



MANAGEMENT
Report 2014

NORTH 
SERVICE, STRENGTH, QUALITY



FINANCIAL SUMMARY

Five Year Combined Summary

Income and Expenditure - US\$ million

	2013/14	2012/13	2011/12	2010/11	2009/10
Premium income	383.5	365.3	346.3	314.2	285.1
Reinsurance costs	(77.9)	(70.8)	(55.4)	(59.7)	(47.6)
Net claims incurred	(231.6)	(253.5)	(246.1)	(156.0)	(190.5)
Expenses (including brokerage)	(53.6)	(51.3)	(52.3)	(43.7)	(35.8)
Underwriting result	20.4	(10.3)	(7.5)	54.8	11.2
Investment result and exchange movements	13.1	8.5	15.0	17.3	18.0
Revaluation reserve	33.5	(1.8)	7.5	72.1	29.2
IFRS actuarial gain on DB pension scheme	–	–	(5.9)	–	–
	6.2	–	–	–	–
IFRS adoption of pension liability	39.7	(1.8)	1.6	72.1	29.2
	(39.7)	–	–	–	–
Increase / (decrease) in free reserve	–	(1.8)	1.6	72.1	29.2

Balance Sheet

	Feb-14	Feb-13	Feb-12	Feb-11	Feb-10
Investments, cash and cash equivalents	898.0	914.8	877.2	770.5	671.3
Other assets	122.8	59.3	58.1	61.6	51.6
	1,020.8	974.1	935.3	832.1	722.9
Creditors	(84.9)	(56.5)	(39.1)	(21.7)	(16.2)
Net assets	935.9	917.6	896.2	810.4	706.7
Net outstanding claims	(623.7)	(605.4)	(582.2)	(498.0)	(466.4)
Free reserves	312.2	312.2	314.0	312.4	240.3
Combined ratio	90.1%	104.2%	101.8%	78.8%	94.8%

CHAIRMAN'S STATEMENT

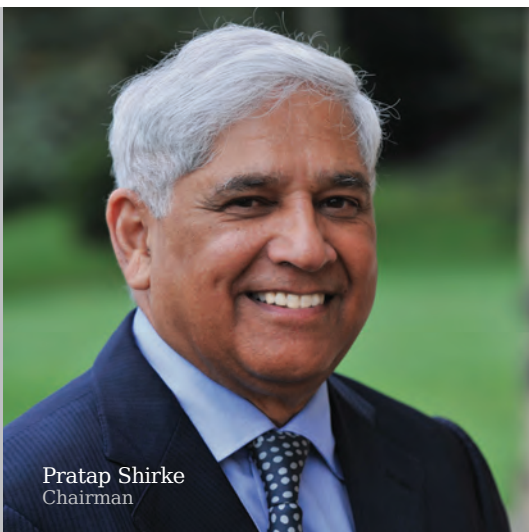
It has been a busy and eventful twelve months for North, culminating with the historic and successful merger with Sunderland Marine at the end of the year, which has led to the creation of the diversified marine insurance – “North Group”, with an annual premium income in excess of US\$500 million.

We have again seen a difficult year for shipping with a continued slow recovery from the global economic downturn, and shipping recession which has depressed freight rates for our Members for many years. In addition the club has faced a financial challenge, as a result of a change in international accounting rules applicable from 2014, which led to a major financial impairment by way of recognition and absorption in full of a technical pension liability. This has significantly suppressed what would otherwise have been an excellent overall financial result for the year.

The free reserves of the Club have remained stable at US\$312 million; this is despite a positive combined ratio of 90.1% which led to an excellent underwriting surplus of US\$20 million, and an investment result of 1.94%, which produced a return of US\$13 million. The recognition of the full technical pension deficit of US\$33 million which is largely caused by the current unusually low interest rate environment, has countered the positive underwriting and investment gains made during the year.

The Club has a strong financial position with an A (stable) rating from Standard & Poor's and “AA” rated capital. This is underpinned by a cautious financial approach, which includes a risk-averse investment policy and a prudent claims reserving methodology. I am pleased to report that North retained its “A” credit rating and stable outlook from Standard & Poor's for a 10th consecutive year and this rating has now been applied to Sunderland Marine as part of the North Group.

The financial objectives set for the recent February renewal were achieved with an overall successful outcome for the Club and Members. The membership continues to develop and during the year the tonnage increased by 4% to 130 million GT, which together with chartered tonnage is projected overall to be around 180 million GT. We are extremely grateful to our Members who have once again shown strong support this year by maintaining, and in a number of cases increasing their entries with the Club. We were also pleased to welcome a number of new Members who have joined the Club at this year's renewal. We remain confident in our strategy of maintaining financial stability, whilst continuing to provide the highest levels of service in the most cost-effective manner.



Pratap Shirke
Chairman

CHAIRMAN'S STATEMENT

CONTINUED

Overall this has been a very positive financial year for North with a strong technical underwriting result and further significant progress in achieving the Club's strategic objectives, in particular our merger with Sunderland Marine is key to our strategy of diversification to develop further financial stability for our Members.

During the year we experienced our two largest individual claims, however, there was a significant fall in the retained value of claims in comparison with previous years. We must once again highlight the detrimental impact and volatile nature of high-value claims, the most costly of which are still Admiralty claims. In 2013 shoreside contact damage claims (FFO's) have been particularly expensive. Yet again, avoidable human error by bridge teams and particularly pilots are manifestly to blame. This is an issue which continues to pervade international shipping and we remain committed to assisting our Members to address these issues and to publicising the problems to the wider shipping community.

North P&I Club is now part of the North Group following the merger with Sunderland Marine which was approved on 28 February 2014, having received the unanimous support of the Club's membership, as well as the Directors and Members Board. The merger between two of the longest established and successful international Marine insurance businesses, both of which are based in North East England, has created a large global marine insurance operation, with a projected annual premium income in excess of US\$500 million. This significant diversification for North will provide enhanced financial stability for the Club's Members, as well as a greater diversity of product lines, a stronger competitive position and continued service excellence. This is a unique opportunity for both companies and satisfies a key strategic objective of North to diversify the Club's business for the benefit of the mutual membership.

Conclusion

The Club is in a sound financial position, with a quality membership and an outstanding reputation for service. However, in view of the many challenges facing the shipping industry and the global economy, we must take appropriate and proactive steps to ensure the continued success of the Club. Just as our strategic vision has evolved, the way in which we intend to achieve our strategic objectives has changed too, we have been embarking upon efficiency and effectiveness initiatives which are focused upon our strategic vision to ensure North is "the most cost-effective marine insurance Group with the highest levels of service" I would like to take this opportunity to thank North Directors and Board members for their commitment to North's affairs and I look forward to working with them over the coming year. I would also like to thank all of the Club's Members for their ongoing support and commitment to the Club, and I would like to take this opportunity to welcome everybody from Sunderland Marine to the North Group, and to thank all of the staff within the Group for their endless dedication, passion and drive towards achieving our strategic vision and objectives.

Pratap Shirke

Chairman

August 2014



JOINT MANAGING DIRECTORS' STATEMENT

Throughout the year, there have been many developments within the Club aimed at helping us to achieve our strategic objectives which continue to focus upon providing high levels of service, financial stability and strength.

Another difficult year for shipping has seen the slow recovery from economic downturn and the global shipping recession, which has meant that our members have continued to operate in uncertain and unpredictable trading environments. The Club has not been immune to financial challenge, including the significant financial impairment caused by recognition of a full pension deficit as a result of a change to technical accounting rules. Other financial challenges include the volatility in the investment markets and the impact of two large Pool claims which will increase the Club's future Pool contributions.

Our renewal strategy for the 2014/15 policy year reflects our commitment to maintaining the financial health and stability of the Club and to continue to maintain the Club's strategic objective of not burdening members with unbudgeted premiums in the future. Members look to their clubs for technical and claims support and guidance, but also to demonstrate clear leadership in maintaining long-term financial strength and stability. We are extremely grateful to our Members who have once again shown strong support and confidence in our strategy.



JOINT MANAGING DIRECTORS' STATEMENT

CONTINUED

The major highlight of the year was the merger with Sunderland Marine to create the North Group. Both North and Sunderland Marine have always taken pride in their reputation for service excellence and our cultural synergies demonstrate a long-standing commitment to this principle. Providing greater levels of service and security to our members and policyholders is at the forefront of everything we do and this is reflected in the North Group's strategic vision to be "the most cost-effective Marine insurance group providing the highest levels of service".

Over the next 12 months our merger integration team will be working closely towards delivering further merger benefits for the North Group.

As part of the Club's continued development, a new organisational structure was implemented in early 2014 which is designed to improve operational effectiveness and service, to ensure that we remain responsive to Members' needs both now and in the future.

The management structure was enhanced with the establishment of a senior operations team, responsible for delivering the Club's strategy. Reporting to the Joint Managing Directors, this team consists of the Global Directors and Deputy Global Director's as well as the CEO of Sunderland Marine.

North's geographical teams have been restructured into five areas: Americas and UK, Middle East and India, Asia Pacific, Europe and Greece, with each area being the joint responsibility of three Group Directors, one from FD&D, one from P&I claims and one from Underwriting. We are committed to enhancing the quality of service the Club provides, and wherever possible and appropriate under the new geographical structure, our aim will be to ensure continuity of existing strong relationships with Members.

In 2013 we introduced our Operational Effectiveness initiative, this is now actively ongoing, and every member of staff has been looking closely at how we can work more effectively as individuals, teams and with our business partners. Our primary focus is to continue to provide our Members with the highest possible levels of service and care. We continue to invest in our human resources and business systems and we are committed to strengthening our team and providing an engaging working environment.

It has been a challenging and busy year for the Club and our Members, but we have continued to meet those challenges with confidence and determination, and as we move into the next financial year we will continue to find new and innovative ways of providing the highest levels of cost effective service for our Members.

Alan Wilson & Paul Jennings
Joint Managing Directors
August 2014



FINANCIAL OVERVIEW

North has produced a satisfactory financial result this year, the key themes contributing to the result were:

- High gross claims value for the 2013 policy year, including two large pool claims
- Low retained claims value (net of reinsurance and pool recoveries) for the 2013 policy year
- Steady improvement in claims values on prior policy years
- Small positive investment result
- Exceptional item for the 2013/14 financial year. A mandatory change in accounting policy requiring the full adoption of the pension scheme deficit onto the Club's balance sheet.

Overall however, an underwriting surplus of US\$20 million and a combined ratio of 90.1% indicate that the 2013/14 financial year was a positive underwriting year for North.

The largest two claims in the Club's history were incurred in the 2013 policy year – the grounding of the “Smart” (US\$110 million) and the berth contact involving the “Wu Yi San” (US\$55 million). Both of these claims fall to the International Group Pool and whilst on a gross incurred basis, North was subject to its heaviest claims year on record, the International Group Pooling mechanism limited the net exposure of the Club to these claims to US\$35 million, which together with a generally benign year for other retained claims, resulted in a lower than anticipated claims cost for the 2013 policy year, net of reinsurance. The claims results for prior policy years improved in line with expectations.

Investment income produced a return of US\$13.1 million, with an investment performance of +1.94% against the benchmark of +1.80%.

The 2013/14 financial year should have seen the free reserve substantially increased. However, an exceptional item resulting from a change in International Reporting Financial Standards (“IFRS”) in respect of accounting treatment for the Club's defined benefit pension scheme (“the Scheme”) required adoption of the full scheme deficit in the current financial year and this reduced the overall result to break even. The Club has previously accounted for the Scheme under the corridor approach which was permitted under International Accounting Standard IAS 19, which was the relevant IFRS.

The effect of the change to IAS19 is to require the deficit on the Scheme to be reported on the Club's balance sheet. The financial impact of this accounting change was to reduce the free reserve by US\$33.5 million. A technical accounting requirement to accommodate the mandatory change in accounting policy means that the comparative prior period balance sheet and income and expenditure account have been adjusted.

The pension scheme deficit is largely a result of the current unusually low interest rates, and therefore if interest rates were to normalise in the coming years, this should have a positive impact on the scheme deficit.

Notwithstanding the exceptional accounting requirements and the consequent financial impairment, the Club's Directors are pleased to report a positive financial year underwriting result and satisfactory financial position. The Club's capital, as determined by Standard and Poor's, is in the AA category, and is also significantly in excess of current and anticipated solvency requirements.



FINANCIAL OVERVIEW CONTINUED

Investment Result

The investment return for the P&I Class fund for the year to 20 February 2014 was +1.94% against the benchmark of +1.80%. Including all invested assets in FD&D and War Risk, classes together with cash deposits, the total net investment return was US\$13.1 million.

During the spring of 2013, an investment (within risk budget appetite) of US\$50 million was made into a global equity fund. The financial year was positive for risk assets and accordingly the equity fund investment delivered strong out performance of its benchmark. Positive returns on the Club's credit portfolios were offset by disappointing performance from the core global bond fund. The short dated US Treasury portfolios preserved capital, as required, but with a low absolute return.

Enterprise Risk Management

The Club's Solvency II implementation plan is well on track to meet the implementation date of January 2016. An important milestone, the Club's first edition of its Own Risk Solvency Assessment ("ORSA"), was approved by the Directors in January 2014. The Risk Committee, supported by the Enterprise Risk Committee, continue to oversee the Club's Risk Register and Risk Reporting Framework.

Reinsurance

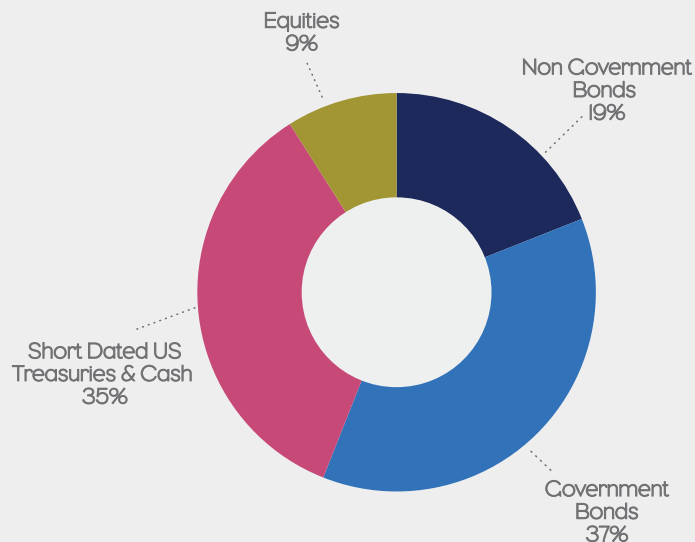
Efficient use of comprehensive and highly secure reinsurance remains critical to North's strategy allowing consistency in financial planning and ameliorating excessive volatility in underwriting performance.

A key component of this reinsurance programme is the pooling and reinsurance arrangements of the International Group of P&I Clubs.

Further deterioration of the 2011/12 Pool year together with concern as to increasing costs in dealing with casualties, in particular removal of wreck and SCOPIC exposure, led to pressure for a rise in reinsurance costs at the 2014/15 renewal. In order to mitigate this, whilst the retention of the individual Clubs within the International Group remained at US\$9 million, the excess point on the Group's reinsurance contract has increased from US\$70 million to US\$80 million with the additional US\$10 million retained within the Group pool and reinsured by Hydra, the groups captive reinsurer. Hydra's share in the first layer of the reinsurance contract (now US\$500 million excess US\$80 million) remains at 30%. The Pool is structured in three layers with the lower Pool layer from US\$9 million to US\$45 million, the upper Pool layer from US\$45 million to US\$60 million (within which there is a claiming club retention of 10%) and a further upper upper Pool layer from US\$60 million to US\$80 million (with a claiming club retention of 5%).

In a further change to the expiring structure, 5% of the commercial market reinsurance has been placed with an alternative reinsurer in two layers from US\$100 million to US\$1 billion on a multi-year fixed contract.

P&I CLASS ASSET ALLOCATION
20 FEBRUARY 2014
ALL CLASSES - FUNDS INVESTED US\$762.7M
70% AA+ RATED



FINANCIAL OVERVIEW CONTINUED

Reinsurance (continued)

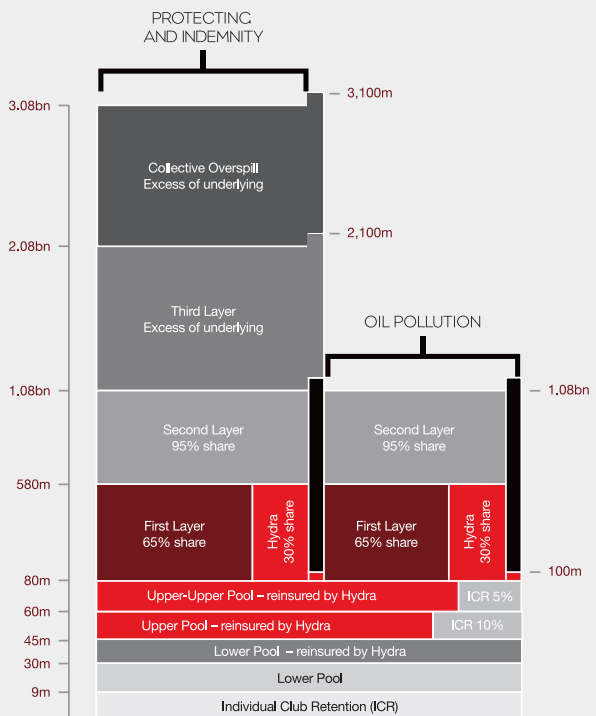
Notwithstanding these changes, the Group still faced a reinsurance premium increase which was included in Members' rates at the 2014 renewal, with increases applied to all ship types but once again impacting the passenger category, where the Group's loss experience has been most affected. However, in contrast, following the trend of reducing the US oil pollution voyage surcharge for a number of years reflecting the continued improvement in the record of the dirty tankers sector, the surcharge has now been reduced to nil for 2014/15.

The number of Pool claims so far reported for 2013/14 is slightly lower than in previous years but does include two of the largest ever made by the Club on the Pool. This has had the effect of increasing the Club's contributions to the Pool but the ability of North's Members to benefit from the protection provided by 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.

Protection for claims within the Club's retention and across all classes and interests remains in place through the multi-year excess loss programme, developed last year with the support of our long-term reinsurance partners. The Club has also arranged Pool Protection reinsurance for the 2014/15 policy year, which is designed to protect the Club and its Members from any significant increase in North's contribution to the cost of Pool claims, as a result of a large overall aggregation of Pool claims.

North also places reinsurance to support the key strategic objective of prudently and conservatively expanding the range of products offered to its Members, including a range of non-poolable covers, such as comprehensive covers for charterers, with limits of up to US\$750 million.

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



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

20 FEBRUARY 2014

OWNED ENTRIES

BUSINESS & OPERATIONAL OVERVIEW

Renewal 2014 and Membership

This has been another solid year of development for the Club culminating at the recent 20 February 2014 renewal. Considerable progress has been made towards the overall strategy of maintaining and enhancing the financial strength and stability of the Club.

This renewal the Club was seeking an increase in premiums across the membership, with a P&I General Increase of 7.5% which was at the lower end of the spectrum across the International Group clubs. The FD&D increase was 5%.

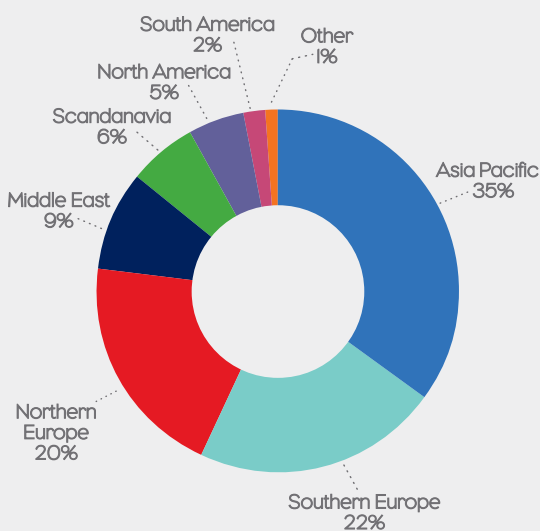
In addition to premium increases, the Club sought deductible increases, as well as implementing a revised P&I Fee deductible as a rule change for the 2014/15 policy year.

Overall, the renewal targets were successfully achieved, and to once again assist Members' cash flow, it was agreed to defer 20% of the estimated annual premium until December 2015.

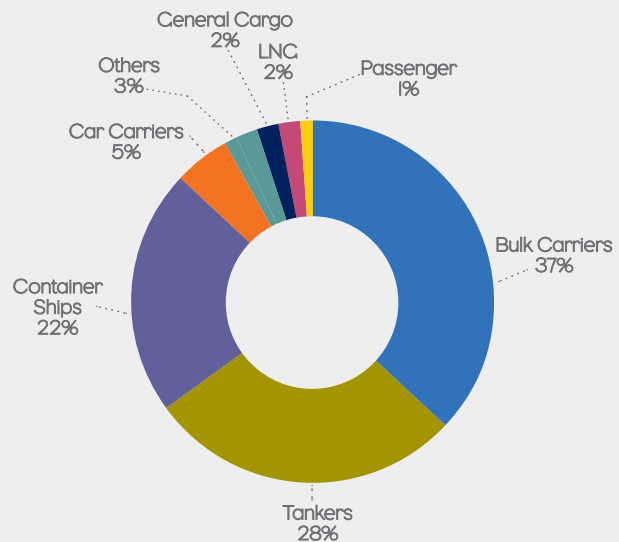
The Club's entered fleet remains diversified and well balanced by type of trade and geographically, and broadly reflects the composition of the world fleet. Owned tonnage increased during the year by approximately 5 million GT (4%) to 130 million GT which is broadly in line with the overall increase in owned global tonnage over the last 12 months, and together with chartered tonnage, the overall tonnage is projected to be 180 million GT.

North is grateful to it's Members who have once again shown strong support by maintaining, and in a number of cases increasing, their entries with the Club. It was also pleasing to welcome a number of new Members who joined the Club at this year's renewal.

ENTERED GT (OWNED & CHARTERED)
GEOGRAPHICAL REGION
AT 20 FEBRUARY 2014



ENTERED GT (OWNED & CHARTERED)
SHIP TYPE
AT 20 FEBRUARY 2014



BUSINESS & OPERATIONAL OVERVIEW CONTINUED

P&I Claims

In the 2013/14 policy year North experienced the two largest claims in the Club's history. First, in August 2013, the grounding of a bulk carrier, the "MV Smart" at Richards Bay, South Africa, and its subsequent wreck removal, with potential total claims estimated in the region of US\$110 million. Then, in January 2014, the oil terminal damage at Yeosu, South Korea, caused by the tanker "MV Wu Yi San", with estimated potential liabilities in the region of US\$55 million.

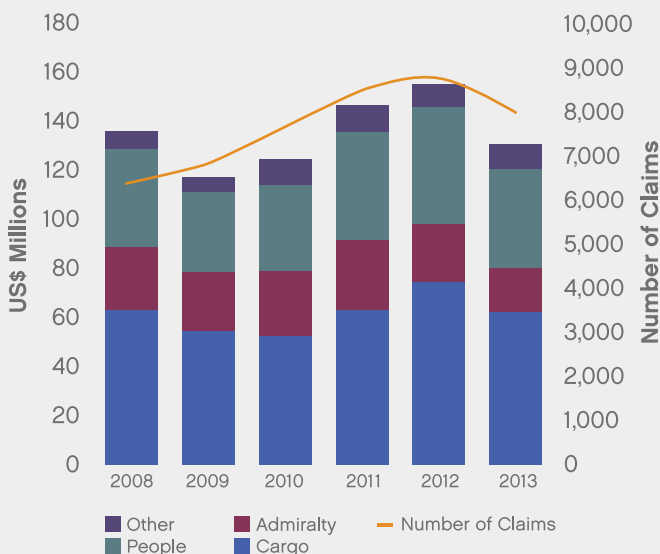
The financial impact of these two claims was significantly ameliorated by the International Group pooling mechanism which, together with a generally more benign year for other claims, resulted in the net claim figures actually showing an improvement compared to the previous two years.

In 2013/14 North experienced a reduction in the total number and value of claims below US\$1 million. The number and value of all claim types at this level has, for many years, generally shown steady levels of consistency. However, also in common with previous years, claims in excess of US\$1 million have evidenced much more volatility. Since 2008 these high value claims, whilst representing less than 0.5% of the total number of claims, have consistently accounted for approximately 40% of the total value of claims. Admiralty incidents tend to be the most volatile as well as the most expensive and normally dominate claims at this level.

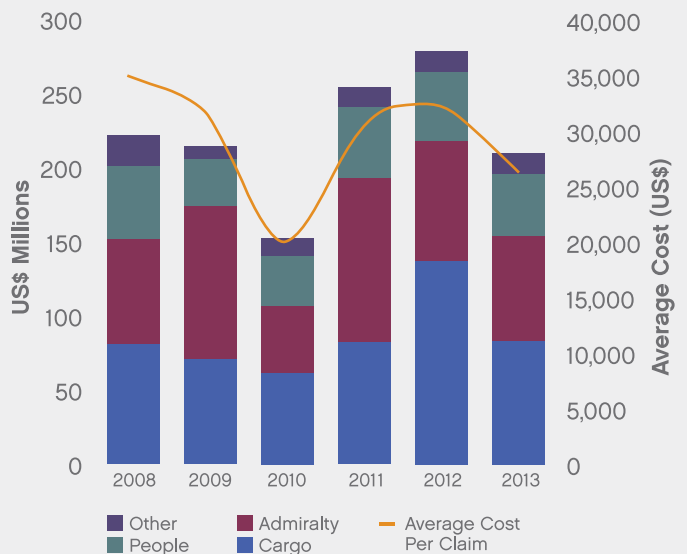
Contact damage claims were a particularly expensive feature of 2013/14. In the majority of these claims, it appears that avoidable human errors, in particular by bridge teams and pilots, including lack of effective communication between them both, were significantly to blame. Cargo claims were not quite so prominent in 2013/14, compared with the previous year, however there were still significant problems with container stowage collapse and liquid cargo contamination claims. Many of these incidents could have been avoided by better operational practices, stricter adherence to procedures and by improved risk assessment.

In 2013/14, the International Group was notified of 17 Pool claims with a total net value, in excess of individual Club's retentions, of US\$302 million. Based on the information available, it appears that the dominant causes of Pool claims largely mirror our own high value claims experience. These claims also appear to be mainly caused by human error and in particular by navigational errors, poor ship handling, lack of situational awareness, poor bridge team management and failures to properly communicate with pilots. Fortunately 2013/14 has been a better year for Pool claims than recent years, in particular the 2011/12 policy year which included both the "Costa Concordia" and the "Rena".

MAJOR CATEGORIES OF CLAIMS AT 12 MONTHS VALUED BELOW US\$1m



MAJOR CATEGORIES OF CLAIMS AT 12 MONTHS



BUSINESS & OPERATIONAL OVERVIEW CONTINUED

Loss Prevention

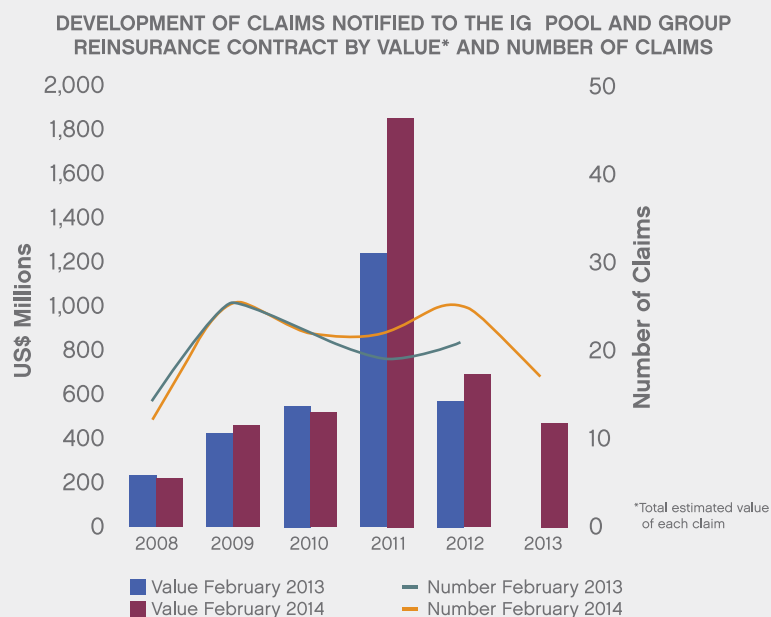
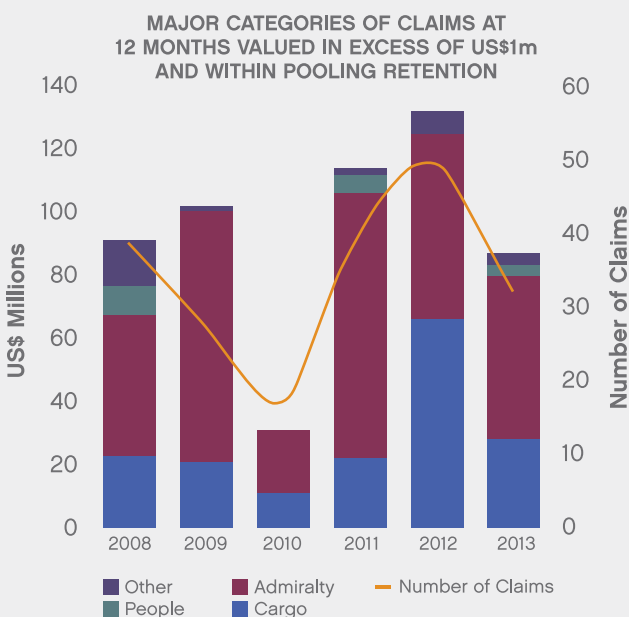
North is committed to assisting Members to address serious claims issues through various loss prevention initiatives, including a forthcoming publication on avoiding groundings and dock damage. Other recent loss prevention guides include those on avoiding collisions, liquid cargo sampling and cargo stowage. Long-standing programmes, such as pre-employment medical schemes, continue to help avoid crew illness problems and may well have saved many lives. These measures have recently been supplemented by North's innovative First Call and post repatriation initiatives. The loss prevention messages are constantly reinforced through a range of other regular publications, as well as during visits with Members and at crew seminars. On a day to day basis, Members receive assistance with a wide range and variety of general enquiries and advice.

The Club's recently enhanced Member Review programme, helps to identify the risk profile of individual Members and to suggest appropriate claims reduction and mitigation measures. Loss prevention executives are working even more closely with claims executives to assist with the early identification of the root causes of large claims. This early involvement lends additional expertise to the claims handling process as well as providing a quicker and better understanding of claims causation and claim trends. It also helps to identify, as soon as possible, any remedial action which may be required.

The claims team at North has been working on a range of initiatives to further enhance the full spectrum of claims handling resources to help deliver the highest level of cost effective service. The initiatives focus on the importance of continuous development of in-house skills, expertise and experience, and in providing the tools and support to help secure the best value from external service providers, with the aim of delivering the optimum, most cost effective, claim results.

North actively engages with other International Group clubs to help control the legislative, jurisdictional and industry claim problems common to all clubs. This includes involvement in the Claims Co-operation, Pollution and Salvage Sub Committees as well as the Large Casualty Working Group.

North will continue to strive to help Members manage risks, it nevertheless seems clear that it is ultimately the engagement and actions of the shipping industry itself, particularly in regard to resourcing and training crew members, which is likely to have the greatest prospect of significantly reducing claims costs at all levels, but most importantly, in limiting the number of high value cargo and admiralty claims.



BUSINESS & OPERATIONAL OVERVIEW

CONTINUED

FD&D Claims

Over the past year, there has been a slow period of economic recovery and growth has not reached expected levels in developing regions, including Brazil, Russia, India and China ("BRIC").

This has led to continuing economic pressure for the shipping industry, with many shipping interests taking steps to protect and preserve their assets and actively seeking financial recoveries.

Consequently, there remains a healthy appetite for pursuing claims, with recoveries remaining at the forefront of many minds. Likewise, those facing claims can entrench themselves in their defences. In short, there are many disputes, parties are less likely to settle and claims often progress to advanced stages in the litigation process.

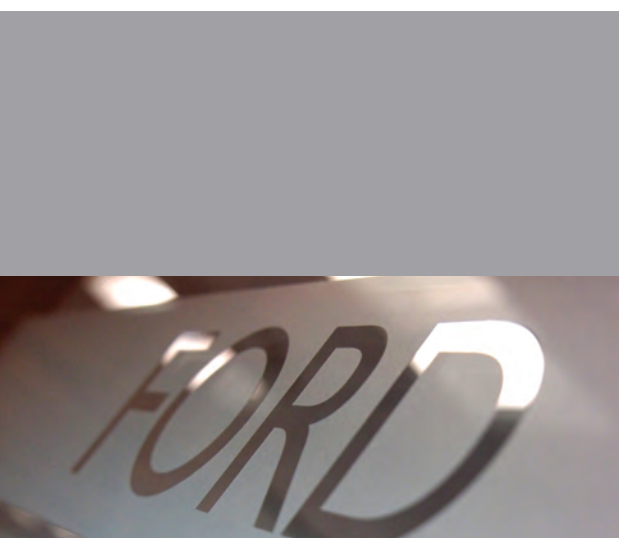
The result of this active claims environment is that demand for FD&D services remains high and the Club continues to receive numerous requests for assistance and support. This demand, coupled with ongoing claims from previous years, means that North's FD&D team remain very busy.

This year there has been an increase in the number of ship performance disputes (due to the high price of bunkers), delays and failures to pay hire and demurrage, and sanctions enquiries.

There has continued to be a number of claims against insolvent companies, however, partly due to negative experience in dealing with such claims and an increase in proper "check before fixing" enquiries, there now appears to be a more cautious approach to chartering activities, resulting in slightly lower levels of claims and an increase in recoveries from "safer" counterparts.

There is a slow global economic recovery in progress, however, this is not an indicator that the claims situation will improve; businesses will see fallout from the 2008 economic crash for years to come and, as freight rates increase, larger claims become more prevalent and differing legal challenges arise.

The Club continues to employ a large team of specialist FD&D lawyers to ensure service remains at the highest levels. By employing qualified lawyers, we are able to handle the majority of legal work in-house. This has continued to prove attractive to Members – as immediate high quality legal advice and support is available on a cost effective basis.



INDUSTRY ISSUES

Over the next couple of years there will be significant activity in relation to International maritime conventions. The Athens Convention 2002 Protocol entered force early in 2014, the Nairobi Convention on Wreck Removal will enter force in April 2015 and the Maritime Labour Convention will be amended in respect of liability and financial security for injury, death and abandonment with the new obligations likely to take effect in 2015/6.

Without exception the effect of these new measures will be to increase the amount of compensation payable by a shipowner and reduce the circumstances in which a shipowner can avoid liability. The enhanced security provided for claimants is coupled with further erosion of the requirement for a claimant to prove fault on the part of the shipowner. Shipowners and their insurers accept that this is the price of upholding a shipowner's right to limit its liability and broadly welcome the development of such liability regimes by the IMO as opposed to the adoption by States of regional solutions. But it is a fact the new legislation increases the cost of claims and as a result the price of insurance and reinsurance.

In light of these legislative developments, it was perhaps timely for the clubs to review the long established policy of not issuing certificates of financial responsibility for that most significant non IMO Convention, the US Oil Pollution Act of 1990. In common with most other clubs, North is of the view that it would not be appropriate to reverse the policy of the last twenty years and issue COFRs under OPA90. To do so would diminish the role of the IMO. It would encourage States to adopt regional legislative regimes with higher limits of liability which may require proof of insurance that may not be satisfied by the established international Blue Card procedure.

The entry into force of the Nairobi Convention on Wreck Removal will be, perhaps inevitably, viewed in the context of the cost of recent wreck removal projects to the clubs; in particular the Costa Concordia. It is beyond the scope of this report to consider the extent to which the level of compensation paid by the Group would have been affected had the Convention (and the extension to its territorial waters) been in force but it is worth noting that under the Convention a State may only recover from the shipowner the costs of measures necessary to deal with a wreck and which pose a danger or impede navigation or may harm the environment. Also such measures must be proportionate to the risk posed by the wreck. It is hoped that the wording of the Convention may, in time, provide a benchmark against which to judge a State's requirements for the removal of a wreck.



INDUSTRY ISSUES CONTINUED

Separately, the International Group has been considering how best to manage large wreck removal contracts in the future. Active and early engagement with affected States is seen as being key to a well managed wreck removal. To this end, the Group has developed a memorandum of understanding (MoU) for use with States, the purpose of which is to promote cooperation and facilitate an effective and prompt response to a casualty. The MoU has been discussed with a number of State administrations and has been positively received.

Two other matters have affected the clubs and their Members considerably over the last couple of years – piracy and the use of sanctions targeting seaborne trade.

The proper use of armed guards, coupled with widespread adoption of the recommendations contained in the industry publication Best Maritime Practice has seen a marked reduction in the number of successful hijackings of vessels by Somali pirates in the Gulf of Aden. This is a welcome development, but worryingly there are signs that piracy is on the increase off the West Coast of Africa. The problems presented in this region are very different from those experienced in the Gulf of Aden and the International Group has worked hard with other industry bodies to develop bespoke recommendations for this region and has also released a series of recommended amendments to the widely used GUARDCON contract to make it suitable for use in the Gulf of Guinea.

In respect of sanctions, whilst the Club welcomes the slight relaxation of measures targeting trade with Iran that arose out of the Joint Plan of Action adopted in November 2013, in practice it has been of little practical effect. The International Group clubs have had to devote considerable resources to managing their sanctions' compliance procedures and remain ill suited to the role of "sanctions' policemen" bestowed upon them by EU and US legislation.



COMBINED FINANCIAL STATEMENTS

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited Combined Financial Statements

The North of England P&I Association Limited's ("North") financial statements for the year ended 20 February 2014 are provided in a separate document and The 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 in this report. 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 Prudential Regulation Authority is based upon the combined position.

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

ACCOUNTANTS' REPORT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements

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

We report on the unaudited combined financial statements and policy year statements of The North of England Protecting and Indemnity Association Limited ("North") and The North of England Mutual Insurance Association (Bermuda) Limited ("NoE (Bermuda)") for the year ended 20 February 2014 ("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.

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 2014. The auditor's report on the statutory consolidated financial statements of North was issued by ourselves on 19 May 2014 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 2014. The auditor's report on the statutory financial statements of NoE (Bermuda) was issued by ourselves on 19 May 2014 and was unqualified;
3. We checked the numerical accuracy of the combined financial statements working papers;
4. In respect of the by class analysis in notes 2 to 14, our procedures have been limited to agreeing the figures used to the underlying systems;
5. In respect of the policy year statements, our procedures have been limited to agreeing the figures used to underlying working papers; and
6. We read the accounting policies adopted by North and NoE (Bermuda), as defined in their respective statutory financial statements, to agree that they are consistent with each other.

Findings

We report that:

- a. With respect to items 1 and 2 we found that the combined financial statements have been correctly extracted 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 are numerically accurate; and
- c. With respect to item 4, we found that the by class analysis included with the notes agree to the underlying system; and
- d. With respect to item 5, we found that the policy year statements agree to underlying working papers; and
- e. With respect to item 6, 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 (UK and Ireland) or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statements as at 20 February 2014.

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, we might have identified other issues that would be of relevance 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. 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 this report.

Ernst & Young LLP
London
19 May 2014

COMBINED STATEMENT OF FINANCIAL POSITION

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	2014	2013 Restated	2012 Restated
Assets				
Intangible assets		8,252	5,312	2,788
Property, plant and equipment		14,445	15,037	15,982
Reinsurers share of technical provision				
Provision for unearned premium		1,276	1,094	–
Claims outstanding	5	340,745	275,168	232,226
Financial assets				
Equity securities – at fair value through profit and loss	3	61,557	50	51
Debt securities – at fair value through profit and loss	3	717,068	796,606	675,073
Absolute return fund – at fair value through profit and loss		–	–	77,317
Loans and receivables including insurance and reinsurance receivables		98,555	27,622	25,021
Corporation tax debtor		176	90	–
Cash and cash equivalents	4	119,283	118,230	124,834
Total assets		1,361,357	1,239,209	1,153,292
Accumulated Surplus				
Income and expenditure account		(36,462)	2,177	16,737
Contingency fund	14	348,736	270,370	253,501
Total accumulated surplus		312,274	272,547	270,238
Liabilities				
Technical provision				
Provision for unearned premium		8,825	7,732	–
Claims outstanding	5	964,222	880,655	814,450
Derivative financial instruments		444	115	257
Reinsurance payables		13,232	15,292	13,717
Trade and other payables		36,057	33,276	25,273
Retirement benefit liability		26,303	29,592	29,357
Total liabilities		1,049,083	966,662	883,054
Total accumulated surplus and liabilities		1,361,357	1,239,209	1,153,292

These financial statements were approved by the Board of Directors on 15 May 2014

AA Wilson
Joint Managing Director

COMBINED INCOME STATEMENT AND COMBINED STATEMENT OF COMPREHENSIVE INCOME

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
20 February 2014

Combined Income Statement	Note	2014	2013 Restated
Insurance premium revenue		384,627	370,095
Insurance premium ceded to reinsurers	6	(78,068)	(71,502)
		306,559	298,593
Change in provisions for unearned premiums		(1,093)	(4,748)
Reinsurers' share of change in unearned premium		183	714
		(910)	(4,034)
Investment income		226	261
Net fair value gains at fair value through profit and loss	7	14,991	13,139
Other gains and losses	8	32	8
Net income		320,898	307,967
Insurance claims and loss adjustment expenses	9	(398,486)	(323,097)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	166,859	69,585
Net insurance claims		(231,627)	(253,512)
Expenses for the acquisition of insurance and investment contracts	11	(30,827)	(30,315)
Expenses for marketing and administration	12	(21,006)	(17,406)
Expenses for asset management services rendered		(1,342)	(1,044)
Operating expenses		(53,175)	(48,765)
Total expenses		(284,802)	(302,277)
Results of operating activities		36,096	5,690
Finance expense	13	(2,497)	(2,254)
Surplus before tax		33,599	3,436
Tax expense		(110)	(287)
Surplus for the year		33,489	3,149

Combined Statement of Comprehensive Income	Note	2014	2013 Restated
Surplus for the year		33,489	3,149
Other comprehensive income			
Remeasurement gains / (losses) on defined benefit plans		6,238	(840)
Total comprehensive income for the year, net of tax		39,727	2,309
Income and Expenditure Reserve			
Opening balance		2,177	16,737
Total comprehensive income for the year, net of tax		39,727	2,309
Transfer to contingency fund	14	(78,366)	(16,869)
Closing balance		(36,462)	2,177

NOTES TO THE COMBINED FINANCIAL STATEMENTS

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
20 February 2014

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 2014 and 20 February 2013. 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 (other than disclosure) 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.

IFRS compliant financial statements can be found in The North of England P&I Association Limited Directors Report which is available on the Association's website.

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

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

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IAS 27 Separate Financial Statements;
- IAS 28, Investments in Associates and Joint Ventures;
- IAS 19 Employee Benefits – Amendment Employee Contributions;
- IAS 36 Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets and
- IAS 39/IFRS 9 Novation of Derivatives and Continuation of Hedge Accounting.

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 Associations' 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.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
20 February 2014

1. Accounting Policies (Continued)

1.4 Property, plant and equipment

Land and building consists 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	10%/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 10 years.

Intangible assets include capitalised software costs which are not yet available for use.

Goodwill, either positive or negative, arising on business combinations is written off to the income statement 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 COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
20 February 2014

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 from 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.

The only exception relates to the premiums earned in respect of the Quota Share agreement with Sunderland Marine Mutual Insurance Company which writes policies from 1 January to 31 December in any given year. Premiums are accounted for in the year in which the risk commences. Where applicable the unearned proportions of the premiums, relating to periods of risk extending beyond the end of the financial year, are carried forward to the next accounting period.

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.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
20 February 2014

1. Accounting Policies (Continued)

1.9 Revenue and expense recognition (Continued)

Claims and related expenses (Continued)

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.

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 defined benefit scheme was closed to new members on 31 March 2006. On 1 January 2014 additional changes were made enabling members to remain in the scheme if contributions increased or with a capped pensionable salary. Alternatively members were able to defer their benefits and at that point became eligible to join the Associations defined contribution scheme.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method with actuarial valuations being carried out at each statement of financial position date. Remeasurements including actuarial gains and losses but excluding net interest are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income ("OCI") in the period in which they occur. Remeasurements are not reclassified to income in subsequent periods.

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 2014 (2013 – nil).

Events after the reporting period

On 28 February 2014 all conditions precedent for the merger of North and Sunderland Marine Mutual Insurance Company Limited ("SMMI") were met, including regulatory approval from the Prudential Regulatory Authority, whereafter North became the sole member of SMMI and the merger was finalised.

Changes in accounting policies

Previously North had adopted the "corridor" method under IAS 19 'Employee Benefits', recognising 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 was the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

In the current year North applied IAS 19 (Revised 2011) retrospectively in accordance with the transitional provisions set out in the revised standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employee benefits. The full defined benefit obligation net of plan assets is now recorded in the statement of financial position, with changes resulting from remeasurements recognised immediately in other comprehensive income. The opening statement of financial position of the earliest comparative period presented (20 February 2012) and the comparative figures have been accordingly restated.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

1. Accounting Policies (Continued)

Impact on income and OCI

	2013 Previous	Adjustments	2013 Restated
Income statement			
Expenses for marketing and administration	(20,562)	3,156	(17,406)
Finance expense	(4,024)	1,770	(2,254)
Surplus for the year	(24,586)	4,926	(19,660)
Statement of other comprehensive income			
Remeasurement gain on defined benefit plans	–	(840)	(840)
Other comprehensive income for the year	–	(840)	(840)
Total comprehensive income for the year, net of tax	(24,586)	4,086	(20,500)

Impact on statement of financial position

Assets

Retirement benefit asset	10,097	(10,097)	–
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Accumulated surplus

Income and expenditure account	1,935	242	2,177
Contingency Fund	310,301	(39,931)	270,370
	312,236	(39,689)	272,547

Liabilities

Retirement benefit liability	–	(29,592)	(29,592)
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The transition did not have an impact on the statement of cashflows.

Exchange

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

	2014		2013	
United Kingdom	£	0.600 = US\$1	(£	0.646 = US\$1)
Euro	€	0.729 = US\$1	(€	0.749 = US\$1)
Japan	¥	102.315 = US\$1	(¥	93.520 = US\$1)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

2. Segmental Analysis by Class

The segment financial positions for the year ended 20 February 2014 are shown below:

Statement of Financial Position

	Note	P&I	FD&D	War Risks	Total
Assets					
Intangible assets		8,252	–	–	8,252
Property, plant and equipment		14,445	–	–	14,445
Reinsurers share of technical provision					
Provision for unearned premium		1,276	–	–	1,276
Claims outstanding	5	337,210	3,535	–	340,745
Financial assets					
Equity securities					
– at fair value through profit and loss	3	61,557	–	–	61,557
Debt securities					
– at fair value through profit and loss	3	712,264	–	4,804	717,068
Loans and receivables including insurance and reinsurance receivables		94,403	4,013	139	98,555
Corporation tax debtor		176	–	–	176
Cash and cash equivalents	4	65,503	53,246	534	119,283
Total assets		1,295,086	60,794	5,477	1,361,357
Accumulated Surplus					
Income and expenditure account		(47,005)	5,104	5,439	(36,462)
Contingency funds	14	328,576	20,160	–	348,736
Total accumulated surplus		281,571	25,264	5,439	312,274
Liabilities					
Technical provision					
Provision for unearned premium		8,825	–	–	8,825
Claims outstanding	5	931,144	33,078	–	964,222
Derivative financial instruments		444	–	–	444
Reinsurance payables		11,864	1,368	–	13,232
Trade and other payables		34,935	1,084	38	36,057
Retirement benefit liability		26,303	–	–	26,303
Total liabilities		1,013,515	35,530	38	1,049,083
Total accumulated surplus and liabilities		1,295,086	60,794	5,477	1,361,357

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

2. Segmental Analysis by Class (Continued)

The segment results for the year ended 20 February 2014 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Interclass Adjustments	Total
Insurance premium revenue		360,756	23,459	1,059	(647)	384,627
Insurance premium ceded to reinsurers	6	(77,024)	(997)	(694)	647	(78,068)
		283,732	22,462	365	–	306,559
Change in provisions for unearned premiums		(1,093)	–	–	–	(1,093)
Reinsurers' share of change in unearned premiums		183	–	–	–	183
		(910)	–	–	–	(910)
Investment income		142	84	–	–	226
Net fair value gains at fair value through profit and loss	7	14,979	5	7	–	14,991
Other gains and losses	8	25	7	–	–	32
Net income		297,968	22,558	372	–	320,898
Insurance claims and loss adjustment expenses	9	(385,489)	(12,997)	–	–	(398,486)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	167,347	(488)	–	–	166,859
Net insurance claims		(218,142)	(13,485)	–	–	(231,627)
Expenses for the acquisition of insurance and investment contracts	11	(29,302)	(1,489)	(36)	–	(30,827)
Expenses for marketing and administration	12	(15,666)	(5,179)	(161)	–	(21,006)
Expenses for asset management services rendered		(1,341)	–	(1)	–	(1,342)
Operating expenses		(46,309)	(6,668)	(198)	–	(53,175)
Total expenses		(264,451)	(20,153)	(198)	–	(284,802)
Results of operating activities		33,517	2,405	174	–	36,096
Finance (expense)/income	13	(4,443)	1,943	3	–	(2,497)
Surplus before tax		29,074	4,348	177	–	33,599
Tax expense		(110)	–	–	–	(110)
Surplus for the year		28,964	4,348	177	–	33,489
Other comprehensive income		6,238	–	–	–	6,238
Total comprehensive income for the year, net of tax		35,202	4,348	177	–	39,727
Income and Expenditure Reserve						
Opening balance		(5,101)	2,016	5,262	–	2,177
Total comprehensive income for the year, net of tax		35,202	4,348	177	–	39,727
Transfer to contingency fund	14	(77,106)	(1,260)	–	–	(78,366)
Closing balance		(47,005)	5,104	5,439	–	(36,462)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

2. Segmental Analysis by Class (Continued)

The segment financial positions for the year ended 20 February 2013 (restated) are shown below:

Statement of Financial Position

	Note	P&I	FD&D	War Risks	Total
Assets					
Intangible assets		5,312	–	–	5,312
Property, plant and equipment		15,037	–	–	15,037
Reinsurers share of technical provision					
Provision for unearned premium		1,094	–	–	1,094
Claims outstanding	5	270,903	4,265	–	275,168
Financial assets					
Equity securities					
– at fair value through profit and loss	3	50	–	–	50
Debt securities					
– at fair value through profit and loss	3	793,072	–	3,534	796,606
Loans and receivables including insurance and reinsurance receivables		23,246	4,309	67	27,622
Corporation tax debtor		90	–	–	90
Cash and cash equivalents	4	70,742	45,794	1,694	118,230
Total assets		1,179,546	54,368	5,295	1,239,209
Accumulated Surplus					
Income and expenditure account		(5,101)	2,016	5,262	2,177
Contingency funds	14	251,470	18,900	–	270,370
Total accumulated surplus		246,369	20,916	5,262	272,547
Liabilities					
Technical provision					
Provision for unearned premium		7,732	–	–	7,732
Claims outstanding	5	849,184	31,471	–	880,655
Derivative financial instruments		115	–	–	115
Reinsurance payables		13,609	1,658	25	15,292
Trade and other payables		32,945	323	8	33,276
Retirement benefit liability		29,592	–	–	29,592
Total liabilities		933,177	33,452	33	966,662
Total accumulated surplus and liabilities		1,179,546	54,368	5,295	1,239,209

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

2. Segmental Analysis by Class (Continued)

The segment results for the year ended 20 February 2013 (restated) are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Interclass Adjustments	Total
Insurance premium revenue		346,081	23,173	1,591	(750)	370,095
Insurance premium ceded to reinsurers	6	(69,955)	(941)	(1,356)	750	(71,502)
		276,126	22,232	235	–	298,593
Change in provisions for unearned premiums		(4,748)	–	–	–	(4,748)
Reinsurers' share of change in unearned premiums		714	–	–	–	714
		(4,034)	–	–	–	(4,034)
Investment income		151	110	–	–	261
Net fair value gains /(losses) at fair value through profit and loss	7	13,132	(1)	8	–	13,139
Other gains and losses	8	8	–	–	–	8
Net income		285,383	22,341	243	–	307,967
Insurance claims and loss adjustment expenses	9	(312,855)	(10,242)	–	–	(323,097)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	69,911	(326)	–	–	69,585
Net insurance claims		(242,944)	(10,568)	–	–	(253,512)
Expenses for the acquisition of insurance and investment contracts	11	(28,725)	(1,507)	(83)	–	(30,315)
Expenses for marketing and administration	12	(13,315)	(3,923)	(168)	–	(17,406)
Expenses for asset management services rendered		(1,043)	–	(1)	–	(1,044)
Operating expenses		(43,083)	(5,430)	(252)	–	(48,765)
Total expenses		(286,027)	(15,998)	(252)	–	(302,277)
Results of operating activities		(644)	6,343	(9)	–	5,690
Finance expense	13	(1,330)	(921)	(3)	–	(2,254)
(Deficit) / surplus before tax		(1,974)	5,422	(12)	–	3,436
Tax expense		(287)	–	–	–	(287)
Total (deficit) / surplus for the year		(3,101)	5,422	(12)	–	2,309
Other comprehensive income		(840)	–	–	–	(840)
Total comprehensive income for the year, net of tax		(2,261)	5,422	(12)	–	3,149
Income and Expenditure Reserve						
Opening balance		16,918	(5,455)	5,274	–	16,737
Total comprehensive income for the year, net of tax		(3,101)	5,422	(12)	–	2,309
Transfer (to)/from contingency fund	14	(18,918)	2,049	–	–	(16,869)
Closing balance		(5,101)	2,016	5,262	–	2,177

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

3. Fair Value Securities

	At 20 February 2014			Total
	P&I	FD&D	War Risks	
Market value				
Equity securities – at fair value through income	61,557	–	–	61,557
Debt securities – at fair value through income	712,264	–	4,804	717,068
	773,821	–	4,804	778,625
Cost				
Equity securities – at fair value through income	50,102	–	–	50,102
Debt securities – at fair value through income	703,692	–	4,805	708,497
	753,794	–	4,805	758,599

	At 20 February 2013			Total
	P&I	FD&D	War Risks	
Market value				
Equity securities – at fair value through income	50	–	–	50
Debt securities – at fair value through income	793,072	–	3,534	796,606
	793,122	–	3,534	796,656
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	790,996	–	3,540	794,536
	790,997	–	3,540	794,537

4. Cash and Cash Equivalents

	At 20 February 2014			Total
	P&I	FD&D	War Risks	
Cash at bank and in hand	21,635	2,769	534	24,938
Short-term bank deposits	43,616	–	–	43,616
Money market funds	252	50,477	–	50,729
	65,503	53,246	534	119,283

	At 20 February 2013			Total
	P&I	FD&D	War Risks	
Cash at bank and in hand	16,657	2,264	1,694	20,615
Short-term bank deposits	53,784	–	–	53,784
Money market funds	301	43,530	–	43,831
	70,742	45,794	1,694	118,230

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

5. Insurance Contracts

Policy Year Analysis

	Closed Years	2011	Open Policy Years 2012	2013	Handling Reserve	Total
All Classes						
At 20 February 2014						
Gross outstanding claims	280,179	132,337	202,989	323,044	25,673	964,222
Reinsurance amount	109,242	49,909	56,919	124,675	–	340,745
Net outstanding claims	170,937	82,428	146,070	198,369	25,673	623,477
At 20 February 2013						
Gross outstanding claims	398,098	179,597	279,730	–	23,230	880,655
Reinsurance amount	147,686	64,998	62,484	–	–	275,168
Net outstanding claims	250,412	114,599	217,246	–	23,230	605,487
P&I Class						
At 20 February 2014						
Gross outstanding claims						
Members	240,386	118,803	162,093	266,941	20,785	809,008
Pooling agreement	27,641	10,501	35,410	48,584	–	122,136
	268,027	129,304	197,503	315,525	20,785	931,144
Reinsurance amount						
Recoveries due under the pooling agreement	54,708	3,773	23,159	106,546	–	188,186
Recoveries due from reinsurers	51,053	46,136	33,760	18,075	–	149,024
	105,761	49,909	56,919	124,621	–	337,210
Net outstanding claims	162,266	79,395	140,584	190,904	20,785	593,934
At 20 February 2013						
Gross outstanding claims	383,501	175,621	271,386	–	18,676	849,184
Reinsurance amount	143,421	64,998	62,484	–	–	270,903
Net outstanding claims	240,080	110,623	208,902	–	18,676	578,281
FD&D Class						
At 20 February 2014						
Gross outstanding claims	12,152	3,033	5,486	7,519	4,888	33,078
Reinsurance amount	3,481	–	–	54	–	3,535
Net outstanding claims	8,671	3,033	5,486	7,465	4,888	29,543
At 20 February 2013						
Gross outstanding claims	14,597	3,976	8,344	–	4,554	31,471
Reinsurance amount	4,265	–	–	–	–	4,265
Net outstanding claims	10,332	3,976	8,344	–	4,554	27,206

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

War Risks Class

There were no outstanding claims at 20 February 2014 (20 February 2013 – nil).

6. Insurance Premium Ceded to Reinsurers

	Year ended 20 February 2014				
	P&I	FD&D	War Risks	Interclass	Total
Market	35,087	997	546	(647)	35,983
International Group	41,937	–	–	–	41,937
War Risks Group	–	–	148	–	148
	77,024	997	694	(647)	78,068

	Year ended 20 February 2013				
	P&I	FD&D	War Risks	Interclass	Total
Market	31,100	941	1,192	(750)	32,483
International Group	38,855	–	–	–	38,855
War Risks Group	–	–	164	–	164
	69,955	941	1,356	(750)	71,502

7. Net Fair Value Gains at Fair Value through Income

	Year ended 20 February 2014			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	4,993	–	6	4,999
Net realised gains / (losses)	(7,664)	5	(5)	(7,664)
Net movement on unrealised gains	5,686	–	6	5,692
	3,015	5	7	3,027
Equity securities				
Net movement on unrealised gains	11,964	–	–	11,964
	14,979	5	7	14,991

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	6,740	–	29	6,769
Net realised gains / (losses)	4,213	(1)	(34)	4,178
Net movement on unrealised gains / (losses)	2,179	–	13	2,192
	13,132	(1)	8	13,139

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

8. Other Gains and Losses

	Year ended 20 February 2014			
	P&I	FD&D	War Risks	Total
Hull Claims Facility Income	22	–	–	22
Fees for security charge	3	7	–	10
	25	7	–	32

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
SME Grant	8	–	–	8

9. Insurance Claims and Loss Adjustment Expenses

	Year ended 20 February 2014			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	229,579	6,715	–	236,294
Pooling agreement	37,022	–	–	37,022
Claims handling costs	21,485	4,676	–	26,161
	288,086	11,391	–	299,477
Movements in gross outstanding claims				
Members' claims	73,232	1,606	–	74,838
Pooling agreement	24,171	–	–	24,171
	97,403	1,606	–	99,009
Total gross claims	385,489	12,997	–	398,486

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	179,846	10,515	–	190,361
Pooling agreement	41,401	–	–	41,401
Claims handling costs	21,048	4,082	–	25,130
	242,295	14,597	–	256,892
Movements in gross outstanding claims				
Members' claims	58,374	(4,355)	–	54,019
Pooling agreement	12,186	–	–	12,186
	70,560	(4,355)	–	66,205
Total gross claims	312,855	10,242	–	323,097

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

10. Insurance Claims and Loss Adjustment Expenses Recovered from Reinsurers

	Year ended 20 February 2014			Total
	P&I	FD&D	War Risks	
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	49,039	242	–	49,281
Claims recoverable under the pooling agreement	36,560	–	–	36,560
	85,599	242	–	85,841
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	(15,743)	(730)	–	(16,473)
Recoveries due under the pooling agreement	97,491	–	–	97,491
	81,748	(730)	–	81,018
Total	167,347	(488)	–	166,859

	Year ended 20 February 2013			Total
	P&I	FD&D	War Risks	
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	18,786	1,179	–	19,965
Claims recoverable under the pooling agreement	6,677	–	–	6,677
	25,463	1,179	–	26,642
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	4,693	(1,505)	–	3,188
Recoveries due under the pooling agreement	39,755	–	–	39,755
	44,448	(1,505)	–	42,943
Total	69,911	(326)	–	69,585

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

11. Expenses for the Acquisition of Insurance and Investment Contracts

	Year ended 20 February 2014			Total
	P&I	FD&D	War Risks	
Brokerage	21,776	1,489	36	23,301
Acquisition costs	7,526	–	–	7,526
	29,302	1,489	36	30,827

	Year ended 20 February 2013 (restated)			Total
	P&I	FD&D	War Risks	
Brokerage	21,660	1,507	83	23,250
Acquisition costs	7,065	–	–	7,065
	28,725	1,507	83	30,315

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 2014. The Ratio of 12.5% (2013 – 13.1%) 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).

12. Expenses for Marketing and Administration

	Year ended 20 February 2014			Total
	P&I	FD&D	War Risks	
Gross marketing and administration expenses	44,677	9,855	161	54,693
Acquisition costs	(7,526)	–	–	(7,526)
Claims handling costs	(21,485)	(4,676)	–	(26,161)
	15,666	5,179	161	21,006

	Year ended 20 February 2013 (restated)			Total
	P&I	FD&D	War Risks	
Gross marketing and administration expenses	41,428	8,005	168	49,601
Acquisition costs	(7,065)	–	–	(7,065)
Claims handling costs	(21,048)	(4,082)	–	(25,130)
	13,315	3,923	168	17,406

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

13. Finance Income and Expenditure

	Year ended 20 February 2014			
	P&I	FD&D	War Risks	Total
Foreign exchange (expenditure) / income on investments	(2,521)	1,851	–	(670)
Other	(1,922)	92	3	(1,827)
	(4,443)	1,943	3	(2,497)

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
Foreign exchange (expenditure) / income on investments	(1,844)	(920)	(3)	(2,767)
Other	514	(1)	–	513
	(1,330)	(921)	(3)	(2,254)

14. Contingency Funds

All Classes

	2014	2014	Restated 2013	Restated 2013
Opening balance		270,370		253,501
The transfer from the income and expenditure account comprises:				
Allocation of investment income	(5,368)		(9,836)	
Surplus transferred from closed policy years	83,734		26,705	
		78,366		16,869
Closing balance		348,736		270,370

Protection and Indemnity Class

	2014	2014	Restated 2013	Restated 2013
Opening balance		251,470		232,552
The transfer from the income and expenditure account comprises:				
Allocation of investment income	(6,847)		(8,500)	
Surplus transferred from closed policy years	83,953		27,418	
		77,106		18,918
Closing balance		328,576		251,470

The contingency fund was established by the Directors on 12 October 1983 in order to maintain premium stability. The operation of the Contingency Fund is described in the P&I Class rules which are available on the Company's website.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)
 20 February 2014

14. Contingency Funds (Continued)

Frieght, Demurrage & Defence Class

	2014	2014	2013	2013
Opening balance		18,900		20,949
The transfer (to) / from the income and expenditure account comprises:				
Allocation of investment income	1,479		(1,336)	
(Deficit) / surplus transferred from closed policy years	(219)		(713)	
		1,260		(2,049)
Closing balance		20,160		18,900

The contingency fund was established by the Directors on 23 September 1994 in order to maintain premium stability. The operation of the contingency fund is described in the FD&D Class Rules which are available on the Company's website.

15. International Group Disclosure

North is a member of the International Group of P&I Clubs.

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

	2014	2013
Recoveries due under the pooling agreement	1,949	613
Recoveries due from other reinsurers	953	324
	2,902	937

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:

	2014	2013
Gross outstanding claims		
Members	73,232	58,374
Pooling agreement	24,171	12,186
	97,403	70,560
Reinsurers' share		
Recoveries due from reinsurers	15,743	(4,693)
Recoveries due under the pooling agreement	(97,491)	(39,755)
	(81,748)	(44,448)
Movement in net outstanding claims	15,655	26,112

COMBINED P&I CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Closed Years \$000s	2011/ 2012 \$000s	2012/ 2013 \$000s	2013/ 2014 \$000s	Claims Handling Reserve \$000s	Contingency Fund \$000s	Total \$000s
Mutual & fixed premium							
Invoiced in prior years		312,154	306,303	–	–	–	618,457
Invoiced in current year		4,176	11,663	320,613	–	–	336,452
		316,330	317,966	320,613	–	–	954,909
Release premium		1,812	1,793	668	–	–	4,273
		318,142	319,759	321,281	–	–	959,182
Reinsurance premium		(55,985)	(73,789)	(72,991)	–	–	(202,765)
		262,157	245,970	248,290	–	–	756,417
Investment income, gains on sale of investments and exchange movements		16,005	18,691	16,185	–	78,257	129,138
Other income		440	–	24	–	–	464
Transfers		–	–	–	–	253,388	253,388
		278,602	264,661	264,499	–	331,645	1,139,407
Members' & pool claims		(172,974)	(100,278)	(35,242)	–	–	(308,494)
Expenses & tax		(51,172)	(39,643)	(38,548)	–	(3,069)	(132,432)
Surplus available on Closed years	162,266	–	–	–	–	–	162,266
Balances available for outstanding claims	162,266	54,456	124,740	190,709	–	328,576	860,747
Outstanding claims	(272,618)	(129,622)	(199,479)	(324,082)	(20,785)	–	(946,586)
Reinsurance recoveries	110,352	50,227	58,896	133,178	–	–	352,653
Claims assumed on MSMI acquisition	–	14,757	–	–	–	–	14,757
	(162,266)	(64,638)	(140,583)	(190,904)	(20,785)	–	(579,176)
Surplus / (deficit) at 20 February 2014	–	(10,182)	(15,843)	(195)	(20,785)	328,576	281,571
Surplus / (deficit) at 20 February 2013 (restated)	56,718	(10,860)	(32,283)	–	(18,676)	251,470	264,369

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

- i. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of North 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 year ended 20 February 2014.
- 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:

	2011/2012	2012/2013	2013/2014
General and administrative expenses	44,598	42,368	37,097
Investment expenses	1,065	1,074	1,341
Taxation	1,665	287	110
Prior year pension adjustment	3,844	(4,086)	–
	51,172	39,643	38,548

- 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:

2011/12	US\$26.0 million
2012/13	US\$25.8 million
2013/14	US\$26.9 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Closed Years \$000s	2011/ 2012 \$000s	2012/ 2013 \$000s	2013/ 2014 \$000s	Claims Handling Reserve \$000s	Contingency Fund \$000s	Total \$000s
Mutual & fixed premium							
Invoiced in prior years		20,468	21,641	–	–	–	42,109
Invoiced in current year		(71)	(116)	22,050			21,863
		20,397	21,525	22,050	–	–	63,972
Release premium		162	153	67	–	–	382
		20,559	21,678	22,117	–	–	64,354
Reinsurance premium		(1,461)	(967)	(1,141)	–	–	(3,569)
		19,098	20,711	20,976	–	–	60,785
Investment income, gains on sale of investments and exchange movements		826	524	553	–	3,487	5,390
Transfers		–	–	7	–	16,674	16,681
		19,924	21,235	21,536	–	20,161	82,856
Members' & pool claims Expenses & tax		(5,976) (7,733)	(3,924) (8,005)	(1,227) (9,855)	– –	– –	(11,127) (25,593)
Surplus available on Closed years	8,671	–	–	–	–	–	8,671
Balances available for outstanding claims	8,671	6,215	9,306	10,454	–	20,161	54,807
Outstanding claims	(12,152)	(3,033)	(5,486)	(7,519)	(4,888)	–	(33,078)
Reinsurance recoveries	3,481	–	–	54	–	–	3,535
	(8,671)	(3,033)	(5,486)	(7,465)	(4,888)	–	(29,543)
Surplus / (deficit) at 20 February 2014	–	3,182	3,820	2,989	(4,888)	20,161	25,264
Surplus / (deficit) at 20 February 2013	(969)	3,943	3,596	–	(4,554)	18,900	20,916

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements (All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

- i. The Combined FD&D Class Policy Year Statement (“the Statement”) is based on the combined policy year results of North 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 2014.
- 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:

	2011/2012	2012/2013	2013/2014
General and administrative expenses	7,733	8,005	9,855
Investment expenses	–	–	–
Taxation	–	–	–
	7,733	8,005	9,855

- 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:

2011/12	US\$1.5 million
2012/13	US\$1.6 million
2013/14	US\$1.5 million