

# COMBINED FINANCIAL STATEMENTS <sup>2018</sup>

The North of England Protecting and Indemnity Association Limited and  
The North of England Mutual Insurance Association (Bermuda) Limited



**NORTH**  
SERVICE, STRENGTH, QUALITY



# 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 2018

The North of England P&I Association Limited's ("North") consolidated financial statements for the year ended 20 February 2018 are provided in a separate document and The North of England Mutual Insurance Association (Bermuda) Limited's ("NEMIA"), 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. These financial statements are unaudited.

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

# ACCOUNTANT'S REPORT

**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 2018

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

In accordance with the terms of our engagement letter dated 20 January 2017 we have performed those procedures agreed with the directors of The North of England Protecting and Indemnity Association Limited ("North") and The North of England Mutual Insurance Association (Bermuda) Limited ("NEMIA") (collectively and individually "the Companies") and set out below relating to the unaudited combined financial statements and policy year statements for the year ended 20 February 2018 ("the combined financial statements").

Our report has been prepared for the Companies solely in connection with the preparation of the combined financial statements by the Companies' directors. It has been released to the Companies on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Companies' own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Companies determined by the Companies' needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Companies for any purpose or in any context. Any party other than the Companies who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

### **Agreed upon procedures**

Our engagement was undertaken in accordance with International Standard on Related Services 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information. The procedures performed were as follows:

1. Agree North's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of North as at 20 February 2018;
2. Agree NEMIA's figures used in the combined financial statements working papers to the signed financial statements of NEMIA as at 20 February 2018; We checked the numerical accuracy of the combined financial statements working papers;
3. Check the numerical accuracy of the combined financial statements working papers; In respect of the policy year statements, our procedures being limited to agreeing the figures used to underlying working papers;
4. In respect of the by class analysis in notes 2 to 14, agree the figures used to the outputs from underlying systems;
5. In respect of the policy year statements, agree the figures used to underlying working papers; and
6. Read the accounting policies adopted by North and NEMIA, as defined in their respective financial statements, and identify differences between the two.

### **Findings**

We report our findings below:

- a. We agreed North's figures in the combined financial statements working papers to the signed statutory consolidated financial statements of North as at 20 February 2018 with no exceptions;
- b. We agreed NEMIA's figures in the combined financial statements working papers to the signed financial statements of NEMIA as at 20 February 2018 with no exceptions; With respect to item 4, we found that the by class analysis included with the notes agreed to the underlying system; and
- c. We noted no exceptions with the numerical accuracy of the combined financial statements working papers;
- d. We agreed the figures used in the by class analysis in notes 2 to 14 to the outputs from underlying systems without exception;
- e. We agreed the figures used in the policy year statements to underlying working papers without exception; and
- f. We did not identify any differences between the accounting policies adopted by North and NEMIA, as defined in their respective financial statements.

Because the above procedures do not constitute either an audit or a review in accordance with International Standards on Auditing (UK and Ireland) or International Standards on Review Engagements (UK and Ireland), we do not express any assurance on the combined financial statements as at 20 February 2018.

Had we been engaged to perform, and had performed, additional procedures, an audit or a review in accordance with International Standards on Auditing (UK and Ireland) or International Standards on Review Engagements (UK and Ireland), other matters might have come to our attention that would have been reported to you.

### **KPMG LLP**

Newcastle upon Tyne  
17 May 2018

# 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 2018

	Note	2018	2017
<b>Assets</b>			
Intangible assets		15,529	17,104
Property, plant and equipment		19,578	23,837
Reinsurers' share of technical provision			
Provision for unearned premium		8,038	20,789
Claims outstanding		182,641	252,674
<b>Financial assets</b>			
Equity securities – at fair value through profit and loss	3	110,850	92,588
Debt securities – at fair value through profit and loss	3	864,043	829,897
Derivative financial instruments	3	1	322
Loans and receivables including insurance and reinsurance receivables		67,832	94,050
Corporation tax debtor		719	547
Deferred tax asset		310	277
Cash and cash equivalents	4	144,190	162,125
<b>Total assets</b>		<b>1,413,731</b>	<b>1,494,210</b>
<b>Accumulated surplus</b>			
Income and expenditure account	14	50,837	70,340
Contingency fund	15	395,099	352,952
Revaluation reserve	14	4,526	7,483
<b>Total accumulated surplus</b>		<b>450,462</b>	<b>430,775</b>
Non-controlling interest		361	315
<b>Liabilities</b>			
Technical provision			
Provision for unearned premium		32,787	50,948
Claims outstanding		826,053	865,610
Derivative financial instruments		39	7,241
Reinsurance payables		16,129	28,920
Trade and other payables		32,257	53,205
Corporation tax creditor		63	102
Deferred tax liability		–	111
Retirement benefit liability		55,580	56,983
<b>Total liabilities</b>		<b>962,908</b>	<b>1,063,120</b>
<b>Total accumulated surplus and liabilities</b>		<b>1,413,731</b>	<b>1,494,210</b>

These financial statements were approved by the Board of Directors on 17 May 2018.

AA Wilson  
 Executive Director

# COMBINED INCOME 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 2018

	Note	2018	2017
Insurance premium revenue		367,981	420,040
Insurance premium ceded to reinsurers	6	(68,176)	(92,096)
		299,805	327,944
Change in provision for unearned premiums		19,618	8,308
Reinsurers' share of change in unearned premium		(13,150)	(6,293)
		6,468	2,015
Investment income		1,414	1,141
Net fair value gains at fair value through profit and loss	7	29,489	30,052
Other gains	8	27	69
Other operating income		4,595	4,483
<b>Net income</b>		<b>341,798</b>	<b>365,704</b>
Insurance claims and loss adjustment expenses	9	(211,488)	(287,572)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	(32,506)	41,559
Net insurance claims		(243,994)	(246,013)
Expenses for the acquisition of insurance and investment contracts	11	(35,581)	(43,356)
Expenses for marketing and administration	12	(44,184)	(36,631)
Expenses for asset management services rendered		(2,487)	(2,843)
Operating expenses		(82,252)	(82,830)
Reinsurance commission		4,842	7,132
<b>Total expenses</b>		<b>(321,404)</b>	<b>(321,711)</b>
Results of operating activities		20,394	43,993
Finance expense	13	(6,545)	(5,416)
Surplus before tax		13,849	38,577
Tax expense		(926)	(1,621)
<b>Surplus for the year</b>		<b>12,923</b>	<b>36,956</b>
<b>Attributable to</b>			
Owners		12,798	36,818
Non-Controlling interest		125	138
		<b>12,923</b>	<b>36,956</b>

# 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 2018

	Note	2018	2017
<b>Surplus for the year</b>		12,923	36,956
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		7,612	(4,805)
<b>Net other comprehensive income to be reclassified to profit or loss</b>		<b>7,612</b>	<b>(4,805)</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation of land and buildings		(2,872)	602
Remeasurement gains / (losses) on defined benefit plans		2,149	(30,241)
Net other comprehensive income not to be reclassified to profit or loss		(723)	(29,639)
<b>Total comprehensive income for the year, net of tax</b>		<b>19,812</b>	<b>2,512</b>
<b>Attributable to</b>			
Owners		19,687	2,374
Non-Controlling interest		125	138
		<b>19,812</b>	<b>2,512</b>

# 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 2018

## 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 2018 and 20 February 2017. They are the non-statutory combined financial statements of North and NEMIA.

These combined financial statements have been prepared in accordance with recognition, measurement and presentation (other than disclosure) principles of International Financial Reporting Standards ("IFRS") 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, these financial statements do not themselves contain sufficient information to comply with IFRS and UK company law.

IFRS compliant financial statements can be found in North's Directors' Report which is available on its website.

All companies within the group prepare financial information in accordance with IFRS with the exception of the following companies which prepare individual accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including FRS 101 and in the case of NEMIA, its own accounting policies as described in its financial statements.

#### (a) North Insurance Management Limited ("NIML")

The company is dormant and conversion to IFRS is not deemed to be required.

#### (b) Hydra Insurance Company Limited ("Hydra")

Hydra prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom. A conversion to IFRS has not been performed as the relevant North Cell figures are considered as being appropriate for inclusion in the group IFRS financial statements.

#### (c) Knighthood Corporate Assurance Services Plc ("Knighthood")

Knighthood, a subsidiary of Sunderland Marine Insurance Company Limited ("SMI"), prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom. On 19 March 2018 Knighthood was sold to a third party and will not be included in the combined results going forward.

#### (d) NEMIA

NEMIA prepares its financial statements in accordance with its own accounting policies as described in its financial statements. A conversion to IFRS has not been performed as the figures are considered as being appropriate for inclusion in the group IFRS financial statements.

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 preparation of financial statements in conformity with IFRS 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.

# 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 2018

## 1. Accounting policies (continued)

### 1.2 Combination

The combined financial statements combine the consolidated financial statements of North and the financial statements of NEMIA 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 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; less
- the net fair value of the identifiable assets acquired and liabilities assumed

### 1.4 Foreign currency translation

The combined financial statements are presented in thousands of US Dollars, which is the functional currency of North and NEMIA

A group entity whose functional currency is not US Dollars is a foreign operation. The income and expenses of foreign operations are translated into US Dollars at the exchange rate ruling at the date of the transactions where practical, otherwise an average rate for the year is used. The assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in other comprehensive income.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the income statement.

Translation differences on monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated using the foreign exchange rate ruling at the date of transaction.

# 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 2018

## 1. Accounting policies (continued)

### 1.5 Property, plant and equipment

Land and buildings comprise the offices owned by North and its subsidiary SMI. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment is 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 or 2% per annum straight line
Computer Equipment	20% – 33.3% per annum straight line method
Motor Vehicles	20% – 33.3% per annum reducing balance method
Office Equipment and Fittings	10% – 33.3% 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.

### 1.6 Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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 in the statement of financial position and amortised over the expected life of the software of up to 10 years. Amortisation is charged once the asset is available for use.

Other intangibles represent customer relationships such as access to distribution networks and customer lists, the valuation of which reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to North. The Directors have assessed these assets to have a life of 3 years.

# 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 2018

## 1. Accounting policies (continued)

### 1.7 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

The group holds derivative financial instruments to hedge its foreign currency exposure and to support the investment return. Derivatives are categorised as held for trading and are classified as financial assets or financial liabilities at fair value through income. Derivative financial instruments are measured at initial recognition, and subsequently, at fair value and changes in fair value are recognised in the income statement. Transaction costs incurred in buying and selling derivative financial instruments are recognised in the income statement when incurred. The fair value of a derivative financial instrument is determined by reference to published price quotations in an active market.

#### 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.

### 1.8 Impairment of assets

North assesses at each reporting date whether there is any objective evidence that a financial asset or non-financial asset is impaired. An asset is deemed to be 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.

# 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 2018

## 1. Accounting policies (continued)

### 1.9 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.

### 1.10 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. North's policy year runs from noon GMT on any 20 February to noon GMT on the following 20 February. North's financial year is coterminous with its policy year, but this is not the case for some of North's subsidiaries where adjustments are made for unearned premium.

#### 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.

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.

The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable now or in the future against claims paid or payable that have not been received at the statement of financial position date, net of any provision for bad debt.

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 accrual 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 schemes

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

The North 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 North defined contribution scheme.

The SMI scheme was closed to new members on 1 July 2008.

Both the North scheme and the SMI scheme were closed to future accrual on 31 January 2018.

The cost of providing benefits under the defined benefit plans 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 in the period in which they occur. Remeasurements are not reclassified to income in subsequent periods.

# 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 2018

## 1. Accounting policies (continued)

### 1.10 Revenue and expense recognition (continued)

#### 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 income.

Where the different treatment of certain items for taxation and accounting purposes results in an obligation to pay more or a right to pay less tax in the future deferred tax is recognised in respect of such temporary differences that have originated but not reversed at the balance sheet date with certain limited exceptions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

#### Changes in accounting policies

The following standards and amendments required initial application in the year ended 20 February 2018:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12
- Annual improvements to IFRS – 2014-2016 cycle

At the date of authorisation of these financial statements, the following standards and amendments were in issue and endorsed by the EU but have not been applied in these financial statements because they are not yet effective:

- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15
- IFRS 9 Financial Instruments
- IFRS 16 Leases
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The impact of these changes has been assessed and is not considered to be material for the year ended 20 February 2018 or in any future year. IFRS 15 does not apply to insurance contracts and revenues other than from insurance contracts are not material. IFRS 9 will not be adopted until IFRS 17 Insurance Contracts is adopted which has an effective date of 1 January 2021 but is not yet endorsed by the EU. There are no significant leasing arrangements and the effects of IFRS 16 will not be material.

# 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 2018

## 2. Segmental analysis by class

The segment financial positions for the year ended 20 February 2018 are shown below:

### STATEMENT OF FINANCIAL POSITION

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
<b>Assets</b>							
Intangible assets		15,529	–	–	–	–	15,529
Property, plant and equipment		16,497	–	–	3,081	–	19,578
Investments in group undertakings		40,335	–	–	–	(40,335)	–
Reinsurers' share of technical provision		–	–	–	20,812	(12,774)	8,038
Provision for unearned premium		–	–	–	20,812	(12,774)	8,038
Claims outstanding	5	146,188	2,033	–	79,677	(45,257)	182,641
<b>Financial assets</b>							
Equity securities		–	–	–	–	–	–
– at fair value through profit and loss	3	110,850	–	–	–	–	110,850
Debt securities		–	–	–	–	–	–
– at fair value through profit and loss	3	775,957	49,438	5,069	33,579	–	864,043
Derivative financial instruments		–	–	–	–	–	–
– at fair value through profit and loss	3	–	–	–	1	–	1
Loans and receivables including insurance and reinsurance receivables		35,725	2,867	40	40,357	(11,157)	67,832
Corporation tax debtor		143	–	–	576	–	719
Deferred tax asset		–	–	–	310	–	310
Cash and cash equivalents	4	61,208	7,001	774	75,207	–	144,190
<b>Total assets</b>		<b>1,202,432</b>	<b>61,339</b>	<b>5,883</b>	<b>253,600</b>	<b>(109,523)</b>	<b>1,413,731</b>
<b>Accumulated surplus</b>							
Income and expenditure account	14	8,375	3,452	5,674	73,671	(40,335)	50,837
Contingency funds	15	358,539	36,560	–	–	–	395,099
Revaluation reserve	14	4,009	–	–	517	–	4,526
<b>Total accumulated surplus</b>		<b>370,923</b>	<b>40,012</b>	<b>5,674</b>	<b>74,188</b>	<b>(40,335)</b>	<b>450,462</b>
Non-controlling interest		–	–	–	361	–	361
<b>Liabilities</b>							
Technical provision		–	–	–	–	–	–
Provision for unearned premium		9,900	–	–	32,787	(9,900)	32,787
Claims outstanding	5	737,088	20,004	–	114,218	(45,257)	826,053
Derivative financial instruments		39	–	–	–	–	39
Reinsurance payables		9,940	742	92	14,617	(9,262)	16,129
Trade and other payables		18,962	571	117	17,376	(4,769)	32,257
Corporation tax creditor		–	10	–	53	–	63
Retirement benefit liability		55,580	–	–	–	–	55,580
<b>Total liabilities</b>		<b>831,509</b>	<b>21,327</b>	<b>209</b>	<b>179,051</b>	<b>(69,188)</b>	<b>962,908</b>
<b>Total accumulated surplus and liabilities</b>		<b>1,202,432</b>	<b>61,339</b>	<b>5,883</b>	<b>253,600</b>	<b>(109,523)</b>	<b>1,413,731</b>

# 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 2018

## 2. Segmental analysis by class (continued)

The segment results for the year ended 20 February 2018 are shown below:

### INCOME STATEMENT

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Insurance premium revenue		306,602	19,306	139	60,958	(19,024)	367,981
Insurance premium ceded to reinsurers	6	(52,214)	(1,428)	(72)	(39,359)	24,897	(68,176)
		254,388	17,878	67	21,599	5,873	299,805
Change in provision for unearned premium		1,718	–	–	19,618	(1,718)	19,618
Reinsurers' share of change in unearned premium		–	–	–	(14,868)	1,718	(13,150)
		1,718	–	–	4,750	–	6,468
Investment income		403	11	7	993	–	1,414
Net fair value gains at fair value through profit and loss	7	27,316	1,692	169	312	–	29,489
Other gains	8	19	8	–	–	–	27
Other operating income		–	–	–	4,595	–	4,595
<b>Net income</b>		<b>283,844</b>	<b>19,589</b>	<b>243</b>	<b>32,249</b>	<b>5,873</b>	<b>341,798</b>
Insurance claims and loss adjustment expenses	9	(175,263)	(4,626)	–	(60,196)	28,597	(211,488)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	(48,507)	(1,950)	–	46,548	(28,597)	(32,506)
Net insurance claims		(223,770)	(6,576)	–	(13,648)	–	(243,994)
Expenses for the acquisition of insurance and investment contracts	11	(26,708)	(1,307)	(9)	(7,557)	–	(35,581)
Expenses for marketing and administration	12	(18,562)	(6,574)	(33)	(19,015)	–	(44,184)
Expenses for asset management services rendered		(2,227)	(116)	(22)	(122)	–	(2,487)
Operating expenses		(47,497)	(7,997)	(64)	(26,694)	–	(82,252)
Reinsurance commission		–	–	–	10,715	(5,873)	4,842
<b>Total expenses</b>		<b>(271,267)</b>	<b>(14,573)</b>	<b>(64)</b>	<b>(29,627)</b>	<b>(5,873)</b>	<b>(321,404)</b>

# 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)  
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## 2. Segmental analysis by class (continued)

The segment results for the year ended 20 February 2018 are shown below:

### INCOME STATEMENT (continued)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Results of operating activities		12,577	5,016	179	2,622	–	20,394
Finance (expense) / income	13	(568)	435	3	(6,415)	–	(6,545)
Surplus / (deficit) before tax		12,009	5,451	182	(3,793)	–	13,849
Tax (expense) / income		(956)	–	–	30	–	(926)
<b>Surplus / (deficit) for the year</b>		<b>11,053</b>	<b>5,451</b>	<b>182</b>	<b>(3,763)</b>	<b>–</b>	<b>12,923</b>
Other comprehensive income		(2,208)	–	–	9,097	–	6,889
<b>Total movement in reserves for the year, net of tax</b>		<b>8,845</b>	<b>5,451</b>	<b>182</b>	<b>5,334</b>	<b>–</b>	<b>19,812</b>
<b>Attributable to</b>							
Owners		8,845	5,451	182	5,209	–	19,687
Non-controlling interest		–	–	–	125	–	125
		<b>8,845</b>	<b>5,451</b>	<b>182</b>	<b>5,334</b>	<b>–</b>	<b>19,812</b>

# 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)  
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## 2. Segmental analysis by class (continued)

The segment financial positions for the year ended 20 February 2017 are shown below:

### STATEMENT OF FINANCIAL POSITION

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
<b>Assets</b>							
Intangible assets		15,841	–	–	1,263	–	17,104
Property, plant and equipment		20,089	–	–	3,748	–	23,837
Investments in group undertakings		40,335	–	–	–	(40,335)	–
Reinsurers' share of technical provision		–	–	–	35,779	(14,990)	20,789
Provision for unearned premium		–	–	–	35,779	(14,990)	20,789
Claims outstanding	5	213,899	4,096	–	81,550	(46,871)	252,674
<b>Financial assets</b>							
Equity securities		–	–	–	–	–	–
– at fair value through profit and loss	3	92,588	–	–	–	–	92,588
Debt securities		–	–	–	–	–	–
– at fair value through profit and loss	3	752,487	47,317	4,900	25,193	–	829,897
Derivative financial instruments		–	–	–	–	–	–
– at fair value through profit and loss	3	321	–	–	1	–	322
Loans and receivables including insurance and reinsurance receivables		46,012	4,398	13	55,660	(12,033)	94,050
Corporation tax debtor		–	–	–	547	–	547
Deferred tax asset		–	–	–	277	–	277
Cash and cash equivalents	4	65,738	5,090	719	90,578	–	162,125
<b>Total assets</b>		<b>1,247,310</b>	<b>60,901</b>	<b>5,632</b>	<b>294,596</b>	<b>(114,229)</b>	<b>1,494,210</b>
<b>Accumulated surplus</b>							
Income and expenditure account	14	30,001	6,809	5,493	68,372	(40,335)	70,340
Contingency funds	15	325,200	27,752	–	–	–	352,952
Revaluation reserve	14	6,881	–	–	602	–	7,483
<b>Total accumulated surplus</b>		<b>362,082</b>	<b>34,561</b>	<b>5,493</b>	<b>68,974</b>	<b>(40,335)</b>	<b>430,775</b>
Non-controlling interest		–	–	–	315	–	315
<b>Liabilities</b>							
Technical provision		–	–	–	–	–	–
Provision for unearned premium		11,617	–	–	50,948	(11,617)	50,948
Claims outstanding	5	765,261	25,381	–	121,839	(46,871)	865,610
Derivative financial instruments		7,241	–	–	–	–	7,241
Reinsurance payables		10,904	–	121	29,456	(11,561)	28,920
Trade and other payables		37,553	959	18	18,520	(3,845)	53,205
Corporation tax creditor		35	–	–	67	–	102
Deferred tax liability		–	–	–	111	–	111
Retirement benefit liability		52,617	–	–	4,366	–	56,983
<b>Total liabilities</b>		<b>885,228</b>	<b>26,340</b>	<b>139</b>	<b>225,307</b>	<b>(73,894)</b>	<b>1,063,120</b>
<b>Total accumulated surplus and liabilities</b>		<b>1,247,310</b>	<b>60,901</b>	<b>5,632</b>	<b>294,596</b>	<b>(114,229)</b>	<b>1,494,210</b>

# 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 2018

## 2. Segmental analysis by class (continued)

The segment results for the year ended 20 February 2017 are shown below:

### INCOME STATEMENT

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Insurance premium revenue		321,994	20,492	121	103,383	(25,950)	420,040
Insurance premium ceded to reinsurers	6	(58,646)	(1,290)	(8)	(68,034)	35,882	(92,096)
		263,348	19,202	113	35,349	9,932	327,944
Change in provisions for unearned premiums		5,954	–	–	8,308	(5,954)	8,308
Reinsurers' share of change in unearned premiums		(3,823)	–	–	(6,293)	3,823	(6,293)
		2,131	–	–	2,015	(2,131)	2,015
Investment income		279	172	2	688	–	1,141
Net fair value (losses) / gains at fair value through profit and loss	7	29,109	549	56	338	–	30,052
Other gains and losses	8	61	–	–	8	–	69
Other operating income		–	–	–	4,483	–	4,483
<b>Net income</b>		<b>294,928</b>	<b>19,923</b>	<b>171</b>	<b>42,881</b>	<b>7,801</b>	<b>365,704</b>
Insurance claims and loss adjustment expenses	9	(224,980)	(9,327)	–	(87,457)	34,192	(287,572)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	17,497	2,239	–	56,015	(34,192)	41,559
Net insurance claims		(207,483)	(7,088)	–	(31,442)	–	(246,013)
Expenses for the acquisition of insurance and investment contracts	11	(28,217)	(1,401)	(10)	(13,728)	–	(43,356)
Expenses for marketing and administration	12	(14,099)	(4,220)	(30)	(18,282)	–	(36,631)
Expenses for asset management services rendered		(2,710)	(40)	(3)	(90)	–	(2,843)
Operating expenses		(45,026)	(5,661)	(43)	(32,100)	–	(82,830)
Reinsurance commission		–	–	–	14,933	(7,801)	7,132
<b>Total expenses</b>		<b>(252,509)</b>	<b>(12,749)</b>	<b>(43)</b>	<b>(48,609)</b>	<b>(7,801)</b>	<b>(321,711)</b>

# 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 2018

## 2. Segmental analysis by class (continued)

The segment results for the year ended 20 February 2017 are shown below:

### INCOME STATEMENT (continued)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Results of operating activities		42,419	7,174	128	(5,728)	–	43,993
Finance (expense) / income	13	(7,561)	(3,057)	(5)	5,207	–	(5,416)
Surplus / (deficit) before tax		34,858	4,117	123	(521)	–	38,577
Tax expense		(157)	–	–	(1,464)	–	(1,621)
<b>Surplus / (deficit) for the year</b>		<b>34,701</b>	<b>4,117</b>	<b>123</b>	<b>(1,985)</b>	<b>–</b>	<b>36,956</b>
Other comprehensive income		(25,582)	–	–	(8,862)	–	(34,444)
Capital contribution		–	–	–	25,000	(25,000)	–
<b>Total comprehensive income for the year, net of tax</b>		<b>9,119</b>	<b>4,117</b>	<b>123</b>	<b>14,153</b>	<b>(25,000)</b>	<b>2,512</b>
<b>Attributable to</b>							
Owners		9,119	4,117	123	14,015	(25,000)	2,374
Non-controlling interest		–	–	–	138	–	138
		<b>9,119</b>	<b>4,117</b>	<b>123</b>	<b>14,153</b>	<b>(25,000)</b>	<b>2,512</b>

# 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 2018

## 3. Fair value securities

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
<b>Market value</b>					
Equity securities – at fair value through income	110,850	–	–	–	110,850
Debt securities – at fair value through income	775,957	49,438	5,069	33,579	864,043
Derivative financial instruments	–	–	–	1	1
	<b>886,807</b>	<b>49,438</b>	<b>5,069</b>	<b>33,580</b>	<b>974,894</b>
<b>Cost</b>					
Equity securities – at fair value through income	64,372	–	–	–	64,372
Debt securities – at fair value through income	776,462	48,972	4,863	33,579	863,876
	<b>840,834</b>	<b>48,972</b>	<b>4,863</b>	<b>33,579</b>	<b>928,248</b>

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
<b>Market value</b>					
Equity securities – at fair value through income	92,588	–	–	–	92,588
Debt securities – at fair value through income	752,487	47,317	4,900	25,193	829,897
Derivative financial instruments	321	–	–	1	322
	<b>845,396</b>	<b>47,317</b>	<b>4,900</b>	<b>25,194</b>	<b>922,807</b>
<b>Cost</b>					
Equity securities – at fair value through income	64,102	–	–	–	64,102
Debt securities – at fair value through income	750,366	47,038	4,863	25,193	827,460
	<b>814,468</b>	<b>47,038</b>	<b>4,863</b>	<b>25,193</b>	<b>891,562</b>

## 4. Cash and cash equivalents

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Cash at bank and in hand	21,783	6,959	774	14,823	44,339
Short-term bank deposits	39,115	–	–	60,384	99,499
Money market funds	310	42	–	–	352
	<b>61,208</b>	<b>7,001</b>	<b>774</b>	<b>75,207</b>	<b>144,190</b>
	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Cash at bank and in hand	13,293	3,438	719	29,912	47,362
Short-term bank deposits	47,604	–	–	60,666	108,270
Money market funds	4,841	1,652	–	–	6,493
	<b>65,738</b>	<b>5,090</b>	<b>719</b>	<b>90,578</b>	<b>162,125</b>

# 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 2018

## 5. Insurance contracts

### POLICY YEAR ANALYSIS

P&I CLASS	Closed Years	Open Policy Years		2017	Handling Reserve	Total
		2015	2016			
<b>At 20 February 2018</b>						
<b>Gross outstanding claims</b>						
Members	257,577	69,776	109,441	145,902	16,939	599,635
Pooling agreement	50,735	26,535	13,755	46,428	–	137,453
	<b>308,312</b>	<b>96,311</b>	<b>123,196</b>	<b>192,330</b>	<b>16,939</b>	<b>737,088</b>
<b>Reinsurance amount</b>						
Recoveries due under the pooling agreement	31,921	11,590	2,003	54	–	45,568
Recoveries due from reinsurers	48,135	(308)	24,083	28,710	–	100,620
	<b>80,056</b>	<b>11,282</b>	<b>26,086</b>	<b>28,764</b>	<b>–</b>	<b>146,188</b>
<b>Net outstanding claims</b>	<b>228,256</b>	<b>85,029</b>	<b>97,110</b>	<b>163,566</b>	<b>16,939</b>	<b>590,900</b>

#### At 20 February 2017

Gross outstanding claims	415,264	136,606	198,754	–	14,637	765,261
Reinsurance amount	125,489	17,360	71,050	–	–	213,899
<b>Net outstanding claims</b>	<b>289,775</b>	<b>119,246</b>	<b>127,704</b>	<b>–</b>	<b>14,637</b>	<b>551,362</b>

FD&D CLASS	Closed Years	Open Policy Years		2017	Handling Reserve	Total
		2015	2016			
<b>At 20 February 2018</b>						
Gross outstanding claims	5,190	1,192	3,275	5,592	4,755	20,004
Reinsurance amount	1,614	–	419	–	–	2,033
<b>Net outstanding claims</b>	<b>3,576</b>	<b>1,192</b>	<b>2,856</b>	<b>5,592</b>	<b>4,755</b>	<b>17,971</b>
<b>At 20 February 2017</b>						
Gross outstanding claims	9,489	3,154	8,635	–	4,103	25,381
Reinsurance amount	1,820	–	2,276	–	–	4,096
<b>Net outstanding claims</b>	<b>7,669</b>	<b>3,154</b>	<b>6,359</b>	<b>–</b>	<b>4,103</b>	<b>21,285</b>

### WAR RISKS CLASS

There were no outstanding claims at 20 February 2018 (20 February 2017 – nil).

# 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 2018

## 6. Insurance premium ceded to reinsurers

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
Market	20,767	1,428	50	39,359	(24,897)	36,707
International Group	31,447	–	–	–	–	31,447
War Risks Group	–	–	22	–	–	22
	<b>52,214</b>	<b>1,428</b>	<b>72</b>	<b>39,359</b>	<b>(24,897)</b>	<b>68,176</b>

  

	Year ended 20 February 2017					
	P&I	FD&D	War Risks	SMI	Interclass	Total
Market	24,114	1,290	(22)	68,034	(35,882)	57,534
International Group	34,532	–	–	–	–	34,532
War Risks Group	–	–	30	–	–	30
	<b>58,646</b>	<b>1,290</b>	<b>8</b>	<b>68,034</b>	<b>(35,882)</b>	<b>92,096</b>

## 7. Net fair value gains at fair value through income

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
<b>Debt securities</b>					
Fixed interest	14,323	552	–	600	15,475
Net realised losses	(2,331)	(58)	–	(266)	(2,655)
Net movement on unrealised gains	(9,760)	189	169	(22)	(9,424)
	<b>2,232</b>	<b>683</b>	<b>169</b>	<b>312</b>	<b>3,396</b>
<b>Equity securities</b>					
Net movement on unrealised gains	<b>19,275</b>	–	–	–	<b>19,275</b>
<b>Derivative hedging</b>	<b>5,809</b>	<b>1,009</b>	–	–	<b>6,818</b>
	<b>27,316</b>	<b>1,692</b>	<b>169</b>	<b>312</b>	<b>29,489</b>

  

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
<b>Debt securities</b>					
Fixed interest	13,750	114	–	529	14,393
Net realised gains / (losses)	2,489	460	26	(223)	2,752
Net movement on unrealised gains	1,690	302	30	32	2,054
	<b>17,929</b>	<b>876</b>	<b>56</b>	<b>338</b>	<b>19,199</b>
<b>Equity securities</b>					
Net movement on unrealised gains	<b>14,076</b>	–	–	–	<b>14,076</b>
<b>Derivative hedging</b>	<b>(2,896)</b>	<b>(327)</b>	–	–	<b>(3,223)</b>
	<b>29,109</b>	<b>549</b>	<b>56</b>	<b>338</b>	<b>30,052</b>

# 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 2018

## 8. Other gains

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Other income	19	8	–	–	27

  

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Other income	61	–	–	8	69
	<b>61</b>	<b>–</b>	<b>–</b>	<b>8</b>	<b>69</b>

## 9. Insurance claims and loss adjustment expenses

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
<b>Gross claims paid</b>						
Members' claims	163,158	6,171	–	65,577	(30,211)	204,695
Pooling agreement	19,598	–	–	–	–	19,598
Claims handling costs	20,680	3,832	–	2,240	–	26,752
	<b>203,436</b>	<b>10,003</b>	<b>–</b>	<b>67,817</b>	<b>(30,211)</b>	<b>251,045</b>
<b>Movements in gross outstanding claims</b>						
Members' claims	(48,304)	(5,377)	–	(7,621)	1,614	(59,688)
Pooling agreement	20,131	–	–	–	–	20,131
	<b>(28,173)</b>	<b>(5,377)</b>	<b>–</b>	<b>(7,621)</b>	<b>1,614</b>	<b>(39,557)</b>
<b>Total gross claims</b>	<b>175,263</b>	<b>4,626</b>	<b>–</b>	<b>60,196</b>	<b>(28,597)</b>	<b>211,488</b>

  

	Year ended 20 February 2017					
	P&I	FD&D	War Risks	SMI	Interclass	Total
<b>Gross claims paid</b>						
Members' claims	184,786	6,855	–	77,374	(28,047)	240,968
Pooling agreement	27,194	–	–	–	–	27,194
Claims handling costs	20,803	4,825	–	2,240	–	27,868
	<b>232,783</b>	<b>11,680</b>	<b>–</b>	<b>79,614</b>	<b>(28,047)</b>	<b>296,030</b>
<b>Movements in gross outstanding claims</b>						
Members' claims	(5,559)	(2,353)	–	7,843	(6,145)	(6,214)
Pooling agreement	(2,244)	–	–	–	–	(2,244)
	<b>(7,803)</b>	<b>(2,353)</b>	<b>–</b>	<b>7,843</b>	<b>(6,145)</b>	<b>(8,458)</b>
<b>Total gross claims</b>	<b>224,980</b>	<b>9,327</b>	<b>–</b>	<b>87,457</b>	<b>(34,192)</b>	<b>287,572</b>

# 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)  
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## 10. Insurance claims and loss adjustment expenses recovered from reinsurers

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
<b>Reinsurance recoverable on claims paid</b>						
Claims recoverable from reinsurers	1,213	113	–	48,421	(30,211)	19,536
Claims recoverable under the pooling agreement	17,991	–	–	–	–	17,991
	<b>19,204</b>	<b>113</b>	<b>–</b>	<b>48,421</b>	<b>(30,211)</b>	<b>37,527</b>
<b>Movements in reinsurance recoverable on outstanding claims</b>						
Recoveries due from reinsurers	(65,800)	(2,063)	–	(1,873)	1,614	(68,122)
Recoveries due under the pooling agreement	(1,911)	–	–	–	–	(1,911)
	<b>(67,711)</b>	<b>(2,063)</b>	<b>–</b>	<b>(1,873)</b>	<b>1,614</b>	<b>(70,033)</b>
	<b>(48,507)</b>	<b>(1,950)</b>	<b>–</b>	<b>46,548</b>	<b>(28,597)</b>	<b>(32,506)</b>

	Year ended 20 February 2017					
	P&I	FD&D	War Risks	SMI	Interclass	Total
<b>Reinsurance recoverable on claims paid</b>						
Claims recoverable from reinsurers	3,936	279	–	52,224	(28,047)	28,392
Claims recoverable under the pooling agreement	12,076	–	–	–	–	12,076
	<b>16,012</b>	<b>279</b>	<b>–</b>	<b>52,224</b>	<b>(28,047)</b>	<b>40,468</b>
<b>Movements in reinsurance recoverable on outstanding claims</b>						
Recoveries due from reinsurers	9,129	1,960	–	3,791	(6,145)	8,735
Recoveries due under the pooling agreement	(7,644)	–	–	–	–	(7,644)
	<b>1,485</b>	<b>1,960</b>	<b>–</b>	<b>3,791</b>	<b>(6,145)</b>	<b>1,091</b>
	<b>17,497</b>	<b>2,239</b>	<b>–</b>	<b>56,015</b>	<b>(34,192)</b>	<b>41,559</b>

# 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)  
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## 11. Expenses for the acquisition of insurance and investment contracts

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Brokerage	19,768	1,307	9	7,557	28,641
Acquisition costs	6,940	–	–	–	6,940
	<b>26,708</b>	<b>1,307</b>	<b>9</b>	<b>7,557</b>	<b>35,581</b>

  

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Brokerage	20,585	1,401	10	13,728	35,724
Acquisition costs	7,632	–	–	–	7,632
	<b>28,217</b>	<b>1,401</b>	<b>10</b>	<b>13,728</b>	<b>43,356</b>

In accordance with Schedule 3 of the International Group Agreement 1999 North is required to disclose its Average Expense Ratio for P&I business for the five years ended 20 February 2018. The Ratio of 12.1% (2017 – 12.0%) 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 NEMIA.

## 12. Expenses for marketing and administration

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Gross marketing and administration expenses	46,182	10,406	33	21,255	77,876
Acquisition costs	(6,940)	–	–	–	(6,940)
Claims handling costs	(20,680)	(3,832)	–	(2,240)	(26,752)
	<b>18,562</b>	<b>6,574</b>	<b>33</b>	<b>19,015</b>	<b>44,184</b>

  

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Gross marketing and administration expenses	42,533	9,045	30	20,522	72,130
Acquisition costs	(7,632)	–	–	–	(7,632)
Claims handling costs	(20,802)	(4,825)	–	(2,240)	(27,867)
	<b>14,099</b>	<b>4,220</b>	<b>30</b>	<b>18,282</b>	<b>36,631</b>

# 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)  
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## 13. Finance income and expenditure

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Foreign exchange income on investments	6,267	–	–	–	6,267
Other	(6,835)	435	3	(6,415)	(12,812)
	<b>(568)</b>	<b>435</b>	<b>3</b>	<b>(6,415)</b>	<b>(6,545)</b>

  

	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Foreign exchange expenditure on investments	(5,099)	(2,808)	–	–	(7,907)
Other	(2,462)	(249)	(5)	5,207	2,491
	<b>(7,561)</b>	<b>(3,057)</b>	<b>(5)</b>	<b>5,207</b>	<b>(5,416)</b>

## 14. Reserves

ALL CLASSES	I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus Attributable to Members	Non-controlling Interest	Total Equity
At 20 February 2017	70,340	352,952	7,483	430,775	315	431,090
Total comprehensive income for the year	21,895	664	(2,872)	19,687	125	19,812
Dividend & exchange	–	–	–	–	(79)	(79)
Transfer to contingency fund	(41,483)	41,483	–	–	–	–
Transfer from revaluation reserve on sale of property	85	–	(85)	–	–	–
<b>At 20 February 2018</b>	<b>50,837</b>	<b>395,099</b>	<b>4,526</b>	<b>450,462</b>	<b>361</b>	<b>450,823</b>

# 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)  
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## 15. Contingency fund

ALL CLASSES	2018	2018	2017	2017
Opening balance		352,952		336,767
The transfer from the Income and Expenditure account comprises:				
Allocation of investment income	15,084		5,928	
Surplus transferred from closed policy years	26,399		35,839	
		41,483		41,767
Remeasurement gains / (losses) on defined benefit plan		664		(25,582)
<b>Closing balance</b>		<b>395,099</b>		<b>352,952</b>

PROTECTING AND INDEMNITY CLASS	2018	2018	2017	2017
Opening balance		325,200		312,495
The transfer from the Income and Expenditure account comprises:				
Allocation of investment income	12,870		8,330	
Surplus transferred from closed policy years	19,805		29,957	
		32,675		38,287
Remeasurement gains / (losses) on defined benefit plan		664		(25,582)
<b>Closing balance</b>		<b>358,539</b>		<b>325,200</b>

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.

FREIGHT, DEMURRAGE & DEFENCE CLASS	2018	2018	2017	2017
Opening balance		27,752		24,272
The transfer to the Income and Expenditure account comprises:				
Allocation of investment income	2,214		(2,402)	
Surplus transferred from closed policy years	6,594		5,882	
		8,808		3,480
<b>Closing balance</b>		<b>36,560</b>		<b>27,752</b>

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.

# 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)  
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## 16. 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:

	2018	2017
Recoveries due under the pooling agreement	397	456
Recoveries due from other reinsurers	666	8,094
	<b>1,063</b>	<b>8,550</b>

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

	2018	2017
<b>Gross outstanding claims</b>		
Members	(48,304)	(5,558)
Pooling agreement	20,131	(2,244)
	<b>(28,173)</b>	<b>(7,802)</b>
<b>Reinsurers' share</b>		
Recoveries due from reinsurers	65,800	(9,129)
Recoveries due under the pooling agreement	1,911	7,644
	<b>67,711</b>	<b>(1,485)</b>
<b>Movement in net outstanding claims</b>	<b>39,538</b>	<b>(9,287)</b>

# 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)  
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## 17. Combined P&I Class policy year statement

	Closed Years	2015 /2016	2016 /2017	2017 /2018	Claims Handling Reserve	Contingency Fund	Revaluation Reserve	Total
Mutual & fixed premium								
Invoiced in prior years		326,972	276,532	–	–	–	–	603,504
Invoiced in current year		7,341	11,937	268,808	–	–	–	288,086
		334,313	288,469	268,808	–	–	–	891,590
Release premium		727	340	239	–	–	–	1,306
		335,040	288,809	269,047	–	–	–	892,896
Reinsurance premium		(68,985)	(67,605)	(54,512)	–	–	–	(191,102)
		266,055	221,204	214,535	–	–	–	701,794
Investment income, gains on sale of investments and exchange movements		10,145	10,630	11,100	–	94,174	–	126,049
Other income		201	61	19	–	–	–	281
Transfers		–	–	–	–	267,432	–	267,432
		276,401	231,895	225,654	–	361,606	–	1,095,556
Members' & pool claims		(109,855)	(79,496)	(40,910)	–	–	–	(230,261)
Expenses & tax		(43,955)	(42,533)	(46,182)	–	(3,067)	–	(135,737)
Surplus available on closed years	213,498	–	–	–	–	–	–	213,498
<b>Balances available for outstanding claims</b>	<b>213,498</b>	<b>122,591</b>	<b>109,866</b>	<b>138,562</b>	<b>–</b>	<b>358,539</b>	<b>–</b>	<b>943,056</b>
Outstanding claims	(308,312)	(96,311)	(123,197)	(192,329)	(16,939)	–	–	(737,088)
Reinsurance recoveries	94,814	11,282	26,086	28,764	–	–	–	160,946
	(213,498)	(85,029)	(97,111)	(163,565)	(16,939)	–	–	(576,142)
Revaluation reserve							4,009	4,009
<b>Surplus / (deficit) at 20 February 2018</b>	<b>–</b>	<b>37,562</b>	<b>12,755</b>	<b>(25,003)</b>	<b>(16,939)</b>	<b>358,539</b>	<b>4,009</b>	<b>370,923</b>
Surplus / (deficit) at 20 February 2017	1,562	30,992	12,084	–	(14,637)	325,200	6,881	362,082

# 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)  
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## 18. Notes to the combined P&I Class policy year statement

- i. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of North and NEMIA ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which North reinsures 90% of its P&I risks and accumulated outstanding claims with NEMIA. The Associations have accounted for the reinsurance transaction in their respective accounts for the year ended 20 February 2018.
- 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:

	2015/2016	2016/2017	2017/2018
General and administrative expenses	43,955	42,533	46,182
Investment expenses	–	–	–
Taxation	–	–	–
	<b>43,955</b>	<b>42,533</b>	<b>46,182</b>

From 2014/15, investment expenses and investment related taxation are charged to the contingency fund.

- 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 an additional call.
- 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% additional call on the open policy years would be:  
2015/16 US\$ 27.4 million  
2016/17 US\$ 25.7 million  
2017/18 US\$ 23.9 million

# 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)  
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## 19. Combined FD&D Class policy year statement

	Closed Years	2015 /2016	2016 /2017	2017 /2018	Claims Handling Reserve	Contingency Fund	Total
Mutual & fixed premium							
Invoiced in prior years		20,591	19,375	–	–	–	39,966
Invoiced in current year		12	(373)	18,359	–	–	17,998
		20,603	19,002	18,359	–	–	57,964
Release premium		41	9	1	–	–	51
		20,644	19,011	18,360	–	–	58,015
Reinsurance premium		(1,351)	(1,305)	(1,317)	–	–	(3,973)
		19,293	17,706	17,043	–	–	54,042
Investment income, gains on sale of investments and exchange movements		–	27	(192)	–	(998)	(1,163)
Other income		100	–	8	–	–	108
Transfers		–	–	–	–	37,558	37,558
		19,393	17,733	16,859	–	36,560	90,545
Members' & pool claims		(2,737)	(3,558)	(515)	–	–	(6,810)
Expenses & tax		(9,876)	(9,045)	(10,406)	–	–	(29,327)
Surplus available on closed years	3,576	–	–	–	–	–	3,576
<b>Balances available for outstanding claims</b>	<b>3,576</b>	<b>6,780</b>	<b>5,130</b>	<b>5,938</b>	<b>–</b>	<b>36,560</b>	<b>57,984</b>
Outstanding claims	(5,190)	(1,192)	(3,275)	(5,593)	(4,755)	–	(20,005)
Reinsurance recoveries	1,614	–	419	–	–	–	2,033
	(3,576)	(1,192)	(2,856)	(5,593)	(4,755)	–	(17,972)
<b>Surplus / (deficit) at 20 February 2018</b>	<b>–</b>	<b>5,588</b>	<b>2,274</b>	<b>345</b>	<b>(4,755)</b>	<b>36,560</b>	<b>40,012</b>
Surplus / (deficit) at 20 February 2017	4,515	4,461	1,936	–	(4,103)	27,752	34,561

# 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)  
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## 20. Notes to the combined FD&D class policy year statement

- i. The Combined FD&D Class Policy Year Statement ("the Statement") is based on the combined policy year results of North and NEMIA ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which North reinsures 90% of its FD&D risks and accumulated outstanding claims with NEMIA. The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2018.
- 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:

	2015/2016	2016/2017	2017/2018
General and administrative expenses	9,876	9,045	10,406

- 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 an additional call.
- 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% additional call on the open policy years would be:  
2015/16 US\$ 1.6 million  
2016/17 US\$ 1.3 million  
2017/18 US\$ 1.2 million

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