

NORTH 



ANNUAL REVIEW ²⁰¹⁸

HIGHLIGHTS

FIVE YEAR COMBINED SUMMARY

Income Statement (US\$ millions)

	2017/18	2016/17	2015/16	2014/15	2013/14
Premium income	387.6	429.5	489.8	394.9	383.5
Underwriting result	(8.0)	11.0	87.4	(29.2)	13.2
Investment result and foreign exchange	28.6	21.0	(12.8)	25.9	13.1
	20.6	32.0	74.6	(3.3)	26.3
Movement in pension scheme deficit	2.1	(30.2)	18.2	(19.1)	(26.3)
Revaluation of land and buildings	(2.9)	0.6	(2.5)	6.9	0.0
SMI free reserve at 20 February 2015	–	–	–	41.4	–
Increase / (decrease) in free reserve	19.8	2.4	90.3	25.9	0.0

Balance Sheet (US\$ millions)

	Feb-18	Feb-17	Feb-16	Feb-15	Feb-14
Net assets	1,093.9	1,043.7	1,050.9	1,041.3	935.9
Net outstanding claims	(643.4)	(612.9)	(622.5)	(703.2)	(623.7)
Free reserves	450.5	430.8	428.4	338.1	312.2
Combined ratio	103.8%	96.0%	73.3%	108.6%	90.1%

104%

COMBINED RATIO

AAA

CAPITAL STRENGTH

451m

US\$

FREE RESERVES

2.87%

INVESTMENT RETURN

99%

MEMBERSHIP RETENTION

195m

GT COMBINED

CHAIRMAN'S STATEMENT



2017 was a positive year for the Club delivering further strategic progress and culminating in a successful renewal with an increased membership, underpinned by a strong financial performance.

During the course of the year, a number of the long-standing economic challenges facing the global shipping market abated to some extent and freight rates showed some signs of improvement across a number of areas. Combined with oil price stabilisation, and further economic strengthening in China and the United States, these changes provided a welcome economic boost for a number of shipping sectors. Nevertheless, we are yet to see conclusive evidence that this improvement is permanent, or that it will lead to a shipping market that can provide a stable foundation for sustainable growth and profitability.

In these uncertain trading conditions for global shipping, it is more important than ever that our Members can confidently rely on our support. This was clearly demonstrated in our renewal strategy announcement in November 2017, when, for the second consecutive year, we decided to charge no general increase.

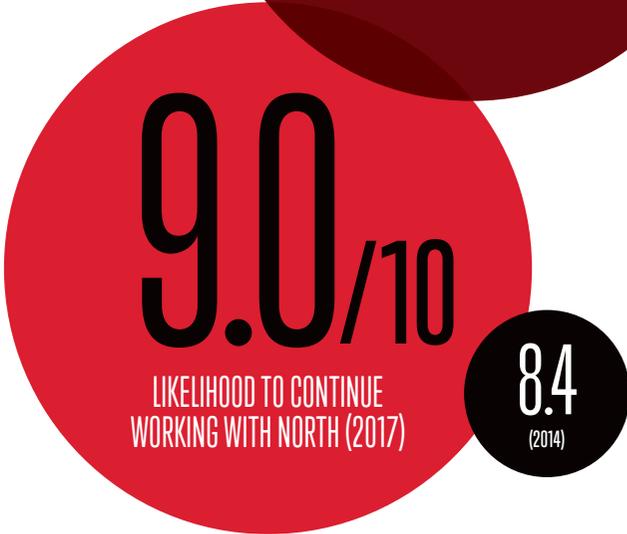
We remain determined to support our Members by providing value for money in everything we do, and recognise that decisions such as the general increase have a material impact upon our Members' commercial operations. We recently refined the Club's purpose statement to re-emphasise our ongoing commitment to supporting our Members.

The outcomes that are reported at each 20 February are a direct result of the commitment of our people. I would like to thank everyone for their dedication and commitment to delivering outstanding service to our Members throughout the year. This commitment to service excellence was clearly recognised in the triennial Member & Broker Survey conducted in September 2017, which returned a series of exceptional results.

2017/18 has been another successful year for North and we should all take pride in our contributions, as we continue, "to enable our Members to trade with confidence".



"...superb, second to none..."
NORTH MEMBER & BROKER SURVEY 2017



CHAIRMAN'S STATEMENT

Financial

The combined ratio for the financial year was 104%, a satisfactory result given the prevailing market conditions. The Club's continuing robust approach to underwriting and risk management should see the long term combined ratio remain in the upper quartile of the International Group of P&I Clubs (IG).

The Club's free reserves have continued to strengthen and our Standard & Poor's "AAA" capital strength assessment remained constant and our 'A' (stable) rating was maintained for the 14th consecutive year. Our available capital is also slightly above the upper end of the target range approved by the Directors last year, which is reflective of the Club's risk appetite and exposures.

The investment return for 2017/18 was 2.87%, producing US\$28.6 million which together with a combined ratio of 104% delivered an overall surplus of US\$20 million, resulting in free reserves increasing to approximately US\$451 million.

The Club's defined benefit pension schemes closed to future accrual on 31 January 2018. The future obligations of the schemes will no longer increase and over time, as the interest rate environment normalises, we expect to be able to minimise the schemes' deficit which will accrue to the benefit of the Club's membership.

Over the coming years the prevailing operating environment facing all clubs within the IG will be one of intensifying cost pressure combined with the impact of premium dilution following successive renewals at which no general increase was declared. Rising cost pressures stem from increasing claims as well as changes in the operating and regulatory environment such as Solvency II and Brexit. Such changes are likely to increase the reliance on investment returns to deliver a positive return for clubs at a time when markets are highly unpredictable.

Renewal

The Club again received tremendous support and loyalty from the membership resulting in a very encouraging February 2018 renewal. The overwhelming majority of Members renewed their entries along with a significant number supplementing their current entries with us. In addition, a number of new Members were welcomed to the Club.

The strategy of controlled growth saw total entered tonnage rise to 195 million GT, comprising 142 million GT of owned tonnage and 53 million GT of chartered tonnage. This represents a net growth of 5 million GT in 2017/18, with the majority of this growth originating from existing Members, demonstrating their enduring confidence in the Club's financial strength and service excellence.

> Continued over



CHAIRMAN'S STATEMENT

Renewal (continued)

Our plan to further develop our market leading FD&D class has already proven to be very successful, leading to an increase in tonnage of approximately 8 million GT. This brings the Club's total FD&D entry for owned and chartered Members to over 140 million GT, reflecting the confidence Members have in our ability to support their trading activities.

Similar to last year, membership renewal negotiations and reductions in the IG's reinsurance costs have driven a modest reduction in the Club's premium income. This is a very credible outcome given the prevailing market conditions.

Claims

The value of the Club's claims for 2017 saw an improvement on 2016, despite a small increase in the overall number of claims. The number of smaller attritional claims, valued below US\$1 million, remain very much in line with earlier years.

However, the eventual underwriting outcome for the Club is typically determined by the larger and less predictable claims. During 2017, the volume of claims in excess of US\$1 million was slightly below that of the previous year, despite a rise in ship numbers and tonnage over the same period. Average premium rating for clubs has however, been falling in the meantime, driven by the "soft" market conditions and the increase in ship scrapping.

Service

Delivering excellent service to our Members underpins everything we do at North. During Autumn 2017, we commissioned our second triennial independent Member and Broker Survey to measure the service expectations of our Members and their brokers.

The aim of this survey was twofold. Firstly, through listening to our Members and their brokers, we can identify potential improvements to the service we deliver. This is part of our commitment to finding new and innovative ways of enhancing our products and service. Secondly, we were keen to evaluate our performance against the benchmark results established in the 2014 survey. The 2017 survey returned outstanding and improved results across all the key measures and confirmed the very high service standards achieved by the Club.

Diversification

During 2017, we continued with the implementation of our diversification strategy to deliver meaningful financial benefits for our mutual membership.

In response to the projected higher cost and reduced premium income scenario, our five-year strategic plan was revised to ensure that as well as effectively managing our costs, we generate additional income through other business areas.

> Continued over

"...to enable our Members to trade with confidence..."

US\$ 451m

FREE RESERVES

"...consistently managed to meet its strategic objectives, delivering robust profitability and managing the restructuring of Sunderland Marine well..."

S&P GLOBAL RATINGS
(FEBRUARY 2018)

CHAIRMAN'S STATEMENT

Diversification (continued)

The Club is working towards its target to increase the proportion of fixed P&I, Hull and Aquaculture business written by both North and in particular the reshaped Sunderland Marine. There has been strong progress in the development of our already significant chartered portfolio, and the growth of our FD&D income utilising the strong service reputation of our in-house team.

With the Sunderland Marine business continuing to advance, and further strengthened with the recent sale of the Knighthood Corporate Assurance brokerage, we remain confident that the diversification strategy is delivering wider benefits for the Club's membership.

Industry

During the year, we have seen considerable M&A activity and consolidation within shipping. This has affected a number of our Members, and has had both positive and negative impacts on entries with the Club and is reflected in some of the changes in our entered tonnage.

Throughout 2017, sanctions continued to be used by the United States and the European Union, as well as by other bodies and countries, as a tool to accomplish foreign and economic policy goals and to act as a visible sign of disapproval of another country's conduct. The current political climate suggests that there will be no change to this approach.

2017 also saw major developments in environmental regulation, capped by the global entry into force of the IMO Ballast Water Management Convention in September 2017. Owners of existing vessels have until 1 September 2018 to install new systems under the Convention. This marks a crucial step forward on the path towards stopping the spread of invasive aquatic species. However, compliance with the law will represent another major cost for shipowners.

Similarly, there are growing concerns around the impact of the global low-sulphur fuel cap in January 2020. Unless ships have emissions abatement systems installed, they will be forced to burn distillates or distillate-based fuels to comply with the new 0.5% sulphur limit in fuel. Some are already calling this development the biggest change in ships' power since the transition from coal to oil. With MGO (Marine Gas Oil) currently trading at a near 50% premium to IFO (Intermediate Fuel Oil) 380 and only about 1,500 scrubber installations to date, there will be cost increases along the global shipping supply chain.

North's loss prevention efforts remain focused on shipboard operational effectiveness and claims prevention, in order to support safety at sea and minimise vessel downtime. Analysis of the root causes underpinning large claims has identified two critical considerations. Firstly, the prevailing safety culture operating within individual shipping companies. Secondly, the operational competence and professionalism of ship board crews.

During 2017, North's loss prevention team promoted and supported best practice through our innovative crew training webinars, publications and Member seminars such as our Right Crew briefings.

The need to remain relevant and to focus on the future needs of shipowners has never been more important and we passionately believe that the current mutual ethos and supporting arrangements of the IG provides significant financial and operational benefits for Members and the global shipping industry. It is important that the full benefits of the IG are clearly communicated and we encourage all clubs to engage in this process. We fully support the ongoing review of the way the IG operates. However, we must ensure that we do not prejudice the fundamentals of trust and cooperation, which are so important in supporting the IG mutual system. The smooth operation of this mutual system is vital to the trading requirements of the overwhelming majority of the world's shipowners and in providing a reliable and sustainable global marine liability platform.

> Continued over

CHAIRMAN'S STATEMENT

Governance

As we move further into 2018, planning for a post-Brexit business environment continues to be a key priority for the Club. In November 2017, we announced contingency plans to establish a subsidiary insurance company in Ireland to underwrite the Group's EEA insurance business after Brexit. Preparations to establish the Irish subsidiary are progressing well, with the new business expected to be operational by the end of 2018. Further announcements will be made during the course of the year as we progress through the authorisation process with Irish regulators, the Central Bank of Ireland. We will continue to keep our contingency plans under review in the light of any developments in negotiations between the UK government and the European Union with regard to transitional and future trading arrangements.

In other EU related developments, the General Data Protection Regulation (GDPR) will update and enhance current data protection legislation and establish a harmonised framework for the protection of personal data from 25 May 2018. Businesses that deal with EU citizens need to be transparent about how they use their personal data and to comply with key legislative principles when processing this data. The costs of non-compliance are potentially very high, as the new legislation provides regulators with the power to fine businesses up to 4% of their worldwide turnover if they do not comply with the GDPR requirements. The Club has made appropriate arrangements to ensure compliance with the requirements of GDPR.

Board Members

Throughout 2017/18 I was pleased to announce a number of Non-executive Director appointments to the Board: Philipp Reith (Orion Bulkers), Ioanna Procopiou (Prominence Maritime SA and Sea Traders SA) and Nick Taylor (Independent Non-executive Director). Also James Tyrrell (Arklow Shipping) was appointed as a member of the Group Risk Committee following his appointment to the Board of Directors early in 2017.

Joining our Members Board during the year to represent the interests of our mutual membership alongside the Board's existing member representatives were Philip Shapiro (Liberty Maritime Corporation), George Moundreas (NGM Energy SA), Edo Taslamani (Atlantska Plovidba) and Martin Badsted (D/S Norden A/S).

Following Capt. Sliwa Michael's retirement as a Non-executive Director and from the Members Board, Samuel Gontha succeeded him on the Members Board, as a representative of Zodiac Maritime Limited. Waleed Al Dawood (UASC) retired from the Members Board following completion of the acquisition of UASC by Hapag Lloyd. Phil Moorhouse, Newcastle Building Society chairman, stood down as an Independent Non-executive Director and Atle Sebjornsen (National Chemical Carriers Limited) resigned from the Board in March 2018. I would like to thank Sliwa, Waleed, Phil and Atle for their service to the Club.

We have also been planning for a significant change in our senior management team. After 37 years with North, Alan Wilson stood down as Joint Managing Director on 1 May 2018. I would like to thank Alan for his immense contribution to North over the last four decades. Alan has been at the core of North's values and an architect of the strong and prudent financial and risk management that North is so widely recognised for. Alan will continue to work with North on a part time basis as an Executive Director, supporting Paul Jennings (who has become Chief Executive Officer) and his Executive Team.

Outlook

Looking forward it is clear that we are in a period of innovation on many fronts. From artificial intelligence and ship automation, to digitalisation there is a range of technologies that are likely to impact shipping in the near future. The emergence of what has been described as the fourth industrial revolution and an aging global consumer base makes it more challenging to predict the shape and size of shipping markets. In combination with the long-standing structural and economic challenges facing shipowners, we are likely to see trade dynamics and trade patterns continue to evolve. In these changing and challenging times, the delivery of financial stability and the highest levels of service to our Members is fundamental to the success of North, enabling 'our Members to trade with confidence' in 2018 and beyond.

Pratap Shirke

Chairman

May 2018

FINANCIAL REVIEW

The financial year result to 20 February 2018 is a surplus of US\$20 million with the free reserve increasing to US\$451 million.

In an uncertain trading environment, the Club's approach has been to balance the competitive mutual premium requirements with the prudent management of financial risks. A combined ratio of 104% and an investment return of 2.87% are the key components of a free reserve increase of US\$20 million, providing excellent financial stability for our Members.

Enabling our Members to trade with confidence is at the heart of our operations. It is the quality of the Members themselves that underpins the financial stability and strength of the Club. Our risk-based reinsurance and investment frameworks ensure that we operate within the overall capital range set by the Board and our free reserves have increased to US\$451 million.

Underwriting Performance

The combined ratio of 104% is in line with our expectation at the mid-year point. The stabilisation in attritional claims has been welcome and the performance of our Members in this regard has been of great assistance in managing the impact of a very competitive rating environment. North's strongest asset is the quality of our membership and their commitment to the Club.

Large claims, and claims on the International Group pool, are unpredictable in nature. It is the normal course of any mutual P&I business to experience a certain amount of volatility in these classes of claim. North's large claims, by number and value, are slightly below the five-year average for the 12-month point in their development. Whilst not at the elevated levels seen in some years, by either value or frequency, the claims declared by other clubs to the pool at the 12-month point are substantially greater than the benign experience of 2016.

Capital & Risk Management

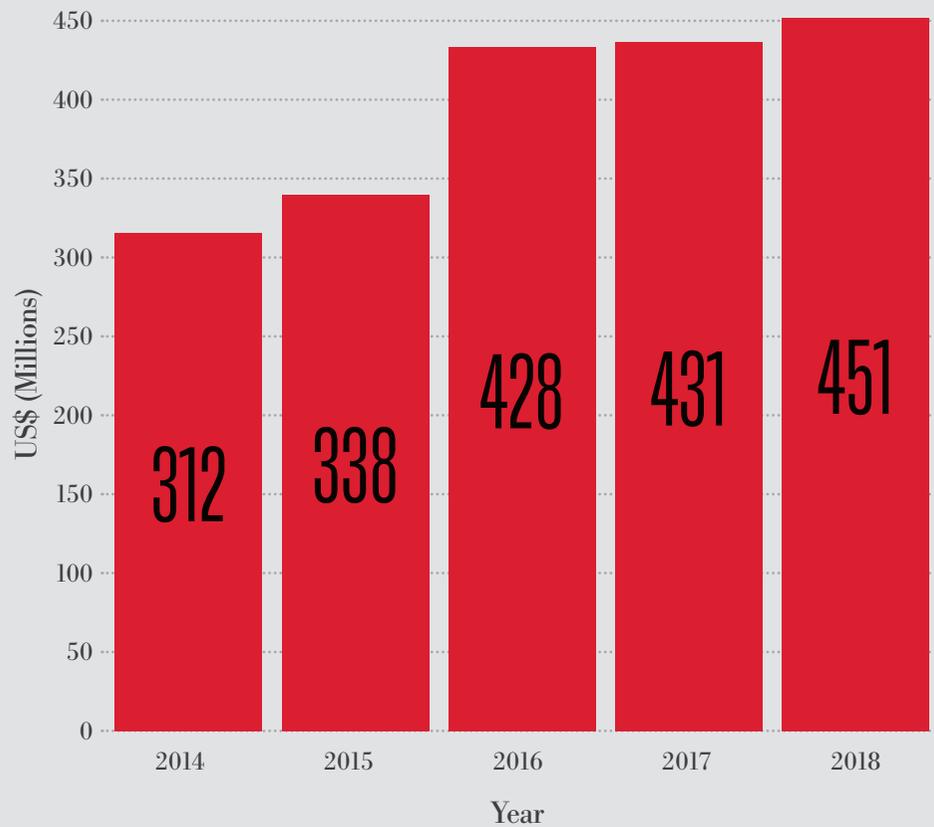
The Board sets a capital range that ensures that at all times we can support our "A" rating with Standard & Poor's after withstanding a foreseeable adverse year. Our capital position has improved to being marginally above the normal operating range as at 20 February 2018. Given the challenges arising out of the current operating environment this has not triggered any immediate action although this is a situation which the Board is keeping under close review.

North's risks are managed to ensure that our Members' capital is allocated in an effective way that balances the need for stability and security with other financial pressures. Currently our capital on Standard & Poor's risk-adjusted model is sufficient to meet the "AAA" criteria.

FINANCIAL REVIEW

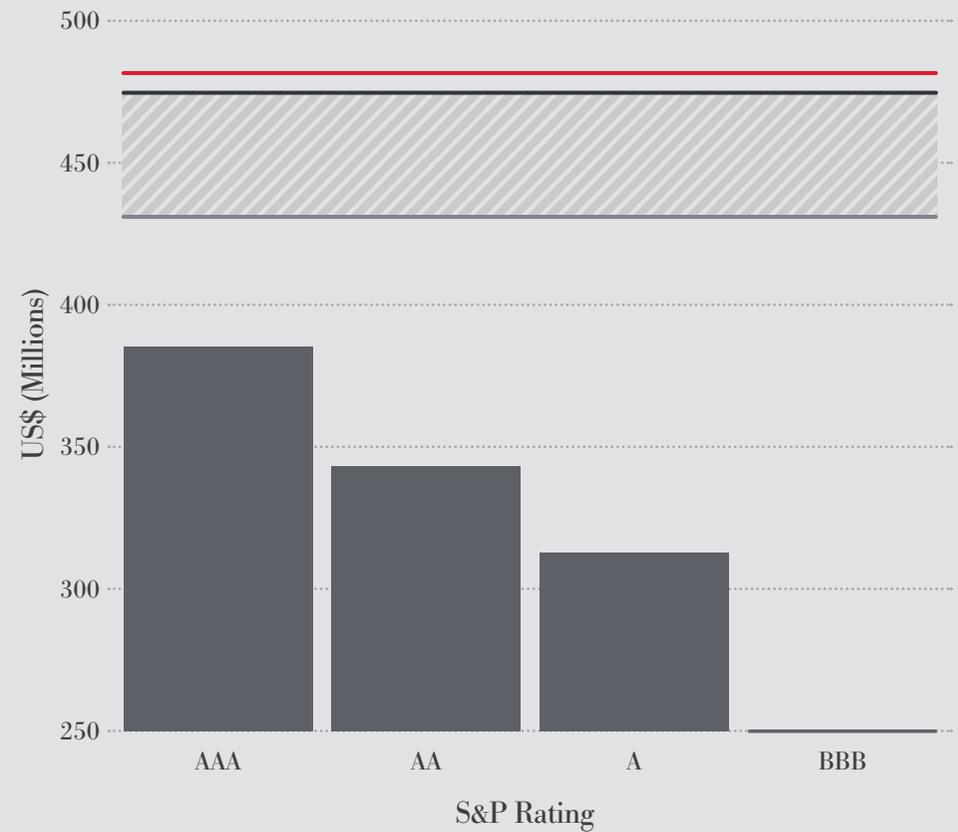
FREE RESERVES

AT 20 FEBRUARY



NORTH CAPITAL POSITION

AT 20 FEBRUARY 2018



FINANCIAL REVIEW

Investments

The investment return across all of North's classes of business was 2.87% net of fees and contributed US\$28.6 million to our result for the year. This return included a downwards move in the last few weeks of the P&I year to 20 February and was derived from the Club's measured exposures to credit and equity markets.

A substantial majority of our investment assets are held to match our liabilities to our Members and 3rd parties. These portfolios, invested in government securities, provided no real opportunity for return in the current investment environment.

We regularly re-evaluate our strategic asset allocation and the role of our investments in promoting financial stability as well as a return for our mutual Members. Currently we remain very mindful of market uncertainties and the current positioning of interest rates and equity markets relative to historic lows and highs. Political drivers are particularly unpredictable and through 2017/18 we protected our Members' funds with a strategically defensive portfolio.

Other Operational Performance

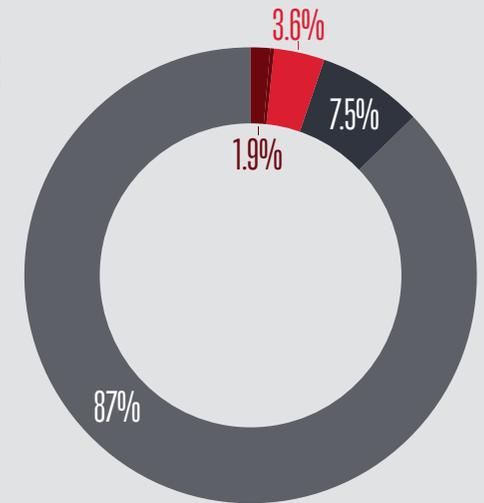
During the financial year, our defined benefit pension scheme deficits showed little movement. Any increase in the US dollar denominated value of the Sterling obligations was offset by currency gains on an investment allocation to Sterling made as a hedge when exchange rates were favourable for managing this risk.

On 31 January 2018, the Club's defined benefit schemes closed to future accrual and the underlying obligations of the schemes will no longer increase. Over time, we expect to be able to manage this exposure down as opportunities arise in the market environment or through the appetite of scheme members to draw down on their benefits more flexibly.

The implementation of the business strategy for Sunderland Marine continues to mature and we finalised the sale of the Knighthood Corporate Assurance brokerage shortly after 20 February 2018. Sunderland Marine's core portfolio represents a strong niche business that is well aligned to North's wider member-focused strategy. We are confident that this is the right route for achieving the benefits of diversification for our Members.

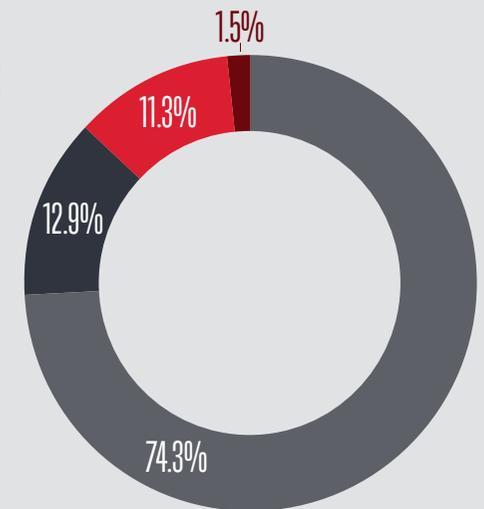
ALL CLASSES CURRENCY ALLOCATION

AT 20 FEBRUARY 2018



ALL CLASSES ASSET ALLOCATION

AT 20 FEBRUARY 2018



OPERATIONAL OVERVIEW

MEMBERSHIP UPDATE

For the second consecutive year, the Directors refrained from setting any general rate increases. The continuing challenge for shipowners from the ongoing volatility in the freight markets generally was recognised by the Directors and the Managers and was the principle reason behind the decision not to adjust P&I and FD&D rates. Correspondingly, the Club once again enjoyed significant support from the membership at the 20 February 2018 renewal, resulting in a close to 99% rate of retention.

P&I

142m

GT OWNED

FD&D

90m

GT OWNED

53m

GT CHARTERED

50m

GT CHARTERED

195m

GT COMBINED

140m

GT COMBINED

OPERATIONAL OVERVIEW

The 2017 Annual Review highlighted the above average tonnage growth achieved at the last renewal. The strides forward that were made with this year-on-year tonnage growth were however, then tempered by M&A and consolidation activity in shipping during the year. The Club was successful in some cases (resulting in significant new entries from Danish and German Members) but unsuccessful in other instances, leading to the loss of Members and ships from the Asia Pacific and Middle East regions.

Tonnage Development

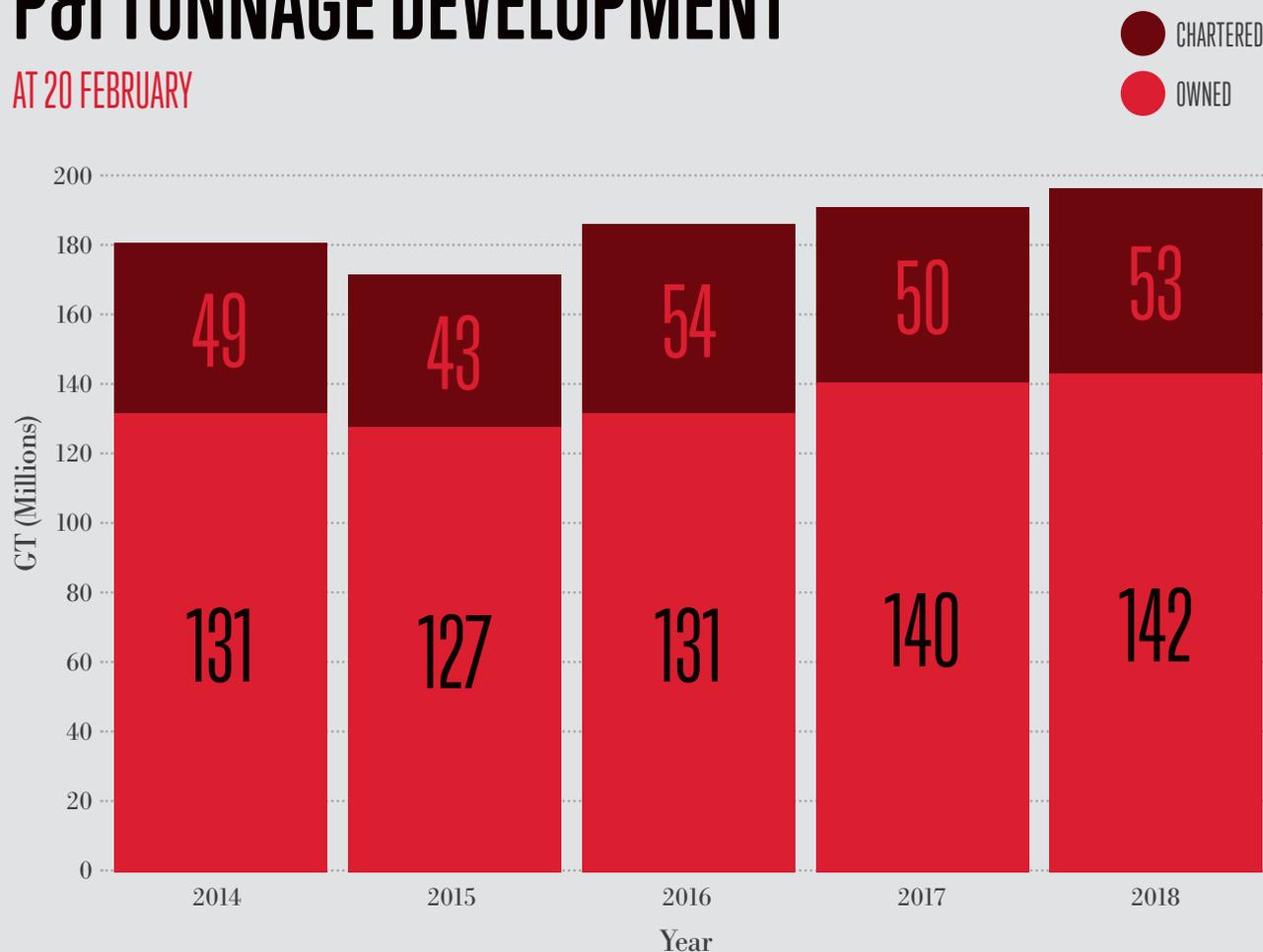
At the 20 February 2018 renewal, we were pleased to welcome new P&I and FD&D Members from Singapore, Japan, Greece and Qatar. The result of the M&A activity during the year however, meant that the year-on-year increase in P&I mutual tonnage was less than 1.5%. In line with the Club's strategic objective of continuing to diversify our income streams however, P&I chartered tonnage continued to grow, increasing by 6%.

The Club's well-established and market leading FD&D service was particularly well acknowledged at this renewal, resulting in tonnage growth in excess of 10% from both existing and new Members from several regions, including Greece, Singapore and Hong Kong.

Owned P&I tonnage entered has therefore now increased to 142 million GT, with chartered tonnage standing at 53 million GT. Overall FD&D tonnage entered is now at 140 million GT for owned and chartered Members.

P&I TONNAGE DEVELOPMENT

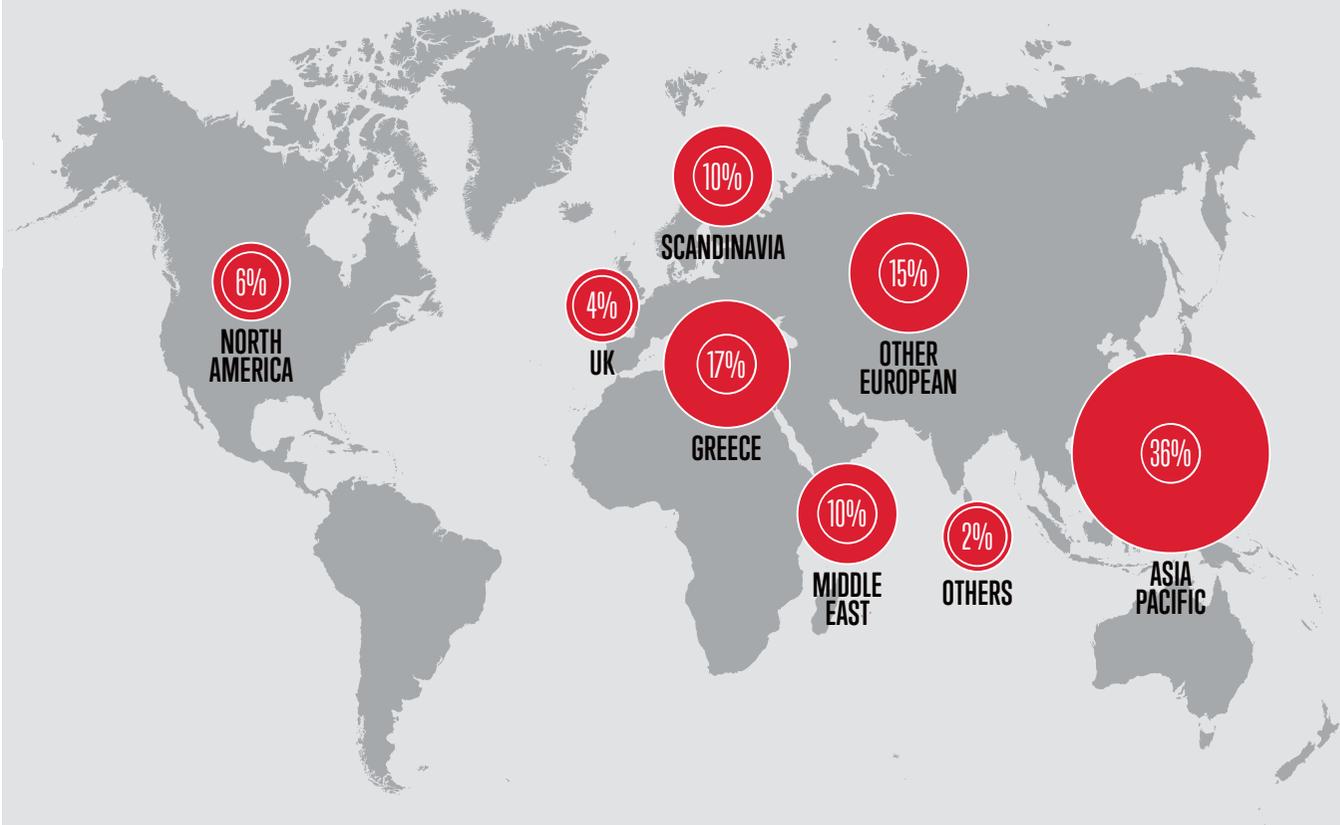
AT 20 FEBRUARY



OPERATIONAL OVERVIEW

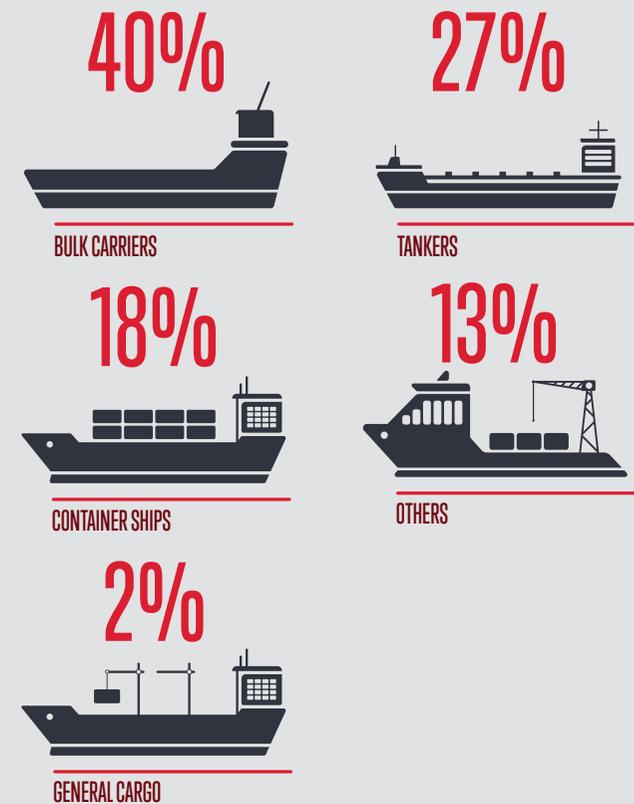
ENTERED GT BY DISTRIBUTION

OWNED & CHARTERED



ENTERED GT BY SHIP TYPE

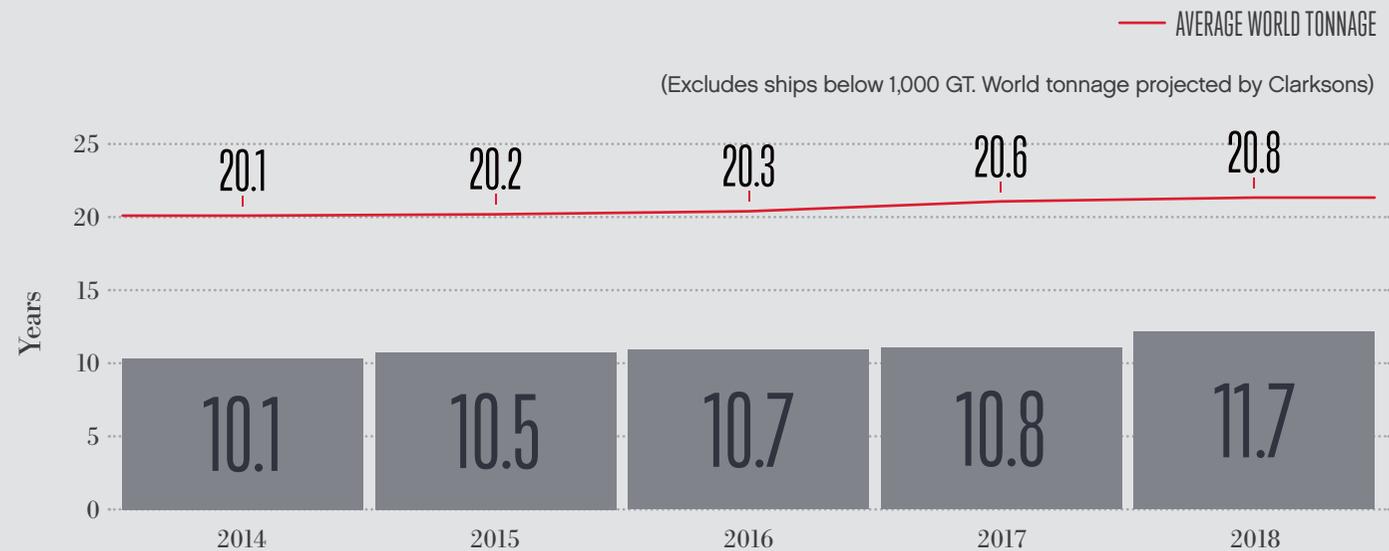
OWNED & CHARTERED



OPERATIONAL OVERVIEW

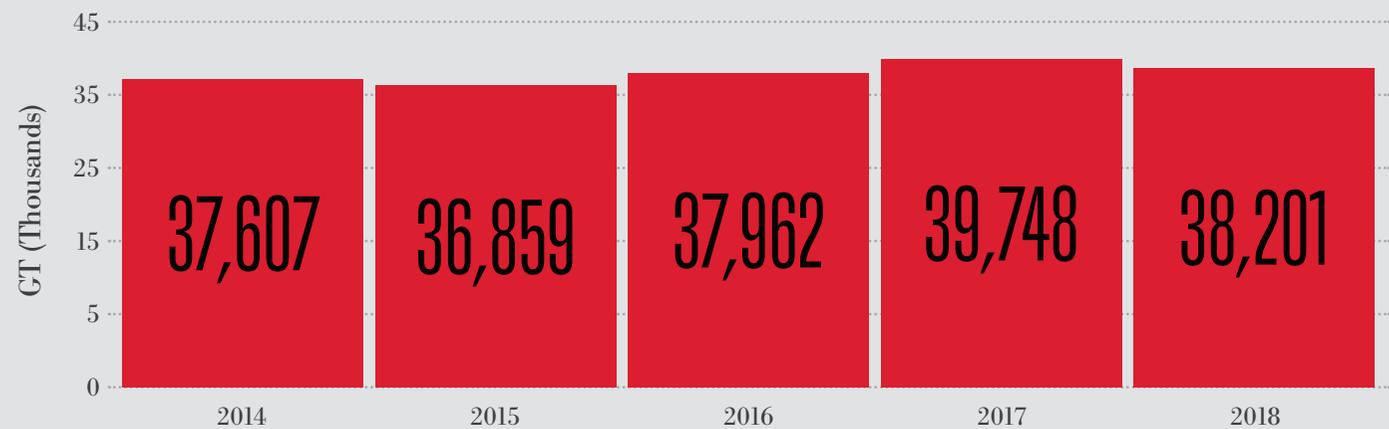
AVERAGE SHIP AGE (P&I)

(NORTH OWNED TONNAGE ONLY)
AT 20 FEBRUARY



AVERAGE SHIP SIZE (P&I)

(NORTH OWNED TONNAGE ONLY)
AT 20 FEBRUARY



P&I owned tonnage only. Excludes ships below 1,000 GT

OPERATIONAL OVERVIEW

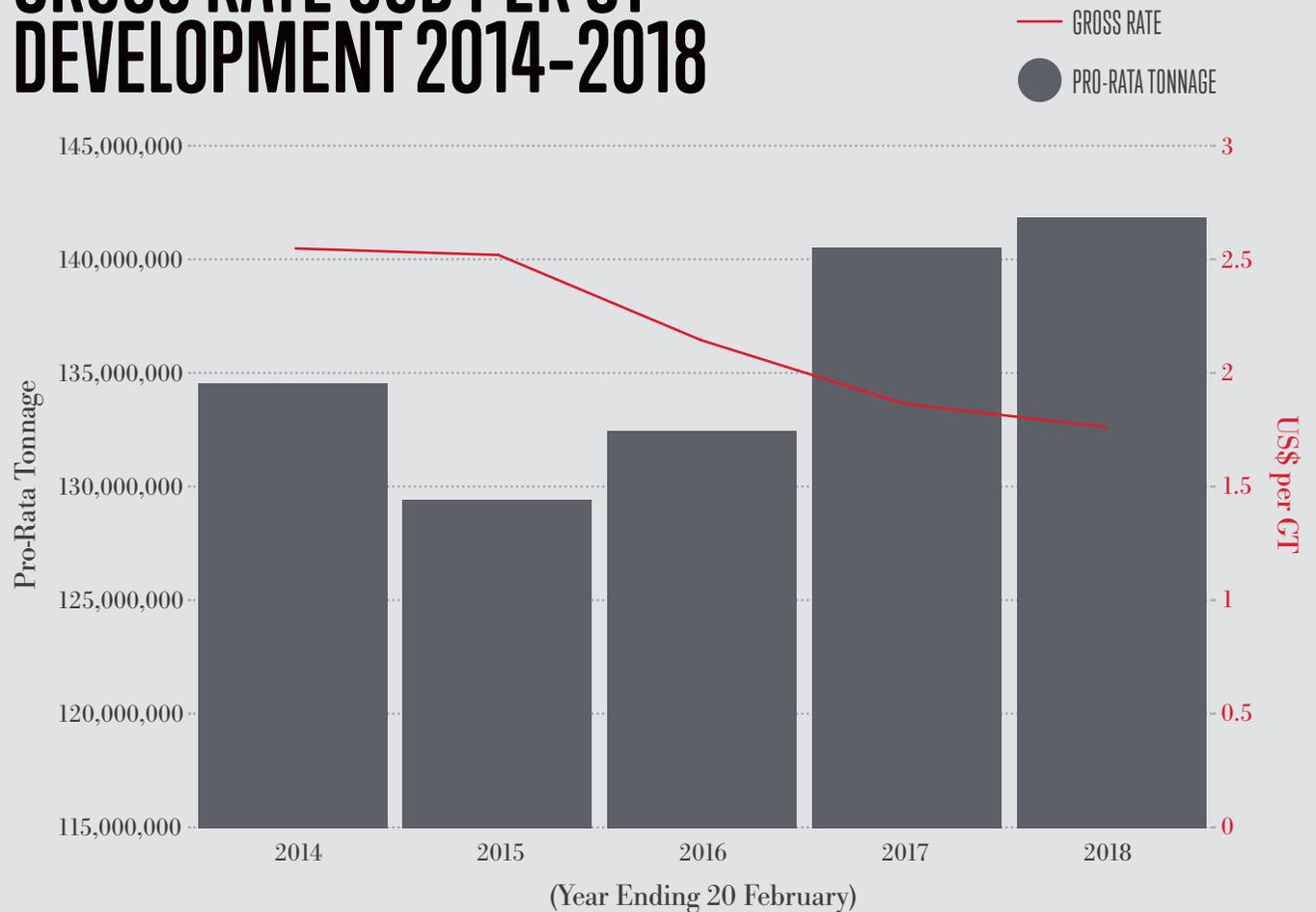
Operational Review

The 2017/18 policy year claims saw a slightly better than average experience in terms of the cost of large claims, as well as a continuation of the stable and now predictable experience in terms of attritional claims. The benign claims experience of the last few years is due in no small part to our risk management efforts with the Member Review Programme.

The deterioration therefore, in the financial year combined ratio to 104% is further evidence of the ongoing challenge that we face in terms of the market wide erosion of retained premium during the current “soft” insurance market cycle and due to heightened demolition activity.

The Directors remain mindful of the economic challenges facing the membership and the earnings volatility caused by structural overcapacity in shipping. The Club's strategic objectives and supporting management plans are continuously reviewed to meet these challenges and consequently, the need to secure the economic benefits from premium diversification will play a major role in the Club's future plans. The diversified fixed premium underwriting platform afforded by Sunderland Marine is expected to deliver long-term financial benefits following a period of reorganisation and simplification of its business model. Allied to this, is the continuing development of the North chartered service proposition, which has seen growth across many regions in terms of both P&I, and especially FD&D entries. We expect to report further positive developments in these areas in the years to come.

GROSS RATE USD PER GT DEVELOPMENT 2014-2018



OPERATIONAL OVERVIEW

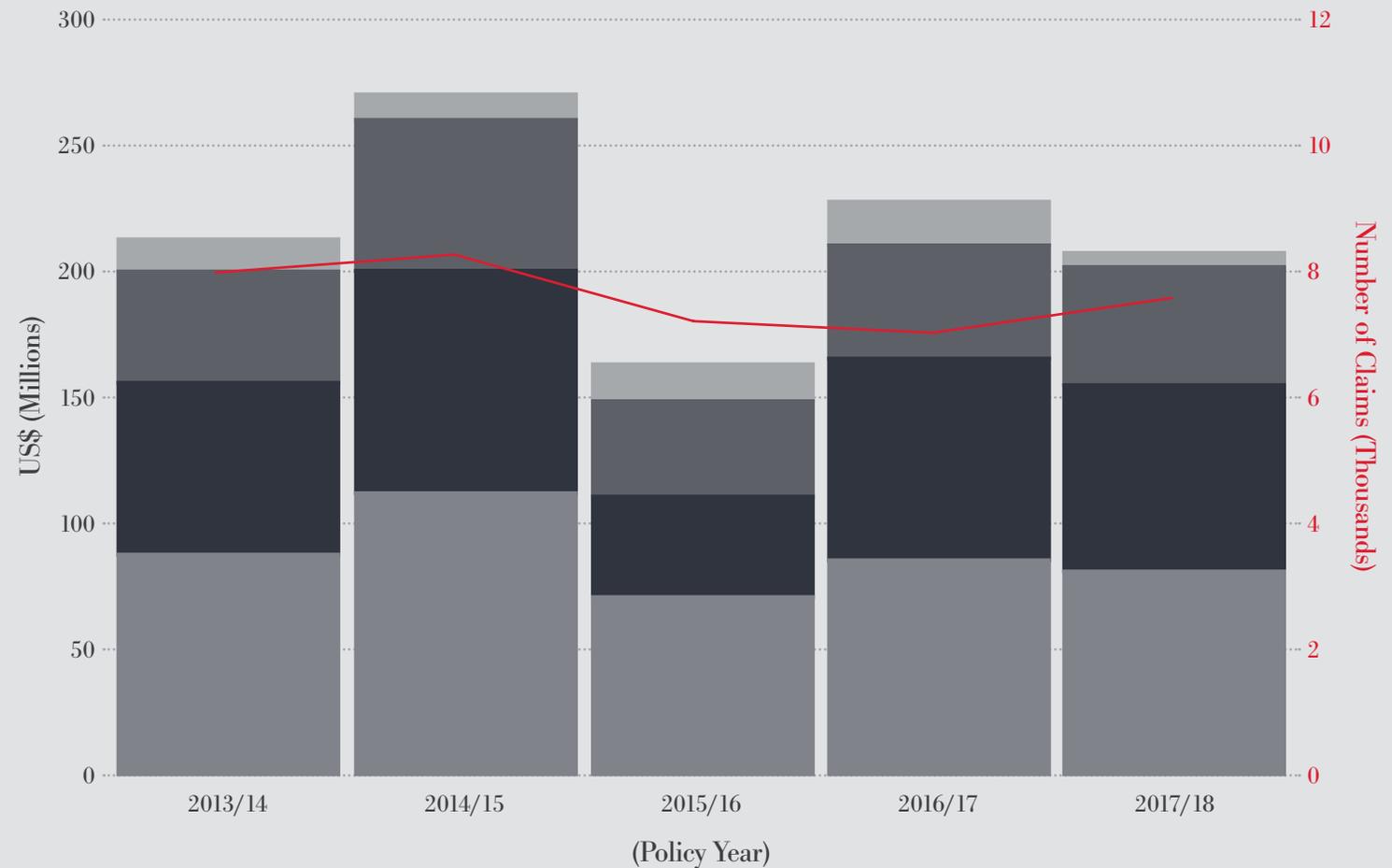


MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT - ALL CLAIMS

P&I Claims

The 2017 policy year showed an improvement on 2016 with estimated claim values lower by approximately US\$16 million. This was despite a slight increase in the overall claim numbers, which, although higher than 2016, still remain much improved compared to policy years prior to 2015. This general improvement in total claim numbers is despite a rise in ship numbers and tonnage over the same period. However, despite these modest improvements, we must remain conscious of the many operational pressures facing Members, not least resourcing. It has long been recognised that human behaviour can have a significant impact on claim results, which is particularly evident in higher value claims.



OPERATIONAL OVERVIEW

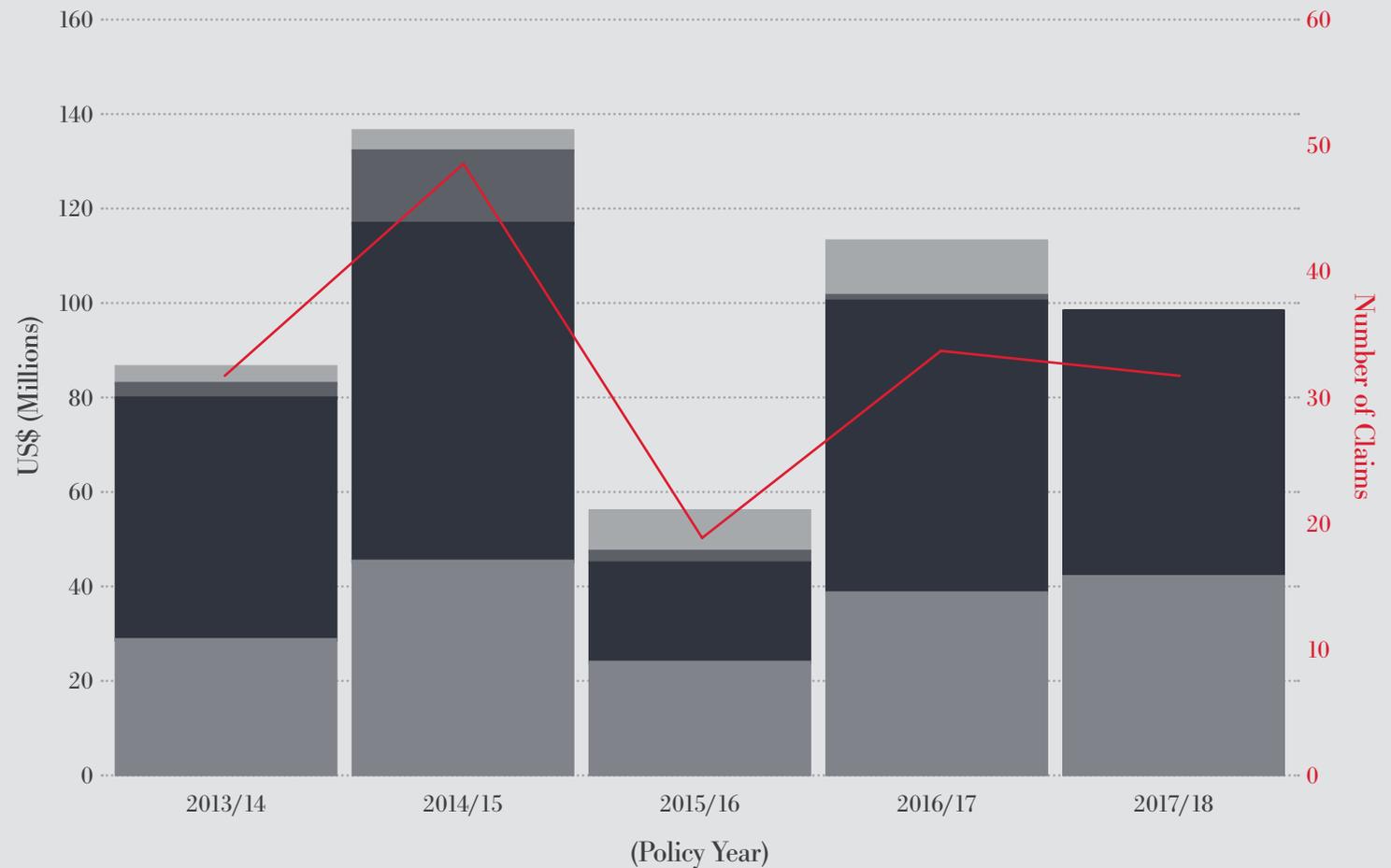


MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT VALUED IN EXCESS OF US\$1 MILLION

Large Claims Experience

As in previous years, and in common with all other clubs, the most significant factor influencing claim costs is the number of high value claims. In 2017, Members had 32 claims in excess of US\$1 million, accounting for 47% of total claim values. Also as with previous years, the most significant number of such claims are admiralty related. We believe the vast majority of all claims at this level could be avoided by enhanced procedures, better training and more effective safety cultures. These areas remain the major focus of our Loss Prevention activities.



OPERATIONAL OVERVIEW

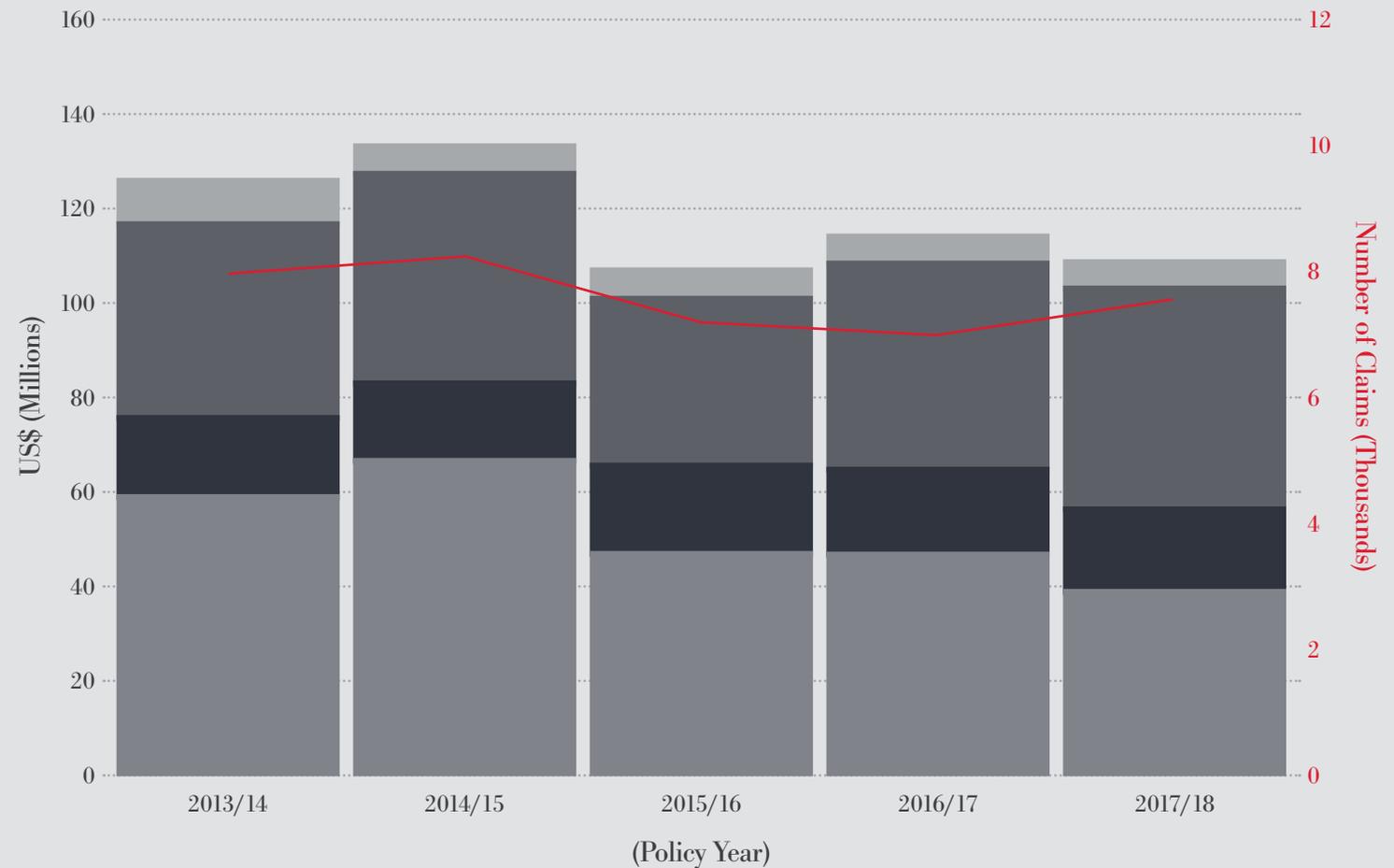


MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT
VALUED BELOW US\$1 MILLION

Attritional Claims Experience

Claim results below US\$1 million are clearly much less volatile. In 2017, these claims, in terms of number and value, are in line with policy years 2015 and 2016 and the generally lower incidence and value of such claims over the last few years, despite a period of growth for the Club, is encouraging.



OPERATIONAL OVERVIEW

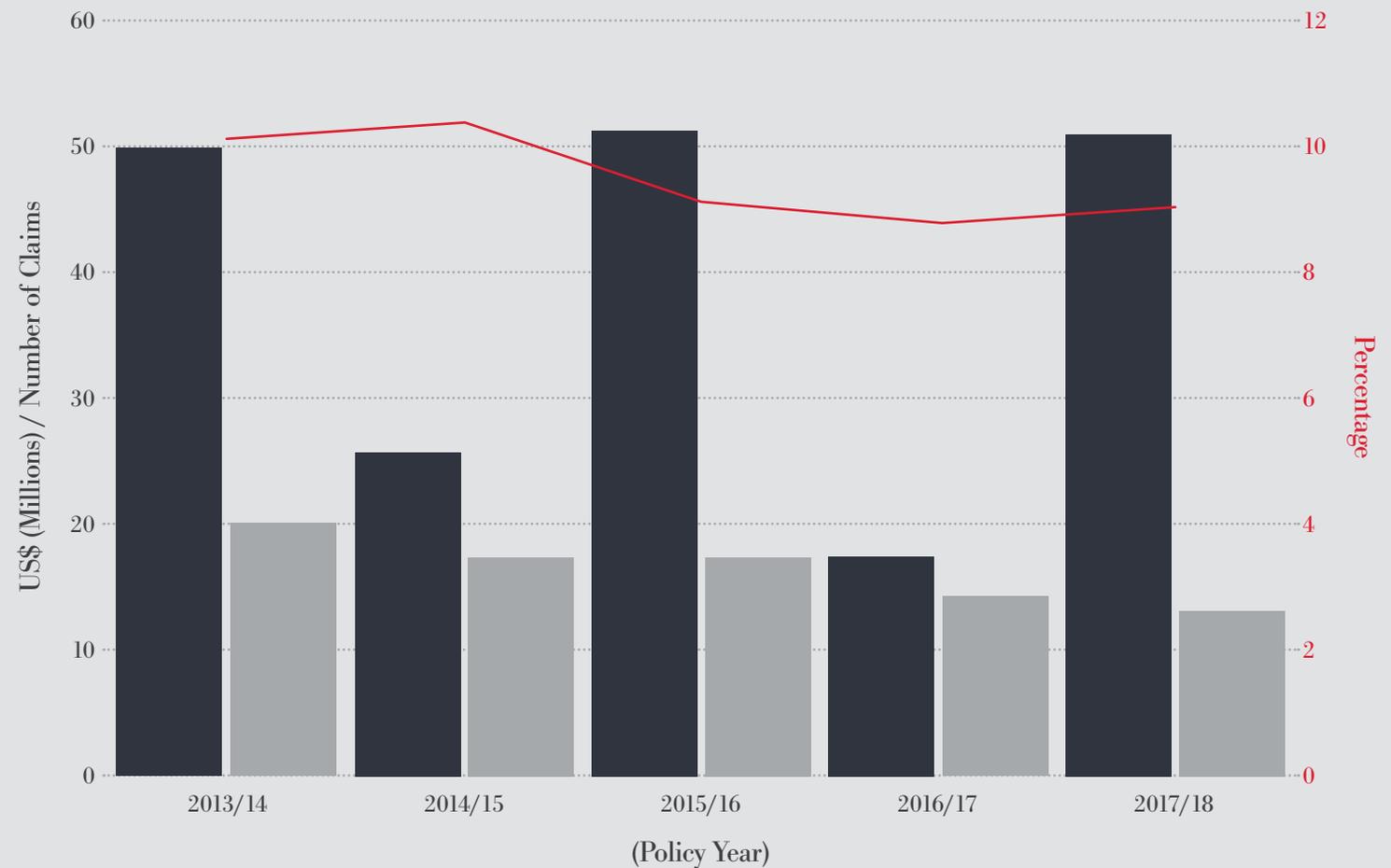
- NORTH LOWER POOL %
- POOL COST TO NORTH
- NO. OF IG POOL CLAIMS

INTERNATIONAL GROUP POOL CLAIMS

Pool Claims

There were thirteen claims notified to the IG pool in the 2017 policy year by the 12-month point, with an additional six notified which may exceed retention for the policy year. These claims to the pool are inherently complex and volatile and the 2017 experience is more in line with the recent average, rather than the very benign experience in the 2016 policy year. As is the norm, the majority of these claims are admiralty incidents.

Development of IG Pool Claims by value & number of claims



OPERATIONAL OVERVIEW

Loss Prevention

In addition to the Club's Loss Prevention team working with Members to reduce the number of claims, particularly high value claims, they have also been developing their capabilities and resources to advise on the many technological and regulatory changes currently facing the industry. Challenges such as cyber security, the risks associated with autonomous ships, and the potential implications of the 2020 global sulphur fuel cap have been addressed with a range of information and guidance provided through the Club's website.

For those Members wishing to take more direct action in dealing with cyber risks, we partnered with Hudson Analytix to provide discounted access to Cyberlogix, a notable cyber-risk self-assessment and decision support tool.

Moving forward, further resources will be directed towards helping Members deal with technological and regulatory changes expected over the next few years. The risks and opportunities around the development of autonomous vessels have been considered in some detail by the team. Our Deputy Director of Loss Prevention, who is heavily involved in assessing the operational risks of these vessels, chairs the IG sub-committee on Autonomous Vessels.

In addition, the use of scrubbers, LNG as fuel, fuel blends, gas oil and alternative fuels are all future options facing the industry in order to deal with the sulphur cap changes due in 2020. The Loss Prevention team is therefore now actively reviewing the implications of this for vessel operations.

The technical, safety and commercial implications of these different options need to be fully explored before advice and recommendations can be given to our Members.

We are confident that our Members will respond to these changes, whether technological or regulatory, in their usual resilient and resourceful way. Members can also be confident that our Loss Prevention team will be there to support their operations in meeting these new and emerging challenges. We are certain that our Members will recognise that these challenges should not divert attention away from the day-to-day fundamentals of safe and successful ship operations – employing the right crew, deploying sensible systems and encouraging safe and efficient behaviours.

FD&D Claims

Throughout 2017, we continued to see growth in claims volumes, although claims values remained consistent with the 2016 policy year.

Speed and consumption disputes have been prevalent this year, as charterparty clauses become more detailed and complex, leading to increased uncertainties in performance evaluation. Rising costs of hire and bunkers have also incentivised the pursuit and defence of performance claims, as Members move to protect their assets.

Cyber-crimes and associated frauds have also featured, with more attacks against Members' IT systems and payment processes. Stolen funds and missed payments have affected some Members' trade and we have provided support to deal with and minimise any disruption.

Time charter trips continue to prove popular as owners and operators try to capitalise on increasing hire rates in certain spot markets. This hybrid charterparty can give rise to legal uncertainties as to whether disputes will be treated as time or voyage charters. Clauses taken and/or adapted from both long-term time charters and voyage charters may be incorporated, but may conflict with one another or prove inappropriate for a short-term charter. In particular, we have seen disputes connected to the ability to employ the vessel at multiple load / discharge ports and rights on redelivery, including final hire payments and credit for bunkers.

High volumes of low-value claims and unpaid debts continued through 2017, with cash-flow difficulties and litigious attitudes prevailing within the shipping community due to the difficult economic climate.

Our growing team of specialist lawyers handled the majority of English law claims and enquiries in-house, with our Members benefiting from the expert advice of a known and trusted team. This model remains cost-effective and provides value for money, while also ensuring the highest levels of quality service is delivered to enable our Members to trade with confidence.

Our FD&D membership has continued to grow during the past year, with strong support from existing Members and new Members joining to benefit from our market-leading experience. We expect this growth to continue in 2018, as our strategy to invest in our FD&D team and develop our membership progresses.

INDUSTRY ISSUES

2017 was a pivotal year for shipping and its related industries.

It may well come to be seen as the year in which some of the profound changes that are associated with the fourth industrial age became part of mainstream thinking within the shipping industry. Increasingly, global shipping policy is driven by environmental and regulatory concerns and the impact of new technologies. The pace at which these factors have influenced shipping accelerated markedly during the year.

In 2018, the IG, of which North is a leading member, is set to welcome the first fully automated short sea coastal vessel into a member club. This milestone, whilst significant, hides the real impact of these new technologies. Fully automated ocean going vessels may be some years away but increasingly it is becoming possible to automate systems that in the past would have required dedicated crew to ensure safe operation. Properly implemented, the increased use of such systems is a good thing; but they will require investment and training in the skills necessary to operate the new systems.

Logically and properly utilised, the introduction of such technologies will lead to a reduction in the number of claims. Most obviously, smaller crews will drive a reduction in the number of crew claims but the introduction of artificial intelligence also has the potential to reduce all types of claim, including the traditional admiralty claims. However, it is worth remembering that when something does go wrong there are less people on board to deal with the emergency.

It is not just ships that will benefit from new technology. Blockchain offers the potential for huge efficiencies particularly in the field of containerised transport and represents perhaps the first serious challenge to the paper bill of lading in over four centuries.

If 2017 was the year in which shipping became alive to the potential of these new technologies, it was also the year in which the industry realised the extent of the associated risks. In June, one of the world's leading shipping companies was disrupted by the NotPetya cyber-attack – ransom malware that shut down the IT systems causing ships and terminals to lie idle. The losses are reported to run to hundreds of millions of dollars but the point is this – if a cyber-attack can happen to a sophisticated, world leading shipping business it can happen to anyone.

This can range from a malware attack such as NotPetya to low level intercepts of emails and the redirecting of funds otherwise destined for agents or suppliers. A vessel that cannot operate because its computers are infected by a virus not only costs its owner money due to downtime, it may also be unseaworthy. Any owner that has failed to have taken proper measures to protect itself from such viruses risks breaching its obligation to exercise due diligence to make the vessel seaworthy at the commencement of the voyage.

2017 also saw the shipping and insurance industries gearing up to meet the challenges of data management and more particularly the need for European ship managers and insurers to comply with the EU General Data Protection Regulation (GDPR) from 25 May 2018.

> **Continued over**

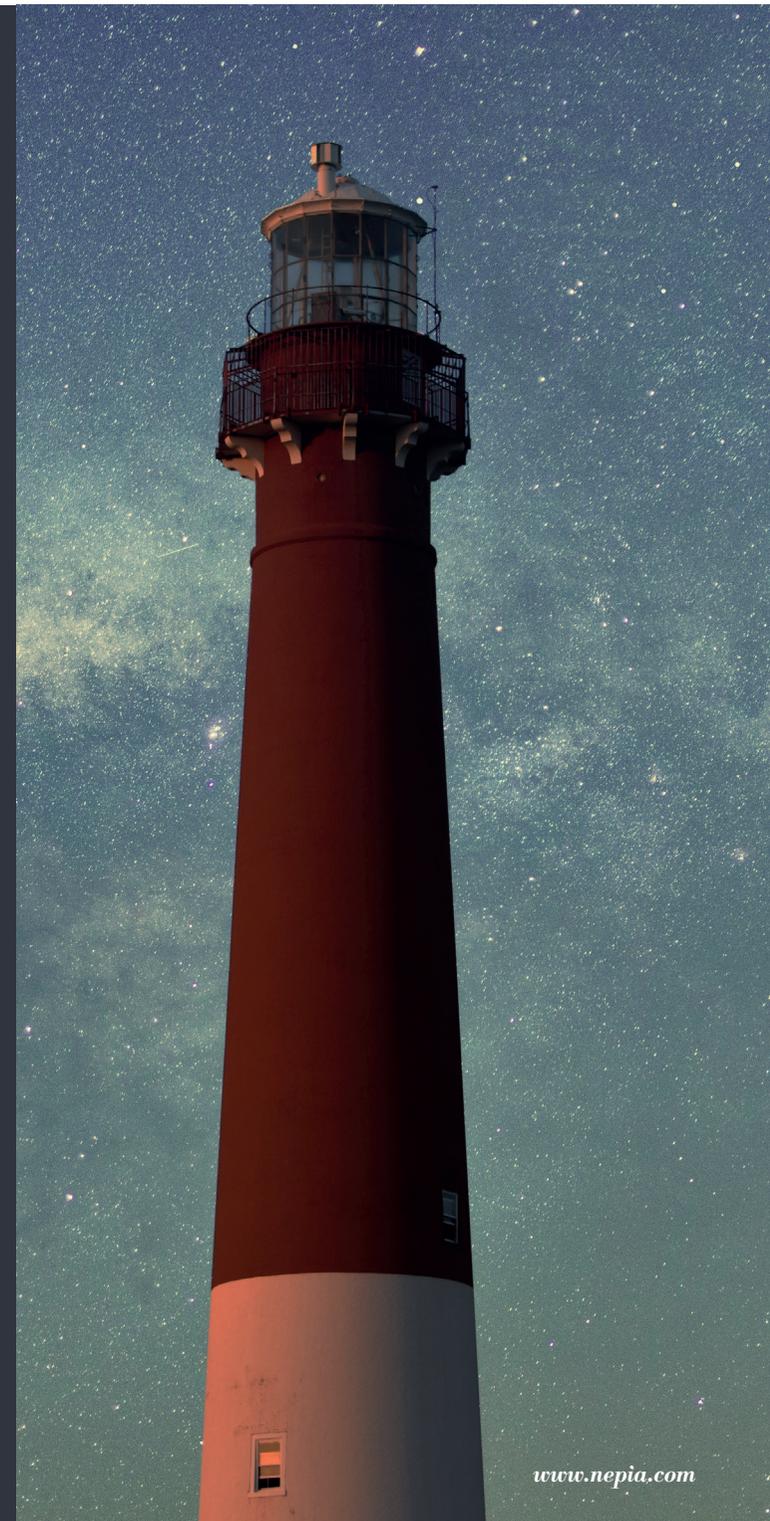
INDUSTRY ISSUES

To date, the exponential increase in the world's ability to collect and store data has not been matched by rules as to how such data should be collected, used and disposed of and the EU GDPR seeks to address that. Europe may be first, but other jurisdictions are expected to follow suit. The Club and its Members will have to invest to ensure that data acquired in the process of handling claims or simply in the process of its day-to-day operations are properly handled. The IG issued a circular on the subject in February 2018 and further guidance will be forthcoming that aims to assist Member comply with their obligations under this necessarily complex legislation.

During the year, the International Group Correspondents' Conference took place in London. The conference recognised the efforts of the clubs' correspondents and reinforced the importance of good local representation. This year also saw the roll out of the IG P&I qualification to correspondents worldwide.

The role of the IG will continue to evolve to meet the range of challenges and changes already being witnessed within the global shipping community. In June 2017, the IG Managers undertook a series of strategy meetings focused on the current structure and operation of the Group. These discussions were informed by the findings of the research survey undertaken earlier in the year, which has helped identify potential areas for review and consideration. This work is timely and it is likely that the outcome of this review will ensure that the IG and its constituent agreements remain relevant and able to adapt to the changing needs of their shipowner members for the near future.

North is actively supporting the on-going development and operation of the IG with members of the management team holding key leadership roles on a number of committees including the Sanctions Committee, Claims Cooperation Committee, and current Chairman of the Reinsurance Sub-Committee.



COMBINED FINANCIAL 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

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.

ACCOUNTANT'S REPORT (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

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
Assets			
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
Financial assets			
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
Total assets		1,413,731	1,494,210
Accumulated surplus			
Income and expenditure account	14	50,837	70,340
Contingency fund	15	395,099	352,952
Revaluation reserve	14	4,526	7,483
Total accumulated surplus		450,462	430,775

COMBINED STATEMENT OF FINANCIAL POSITION (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

	Note	2018	2017
Non-controlling interest		361	315
Liabilities			
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
Total liabilities		962,908	1,063,120
Total accumulated surplus and liabilities		1,413,731	1,494,210

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
Net income		341,798	365,704

COMBINED INCOME STATEMENT (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

	Note	2018	2017
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
Total expenses		(321,404)	(321,711)
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)
Surplus for the year		12,923	36,956
Attributable to			
Owners		12,798	36,818
Non-Controlling interest		125	138
		12,923	36,956

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
Surplus for the year		12,923	36,956
Other comprehensive income			
<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)
Net other comprehensive income to be reclassified to profit or loss		7,612	(4,805)
<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)
Total comprehensive income for the year, net of tax		19,812	2,512
Attributable to			
Owners		19,687	2,374
Non-Controlling interest		125	138
		19,812	2,512

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.

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)

1.1 Basis of presentation (continued)

(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.

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

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)

1.4 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.

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.

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 (continued)

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.

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)

1.8 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.

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.

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

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.

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)

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.

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.

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)

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
Assets							
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		–	–	–	–	–	–
Claims outstanding	5	146,188	2,033	–	79,677	(45,257)	182,641
Financial assets							
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
Total assets		1,202,432	61,339	5,883	253,600	(109,523)	1,413,731

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Accumulated surplus							
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
Total accumulated surplus		370,923	40,012	5,674	74,188	(40,335)	450,462
Non-controlling interest		–	–	–	361	–	361
Liabilities							
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
Total liabilities		831,509	21,327	209	179,051	(69,188)	962,908
Total accumulated surplus and liabilities		1,202,432	61,339	5,883	253,600	(109,523)	1,413,731

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 financial positions 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
Net income		283,844	19,589	243	32,249	5,873	341,798

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

INCOME STATEMENT (CONTINUED)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
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
Total expenses		(271,267)	(14,573)	(64)	(29,627)	(5,873)	(321,404)

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 financial positions 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)
Surplus / (deficit) for the year		11,053	5,451	182	(3,763)	–	12,923
Other comprehensive income		(2,208)	–	–	9,097	–	6,889
Total movement in reserves for the year, net of tax		8,845	5,451	182	5,334	–	19,812
Attributable to							
Owners		8,845	5,451	182	5,209	–	19,687
Non-controlling interest		–	–	–	125	–	125
		8,845	5,451	182	5,334	–	19,812

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 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
Assets							
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		–	–	–	–	–	–
Claims outstanding	5	213,899	4,096	–	81,550	(46,871)	252,674
Financial assets							
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
Total assets		1,247,310	60,901	5,632	294,596	(114,229)	1,494,210

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

STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
Accumulated surplus							
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
Total accumulated surplus		362,082	34,561	5,493	68,974	(40,335)	430,775
Non-controlling interest		–	–	–	315	–	315
Liabilities							
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
Total liabilities		885,228	26,340	139	225,307	(73,894)	1,063,120
Total accumulated surplus and liabilities		1,247,310	60,901	5,632	294,596	(114,229)	1,494,210

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 financial positions 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
Net income		294,928	19,923	171	42,881	7,801	365,704

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

INCOME STATEMENT (CONTINUED)

	Note	P&I	FD&D	War Risks	SMI	Interclass Adjustments	Total
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
Total expenses		(252,509)	(12,749)	(43)	(48,609)	(7,801)	(321,711)

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 financial positions 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)
Surplus / (deficit) for the year		34,701	4,117	123	(1,985)	–	36,956
Other comprehensive income		(25,582)	–	–	(8,862)	–	(34,444)
Capital contribution		–	–	–	25,000	(25,000)	–
Total comprehensive income for the year, net of tax		9,119	4,117	123	14,153	(25,000)	2,512
Attributable to							
Owners		9,119	4,117	123	14,015	(25,000)	2,374
Non-controlling interest		–	–	–	138	–	138
		9,119	4,117	123	14,153	(25,000)	2,512

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
Market value					
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
	886,807	49,438	5,069	33,580	974,894
Cost					
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
	840,834	48,972	4,863	33,579	928,248
	Year ended 20 February 2017				
	P&I	FD&D	War Risks	SMI	Total
Market value					
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
	845,396	47,317	4,900	25,194	922,807
Cost					
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
	814,468	47,038	4,863	25,193	891,562

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

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
	61,208	7,001	774	75,207	144,190
	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
	65,738	5,090	719	90,578	162,125

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			
At 20 February 2018						
Gross outstanding claims						
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
	308,312	96,311	123,196	192,330	16,939	737,088
Reinsurance amount						
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
	80,056	11,282	26,086	28,764	–	146,188
Net outstanding claims	228,256	85,029	97,110	163,566	16,939	590,900
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
Net outstanding claims	289,775	119,246	127,704	–	14,637	551,362

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 (continued)

POLICY YEAR ANALYSIS (CONTINUED)

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

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
	52,214	1,428	72	39,359	(24,897)	68,176
	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
	58,646	1,290	8	68,034	(35,882)	92,096

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

7. Net fair value gains at fair value through income

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Debt securities					
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)
	2,232	683	169	312	3,396
Equity securities					
Net movement on unrealised gains	19,275	–	–	–	19,275
Derivative hedging	5,809	1,009	–	–	6,818
	27,316	1,692	169	312	29,489

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

7. Net fair value gains at fair value through income (continued)

	Year ended 20 February 2018				
	P&I	FD&D	War Risks	SMI	Total
Debt securities					
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
	17,929	876	56	338	19,199
Equity securities					
Net movement on unrealised gains	14,076	–	–	–	14,076
Derivative hedging	(2,896)	(327)	–	–	(3,223)
	29,109	549	56	338	30,052

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
	61	–	–	8	69

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

9. Insurance claims and loss adjustment expenses

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
Gross claims paid						
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
	203,436	10,003	–	67,817	(30,211)	251,045
Movements in gross outstanding claims						
Members' claims	(48,304)	(5,377)	–	(7,621)	1,614	(59,688)
Pooling agreement	20,131	–	–	–	–	20,131
	(28,173)	(5,377)	–	(7,621)	1,614	(39,557)
Total gross claims	175,263	4,626	–	60,196	(28,597)	211,488

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

9. Insurance claims and loss adjustment expenses (continued)

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
Gross claims paid						
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
	232,783	11,680	–	79,614	(28,047)	296,030
Movements in gross outstanding claims						
Members' claims	(5,559)	(2,353)	–	7,843	(6,145)	(6,214)
Pooling agreement	(2,244)	–	–	–	–	(2,244)
	(7,803)	(2,353)	–	7,843	(6,145)	(8,458)
Total gross claims	224,980	9,327	–	87,457	(34,192)	287,572

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

10. Insurance claims and loss adjustment expenses recovered from reinsurers

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

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

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

	Year ended 20 February 2018					
	P&I	FD&D	War Risks	SMI	Interclass	Total
Reinsurance recoverable on claims paid						
Claims recoverable from reinsurers	3,936	279	–	52,224	(28,047)	28,392
Claims recoverable under the pooling agreement	12,076	–	–	–	–	12,076
	16,012	279	–	52,224	(28,047)	40,468
Movements in reinsurance recoverable on outstanding claims						
Recoveries due from reinsurers	9,129	1,960	–	3,791	(6,145)	8,735
Recoveries due under the pooling agreement	(7,644)	–	–	–	–	(7,644)
	1,485	1,960	–	3,791	(6,145)	1,091
	17,497	2,239	–	56,015	(34,192)	41,559

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

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
	26,708	1,307	9	7,557	35,581

	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
	28,217	1,401	10	13,728	43,356

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.

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

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)
	18,562	6,574	33	19,015	44,184

	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)
	14,099	4,220	30	18,282	36,631

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

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)
	(568)	435	3	(6,415)	(6,545)

	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
	(7,561)	(3,057)	(5)	5,207	(5,416)

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

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)	–	–	–
At 20 February 2018	50,837	395,099	4,526	450,462	361	450,823

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

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)
Closing balance		395,099		352,952
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)
Closing balance		358,539		325,200

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 2018

15. Contingency fund (continued)

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
Closing balance		36,560		27,752

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)

20 February 2018

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
	1,063	8,550

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

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

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
Balances available for outstanding claims	213,498	122,591	109,866	138,562	–	358,539	–	943,056

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

17. Combined P&I Class policy year statement (continued)

	Closed Years	2015 /2016	2016 /2017	2017 /2018	Claims Handling Reserve	Contingency Fund	Revaluation Reserve	Total
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
Surplus / (deficit) at 20 February 2018	–	37,562	12,755	(25,003)	(16,939)	358,539	4,009	370,923
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)

20 February 2018

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	–	–	–
	43,955	42,533	46,182

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)

20 February 2018

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
Balances available for outstanding claims	3,576	6,780	5,130	5,938	–	36,560	57,984

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

19. Combined FD&D Class policy year statement (continued)

	Closed Years	2015 /2016	2016 /2017	2017 /2018	Claims Handling Reserve	Contingency Fund	Total
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)
Surplus / (deficit) at 20 February 2018	–	5,588	2,274	345	(4,755)	36,560	40,012
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)

20 February 2018

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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