSMI's market reinsurances.

The balance sheet of MSMI on acquisition was as follows:

	2012	2011
Assets		
Financial investments		28,263
Reinsurance recoveries on claims outstanding		51,481
Debtors arising out of direct insurance operations	595	
Debtors arising out of reinsurance operations	5,330	
		5,925
Cash at bank and in hand		2,736
Prepayments and accrued income		113
Total Assets Acquired		88,518
Liabilities		
Claims outstanding		66,238
Creditors arising out of reinsurance operations	972	
Other creditors	19,276	
		20,248
Accruals and deferred income		92
Total Liabilities Acquired		86,578
Net Assets Acquired		1,940
Consideration Paid		0
Negative Goodwill Arising on Acquisition		1,940

The Directors consider that the value of assets and liabilities acquired at 2 November 2011 were held at a value consistent with fair value. In addition, the Directors consider MSMI's accounting policies to be in line with those adopted by the Association and as a consequence do not consider that any adjustments are required for the alignment of accounting policies.

The excess of net assets over net liabilities led to the recognition of negative goodwill on acquisition. In accordance with the Group's accounting policies this has been written off to the Income Statement in the period in which it arose.

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

7. Insurance Premium Ceded to Reinsurers

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Market	20,697	1,372	976	23,045
International Group	32,232	–	–	32,232
War Risks Group	–	–	155	155
	52,929	1,372	1,131	55,432

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Market	25,625	1,133	370	27,128
International Group	32,490	–	–	32,490
War Risks Group	–	–	120	120
	58,115	1,133	490	59,738

8. Net Fair Value Gains at Fair Value through Income

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	7,689	–	67	7,756
Net realised gains	13,102	–	(79)	13,023
Net movement on unrealised gains	(1,126)	–	22	(1,104)
	19,665	–	10	19,675
Equities				
Net movement on unrealised losses	–	–	–	–
	–	–	–	–
Total	19,665	–	10	19,675

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	9,386	–	56	9,442
Net realised gains	4,452	–	(10)	4,442
Net movement on unrealised gains	1,796	–	(41)	1,755
	15,634	–	5	15,639
Equities				
Net movement on unrealised losses	1	–	–	1
	1	–	–	1
Total	15,635	–	5	15,640

(All amounts in US Dollar thousands unless otherwise stated)

9. Other Gains and Losses

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Gain on acquisition of MSMI	1,940	–	–	1,940
Revaluation of property to income statement	(1,500)	–	–	(1,500)
Other gains and losses	440	–	–	440

Other gains and losses in 2011 were nil.

10. Insurance Claims and Loss Adjustment Expenses

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	145,945	10,041	–	155,986
Pooling agreement	17,565	–	–	17,565
Claims handling costs	16,802	3,864	–	20,666
	180,312	13,905	–	194,217
Movement in gross outstanding claims				
Members' claims	35,950	(11,925)	–	24,025
Pooling agreement	28,178	–	–	28,178
	64,128	(11,925)	–	52,203
Total gross claims	244,440	1,980	–	246,420

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	107,637	7,913	–	115,550
Pooling agreement	9,207	–	–	9,207
Claims handling costs	14,069	3,659	–	17,728
	130,913	11,572	–	142,485
Movement in gross outstanding claims				
Members' claims	(82,943)	7,057	–	(75,886)
Pooling agreement	(342)	–	–	(342)
	(83,285)	7,057	–	(76,228)
Total gross claims	47,628	18,629	–	66,257

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

11. Insurance Claims and Loss Adjustment Expenses Recovered from Reinsurers

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	8,733	–	–	8,733
Claims recoverable under the pooling agreement	8,913	–	–	8,913
	17,646	–	–	17,646
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	(423)	(5,045)	–	(5,468)
Recoveries due under the pooling agreement	(11,830)	–	–	(11,830)
	(12,253)	(5,045)	–	(17,298)
Total	5,393	(5,045)	–	348

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	7,258	–	–	7,258
Claims recoverable under the pooling agreement	10,803	–	–	10,803
	18,061	–	–	18,061
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	(91,528)	2,755	–	(88,773)
Recoveries due under the pooling agreement	(18,987)	–	–	(18,987)
	(110,515)	2,755	–	(107,760)
Total	(92,454)	2,755	–	(89,699)

(All amounts in US Dollar thousands unless otherwise stated)

12. Expenses for the Acquisition of Insurance and Investment Contracts

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Brokerage	20,598	1,369	35	22,002
Acquisition costs	6,313	–	–	6,313
	26,911	1,369	35	28,315

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Brokerage	18,217	1,091	2	19,310
Acquisition costs	4,968	–	–	4,968
	23,185	1,091	2	24,278

In accordance with Schedule 3 of the International Group Agreement 1999 we are required to disclose the Average Expense Ratio for the Association's P&I business for the five years ended 20 February 2012 is 12.6%. The Ratio of (2011 – 11.9%) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements of NORTH and NoE (Bermuda).

13. Expenses for Marketing and Administration

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	43,107	7,733	135	50,975
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(695)	–	–	(695)
	42,412	7,733	135	50,280
Acquisition costs	(6,313)	–	–	(6,313)
Claims handling costs	(16,802)	(3,864)	–	(20,666)
	19,297	3,869	135	23,301

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	36,977	7,232	130	44,339
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,200)	–	–	(2,200)
	34,777	7,232	130	42,139
Acquisition costs	(4,968)	–	–	(4,968)
Claims handling costs	(14,069)	(3,659)	–	(17,728)
	15,740	3,573	130	19,443

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

14. Finance Income and Expenditure

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Foreign exchange (expenditure) / income on investments	(2,803)	57	–	(2,746)
Other	(648)	(37)	1	(684)
	(3,451)	20	1	(3,430)

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Foreign exchange (expenditure) / income on investments	374	511	–	885
Other	1,376	26	(2)	1,400
	1,750	537	(2)	2,285

15. Contingency Funds

Protecting and Indemnity Class

	2012	2012	2011	2011
Balance at 20 February 2011		234,330		232,649
The transfer from the income and expenditure account comprises:				
Allocation of investment income	(2,163)		(11,393)	
Surplus transferred from closed policy years	40,316		13,074	
		38,153		1,681
Balance at 20 February 2012		272,483		234,330

The contingency fund was established on 12 October 1983 in order to maintain premium stability.

Freight, Demurrage & Defence Class

	2012	2012	2011	2011
Balance at 20 February 2011		19,107		18,510
The transfer from the income and expenditure account comprises:				
Allocation of investment income	(688)		(309)	
Surplus / (deficit) transferred from closed policy years	2,530		906	
		1,842		597
Balance at 20 February 2012		20,949		19,107

The contingency fund was established on 23 September 1994 in order to maintain premium stability.

(All amounts in US Dollar thousands unless otherwise stated)

16. International Group Disclosure

Disclosure for the International Group accounting requirements in respect of outstanding reinsurance recoveries on paid claims in the P&I Class is as follows:

	2012	2011
Recoveries due under the pooling agreement	221	200
Recoveries due from other reinsurers	649	1,522
	870	1,722

Disclosure for the International Group accounting requirements in respect of the change in provision in respect of claims paid in the P&I Class is as follows:

	2012	2011
Gross outstanding claims		
Members	35,950	(82,943)
Pooling agreement	28,178	(342)
	64,128	(83,285)
Reinsurers' share		
Recoveries due from reinsurers	13,411	91,528
Recoveries due under the pooling agreement	(1,158)	18,986
	12,253	110,514
Movement in net outstanding claims	76,381	27,229

COMBINED P&I CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

	Closed Years	2009/ 2010	2010/ 2011	2011/ 2012	Claims Handling Reserve	Contingency Funds	Total
Premium							
Mutual & fixed premium							
Invoiced in prior years		249,248	276,691	–	–	–	525,939
Invoiced in current year		(457)	773	299,980	–	–	300,296
		248,791	277,464	299,980	–	–	826,235
Release premium		1,218	589	674	–	–	2,481
		250,009	278,053	300,654	–	–	828,716
Reinsurance premium		(46,872)	(59,098)	(55,193)	–	–	(161,163)
		203,137	218,955	245,461	–	–	667,553
Investment income, gains on sales of investments, and exchange movements		25,300	30,768	16,005	–	93,607	165,680
Other income		–	–	440	–	–	440
Transfers		–	–	–	–	181,944	181,944
		228,437	249,723	261,906	–	275,551	1,015,617
Members' & pool claims		(118,814)	(61,710)	(45,929)	–	–	(226,453)
Expenses & tax		(29,500)	(36,228)	(45,142)	–	(3,068)	(113,938)
Surplus available on Closed years	155,430	–	–	–	–	–	155,430
Balances available for outstanding claims	155,430	80,123	151,785	170,835	–	272,483	830,656
Outstanding claims	(225,990)	(107,788)	(129,672)	(299,789)	(15,385)	–	(778,624)
Reinsurance recoveries	70,560	43,901	31,160	80,835	–	–	226,456
Claims assumed on MSMI acquisition	–	–	–	14,757	–	–	14,757
	(155,430)	(63,887)	(98,512)	(204,197)	(15,385)	–	(537,411)
Surplus / (deficit) at 20 February 2012	**–**	**16,236**	**53,273**	**(33,362)**	**(15,385)**	**272,483**	**293,245**
Surplus / (deficit) at 20 February 2011	27,463	18,513	37,935	–	(20,700)	231,688	300,889

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

i. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE (Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its P&I risks and accumulated outstanding claims with NoE (Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2012.

ii. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund. The foreign exchange gain on the freehold building is included in unrealised gains and foreign exchange.

iii. Premium is net of brokerage.

iv. Expenses and tax charged to open policy years are as follows:

	2009/2010	2010/2011	2011/2012
General and administrative expenses (Note 13)	28,753	34,777	42,412
Investment expenses	978	961	1,065
Taxation	(231)	490	1,665
	29,500	36,228	45,142

v. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.

vi. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.

vii. Future investment income has not been included in the statement and claims have not been discounted.

viii. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability.

ix. The approximate yield of a 10% supplementary call on the open policy years would be:

2009/10	US$21.3 million
2010/11	US$23.7 million
2011/12	US$26.0 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

	Closed years	2009/ 2010	2010/ 2011	2011/ 2012	Claims Handling Reserve	Contingency Funds	Total
Premium							
Mutual & fixed premium							
Invoiced in prior years		15,170	17,469	–	–	–	32,639
Invoiced in current year		10	328	20,576			20,914
		15,180	17,797	20,576	–	–	53,553
Release premium		71	46	78			195
		15,251	17,843	20,654	–	–	53,748
Reinsurance premium		(910)	(1,156)	(1,339)	–	–	(3,405)
		14,341	16,687	19,315	–	–	50,343
Investment income, gains on sales of investments, and exchange movements		881	952	826	–	3,343	6,002
Transfers		0	0	–	–	17,606	17,606
		15,222	17,639	20,141	–	20,949	73,951
Members' & pool claims		(6,403)	(4,943)	(1,202)	–	–	(12,548)
Expenses & tax		(6,523)	(7,253)	(7,733)	–	–	(21,509)
Surplus available on Closed years	5,656	–	–	–	–	–	5,656
Balances available for outstanding claims	5,656	2,296	5,443	11,206	–	20,949	45,550
Outstanding claims	(11,426)	(4,004)	(6,605)	(9,510)	(4,281)	–	(35,826)
Reinsurance recoveries	5,770	–	–	–	–	–	5,770
	(5,656)	(4,004)	(6,605)	(9,510)	(4,281)	–	(30,056)
Revaluation reserve	–	–	–	–	–	–	–
Surplus / (deficit) at 20 February 2012	**–**	**(1,708)**	**(1,162)**	**1,696**	**(4,281)**	**20,949**	**15,494**
Surplus / (deficit) at 20 February 2011	(622)	(2,646)	(3,076)	–	(6,200)	19,107	6,563

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

Combined Financial Statements

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2012

i. The Combined FD&D Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE (Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its FD&D risks and accumulated outstanding claims with NoE (Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2012.

ii. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund.

iii. Premium is net of brokerage.

iv. Expenses and tax charged to open policy years are as follows:

	2009/2010	2010/2011	2011/2012
General and administrative expenses (note 12)	6,556	7,232	7,528
Investment expenses	8	–	–
Taxation	(41)	21	–
	6,523	7,253	7,528

v. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.

vi. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.

vii. Future investment income has not been included in the statement and claims have not been discounted.

viii. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability. The surplus on closed years has been transferred to the Contingency Fund.

ix. The approximate yield of a 10% supplementary call on the open policy years would be:

2008/09	US$1.0 million
2009/10	US$1.1 million
2010/11	US$1.3 million
2011/12	US$1.5 million

NOTES

NOTES

Registered in England. Company registration number: 505456
VAT registration number: 828 5711 10

North of England P&I Association Limited

Newcastle Office
The Quayside
Newcastle upon Tyne
NE1 3DU UK
Telephone: +44 191 2325221
Facsimile: +44 191 2610540

Hong Kong Office
Room 2503 COSCO Tower
183 Queen's Road Central
Hong Kong
Telephone: +852 2544 6813
Facsimile: +852 2542 4424
E-mail: HongKongOffice@nepia.com

Greek Office
5-7 Aghiou Nikolaou
GR 185 37
Piraeus
Greece
Telephone: +30 210 4283038
Facsimile: +30 210 4280920
E-mail: Piraeus@nepia.com

Singapore Office
80 Anson Road
26-03 Fuji Xerox Towers
Singapore
079907
Telephone: +65 641 10160
Facsimile: +65 622 40160
E-mail: SingaporeOffice@nepia.com

Japan Office
Akiyoshikyobashi Building
8th Floor
1-17-2 Kyobashi
Chuo-ku
Tokyo
Japan
104-0031
Telephone: +81 3 5159 5373
Facsimile: +81 3 5250 0003
E-mail: TokyoOffice@nepia.com

Website:
www.nepia.com

Designed and Produced by The Roundhouse Newcastle upon Tyne www.theroundhouse.co.uk