

CIRCULAR REF: 2014/028

**CIRCULATED TO ALL MEMBERS AND DIRECTORS
ATTENTION INSURANCE DEPT**

**27 OCTOBER 2014
CWN/JI**

ANNUAL GENERAL MEETING OF THE NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (THE "ASSOCIATION")

Enclosed is formal Notice of the Annual General Meeting of the Members of the Association which is to be held at The Royal Automobile Club, 89 Pall Mall, London, SW1Y 5HS at 09:00 hours on Friday 14 November 2014.

A Form of Proxy and Form of Authorisation for a Corporate Representative for this meeting are also enclosed as well as the statutory reports and financial statements of the Association for the year ended 20 February 2014.

Annual General Meeting of the North of England Mutual Insurance Association (Bermuda) Limited ("NEMIA")

At the request of the Company's Directors, notice of the Annual General Meeting of NEMIA is also enclosed as well as a copy of the Financial Statements of NEMIA and a Form of Proxy for that meeting.

For ease of reference the following documents are enclosed:

1. Notice of the Annual General Meeting of the Association;
2. Statutory Reports and Financial Statements of the Association for the year ended 20 February 2014;
3. Form of Proxy and Form of Authorisation for the Annual General Meeting of the Association;
4. Notice of the Annual General Meeting of NEMIA;
5. Financial Statements of NEMIA; and
6. Form of Proxy for the Annual General Meeting of NEMIA.

CHRIS OWEN
CORPORATE COUNSEL & COMPANY SECRETARY
The North of England P&I Association Limited

CIRCULAR

THE NORTH OF ENGLAND P&I ASSOCIATION LIMITED 100 The Quayside, Newcastle upon Tyne, UK, NE1 3DU
Telephone: +44 (0) 191 2325221 Fax: +44 (0) 191 2610540 www.nepia.com

The North of England Protecting and Indemnity Association Limited. Registered in England No. 505456. Registered Office above Hong Kong: Room 3007-08 COSCO Tower, 183 Queen's Road, Central, Hong Kong Telephone: +852 25446813 Fax: +852 25424424.
Greece: 5-7 Aghiou Nikolaou, GR 185 37 Piraeus, Greece Telephone: +30 210 4283038 Fax: +30 210 4280920.
Singapore: 80 Anson Road, #26-04 Fuji Xerox Towers, Singapore 079907 Telephone: +65 64110160 Fax: +65 62240160.
Tokyo: Shinkyobashi Building, 6th Floor, 2-8-8 Kyobashi, Chuo-ku, Tokyo, Japan, 104 – 0031 Telephone: +81 (3) 5159 5373 Fax: +81 (3) 5250 0003.
The North of England P&I Association Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

**THE NORTH OF ENGLAND PROTECTING AND INDEMNITY
ASSOCIATION LIMITED** ("The Association")

Company No. 505456

Company Limited by Guarantee and not having a Share Capital

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Association will be held at The Royal Automobile Club, 89 Pall Mall, London, SW1Y 5HS on Friday 14 November, 2014 at 09.00 hours where the following business will be transacted:

1. To receive and consider the reports of the Directors and the Auditors together with the financial statements for the year ended 20 February 2014;
2. To reappoint Ernst & Young LLP as Auditors and to authorise the Directors to fix the Auditors remuneration;
3. Any other business which may be transacted at the Annual General Meeting.

Dated: 27 October 2014

By order of the Board

Chris Owen
Company Secretary

Registered Office:

100 The Quayside
Newcastle upon Tyne
NE1 3DU

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

- 1 A Member is entitled to appoint another person as its proxy to exercise the Member's rights to attend, speak and vote at the meeting. A proxy need not be a Member of the Company.
- 2 A Form of Proxy is provided with this Notice for Members. If a Member wishes to appoint more than one proxy and so requires additional proxy forms, the Member should contact the Company Secretary, Chris Owen, on +44 (0)191 232 5221 or chris.owen@nepia.com. To be valid, the Form of Proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be received by post or (during normal business hours only) by hand at the Company's registered office, The North of England Protecting & Indemnity Association Limited, The Quayside, Newcastle upon Tyne NE1 3DU or by e-mail to chris.owen@nepia.com not less than 48 hours before the time of the holding of the meeting or any adjournment thereof. Completion and return of the Form of Proxy will not preclude Members from attending and voting at the meeting should they wish to do so.
- 3 Any corporation which is a Member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a Member provided that they do not do so in relation to the same ship.
- 4 If Members have general queries about the meeting, they should contact Chris Owen on +44 (0)191 232 5221 or chris.owen@nepia.com. No other methods of communication will be accepted. Members must not use any electronic address provided either in this notice of general meeting or any related documents (including the proxy form), to communicate with the Company for any purposes other than those expressly stated.

DIRECTORS'
Report 2014

NORTH 
SERVICE, STRENGTH, QUALITY



DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2014

PB Shirke ●■◆	Chairman
LB Christensen ■◆*	Vice-Chairman
JAF Cowderoy	Resigned (24 September 2013)
A Engelsman ▲■◆	
JM de Groot ▲*	
PA Jennings ●■	Joint Managing Director
AM Lynch ▲*	
SY Michael *	
RB Sumantri	Resigned (7 October 2013)
JS Tyrrell	
AA Wilson ●■	Joint Managing Director
NJA Fairfax	Appointment (24 January 2014)
AJ Agarwal	Appointment (14 January 2014)
GC Parkinson	Appointment (27 March 2014)
TF Hart ●■	Appointment (27 March 2014)
PM Johnson ▲*	Appointment (27 March 2014)

- ▲ Member of the Audit Committee
- Member of the Investment Committee
- Member of the Nominations Committee
- ◆ Member of the Remuneration Committee
- * Member of the Risk Committee

Management

North Insurance Management Limited
Newcastle upon Tyne
NE1 3DU

Bankers

Nordea Bank Finland plc
8th Floor, City Place House
55 Basinghall Street
London
EC2V 5NB

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REPORT OF THE DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2014

The Directors have pleasure in presenting their report together with the financial statements of The North of England Protecting and Indemnity Association Limited ('North') for the year ended 20 February 2014.

Membership

At 20 February 2014 the owned gross tonnage entered in North totalled 130,801,946 (2013 – 132,473,352) and there were 3,487 (2013 – 6,853) owned ships.

Events After the Reporting Period

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

Corporate Governance

The Directors are collectively responsible for the long-term success of the Club, setting the Club's strategic aims and ensuring that the Club's obligations to Members and others are understood and met.

The Board of Directors are responsible for directing the affairs of North in compliance with statutory and regulatory requirements. The Board consists of seven to nine Member Directors, up to four Executive Directors and up to three Independent Directors. The balance of voting power at Directors meetings remains with the Member Directors. The Directors have a Nominations Committee, which evaluates the performance of the Directors and proposes new Directors.

The Members Board provides a forum for Members to play an enhanced role in the governance of the Club. It has separate committees to consider matters relating to the P&I Class and FD&D Class and a Nominations Committee which considers appointments to the Board.

The Members Board has the power to appoint Directors. Any Director so appointed may serve until the next annual general meeting, when they must retire and may offer themselves for reappointment by the Members.

Directors

The Directors of North are shown on page 1.

North maintains insurance policies on behalf of all the Directors against liability arising from negligence, breach of duty and breach of trust in relation to North.

Statement of Disclosure of Information to Auditors

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- he or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Responsibilities

The Directors have voluntarily adopted International Financial Reporting Standards ('IFRS') and are therefore required to prepare accounts for each accounting period that comply with the relevant provisions of the Companies Act 2006 and IFRS as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company and the Group at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and the Group's financial position and financial performance; and
- state that the Company and the Group have complied with applicable IFRS, subject to any material departures disclosed and explained in the accounts.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2014

Directors' Responsibilities (Continued)

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

North's business activities are set out in the Strategic Report. The financial position of North, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition Note 4 to the consolidated financial statements includes North's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

North has considerable financial resources. Furthermore, North is a mutual organisation and has the facility to raise additional capital via supplementary calls from its Members for open policy years should they be required. Consequently, the Directors believe that North is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have formed a judgment at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Committees

The following committees have been established by resolution of the Board of Directors:

Risk Committee

The Risk Committee consists of a minimum of three Directors appointed by the Board. The Committee meets regularly, and its principal duties are: to review North's risk appetite and to make recommendations to the Directors in relation to risk appetite; review North's risk profile, as set out in its Risk Register, against its risk appetite; review North's risk reporting framework including the Risk Register and the controls contained therein to ensure their adequacy and effectiveness in managing North's risk profile; review North's assessment of its regulatory capital requirements, including the methodologies and assumptions used. To review the outputs of the regulatory capital assessment process to satisfy itself that the regulatory capital assessment is appropriate; review North's stress tests and reverse stress tests, assess the adequacy and effectiveness of the tests in benchmarking North's capital assessment and determine any actions which need to be taken in light of the results; ensure that North's relationship with its regulators is appropriate and that North is of good standing with its regulators; review the outcomes of regulatory assessments and North's response; and review and assess the adequacy and effectiveness of North's policies and procedures in respect of illegal acts including fraud, money laundering and bribery; to receive and review minutes and reports from the Enterprise Risk Management Committee; to review the Company's Risk Register; in respect of the Company's regulatory compliance, to review the measures taken by the Company to establish and maintain systems and controls appropriate to its business and to review the measures taken by the Company to establish and maintain its Individual Capital Assessment.

Audit Committee

The Audit Committee consists of a minimum of three Non-executive Directors and meetings are also attended by representatives of North's Management and staff. The Committee meets not less than twice a year, and its principal duties are: to consider the appointment of the external auditor, the audit fee, and any questions of their resignation or dismissal; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; to discuss with the external auditor, before the audit commences, the nature and scope of the audit; to review the annual financial statements before submission to the Board of Directors; to discuss the results of the audit and any matters the auditor may wish to discuss; to review the external auditor's management letter recording internal control recommendations and management's responses to those recommendations; to receive and review minutes and reports from the Enterprise Risk Management Committee; to review North's Risk Register; in respect of North's regulatory compliance, to review the measures taken by North to establish and maintain systems and controls appropriate to its business and to review the measures taken by North to establish and maintain its Individual Capital Assessment; to consider the appointment of the internal auditor, their fee, and any questions of their resignation or dismissal; to consider and approve the internal audit plan; to consider the work of internal audit against the plan and to consider the reports of internal audit.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2014

Committees (Continued)

Investment Committee

The Investment Committee consists of the Joint Managing Directors, four Non-executive Directors and two independent consultants. It meets four times a year and its principal duties are: to periodically review the investment strategy of North and make recommendations to the Board of Directors; to periodically review the reinsurance arrangements, including investment strategy, with North of England Mutual Insurance Association (Bermuda) Limited ["North of England (Bermuda)"] and to provide the Board of Directors with recommendations to be considered by North of England (Bermuda); to ensure the adequacy of the custodian arrangements of North and North of England (Bermuda); to review and monitor the performance of investment managers, to receive written and personal presentations and report and make recommendations to the Board of Directors; and to investigate and make recommendations to the Board of Directors regarding the appointment of investment managers.

Nominations Committee

The Nominations Committee consists of the Chairman of the Board of Directors, the Joint Managing Directors and two other Non-executive Directors. Meetings are held not less than four times per year and its principal duties are: to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board of Directors compared to its current position and make recommendations to the Board of Directors with regard to any changes; to give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing North, and what skills and expertise are therefore needed on the Board of Directors in future; to be responsible for identifying and nominating for approval candidates to fill Directors' vacancies; to keep under review the leadership needs of North, both Executive and Non-executive, with a view to ensuring the continued ability of North to compete effectively in the market place; to consider and if appropriate agree recommendations from the Joint Managing Directors with regard to senior management appointments; to review annually the performance of the Board of Directors; and to ensure that on appointment to the Board of Directors, Non-executive Directors are advised of what is expected of them in terms of committee service and involvement outside of the meetings.

Remuneration Committee

The Remuneration Committee consists of the Chairman of the Board and three other Non-executive Directors. It meets not less than once a year and its principal duties are: to determine and agree with the Board of Directors the broad policy for the remuneration of the Chairman, Vice Chairman, the Joint Managing Directors, the Company Secretary and the senior managers; to make recommendations regarding the remuneration of the Chairman, Vice Chairman and the Non-executive Directors; within the terms of the agreed policy, to determine the total individual remuneration package of the Executive Directors; to determine the policy for and scope of the pension arrangements for the Joint Managing Directors and Executive Directors; to oversee the operation of North's pension scheme; to ensure that contractual terms on termination, and any payments made, are fair to the individual and North; to ensure that relevant statutory and regulatory provisions regarding disclosure of remuneration, including pensions, are fulfilled; to be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

Donations

North made no political donations (2013 – nil).

Protecting & Indemnity Class

It was agreed that the 2010/2011 policy year should be closed and amalgamated with the previous closed years. No Supplementary Calls are anticipated for open policy years. A general increase of 7.5% was agreed for the 2014/2015 mutual premium.

Freight Demurrage & Defence Class

The Directors representing the FD&D Members agreed to close the 2010/2011 policy year. No Supplementary Calls are anticipated for open policy years. A general increase of 5% was agreed for the 2014/2015 mutual premium.

War Risks Class

The Directors representing the War Risks Members agreed to close the 2010/2011 policy year. No Supplementary Calls are anticipated for open policy years.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2014

Meetings

The Directors met on five occasions during the year and matters considered and reviewed included the following:

- Reinsurance
- Renewal and market reports
- Membership reports
- Audit Committee reports
- Risk Committee reports
- Investment Committee reports
- Remuneration Committee reports
- Nominations Committee reports
- Directors' Report and financial statements
- FCA and PRA compliance requirements
- Release calls
- Policy year closures
- Management projects and IT update
- Errors & Omissions and Directors' & Officers' insurance
- Bad debts
- Solvency II
- Large claims
- International Group Pooling Agreement, Claims and General Activity
- MSMI claims activity
- Non P&I guarantees
- UK Terrorism Risk Insurance Act (TRIA)
- Employees' incentive scheme
- Defined benefit pension scheme
- Individual Capital Assessment and stress testing
- Standard and Poor's rating
- Appointment of Company Secretary
- Strategy
- Management and organisational structure
- Rule amendments
- Merger with Sunderland Marine Mutual Insurance Company Limited.

On behalf of the Board of Directors

AA Wilson

Joint Managing Director
15 May 2014

STRATEGIC REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2014

Principal Activities

The principal activities of the Group are the insurance and reinsurance of marine Protecting & Indemnity, Freight, Demurrage & Defence and War Risks on behalf of Members. North mainly operates from its head office on Tyneside but also has branch offices in Greece, Hong Kong, Singapore and Japan.

The Group comprises North and its subsidiaries, being The North of England Protecting and Indemnity Association (Bermuda) Limited, NEPIA Trust Company Limited, North Insurance Management Limited, the segregated cell within Hydra Insurance Company Limited and Marine Shipping Mutual Insurance Company Limited.

North's business continues to develop successfully and the Company was in a sound financial position at 20 February 2014 and remains so.

North's key financial and other performance indicators were as follows:

	2014	2013	Change
	US\$M	Restated US\$M	%
Gross written premiums	384.6	370.1	3.9%
Underwriting income	65.7	51.7	27.1%
Surplus after tax	61.7	55.3	11.7%
Free Reserves (total accumulated surplus)	136.5	68.6	99.2%
Combined ratio	48%	47%	1.2%
Average number of employees	233	229	1.7%

Underwriting income is calculated as earned premiums net of reinsurance ceded less claims incurred net of reinsurance recoveries, less acquisition, marketing and administration costs. The combined ratio is calculated as claims incurred, net of reinsurance, plus acquisition, marketing and administration costs as a percentage of net earned premiums.

The increase in the average number of employees is consistent with the development strategy of North which produced an increase in gross written premiums of 3.9%.

The surplus for the year and the proposed transfer to reserves are shown in the following financial statements.

The principal risks that North faces are discussed in Note 4.

On behalf of the Board of Directors

AA Wilson

Joint Managing Director
15 May 2014

INDEPENDENT AUDITOR'S REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2014

Independent Auditor's Report to the Members of The North of England Protecting and Indemnity Association Limited

We have audited the financial statements of North of England Protecting and Indemnity Association Limited ('North') for the year ended 20 February 2014 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent Company statement of financial position, the parent Company statement of changes in equity, the parent Company statement of cash flows, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 20 February 2014 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Denise Larnder (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 May 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	2014	2013 Restated	2012 Restated
Assets				
Intangible assets	6	8,252	5,312	2,788
Property, plant and equipment	7	14,445	15,037	15,982
Reinsurers' share of technical provision				
Provision for unearned premium		6,032	5,620	2,255
Claims outstanding	11	901,875	820,106	756,231
Financial assets				
Equity securities – at fair value through profit or loss	8	50	50	51
Debt securities – at fair value through profit or loss	8	156,751	132,397	130,893
Loans and receivables including insurance and reinsurance receivables	9	105,633	26,662	21,279
Corporation tax debtor		175	90	–
Cash and cash equivalents	10	62,676	60,350	66,139
Total assets		1,255,889	1,065,624	995,618
Accumulated Surplus				
Income and expenditure account	21	129,322	69,174	7,094
Contingency funds	21	7,226	(610)	6,239
Total accumulated surplus		136,548	68,564	13,333
Liabilities				
Technical provision				
Provision for unearned premium		8,825	7,731	2,984
Claims outstanding	11	964,222	880,655	814,450
Derivative financial instruments		107	34	71
Reinsurance payables		85,704	45,947	110,431
Trade and other payables	12	34,180	33,101	23,542
Current tax liability		–	–	1,449
Retirement benefit liability	27	26,303	29,592	29,358
Total liabilities		1,119,341	997,060	982,285
Total accumulated surplus and liabilities		1,255,889	1,065,624	995,618

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

AA Wilson

Joint Managing Director

Company number: 505456

CONSOLIDATED INCOME STATEMENT

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	2014	2013 Restated
Gross insurance premium revenue		384,627	370,095
Gross insurance premium ceded to reinsurers		(233,763)	(222,225)
Net insurance premium revenue		150,864	147,870
Change in provision for unearned premium		(1,094)	(4,748)
Reinsurers' share of change in unearned premium		412	3,366
Change in the net provision for unearned premium		(682)	(1,382)
Earned premiums net of reinsurance		150,182	146,488
Investment income	13	58	95
Net fair value (losses)/gains at fair value through profit or loss	14	(484)	1,843
Other gains and losses	5	32	8
Net income		149,788	148,434
Insurance claims and loss adjustment expenses	15	(398,486)	(323,097)
Insurance claims and loss adjustment expenses recovered from reinsurers	15	365,339	278,728
Net insurance claims		(33,147)	(44,369)
Expenses for the acquisition of insurance and investment contracts		(30,827)	(30,315)
Expenses for marketing and administration		(20,543)	(16,991)
Expenses for asset management services rendered		(377)	(448)
Operating expenses	16	(51,747)	(47,754)
Total expenses		(84,894)	(92,123)
Results of operating activities		64,894	56,311
Finance (expense) / income	19	(3,038)	47
Surplus before tax		61,856	56,358
Tax expense	20	(110)	(287)
Surplus for the year		61,746	56,071

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	2014	2013 Restated
Other Comprehensive Income		
Surplus for the year	61,746	56,071
Remeasurement gains / (losses) on defined benefit plans	6,238	(840)
Total comprehensive income for the year, net of tax	67,984	55,231
Income and Expenditure Account		
Opening balance	69,174	7,094
Total comprehensive income for the year	67,984	55,231
Transfer (to) / from contingency fund	(7,836)	6,849
Closing balance	129,322	69,174

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to Members			
		I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2013 (restated)		69,174	(610)	–	68,564
Surplus for the year	21	67,984	–	–	67,984
Transfer to / (from) contingency fund	21	(7,836)	7,836	–	–
At 20 February 2014		129,322	7,226	–	136,548

	Note	Attributable to Members			
		I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2012		10,938	46,171	–	57,109
Changes in accounting policies		(3,844)	(39,932)	–	(43,776)
At 20 February 2012 (restated)		7,094	6,239	–	13,333
Surplus for the year	21	55,231	–	–	55,231
Transfer to / (from) contingency fund	21	6,849	(6,849)	–	–
At 20 February 2013 (restated)		69,174	(610)	–	68,564

CONSOLIDATED STATEMENT OF CASH FLOWS

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	2014	2013 Restated
Operating Activities			
Cash generated from operating activities	26	–	(882)
Tax paid		(149)	(1,848)
Net cash from operating activities		(149)	(2,730)
Cash Flows (used in) / from Investing Activities			
Purchases of property, plant and equipment	7	(1,474)	(1,084)
Purchases of intangibles	6	(3,502)	(2,746)
Government grant received		–	621
Proceeds from sale of property, plant and equipment		93	129
Net cash used in investing activities		(4,883)	(3,080)
Net increase / (decrease) in cash and cash equivalents		(5,032)	(5,810)
Foreign exchange		(43)	21
Cash and bank overdrafts at beginning of year		60,350	66,139
Cash and cash equivalents at end of year		55,276	60,350

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	2014	2013 Restated	2012 Restated
Assets				
Intangible assets	6	8,252	5,312	2,788
Property, plant and equipment	7	14,445	15,037	15,982
Investment in group undertakings	22	10,757	11,757	11,927
Reinsurers' share of technical provision				
Provision for unearned premium		6,032	5,620	2,255
Claims outstanding	11	937,583	829,350	749,580
Financial assets				
Equity securities – at fair value through profit or loss	8	50	50	51
Debt securities – at fair value through profit or loss	8	73,925	74,571	71,775
Loans and receivables including insurance and reinsurance receivables	9	114,687	39,830	34,235
Corporation tax debtor		175	90	–
Cash and cash equivalents	10	55,771	58,845	56,847
Total assets		1,221,677	1,040,462	945,440
Accumulated Surplus				
Income and expenditure account	21	114,884	55,903	(8,211)
Contingency funds	21	7,226	(610)	6,239
Revaluation reserve	21	–	–	–
Total accumulated surplus		122,110	55,293	(1,972)
Liabilities				
Technical provision				
Provision for unearned premium		8,825	7,731	2,984
Insurance contracts	11	950,793	859,760	775,838
Derivative financial instruments		107	34	71
Reinsurance payables		85,332	45,378	108,119
Trade and other payables	12	28,207	42,674	29,593
Current tax liability		–	–	1,449
Retirement benefit liability	27	26,303	29,592	29,358
Total liabilities		1,099,567	985,169	947,412
Total accumulated surplus and liabilities		1,221,677	1,040,462	945,440

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

AA Wilson

Joint Managing Director

Company number: 505456

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	Attributable to Members			
		I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2013 (restated)		55,903	(610)	–	55,293
Surplus for the year	21	66,817	–	–	66,817
Transfer (from) / to contingency fund	21	(7,836)	7,836	–	–
At 20 February 2014		114,884	7,226	–	122,110

	Note	Attributable to Members			
		I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2012		(4,367)	46,171	–	41,804
Changes in accounting policies		(3,844)	(39,932)	–	(43,776)
At 20 February 2012 (restated)		(8,211)	6,239	–	(1,972)
Surplus for the year	21	57,265	–	–	57,265
Transfer to / (from) contingency fund	21	6,849	(6,849)	–	–
At 20 February 2013 (restated)		55,903	(610)	–	55,293

PARENT COMPANY STATEMENT OF CASH FLOWS

	Note	2014	2013 Restated
Operating Activities			
Cash generated from operating activities	26	2,004	6,906
Tax paid		(149)	(1,848)
Net cash from operating activities		1,855	5,058
Cash Flows (used in) / from Investing Activities			
Purchases of property, plant and equipment	7	(1,474)	(1,084)
Purchases of intangibles	6	(3,502)	(2,746)
Government grant received		–	621
Proceeds from sale of property, plant and equipment		93	129
Net cash used in investing activities		(4,883)	(3,080)
Net (decrease) / increase in cash and cash equivalents		(3,028)	1,978
Foreign exchange		(46)	20
Cash and bank overdrafts at beginning of year		58,845	56,847
Cash and cash equivalents at end of year	10	55,771	58,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

1. General Information

The North of England P&I Association Limited ('North') is a non profit making mutual organisation. North is a Company limited by guarantee, has no share capital and is registered in the United Kingdom under the Companies Act 2006. No one Member controls North. The address of the registered office is given on page 1.

North's primary business is the provision on a mutual basis of third-party liability or 'protection and indemnity' ('P&I') insurance to shipowners. 'Protection' generally means cover for people and ships whereas 'indemnity' means cover for cargo. The cover provided by this Class of North is as set out in the Rules of the Class and provides insurance for a Member against loss, damage, liability or expense incurred by them which arises:

- (a) in respect of the Member's interest in an Entered Ship;
- (b) out of events occurring during the period of entry of the Ship in North; and
- (c) in connection with the operation of the Ship;

Approximately 50% of the ships entered in North for P&I insurance are also covered for otherwise uninsured legal costs, known as 'freight, demurrage and defence' ('FD&D') insurance. The cover provided by this Class is as set out in the Rules of the Class and provides insurance for a Member against costs, expenses or liabilities for costs or expenses incurred by them which arise:

- (a) in respect of the Member's interest in an Entered Ship;
- (b) in relation to any dispute or matter arising during the period of Entry of the Ship; and
- (c) in connection with the operation, ownership, management or chartering of the Ship.

The FD&D Class is run on a mutual basis similar to the P&I Class, with premiums being pooled and invested to pay claims directly and to buy reinsurance.

North also operates a separate War Risks Class to provide cover for war and terrorism losses which are generally excluded from normal P&I and hull and machinery policies. The War Risks cover includes both physical loss and damage to ships as well as third party liability caused by war perils. It also includes compensation for being blocked or trapped in an area due to conflict. The War Risks Class also operates on a mutual basis.

2. Summary of Significant Accounting Policies

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

2.1 Basis of presentation

These consolidated and Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The standard definitions of profit and loss have been replaced by the terms surplus and deficit (except where the terminology is required specifically in relation to accounting standards e.g. assets and liabilities held at fair value through profit and loss in accordance with IAS 39) because, as a mutual, the Directors believe this is more relevant terminology.

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

The consolidated financial statements are presented in US Dollars (\$) rounded to the nearest thousand, unless otherwise stated.

In accordance with section 408 of The Companies Act 2006, the parent Company income statement and related notes have not been presented separately. The surplus dealt with in the account of the parent Company was US\$ 66.8m (2013 – US\$ 57.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of presentation (continued)

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

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

The directors believe that there will be no material impact on the financial statements following the implementation of these amendments.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

2.2 Consolidation

The consolidated financial statements incorporate the assets, liabilities, results and cash flows of North and its subsidiaries made up to 20 February each year. The results of subsidiaries acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by North. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2.3 Business combinations

Business combinations are accounted for under IFRS 3: *Business Combinations*. Subsidiaries are fully consolidated from the date on which control is transferred to North. They are deconsolidated from the date on which control ceases. Subsidiaries are all entities, over which North has the power, directly or indirectly, to govern the financial and operating policies so as to obtain economic benefits.

2.4 Foreign currency translation

North's consolidated financial statements are presented in US Dollars which is also North's functional currency.

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.

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.

2.5 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 on 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment

Land and buildings comprise the office occupied by North. 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 expenditure is charged to the income statement during the financial period in which it is incurred.

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

Depreciation on property, plant and equipment is calculated as follows:

Land	No depreciation charged.
Building	2% per annum reducing balance method.
Computer Equipment	20% per annum straight line method.
Motor Vehicles	25% per annum reducing balance method.
Office Equipment and Fittings	10% / 20% per annum straight line method.

The asset's residual values and useful lives are reviewed at each reporting 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.

2.7 Investments

Financial assets at fair value through profit or loss

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. North classifies its investments as financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss 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 profit or loss 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 North commits 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 North has also transferred substantially all risks and rewards of ownership.

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. North does not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that North intends to sell in the short term or that it has 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.7 Investments (continued)

Investments in group undertakings

In the Company's financial statements, other financial investments in group undertakings are stated at cost and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

Determination of fair value and fair value hierarchy

The following table shows an analysis of financial assets by level of the fair value hierarchy:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
Equity securities	–	–	–	–	50	50	50	50
Debt securities	156,751	73,925	–	–	–	–	156,751	73,925
Cash and cash equivalents	62,676	55,771	–	–	–	–	62,676	55,771
Land and buildings	–	–	–	–	11,601	11,601	11,601	11,601
	219,427	129,696	–	–	11,651	11,651	231,078	141,347

The opening position is shown in the table below:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
Equity securities	–	–	–	–	50	50	50	50
Debt securities	132,397	74,571	–	–	–	–	132,397	74,571
Cash and cash equivalents	60,350	58,845	–	–	–	–	60,350	58,845
Land and buildings	–	–	–	–	11,769	11,769	11,769	11,769
	192,747	133,416	–	–	11,818	11,818	204,565	145,234

Level 1 consists of financial assets that are valued according to published quotes in an active market. A financial asset is regarded as quoted in an active market if quoted prices are readily available from a broker, dealer, exchange, pricing service, industry group or regulatory agency. Level 2 assets are similar to Level 1 but the pricing of those assets has not been determined in an active market. Level 3 financial assets are assets for which a value cannot be obtained from observable data.

The movement in assets measured at fair value based on level 3 relates to additions and depreciation in relation to land and buildings. Further details are included in note 7.

The Directors do not consider that changing one or more of the inputs to reasonably priced alternative assumptions would change the fair value of the land and buildings significantly.

2.8 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.8 Impairment of assets (continued)

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of North 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.

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.

2.9 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.

2.10 Government grants

Government grants relating to assets are accounted for by deducting the grant from the asset's carrying amount. If a grant becomes repayable, the repayment is accounted for as an increase to the carrying amount of the asset. The cumulative depreciation which would have been charged had the grant not been received will be charged as an expense.

2.11 Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reliably estimated.

2.12 Revenue and expense recognition

All elements of revenue arising from insurance contracts and other related services offered by North 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 next following 20 February. North's financial year is coterminous with its policy year. The significant categories of revenue arising from insurance contracts are as follows:

Mutual premium

The estimated total premium payable to North in relation to an Entered Ship and in respect of any policy year is calculated in accordance with Rules 12 and 13 of North and with the terms of insurance agreed from time to time with the Member. The Directors may at any time or times during or after the end of each Policy Year (but not after such Policy Year has been closed in accordance with Rule 42(5)) direct that an Additional Call shall be paid by each Member in respect of Ships entered for such Policy Year of such amount as the Directors in their sole discretion think fit. All Additional Calls so made shall be calculated pro rata to the Mutual Premium (less any returns) in the relevant Policy Year. Additional calls are accounted for, where appropriate, on an accrual basis when the Additional Call has been approved by the Directors of North.

If the Directors at any time determine that funds are or may in future be required to pay part of an Overspill Claim (whether incurred by North or by any other party to the International Group Pooling Agreement), and the Directors have made a declaration under Rule 42(1) or 42(3) that a Policy Year shall remain open for the purpose of levying an Overspill Call or Calls in respect of that Overspill Claim, the Directors in their discretion, at any time or times after such declaration has been made, may levy one or more Overspill Calls in respect of that Overspill Claim in accordance with Rule 13(4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.12 Revenue and expense recognition (continued)

Laid up returns

When a Ship shall have been laid up in any safe port approved by the Managers for a period of thirty or more consecutive days after finally mooring there, the Member may be entitled to an allowance at a rate fixed by the Managers. Provision is made for notifications made post statement of financial position date which refer to laid up periods before the statement of financial position date.

Fixed premium

The Managers may accept the entry of a Ship on terms that the Member is liable to pay a Fixed Premium.

Time charter premium

A Member may be insured against liabilities, together with costs and expenses incidental thereto, which may be incurred by reason of his interest as charterer. Some charterer business is declared for cover on a bordereau basis. Provision is made for the estimated receivable in respect of business not declared at the statement of financial position date.

Unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily *pro rata* basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

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 North are accrued so as to match the relevant gross claims and associated provisions and reserves upon which North is entitled to make recoveries.

Unearned reinsurance premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Claims and related expenses

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

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

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. This uncertainty is discussed further in note 3.

Interest

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

Acquisition costs

Acquisition costs are expensed in the period to which they relate.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

2.12 Revenue and expense recognition (continued)

Retirement benefit scheme

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense or income plus service costs are recognised in the income statement as incurred.

Acquisition costs

Acquisition costs are expensed in the period to which they relate.

Leases

Where a significant portion of the risks and rewards of ownership are retained by the lessor, leases 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 lease.

Taxation

UK corporation tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2014 (2013 – nil).

2.13 Changes in accounting policies

Previously North had adopted the "corridor" method under IAS 19 'Employee Benefits', recognising a portion of the scheme's actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the preceding reporting period exceeded the greater of (a) 10% of the present value of the defined benefit obligation at that date; and (b) 10% of the fair value of any plan assets at that date. The portion of actuarial gains and losses recognised was the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

In the current year North has applied IAS 19 (Revised 2011) retrospectively in accordance with the transitional provisions set out in the revised standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The full defined benefit obligation net of plan assets is now recorded in the statement of financial position, with changes resulting from remeasurements recognised immediately in OCI. The opening statement of financial position of the earliest comparative period presented (21 February 2012) and the comparative figures have been restated accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

2. Summary of Significant Accounting Policies (Continued)

Impact on income and OCI

	2013 As reported \$'000	2013 Adjustments \$'000	2013 Restated \$'000
Income statement			
Expenses for marketing and administration	(20,147)	3,156	(16,991)
Finance (expense)/income	(1,724)	1,771	47
Surplus for the year	(21,871)	4,927	(16,944)
Statement of comprehensive income			
Remeasurement gain on defined benefit plans	–	(840)	(840)
Other comprehensive income for the year	–	(840)	(840)
Total comprehensive income for the year, net of tax	(21,871)	4,087	(17,784)

Statement of financial position

Assets			
Retirement benefit asset	10,097	(10,097)	–
Accumulated surplus			
Income and expenditure account	68,931	243	69,174
Contingency fund	39,322	(39,932)	(610)
	108,253	(39,689)	68,564
Liabilities			
Retirement benefit liability	–	(29,592)	(29,592)

The transition did not have an impact on the statement of cashflows.

The following additional IFRS changes required initial application in the year ended 20 February 2014:

- IFRS 13 Fair Value Measurement;
- Amendments to IAS 1 Presentation of items of Other Comprehensive Income;
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;
- Annual improvements 2009-2011 Cycle.

The impact of these changes has been assessed and is not considered to be material for the year ended 20 February 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical information and experience, actuarial analyses, financial modelling and other analytical techniques.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Receivables

Receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised as expense when there is objective evidence that the asset is impaired. In making their assessment of the recoverability of premiums and the likely provision for impairment of member receivables management take into account the right of retrospective cancellation of cover permitted under North's Rules in the event of non payment of premium. The assessment of impairment also includes an assessment of whole account recoverability based upon historical experience of managing a book of premiums through a number of insurance cycles.

Pensions and other post-retirement benefits

North operates a defined benefit pension scheme. The key assumptions used for the actuarial valuation are based on the Directors' best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 27.

Claims reserves – Members

The estimation of the ultimate liability arising from claims made under insurance contracts is North's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that North will ultimately pay for such claims, such as the extent to which claims have occurred but not been reported to North, the length of time it takes to finalise a claims award, the extent to which fees will be incurred in the management of a case and the potential outcomes that can arise from being involved in litigation.

Each individual claim reserve is set at an appropriate level by an experienced claims adjuster, based upon their judgement and experience, who is responsible for the 'hands on' management of the case. The case reserves are monitored and agreed by members of the Claims department management team and Members are encouraged to scrutinise and comment upon the reserves held by North. Internal file audits are performed on a continuous basis in order to maintain the high standards of claims management and reserving.

The ultimate cost of claims is only known at their conclusion. Provision is made for outstanding claims based upon Management's estimate of the ultimate likely cost of individual claims following advice from an external actuarial consultant.

Claims reserves – Pool

The reserves maintained in the books and records of North in respect of claims arising for North's participation in the Pooling Agreement (see note 4.1) are initially based upon North's share of claims reserves established by the notifying Club. Based upon historical evidence and statistical analysis, North makes additional provisions for claims incurred but not reported ("IBNR") and claims incurred but not enough reserved ("IBNER"), based upon management's own assessment of the likely ultimate outcome of the Pool.

The additional provision covers the likelihood that:

- there are claims that have been incurred but have not been reported to the respective Clubs and hence not notified to the Pool;
- where claims are reserved at a level which does not require notification to the Pool but subsequently that reserve is increased becoming a Pool claim; and
- there is uncertainty surrounding the Pool contribution proportion subject to the finalisation of the confirmation of contribution levels based upon tonnage, premium and record, as set out in the Pooling Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Claims reserves – asbestosis

North has limited exposure to cases presented as a result of exposure to asbestos. The cases presented primarily relate to exposure to the substance during the 1960's and 1970's. As with all claims presented to North a reserve is set at an appropriate level by an experienced claims adjuster on each claim. North also provides for IBNR in respect of asbestosis claims based upon actuarial analysis and advice.

Claims reserves – future in-house claims handling costs for previous policy years

North is required to provide for the future in house claims handling costs for previous policy years. The future claims handling costs which would be incurred in managing previous policy years is uncertain. A review is performed annually by management of expected run off costs and a provision made accordingly. The basis for the provision is a judgemental assessment based upon the experience of management.

Reinsurance recoveries

Reinsurance recoveries are accrued against gross claims reserves, as noted above, including estimates and provisions where North has an entitlement to make such recoveries.

4. Management of Insurance Risk and Financial Risk

4.1 Insurance risk

North issues contracts that transfer insurance risk. The risks under any one insurance contract are the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that North faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

North models its claims development using primarily an internal chain ladder model. The output from the internal model is compared to the results derived from an external stochastically based model which is updated and processed annually and actuarially certified.

The objective of North's management of insurance risk is to achieve a breakeven technical result and to ensure that the carrying amounts of the insurance liabilities are not exceeded by the actual experience of claims development. North manages insurance risk through its underwriting strategy, proactive claims handling and adequate reinsurance arrangements.

The limit of cover under the P&I Class, unless specifically limited under the member's terms of entry, is the overspill limit (US\$ equivalent of the Convention on Limitation of Liability for Maritime Claims (LLMC), 1976, SDR figure) in excess of the International Group excess of loss reinsurance program, estimated to be in the order of US\$6 billion. Oil pollution is limited to US\$1 billion. FD&D cover is in theory unlimited, albeit subject to the discretion of the Directors, however, disputes arising in relation to ship building, purchase, sale, negligent repair, alteration or conversion are limited to US\$250,000, unless a higher amount is otherwise agreed between Members and Managers. War risks cover is limited to the hull and machinery value of the entered ship.

The underwriting strategy attempts to ensure that the underwritten risks (as discussed in note 1) are of appropriate quality, correctly rated and well diversified in terms of type and amount of risk, industry and geography.

North has a specialised claims department dealing with the mitigation of risks surrounding known claims. Claims are reviewed individually at least bi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors.

North is one of the 13 members of the International Group of P&I Clubs which, between them, provide liability insurance for over 90% of the world's deep-sea shipowners. All International Group Clubs operate on a mutual, not-for-profit basis with premiums being pooled and invested to pay claims directly and to buy various levels of reinsurance. The system is now recognised throughout the world as the most cost-effective and reliable method of providing marine liability insurance.

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4. Management of Insurance Risk and Financial Risk (Continued)

4.1 Insurance risk (continued)

For the policy year commencing 20 February 2014, North is reinsured for P&I claims up to US\$3.07 billion through a combination of the International Group of P&I Clubs' pooling and excess loss programme and North's own retention reinsurance.

All claims up to US\$70.0 million are shared by the 13 International Group members and each Club carries US\$9.0 million retention. The International Group buys Excess Loss reinsurance cover at Lloyd's for claims between US\$70.0 million and US\$3.07 billion, after which costs fall back on the pool, known as 'Overspill',

Exposure under the Pooling Agreement for claims falling to the layer US\$40.0 million in excess of US\$30.0 million, as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US\$570.0 million, is reinsured by Hydra Insurance Company Limited ("Hydra"), the International Group's Bermuda based captive.

North also has a 'quota share' reinsurance contract with North of England Mutual Insurance Association (Bermuda) Limited ("NoE Bermuda"), a company wholly owned by Members, which reinsures 90% of North's retained risks.

Closing of policy years for overspill calls

If at the expiry date of the period of 36 months, no Overspill Notice has been sent, the relevant policy year shall be closed automatically for the purpose of levying Overspill Calls.

Closing of policy years for other purposes

For all purposes other than levying Overspill Calls the Directors shall with effect from such date after the end of each policy year as they think fit declare that such policy year will be closed.

4.2 Financial risk

North is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

Investment risk

The most important components of investment risk are market risk (including interest rate risk), currency risk and credit risk.

Market risk

Market risk is the risk that as a result of market movements a firm may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices. It is important to note that none of these sources of risk is independent of the others. Market risk is managed through diversification of allocation to asset classes and restricting the concentration of investment into any one asset.

Currency risk

North operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and the UK Sterling but also Euro and other global currencies. The asset allocation policy within the Board's Statement of Investment Principles contains provisions for the matching of assets and liabilities by currency type. The enforcement of that policy is through the specific investment guidelines under which the investment managers operate.

Asset/liability currency management is executed in the active global bond fund with assets held to match liabilities in the required individual currency proportions. At present the neutral currency position for the bond fund is:

US\$	82%
£STG	5%
Euro€	10%
Other	3%

The bond managers who manage discretionary portfolios are allowed to deviate from the neutral position but only to a maximum of 15% and are allowed to invest up to 20% of the fund in alternative OECD currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. Management of Insurance Risk and Financial Risk (Continued)

4.2 Financial risk (continued)

Credit risk

North has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Investment related counterparty risk is managed through the investment guidelines issued to the fixed income managers. The guidelines allow up to 10% of the bond portfolio to be invested in securities rated BBB/Baa by S&P or Moody's with the balance in securities rated AA or better. The portfolio may not hold more than 5% of any single issue except for Sovereign and US Government issues. No more than 10% of the portfolio may be invested in the long term (over one year) obligations of a single issuer except for sovereign borrowers, supranational borrowers and US Government Agencies where a limit of 20% shall apply and in relation to BBB borrowers where a limit of 1% shall apply. There is no restriction on the exposure of the portfolio to obligations of sovereign or supranational borrowers rated AAA by S&P or Moody's.

The following table provides information regarding the aggregate credit risk exposure, for financial assets with external credit ratings, of the Group.

At 20 February 2014

	AAA	AA	A	BBB	Speculative Grade	Not Rated	NoE (Bermuda)	Carrying Value \$000s
Debt securities	4.68%	92.74%	0.00%	2.58%	0.00%	0.00%	0.00%	156,751
Reinsurance assets	0.00%	9.60%	28.03%	0.00%	0.15%	0.00%	62.22%	901,875
Other receivable	0.04%	0.99%	3.80%	0.02%	1.61%	85.91%	7.63%	105,633

At 20 February 2013

	AAA	AA	A	BBB	Speculative Grade	Not Rated	NoE (Bermuda)	Carrying Value \$000s
Debt securities	8.33%	89.30%	0.00%	2.37%	0.00%	0.00%	0.00%	132,397
Reinsurance assets	0.00%	7.36%	25.95%	0.00%	0.25%	0.00%	66.44%	820,106
Other receivable	0.11%	1.91%	8.93%	0.03%	2.72%	86.30%	0.00%	26,662

Investment risk management

North manages its investment funds in accordance with an investment framework set out in the Statement of Investment Principles that is approved by the Directors. The framework determines investment policy and the management of investment risk and is reviewed on a regular basis. The detailed consideration of investment strategy is the responsibility of the Investment Committee, a sub committee of the Board of Directors. Investment management is outsourced to professional investment managers. Should a new investment manager appointment be appropriate or otherwise required, prospective investment managers are interviewed and, if suitable, proposed by the Investment Committee and approved for appointment by the Directors. The performance of the investment managers against their respective benchmark is monitored on a monthly basis and there is a quarterly review of performance and measurement of portfolio risk by an independent consultant.

The asset class allocation policy is aligned so as to match the liabilities faced by North. The current asset allocation is 100% in fixed income and cash assets. The known claims liabilities facing North are matched against fixed income assets, representing secure and highly liquid assets known to preserve capital and which, if called upon, could be realised very quickly to settle liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. Management of Insurance Risk and Financial Risk (Continued)

4.2 Financial risk (continued)

Other areas where North is exposed to credit risk are:

Reinsurer's share of insurance liabilities

Reinsurance is used to manage insurance risk as explained above. This does not, however, discharge North's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, North remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract.

Amounts due from Members

A Member shall cease to be insured by North in respect of any and all ships entered by him or on his behalf (or in a fleet entry in which any one or all of his ships are entered) if having failed to pay when due and demanded by the Managers any sum due from him to North. If, having failed to pay any sum due to North a Member has ceased to be insured by North, the Company is not liable for any claims under the Rules whether the incident giving rise to such claim occurred before or after the cessation of insurance. Under the Rules, North shall be entitled to, and the Member grants, a lien on the entered ship in respect of any amount whatsoever owed by the Member to North.

Amounts due from insurance intermediaries

As agents for the Members the rules applying above in respect of amounts due from Members apply to amounts due from insurance intermediaries. With regard to amounts due under contracts of reinsurance ceded, North employs insurance intermediaries that are subject to the regulation of and approved by the Prudential Regulation Authority in the UK. As such, insurance intermediaries are required to operate client trust accounts to ring-fence the amounts held on their clients' behalf.

5. Other Gains and Losses

	2014	2013
Hull Claims Facility Income	3	–
Fees for security charge	29	–
SME cash grant (Singapore)	–	8
Other gains and losses	32	8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

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6. Intangible Assets

The Group and the Company

	Computer Software
Year ended 20 February 2014	
Opening net book amount	5,312
Additions	3,502
Amortisation charge	(562)
Closing net book amount	8,252
At 20 February 2014	
Cost or valuation	15,126
Accumulated amortisation	(6,874)
Net book amount	8,252
Year ended 20 February 2013	
Opening net book amount	2,788
Additions	2,746
Amortisation charge	(222)
Closing net book amount	5,312
At 20 February 2013	
Cost or valuation	11,624
Accumulated amortisation	(6,312)
Net book amount	5,312

Intangible assets include capitalised software costs relating to new commercial software which is not yet available for use. Once the system is available for use the Directors expect the software to be amortised over a useful life of 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

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7. Property, Plant and Equipment

The Group and the Company

	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Fittings	Total
Year ended 20 February 2014					
Opening net book amount	11,769	1,279	620	1,369	15,037
Additions	199	1,145	105	25	1,474
Disposals	–	(325)	(77)	–	(402)
Depreciation charge	(367)	(905)	(157)	(235)	(1,664)
Closing net book amount	11,601	1,194	491	1,159	14,445
At 20 February 2014					
Cost or valuation	12,274	8,360	1,021	4,407	26,062
Accumulated depreciation	(673)	(7,166)	(530)	(3,248)	(11,617)
Net book amount	11,601	1,194	491	1,159	14,445
Year ended 20 February 2013					
Opening net book amount	12,415	1,601	580	1,386	15,982
Grant receipts	(621)	–	–	–	(621)
Additions	281	392	398	13	1,084
Disposals	–	–	(154)	–	(154)
Depreciation charge	(306)	(714)	(204)	(30)	(1,254)
Closing net book amount	11,769	1,279	620	1,369	15,307
At 20 February 2013					
Cost or valuation	12,075	7,540	1,160	4,383	25,158
Accumulated depreciation	(306)	(6,261)	(540)	(3,014)	(10,121)
Net book amount	11,769	1,279	620	1,369	15,037

The fair value of the building has been assessed by the Directors, taking into account a valuation by Bradley Hall, an independent Chartered Surveyor on 20 January 2012.

Depreciation expense of US\$ 1,664,000 (2013 – US\$ 1,254,000) has been charged in expenses for marketing and administration.

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

At 20 February	2014	2013
Cost	16,113	15,913
Accumulated depreciation	(2,824)	(2,553)
Net book amount	13,289	13,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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8. Financial Assets

Financial assets are summarised by measurement category in the table below. All assets are current assets.

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Fair value through profit or loss	156,801	73,975	132,447	74,621
Loans and receivables including insurance and reinsurance receivables (note 9)	105,633	114,687	26,662	39,830
Total financial assets	262,434	188,662	159,109	114,451

Financial assets at fair value through profit or loss

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Equity securities – unlisted	50	50	50	50
Debt securities – government bonds	156,751	73,925	132,397	74,571
Total financial assets at fair value through profit or loss	156,801	73,975	132,447	74,621

Maturity dates of the fixed interest debt securities are as follows:

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
In up to two years	57,910	12,365	50,744	16,827
In more than two years but not more than three years	40,845	13,704	27,751	10,893
In more than four years but not more than five years	30,926	24,687	23,664	19,895
In more than five years	27,070	23,169	30,238	26,956
	156,751	73,925	132,397	74,571

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Opening balance at 21 February	132,447	74,621	130,944	71,826
Additions	466,488	269,453	276,599	212,425
Disposals (sale and redemptions)	(440,269)	(268,958)	(275,103)	(209,693)
Fair value net (losses) / gains (excluding net realised gains)	(1,865)	(1,141)	7	63
Closing balance at 20 February	156,801	73,976	132,447	74,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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9. Loans and Receivables

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	87,318	87,252	21,121	21,048
– due from reinsurers	13,327	11,199	3,293	2,254
Other loans and receivables:				
– prepayments	3,261	3,200	1,140	1,099
– accrued interest	364	319	363	315
– other debtors	1,363	12,717	745	15,114
	105,633	114,687	26,662	39,830

Included in other debtors in both the Group and the Company are US\$ 5,297 (2013 – US\$ 4,245) that are due more than twelve months after the reporting date.

10. Cash and Cash Equivalents

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Cash at bank and in hand	23,182	16,529	15,386	14,182
Short-term bank deposits	37,565	37,565	39,531	39,531
Money market funds	1,929	1,677	5,433	5,132
	62,676	55,771	60,350	58,845

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Cash and cash equivalents	62,676	55,771	60,350	58,845

At 20 February 2014, the unused bank overdraft, repayable on demand, amounted to US\$ 1,700,000 (2013 – US\$ 1,700,000) for North and US\$ nil (2013 – US\$ nil) for Marine Shipping Mutual Insurance Company Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11. Insurance Liabilities and Reinsurance Assets

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	860,290	848,838	803,575	785,052
– claims incurred but not reported and claims handling reserve	103,932	101,955	77,080	74,708
Total insurance liabilities, gross	964,222	950,793	880,655	859,760
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	808,335	845,823	750,734	762,113
– claims incurred but not reported and claims handling reserve	93,540	91,760	69,372	67,237
Total reinsurers' share of insurance liabilities	901,875	937,583	820,106	829,350
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	51,955	3,015	52,841	22,939
– claims incurred but not reported and claims handling reserve	10,392	10,195	7,708	7,471
Total insurance liability	62,347	13,210	60,549	30,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

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11. Insurance Liabilities and Reinsurance Assets (Continued)

Movements in Insurance Liabilities and Reinsurance Assets

The Group

	Gross	2014 Reinsurance	Net	Gross	2013 Reinsurance	Net
Outstanding claims at the beginning of the year	880,655	(820,106)	60,549	814,450	(756,231)	58,219
Cash (paid) / recovered for claims settled in the year	(217,999)	202,891	(15,108)	(187,823)	171,436	(16,387)
Increase / (decrease) in liabilities						
– arising from current year claims	323,044	(303,207)	19,837	279,731	(258,007)	21,724
– arising from prior year claims	(21,478)	18,547	(2,931)	(25,703)	22,696	(3,007)
Outstanding claims at end of year	964,222	(901,875)	62,346	880,655	(820,106)	60,548

The Company

	Gross	2014 Reinsurance	Net	Gross	2013 Reinsurance	Net
Outstanding claims at the beginning of the year	859,760	(829,350)	30,410	775,838	(749,580)	26,258
Cash (paid) / recovered for claims settled in the year	(204,393)	188,069	(16,324)	(171,936)	155,878	(16,058)
Increase / (decrease) in liabilities						
– arising from current year claims	323,044	(328,424)	(5,380)	279,731	(279,581)	150
– arising from prior year claims	(27,618)	32,122	4,504	(23,873)	43,933	20,060
Outstanding claims at end of year	950,793	(937,583)	13,210	859,760	(829,350)	30,410

The directors have re-evaluated the claims reserves in respect of prior policy year claims. Releases in these reserves are seen as a result of positive claims experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11. Insurance Liabilities and Reinsurance Assets (Continued)

Policy year analysis (all classes)

	Closed Years	2011	Open Policy Years 2012	2013	Handling Reserve	Total
All Classes						
At 20 February 2014						
Gross outstanding claims	280,180	132,336	202,990	323,044	25,672	964,222
Reinsurance amount	263,087	124,093	188,383	303,207	23,105	901,876
Net outstanding claims	17,093	8,243	14,606	19,837	2,567	62,346
At 20 February 2013						
Gross outstanding claims	398,097	179,597	279,731	–	23,230	880,655
Reinsurance amount	373,055	168,137	258,007	–	20,907	820,106
Net outstanding claims	25,042	11,460	21,724	–	2,323	60,549

Sensitivity analysis

The uncertainty surrounding the valuation, timing and cash flows of claims liabilities, the process of claims reserve estimation and the process and assumptions regarding the determination of other claims liability based reserves are set out in note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11. Insurance Liabilities and Reinsurance Assets (Continued)

There are a significant number of variables which lead to the uncertainty surrounding the valuation, timing and cash flows of claims liabilities although management are of the opinion that the accumulated surplus is not materially sensitive to any one variable. The extent to which the accumulated surplus may be sensitive to any individual variable or any groups of variables is best demonstrated by the development of claims liabilities. The development of claims liabilities by policy year is as follows:

Insurance claims development – Gross

Policy Year	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Estimate of ultimate claims cost										
At end of policy year	378,526	323,669	356,043	212,132	338,956	255,764	236,464	226,864	137,229	161,740
One year later		310,368	324,564	203,260	261,336	256,301	201,491	229,315	150,880	176,857
Two years later			332,928	195,152	247,105	205,711	177,441	198,174	126,358	162,688
Three years later				200,881	247,754	187,130	170,544	205,630	111,543	159,768
Four years later					249,242	181,298	167,641	181,631	113,368	154,178
Five years later						181,742	176,773	176,082	113,850	156,403
Six years later							172,333	174,300	111,877	148,936
Seven years later								160,278	108,638	150,815
Eight years later									106,570	151,752
Nine years later										141,540
Current estimate of cumulative claims	378,526	310,368	332,928	200,881	249,242	181,742	172,333	160,278	106,570	141,540
Cumulative payments to date	55,482	107,378	200,591	144,181	166,134	142,904	153,600	144,871	91,341	124,404
Liability recognised in the statement of financial position	323,044	202,990	132,337	56,700	83,108	38,838	18,733	15,407	15,229	17,136
Total of ten years										903,522
Liability in respect of prior policy years										35,027
Claims handling reserve										25,673
Total liability included in the statement of financial position										964,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11. Insurance Liabilities and Reinsurance Assets (Continued)

Insurance claims development – Net

Policy Year	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Estimate of ultimate claims cost										
At end of policy year	23,491	27,532	18,708	21,765	19,267	19,065	26,797	16,261	14,836	13,075
One year later		25,027	17,175	19,238	16,731	16,624	16,960	14,987	14,660	12,266
Two years later			26,313	20,263	15,933	14,952	16,693	12,938	13,429	11,670
Three years later				16,628	16,174	14,561	15,310	10,696	12,767	11,270
Four years later					17,645	15,097	15,108	11,631	12,310	10,616
Five years later						16,119	15,664	11,341	12,524	10,491
Six years later							14,389	11,011	12,187	10,222
Seven years later								14,264	13,096	10,114
Eight years later									10,654	10,273
Nine years later										11,581
Current estimate of cumulative claims	23,491	25,027	26,313	16,628	17,645	16,119	14,389	14,264	10,654	11,581
Cumulative payments to date	3,654	10,420	18,071	11,829	15,246	14,040	12,491	13,435	9,052	10,738
Liability recognised in statement of financial position	19,837	14,607	8,242	4,799	2,399	2,079	1,898	829	1,602	843
Total of ten years										57,135
Liability in respect of prior policy years										2,645
Claims handling reserve										2,567
Total liability included in the statement of financial position										62,347

12. Trade and Other Payables

	The Group 2014	The Company 2014	The Group 2013	The Company 2013
Trade payables and accrued expenses	34,180	28,207	33,101	42,674

All the above amounts were due within twelve months of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

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13. Investment Income

The Group

	2014	2013
Interest on bank deposits	58	95

14. Net Fair Value Gains on Assets and at Fair Value through Profit or Loss

The Group

	2014	2013
Net fair value gains on financial assets through income:		
– Fair value gains	1,615	2,711
– Fair value losses	(2,099)	(868)
	(484)	1,843
Net fair value gains on debt securities are as follows:		
– Bond interest	1,502	1,867
– Net realised (losses) / gains	(2,099)	844
– Net movement on unrealised gains / (losses)	113	(868)
	(484)	1,843
Net fair value gains on equity are as follows:		
– Net movement on unrealised losses	–	(1)
	–	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

15. Insurance Claims

The Group

	Gross	2014 Reinsurance	Net
Current year claims and loss adjustment expenses	410,314	(361,329)	48,985
Reduction in cost for prior year claims and loss adjustment expenses	(14,272)	(1,811)	(16,083)
Movement in claims handling reserve	2,444	(2,199)	245
Total claims and loss adjustment expense	398,486	(365,339)	33,147

The Group

	Gross	2013 Reinsurance	Net
Current year claims and loss adjustment expenses	343,991	(294,613)	49,378
Reduction in cost for prior year claims and loss adjustment expenses	(24,458)	19,093	(5,365)
Movement in claims handling reserve	3,564	(3,208)	356
Total claims and loss adjustment expense	323,097	(278,728)	44,369

16. Operating Expenses by Nature

The Group

	Note	2014	2013 Restated
Auditors' remuneration – audit services		573	352
Depreciation and amortisation charges		2,226	1,476
Staff costs	17	36,447	34,987
Allocation of staff costs to claims handling expenses		(26,161)	(25,130)
Brokerage		23,300	23,167
Purchase of goods and services		15,362	12,902
Total operating expenses		51,747	47,754

The auditors were also remunerated US\$ 9,330 (2013 – US\$ 8,247) for the audit of The North of England Protecting and Indemnity Association Limited Retirement Benefit Scheme. The assets of North's pension scheme are held separately from those of North and as such the costs for the audit of the pension scheme were not borne by North.

Non-audit actuarial and tax services were provided to the Japan Branch office totalling US\$ 42,300.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

17. Staff Costs

The Group

The average monthly number of employees (including Executive Directors) was:

	2014 Number	2013 Number
P&I claims and MSMI	98	97
FD&D	41	39
Underwriting and entries	27	29
Risk management	14	14
Other	53	50
	233	229

Their aggregate remuneration comprised:

	2014	2013 Restated
Wages and salaries	26,185	25,037
Social security costs	2,137	2,169
Retirement benefit obligations – defined benefit plans	5,816	5,726
Other post employment benefits	2,309	2,056
	36,447	34,988

18. Directors' Remuneration

The Group

The remuneration of the Directors was as follows:

	2014	2013
Short-term employee benefits	2,648	2,410

No Directors were members of the Company's defined benefit pension scheme during the year or in the prior year.

Highest Paid Director

The above amounts for remuneration include the following in respect of the highest paid director:

	2014	2013
Emoluments	1,111	1,046

The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 20 February 2014 was US\$ nil (2013 – US\$ nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

19. Finance Expense

The Group

	2014	2013 Restated
Losses on exchange – technical	(2,204)	532
Losses on exchange – investments	(830)	(471)
Interest on corporation tax	(4)	(14)
	(3,038)	47

20. Tax Expense

The Group

	2014	2013
Current tax	129	331
Over provision in previous year	(19)	(44)
	110	287

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to investment income is as follows:

	2014	2013
Investment income	138	92
Net fair value gains on financial assets	945	1,501
Expenses for asset management services rendered	(524)	(225)
Investment return	559	1,368
Tax on the above at standard UK corporation tax rate of 23.1% (2013 – 24.21%)	129	331
Over provision in previous year	(19)	(44)
	110	287

There is no unrecognised deferred tax asset.

21. Reserves

	The Group 2014	The Company 2014	The Group 2013 Restated	The Company 2013 Restated
Income and expenditure reserve	129,322	114,884	69,174	55,903
Contingency fund	7,226	7,226	(610)	(610)
	136,548	122,110	68,564	55,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

21. Reserves (Continued)

(a) Income and expenditure reserve

The surplus represents the net balance on open policy years, the claims handling reserve plus unrealised gains on investments.

	The Group 2014	The Company 2014	The Group 2013 Restated	The Company 2013 Restated
Opening balance	69,174	55,903	7,094	(8,211)
Total comprehensive income for the year	67,984	66,817	55,231	57,265
Transfer (to) / from contingency fund	(7,836)	(7,836)	6,849	6,849
Closing balance	129,322	114,884	69,174	55,903

(b) Contingency funds

The Group and the Company

Protecting & Indemnity Class

	2014	2014	2013 Restated	2013 Restated
Opening balance		(3,733)		2,911
The transfer (to) / from the income and expenditure reserve comprises:				
– Allocation of realised investment gains / losses and income	(685)		(9,386)	
– Surplus transferred from closed policy years	8,395		2,742	
		7,710		(6,644)
Closing balance		3,977		(3,733)

The Contingency Fund was established by the Directors on 12 October 1983 in order to maintain call stability.

The operation of the contingency fund is described in the P&I Class Rules which are available on North's website.

Freight, Demurrage & Defence Class

	2014	2014	2013 Restated	2013 Restated
Opening balance		3,123		3,328
The transfer (to) / from the income and expenditure reserve comprises:				
– Allocation of realised investment gains / losses and income	148		(134)	
– Deficit transferred from closed policy years	(22)		(71)	
		126		(205)
Closing balance		3,249		3,123

The Contingency Fund was established by the Directors on 23 September 1994 in order to maintain call stability.

The operation of the contingency fund is described in the FD&D Class Rules which are available on North's website.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

22. Subsidiary Undertakings

The subsidiary undertakings, all wholly owned, are:

Company Name	Nature of business	Incorporated	Holding %
The North of England P&I Association (Bermuda) Limited	Marine insurance company	Bermuda	100
NEPIA Trust Company Limited	Corporate trustee	U.K.	100
North Insurance Management Limited	Management services	U.K.	100
Hydra Insurance Company Limited	Reinsurance captive	Bermuda	100 (of cell)
Marine Shipping Mutual Insurance Company Limited	Marine insurance company	U.K.	100

The North of England P&I Association (Bermuda) Limited did not trade during the year.

NEPIA Trust Company Limited was incorporated to act solely as Trustee of an employee benefits trust. It has not carried on any business whatsoever throughout the year.

North Insurance Management Limited is a management company which manages both Marine Shipping Mutual Insurance Company Limited and North.

The segregated cell within Hydra Insurance Company Limited, which reinsures North for its liability under the upper layer of the pool and its share of the first layer of the International Group excess loss reinsurance contract, has also been consolidated. Marine Shipping Mutual Insurance Company Limited is a marine mutual insurer of which North is the sole Member. Marine Shipping Mutual Insurance Company Limited ceased underwriting on 30 June 2011 and is in run-off from that date.

The value of the subsidiary undertakings is as follows:

The Company

	2014	2013
Balance brought forward	11,757	11,927
Write down of investment in The North of England P&I Association (Bermuda) Limited	–	(170)
Write down of investment in Marine Shipping Mutual Insurance Company Limited	(1,000)	–
Balance carried forward	10,757	11,757

In line with parent's accounting policies, the Directors consider that none of the investments in group companies are impaired at either the 20 February 2014 or 20 February 2013 year ends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

23. Designated Reserves

Given the increases in recent years of pool retentions and the participation of International Group Clubs, by way of coinsurance, in the Group market reinsurance contract, for policy years up to and including 2012/13, all members of the International Group of P&I Clubs have entered into arrangements (under an agreement dated 20 February 1996) whereby each Club has provided letters of credit in favour of the Bermuda Trust Company. Such letters of credit can only be drawn upon in the event that North fails to meet a call upon it in relation to its obligations under the Pooling Agreement. North has lodged US\$ 19,799,324 (2013 – US\$ 14,498,470) in relation to its participation in the arrangement. No calls have been made upon the facility. The Designated Reserves scheme ended on 28 February 2014. All letters of credit lodged with the Bermuda Trust Company have been terminated

24. Other Guarantees

In the normal course of business, North has provided letters of credit and guarantees on behalf of its Members. These are secured by investments lodged with North amounting to US\$ 23.6 million (2013 – US\$ 20.8 million).

25. Related Party Transactions

Key management compensation

The remuneration of the Directors was as follows:

	2014	2013
Short-term employee benefits	–	2,410

Other related parties

Hydra Insurance Company Limited ('Hydra'), the International Group's Bermuda based captive, is a segregated accounts company and North is an Account Owner. Exposure under the International Group Pooling Agreement for claims falling to the layer US\$ 40.0 million in excess of US\$ 30.0 million as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US\$ 570.0 million, is reinsured by Hydra.

North is the ultimate parent company of Marine Shipping Mutual Insurance Company Limited ('MSMI'). North has a Reinsurance to Close contract with MSMI under which North assumes all of the net claims liabilities after MSMI's market reinsurances. Transactions between North and MSMI are eliminated on consolidation.

During the reporting period MSMI made payments of US\$ 692,000 (2013 – US\$ 2,075,000) to North Insurance Management Limited ('NIML'), a subsidiary of the North. NIML subsequently made payments of US\$ 692,000 (2013 – US\$ 2,075,000) to North.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

25. Related Party Transactions (Continued)

Transactions with related parties have been entered into as follows:

The Company

	NIML	2014 MSMI	Hydra	NIML	2013 MSMI	Hydra
Income statement						
Insurance premium ceded	–	–	(29,083)	–	–	(20,830)
Insurance claims and loss adjustment expenses	–	166	–	–	288	–
Insurance claims and loss adjustment expenses recovered	–	–	22,663	–	–	23,002
Management fee recovered	692	–	–	2,075	–	–
Statement of financial position						
Technical provisions – insurance contracts	–	(5,901)	–	–	(6,955)	–
Reinsurers' share of technical provisions	–	–	52,909	–	–	49,419
Intercompany current account	–	16,846	–	2,075	2,223	–

North, as parent of MSMI, has provided an indemnity to MSMI, which is effective from the date of acquisition, in respect of all potential contingent liabilities arising from the operations of MSMI including the acquisition and subsequent run off of the business.

At 20 February 2014 there is a creditor for the payment of distributions to the Members of MSMI totalling US\$ 265,281 (2013 – US\$ 339,321).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

26. Cash Generated from / (absorbed by) Operating Activities

	The Group 2014	The Company 2014	The Group Restated 2013	The Company Restated 2013
Surplus before taxation	68,094	66,926	55,518	57,553
Adjustments for:				
Depreciation and amortisation	2,226	2,226	1,476	1,476
Investment income	1,864	1,141	(7)	(63)
Gain on sale of property, plant and equipment	309	309	26	26
Increase / (decrease) in insurance contracts net of reinsurance	1,799	(17,198)	2,330	4,152
Increase in unearned premium reserve net of reinsurers' share	682	682	1,382	1,382
Decrease in loans and receivables	(78,972)	(74,856)	(5,383)	(5,595)
Decrease / (increase) in reinsurance payables	39,755	39,951	(64,484)	(62,741)
Increase / (decrease) in derivative financial instruments	74	74	(37)	(37)
(Increase) / decrease in trade and other payables	1,078	(14,467)	9,559	13,081
(Increase) / decrease in retirement benefit liability	(3,289)	(3,289)	234	234
Purchase of bonds at fair value through profit or loss	(466,488)	(269,453)	(276,599)	(212,425)
Sale of bonds at fair value through profit or loss	440,269	268,958	275,103	209,693
Write down of investment in subsidiary	–	1,000	–	170
Cash generated from / (absorbed by) operating activities	7,401	2,004	(882)	6,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

27. Retirement Benefit Scheme

North has adopted revisions to IAS 19 Employee Benefits retrospectively in accordance with the transitional provisions set out in IAS 19R and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. IAS 19R introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. Refer to Note 2.13 Changes in Accounting Policies for more information.

North operates a defined benefit scheme in the United Kingdom. A triennial actuarial valuation was carried out at 31 August 2013 by a qualified independent actuary. At the date of signing the accounts this valuation has not been finalised.

Actuarial assumptions for IAS19 – valuing the Scheme liabilities

IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the statement of financial position date. The selection of the inflation assumption is also critical as this is relevant for the salary and the pre-retirement revaluation assumptions.

These assumptions are based on market yields at the statement of financial position date, and may not be borne out in practice due to the long-term expected duration of the Scheme. Within the prescribed conditions however assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities. A summary of relevant considerations is set out below.

Assumption for valuing pension liabilities	Comments on prescribed conditions
Discount rate (pre and post retirement)	Based on yields on AA corporate bonds of appropriate duration and currency, or a suitable proxy.
Price inflation	Based on the yield differential between index-linked corporate bonds and fixed interest corporate bonds of similar credit standing (for example, using appropriate UK Government conventional and index-linked stocks).
Salary inflation	Reflecting the rate of price inflation assumed (for example, a fixed margin over the rate of price inflation).
Pension increases	Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on past practice.
Demographic assumptions (for example, rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows.
Administration expenses	As advised by the Company based on realistic forecasts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

27. Retirement Benefit Scheme (Continued)

Actuarial assumptions for IAS19 – expected return on Scheme assets

IAS19 requires assumptions to be made for the expected return on the various classes of Scheme assets to calculate the finance income element of the IAS19 pensions charge.

For bonds and cash, the market yields at the statement of financial position date are known and the overall expected rate for bonds should therefore reflect the actual portfolio of bonds (both corporate and Government issued bonds) held by the Scheme.

For equities, the future yield is unknown. It is usually expected that the long-term return on assets will be higher than the return from bonds with the excess expected return generally referred to as the “equity risk premium”. The Scheme does not currently hold any equity investments.

There are, therefore, a range of rates that can be used to calculate the expected return on assets element of the IAS19 pensions charge. The rates that are quoted are assumed to be net of Scheme expenses, although, as recommended by the scheme actuary, the calculated credit is gross net of expenses.

Mortality

Following the advice of the Scheme Actuary, the mortality table used for the 31 August 2010 valuation was the SAPS (S1PMA and S1PMF) Light table published by the Actuarial Profession's Continuous Mortality Investigation (CMI). An allowance for future improvements in longevity is to be included in accordance with the CMI 2009 projections with a 1% minimum annual increase or underpin. This mortality assumption is described in this report as the “SAPS Light 2011+underpin” tables.

The key rates assumed are:

	2014	2013
Discount rate	4.60%	4.50%
Expected return on assets	3.00%	3.00%
Expected rate of salary increases	4.00%	4.25%
Pension increase rate	4.20%	4.20%
Inflation rate	2.55%	2.75%

The pension scheme, its assets and liabilities, assumptions and projections are based in sterling. The assets and liabilities of the scheme are converted into US Dollars, the North's functional and presentational currency as shown in note 2.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

27. Retirement Benefit Scheme (Continued)

Defined benefit plan

Changes in the defined benefit obligation and fair value of plan assets.

	Defined benefit obligation	Fair value of plan assets	Benefit liability
21 February 2012 (restated)	92,034	62,676	29,358
Service Cost	4,287	–	4,287
Contributions by members	452	452	–
Net interest	4,285	2,848	1,437
Sub-total included in income	9,024	3,300	5,724
Benefits paid	(964)	(964)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(2,333)	2,333
Actuarial changes			
– arising from changes in demographic assumptions	–	–	–
– arising from changes in financial assumptions	4,905	–	4,905
Experience adjustments	(6,398)	–	(6,398)
Sub-total included in OCI	(2,457)	(3,297)	840
Contributions by employer	–	5,085	(5,085)
Exchange	(3,051)	(1,806)	(1,245)
20 February 2013 (restated)	95,550	65,958	29,592
Service Cost	4,398	–	4,398
Contributions by members	641	641	–
Net interest	4,705	3,287	1,418
Sub-total included in income	9,744	3,928	5,816
Benefits paid	(2,096)	(2,096)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(3,140)	3,140
Actuarial changes			
– arising from changes in demographic assumptions	–	–	–
– arising from changes in financial assumptions	(4,681)	–	(4,681)
Experience adjustments	(4,696)	–	(4,696)
Sub-total included in OCI	(11,473)	(5,236)	(6,237)
Contributions by employer	–	4,963	(4,963)
Exchange	7,529	5,434	2,095
20 February 2014	101,350	75,047	26,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

27. Retirement Benefit Scheme (Continued)

The major categories of plan assets of the fair value of the total plan assets are as follows:

	2014	2013
Fixed Income	1	2
Other	75,047	65,957
	75,048	65,959

The actual return in plan assets for 2014 amounted to US\$ 242,000 (2013 – US\$ 514,000).

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2014 is shown below.

	Impact on retirement benefit liability US \$M
Increase / reduce discount rate by 0.25%	(5,923) / 6,419
Increase / reduce real salary growth by 0.25%	165 / (162)
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	2,181 / (2,086)
Increase / reduce life expectancy by one year	2,935 / (2,942)

The sensitivities above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The amount expected to be contributed into the plan by the company in 2014/15 is US \$3.2m subject to the finalisation of the actuarial report.

The average duration of the defined benefit plan obligation at the end of the reporting period is 27 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

28. Events after the reporting period

On 28 February 2014 all conditions precedent for the merger of North and Sunderland Marine Mutual Insurance Company ('SMMI') were met. The transaction involved the SMMI Board and Members appointing North as the sole member of SMMI.

The principal activity of SMMI is providing insurance against marine and war risks and risks incidental to marine insurance, including protection and indemnity risks, of a variety of vessels including fishing vessels, tugs, barges and short sea cargo vessels. The company also insures risks incidental to aquaculture. SMMI has a number of subsidiaries of which the principal activities are marine insurance and reinsurance and insurance broking.

The primary reason for the merger was to enhance diversification and promote financial stability for the Group.

No consideration will be provided to SMMI Members by way of a distribution. The consideration for the transaction is North's assumption of the obligations of SMMI Members being, most significantly, the run-off of existing claims liabilities and the SMMI defined benefit pension obligation.

The balance sheet of SMMI at the date of acquisition was as follows:

Assets		\$'000
Intangible assets		
Goodwill		4,102
Investments		
Land and buildings	11,047	
Financial assets	84,578	
		95,625
Reinsurers' share of technical provisions		
Provision for unearned premiums	41,075	
Provision for unearned commission	(16,815)	
Claims outstanding	62,513	
		86,773
Debtors		58,083
Other assets		
Tangible assets	870	
Cash and equivalents	15,131	
		16,001
Prepayments and accrued income		10,827
Total assets		271,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2014

28. Events after the reporting period (Continued)

		\$'000
Capital and reserves		
Other reserves: reserve fund	37,858	
Income and expenditure account accumulated surplus	9,729	
		47,587
Minority interest		377
Technical provisions		
Provision for unearned premiums: gross amount	66,975	
Claims outstanding: gross amount	109,638	
		176,613
Financial liabilities		43,264
Accruals and deferred income		2,209
Pension liability		1,361
Total liabilities		271,411

The directors consider that the assets and liabilities acquired were held at a value consistent with fair value.

The North of England P&I Association Limited

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THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED

FORM OF PROXY

The undersigned, a Member of The North of England Protecting and Indemnity Association Limited, hereby appoints the Chairman of the meeting or or to be the undersigned's proxy in the order named to vote on behalf of the undersigned at the Annual General Meeting of the Members of the said company to be held on Friday, 14 November, 2014, and any adjournment thereof.

This form is to be used in respect of the following Resolutions.

	For	Against
The Resolution to adopt the Report and Accounts.		
The Resolution to appoint Ernst & Young LLP as Auditors, and to authorise the Directors to fix their remuneration.		

As witness the hand of the undersigned this day of2014
For (Name of Member IN CAPITALS)

.....
By (Office)

Notes

1. A Member is entitled to appoint another person as its Proxy to exercise the Member's rights to attend, speak and vote at the meeting.
2. A Member may appoint more than one party to attend, speak and vote on the same occasion provided that each Proxy is appointed to exercise the rights attached to a different ship or ships entered by such Member for insurance in the Association.
3. If a Member wishes to appoint more than one Proxy and requires additional forms the Member should contact the Company Secretary Chris Owen on +44(0)191 232 5221 or chris.owen@nepia.com. If you wish any person other than the Chairman to act as your Proxy, please insert the name of your Proxy in the space provided. If no name is inserted you will be deemed to have appointed the Chairman of the meeting. A Proxy need not be a Member.
4. Please indicate with an X in the appropriate spaces how you wish your votes to be cast in respect of each of the Resolutions. On receipt of this form duly signed but without any specific direction how you wish your votes to be cast, the Proxy will vote in favour of the Resolutions unless so instructed and on any other Resolutions proposed at the meeting your Proxy will vote or abstain at his discretion.
5. In the case of a corporation this form should either be under its seal or be signed by an authorised officer of the corporation, who should state in the line below his office (e.g. Company Secretary, Director).
6. To be valid at the Annual General Meeting referred to, this form must be completed, signed and deposited with the Company Secretary of the Association by post to The Quayside,

Newcastle upon Tyne NE1 3DU, England, or by e-mail to chris.owen@nepia.com not less than 48 hours before the time appointed for holding the meeting. Completion and return of this form will not prevent you from attending and voting in person if you so wish.

**THE NORTH OF ENGLAND PROTECTING AND INDEMNITY
ASSOCIATION LIMITED**

N.B. This form does not need to be completed unless a representative is attending the meeting in person and is not required if the representative is also a Director or Members Board Representative of The North of England Protecting and Indemnity Association Limited as they will be deemed to have authority.

Form of Authorisation for a Corporate Representative

This is a certified copy of a Minute of the Directors or other governing body of:

passed on []

"We hereby authorise [] to act as our representative at the Annual General Meeting of The North of England Protecting and Indemnity Association Limited on Friday, 14 November 2014."

Certified a true copy:

Signed

For and on behalf of

[]

Dated

THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED (the "Company") will be held at Taj Boston, 15 Arlington Street, Boston, MA 02116, USA, on Thursday, 20th November 2014 at 10.00 a.m. for the following purposes:

AGENDA

1. To appoint a chairman of the meeting.
2. Confirmation of Notice.
3. To consider the minutes of the Annual General Meeting held on 24th October 2013.
4. To consider matters arising from the minutes.
5. To receive financial statements of the Company for the year ended 20th February 2014.
6. To consider the election of Directors as follows;
 - a) Determine number of directors.
 - b) Consider electing the following Directors for the ensuring year;

Patrick Corcoran
David Ezekiel
Philip W.J. Fisher
Miljana Macanovic
Cyril E. Rance
Nicholas Warren
 - c) Authorise the Directors to appoint Alternate Directors.
 - d) Consider fees payable to the Directors
7. To appoint auditors until the close of the next Annual General Meeting and determine their remuneration.
8. To consider any other business which may properly come before the meeting.

Date: October 21, 2014



Scott H. Davis
Secretary



FINANCIAL 2014 *Statements*

THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED

NORTH 
SERVICE, STRENGTH, QUALITY



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

The Directors have undertaken to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company in accordance with accounting principles generally accepted in the United Kingdom, as applicable to insurance companies. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with principles generally accepted in the United Kingdom as applicable to insurance companies. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The Directors believe that the Company has adequate resources, reinsurance arrangements and support from its Members to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

We have audited the financial statements of The North of England Mutual Insurance Association (Bermuda) Limited for the year ended 20 February 2014 which comprise the balance sheet, income and expenditure account, cash flow statement, and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's Members, as a body, in accordance with our engagement letter dated 27 February 2012. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2014 and of its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Denise Larnder (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 May 2014

BALANCE SHEET

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

	Note	P&I US \$000	2014 FD&D US \$000	Total US \$000	2013 Total US \$000
Assets					
Cash at bank and in hand		6,131	50,477	56,608	57,880
Investment income receivable and prepaids		962	–	962	961
Marketable securities – at market value	4	621,824	–	621,824	664,209
Due from / (to) The North of England P&I Association Limited	6	72,483	(8,051)	64,432	30,655
		701,400	42,426	743,826	753,705
Liabilities					
Reserve for outstanding claims	7	533,751	26,588	560,339	544,938
Unearned premiums		4,756	–	4,756	4,527
Accounts payable		249	5	254	175
Due to broker		1,620	–	1,620	–
Unrealised loss on forward foreign exchange contracts	4	340	–	340	80
		540,716	26,593	567,309	549,720
Net Assets					
		160,684	15,833	176,517	203,985
Represented by:					
Members' contributions	8	250	–	250	250
Contingency reserve	9, 10	229,640	17,621	247,261	247,261
Balance from income and expenditure account	10	(69,206)	(1,788)	(70,994)	(43,526)
		160,684	15,833	176,517	203,985

See accompanying notes to the financial statements

These financial statements were approved by the Board on 14 May 2014

Signed on behalf of the Board on 16 May 2014

Cyril Rance, Director

Nick Warren, Director

INCOME AND EXPENDITURE ACCOUNT

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

Note	P&I US \$000	2014 FD&D US \$000	Total US \$000	2013 Total US \$000
Reinsurance Operations				
Premium calls	143,719	11,976	155,695	150,723
Claims passed	(176,291)	(5,998)	(182,289)	(188,210)
Net change in unearned premiums	(229)	–	(229)	(2,652)
	(32,801)	5,978	(26,823)	(40,139)
Investment Results				
Investment income	3,533	–	3,533	4,960
Realised gain / (losses) on sale	(7,424)	–	(7,424)	2,042
Change in unrealised appreciation of marketable securities	17,506	–	17,506	3,001
Interest on cash and time deposits	88	80	168	167
Foreign currency translation adjustment	542	1,859	2,401	(1,007)
Investment advisors' fees	(964)	–	(964)	(597)
	13,281	1,939	15,220	8,566
General and administrative expenses	(463)	–	(463)	(414)
Surplus / (Deficit) from operations for the year before change in estimated outstanding claims	(19,983)	7,917	(12,066)	(31,987)
Increase in estimated outstanding claims	(13,299)	(2,102)	(15,401)	(20,933)
(Deficit) / Surplus for the year	(33,282)	5,815	(27,467)	(52,920)
Transfer from contingency reserve	–	–	–	–
Surplus / (Deficit), beginning of year	(35,924)	(7,603)	(43,527)	9,394
(Deficit), end of year	(69,206)	(1,788)	(70,994)	(43,526)

The Company has no recognised gains or losses other than those included above. All items relate to continuing operations.

See accompanying notes to the financial statements

CASH FLOW STATEMENT

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

	2014 US \$000	2013 US \$000
Net cash inflow from operating activities	(31,561)	46,389
Cash flows were invested as follows:		
Capital expenditure and financial investment		
Payments to acquire investments	1,426,928	963,821
Receipts from sales of investments	(1,482,918)	(815,854)
	(55,990)	147,967
Increase / (Decrease) in cash and other financial investments	24,429	(101,578)
Net investment of cash flows	(31,561)	46,389
Movement in opening and closing cash and portfolio investments		
Net investment of cash flows	(31,561)	46,389
Changes in market value and exchange rate effects	(12,097)	(4,491)
Total movement in portfolio investments	(43,658)	41,898
Portfolio investment and cash at beginning of year	722,089	680,191
Portfolio investment and cash at end of year	678,431	722,089
Analysis of cash and portfolio investments:		
Cash at bank and in hand	56,607	57,880
Marketable securities	621,824	664,209
	678,431	722,089
Reconciliation of net profit for the year to net cash inflow from operating activities:		
(Deficit) for the year	(27,467)	(52,920)
Change in market value and foreign exchange	12,096	4,491
(Increase) / Decrease in investment income receivable and prepaids	(1)	258
Increase / (Decrease) in unrealised (loss) on forward foreign exchange contracts	255	(105)
Increase / (Decrease) in accounts payable	79	(107)
Increase in reserve for outstanding claims	15,402	20,932
(Increase) / Decrease in amount due from The North of England P & I Association Limited, net	(33,777)	68,963
Increase in due to/from broker, net	1,623	3,253
(Decrease) in pipeline debtors	–	(1,029)
Increase in unearned premium	229	2,653
Net cash inflow from operating activities	31,561	46,389

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

1. General

The North of England Mutual Insurance Association (Bermuda) Limited, (the "Company") with a registered office at Clarendon House, 2 Church Street, Hamilton, was incorporated under the laws of Bermuda with registration no. 22688 on December 9, 1996 and holds a Class 2 licence under The Insurance Act 1978. The Company's secretary is Mr. Scott Davis and Codan Services Limited act as the assistant secretary.

Effective 20 February 1997, the Company assumed, via a Deed of Accession and Notice of Transfer, the Protection and Indemnity ("P&I") and Freight Demurrage and Defence ("FD&D") risks previously reinsured by The North of England P&I Association (Bermuda) Limited ("NOE-B"). The Company agreed to assume the assets and liabilities of NOE-B at that date, as set out in the Deed of Accession and Notice of Transfer, for all policy years up to 20 February 1997. It also agreed, with effect from 20 February 1997, to reinsure 90% of the P&I and FD&D risks of The North of England P&I Association Limited ("North"), less a discount. The discount was 30% & 35% for P&I and FD&D respectively up to 2013 and for 2014 was 15% & 35%.

North is a United Kingdom incorporated association whose Members mutually insure each other, and on whom premium calls are made as required to meet anticipated and known claims. Its members are shipowners who have entered ships for insurance by North. The Company has the same Members as North.

All the business written is derived from the United Kingdom, as the Company's current business is limited to the reinsurance of North.

2. Basis of Financial Statements and Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom, as applicable to insurance companies. However, as the Company is domiciled in Bermuda, the provisions of the United Kingdom Companies Act 1985 and 2006 have not been applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The following accounting policies have been adopted by the Company:

a) Reinsurance premiums and calls

Recorded premium income represents the Company's share of calls for the current year, and adjustments for previous years. Premiums written are charged to the income statement on an accrual basis and included in income on pro-rated basis over the term of the contract. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily prorated basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The policy years run from noon GMT on any 20 February to noon GMT on the following 20 February. The Company's financial years are coterminous with their policy years.

b) Claims and related expenses

Claims and related expenses represent the Company's share for the current year, and include the Association's share of other clubs' pool claims, which are charged to the income and expenditure account on an incurred basis. The share that the Company reinsures is currently at 90% of all claims paid.

Full provision is made for outstanding claims which are based upon the North's best estimate of the ultimate likely cost of individual claims notified but not paid at the balance sheet date. Provision is also made for claims incurred but not reported (IBNRs) based on statistical methods. Both the individual estimates and the IBNR methodology are reviewed on a regular basis. Although the amounts recorded are based on information currently available, the ultimate liability of the claims provisions may, as a result of subsequent information and events, prove to be less than or in excess of the amounts currently provided. Such changes in estimates are reported in the period in which they are determined. Provision for the cost of claims handling is included within the provision for claims IBNR.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

2. Basis of Financial Statements and Significant Accounting Policies (Continued)

c) Foreign currency translation

Assets and liabilities in foreign currencies are translated into United States dollars at rates of exchange prevailing at the balance sheet date. Foreign currency income and expenditures including reinsurance transactions are translated at the rate prevailing at the transaction date. Foreign exchange adjustments, including unrealised gains and losses on forward foreign exchange contracts, are reflected in the income and expenditure account as they arise.

The foreign currency translation adjustment represents the realised and unrealised gains and losses on forward foreign exchange contracts, unrealised adjustments arising from translation of foreign currency assets and liabilities, and realised foreign exchange gains and losses on disposal of foreign currency denominated marketable securities.

d) Marketable securities

Marketable securities are carried at market value with changes in unrealised gains and losses recorded in the income and expenditure account. Investments in mutual funds are recorded at net asset value as reported by the funds' administrator, which approximate their market value. Gains and losses on disposal of investments are reflected in income when realised.

Future contracts are marked to market with changes in unrealised gains and losses recorded in the income and expenditure account.

e) Investment income and interest on cash and other financial investments

Investment income from cash at bank and in hand, other financial investments and marketable debt securities is recorded on the accruals basis. Dividends are recorded when declared.

f) Cash at bank and in hand

The Company considers cash in hand and deposits repayable on demand as equivalent to cash.

g) Other financial investments

Other financial investments comprise deposits with credit institutions. These investments are carried at market value.

h) International Financial Reporting Standards ("IFRS")

The Company has considered the adoption of IFRS for its financial presentation but has elected not to do so for this financial year. The effects of IFRS have been reviewed and it should be noted that the following differences would have arisen had IFRS been adopted:-

1. Cash at bank and in hand would be re-categorised as Cash and cash equivalents
2. Short term investments of \$Nil (2013: \$167,863) in Marketable securities would be re-categorised as Cash and cash equivalents

3. Commitment

In accordance with the terms of its reinsurance agreement the Company has agreed to pay on demand any monies owing to North and has secured this commitment by a floating charge on all its assets.

4. Marketable Securities

(i) The cost and market value of marketable securities are as follows:

	20 February 2014		P&I 20 February 2013	
	Cost US \$000	Market Value US \$000	Cost US \$000	Market Value US \$000
Fixed interest securities	551,793	560,317	494,188	496,298
Equity securities	50,101	61,507	–	–
Short term investments	–	–	167,863	167,911
	601,894	621,824	662,051	664,209

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

4. Marketable Securities (Continued)

(ii) Fixed interest securities – maturities

The market value amounts for fixed interest securities held at 20 February 2014 are shown below by contractual maturity. Actual maturity dates may differ from contractual maturity dates because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2014 US \$000	2013 US \$000
Within one year	297,526	313,906
From one to five years	194,945	76,852
From five to ten years	43,043	77,210
After more than ten years	24,803	28,330
Members' funds at end of year	560,317	496,298

(iii) All investments in fixed interest securities have a credit rating of "BBB-" or better.

(iv) Foreign exchange contracts outstanding at the year end were as follows:

Forward foreign exchange contracts

	2014 US \$000	2013 US \$000
Receivable	1,040	625,035
Payable	(1,380)	(625,115)
Net (payable) / receivable	(340)	(80)

The Company is exposed to credit loss in the event of non-performance by the other parties to contracts that are in an unrealised gain position. The Company does not anticipate any non-performance.

5. Segmental Reporting

All of the Company's operations are based in Bermuda.

	2014 Net Assets US \$000	2014 Net Loss US \$000	2013 Net Assets US \$000	2013 Net Loss US \$000
P&I	160,684	(33,282)	193,967	(58,251)
FD&D	15,833	5,815	10,018	5,331
	176,517	(27,467)	203,985	(52,920)

6. Ceding Company Debtor

In accordance with the terms of the reinsurance agreement with the ceding company, any amounts receivable are due on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

(All amounts expressed in US Dollar thousands unless otherwise stated)

20 February 2014

7. Estimated Outstanding Claims

Claims are subject to prolonged delay, both as to notification and settlement. Quantification of outstanding claims is based on experience and judgement; however the ultimate cost thereof cannot be ascertained with certainty at the date of the balance sheet. Accordingly, the amount provided for estimated outstanding claims in the financial statements may differ materially from the Company's ultimate liability for claims. Any differences between these estimates and the actual settlement will be recorded in the period in which they become known.

8. Members' Contributions

The amount of US\$ 250,000 represents the payment of the Members' initial contribution.

9. Contingency Reserve

The contingency reserve has been established in order to maintain call stability and represents the balance on closed policy years. There were no transfers made to the contingency reserve during the year (2013:\$Nil).

Policy years are kept open for no longer than four years. Any surplus or deficit at the closure of a policy year is transferred to or from the contingency fund.

10. Movement in Members' Funds

	2014 US \$000	2013 US \$000
Members' funds at beginning of year	203,985	256,903
Movement in contingency reserve	–	–
Other	(1)	2
(Deficit) / Surplus from income and expenditure account	(27,467)	(52,920)
Members' funds at end of year	176,517	203,985

11. Taxation

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until 31 March 31 2035. At the present time no such taxes are levied in Bermuda.

NOTES

**THE NORTH OF ENGLAND MUTUAL INSURANCE
ASSOCIATION (BERMUDA) LIMITED**

FORM OF PROXY

We A Member of The North of England Mutual Insurance Association (Bermuda) Limited, (the "Company") HEREBY APPOINT the Chairman or*to be our agent and standing proxy to represent us and to vote on our behalf at the Annual General Meeting of the Company to be held on 20 October 2014 and at any adjournment thereof.

Dated the day of 2014

For: _____

Signed by the above Grantor
in the presence of:

Witness Signature:

Witness Name (Print):

Witness Address (Print):

* Please insert name and delete as appropriate