MANAGEMENT *Report* 2013

NORTH

SERVICE, STRENGTH, QUALITY

FINANCIAL SUMMARY

Five Year Combined Summary

Income and Expenditure – US$ million

	2012/13	2011/12	2010/11	2009/10	2008/9
Premium income	365.3	348.3	314.2	285.1	255.1
Reinsurance costs	(70.8)	(55.4)	(59.7)	(47.6)	(44.2)
Net claims incurred	(253.5)	(246.1)	(156.0)	(190.5)	(142.2)
Expenses (including brokerage)	(51.3)	(51.6)	(43.7)	(35.8)	(34.0)
Underwriting result	(10.3)	(4.8)	54.8	11.2	34.7
Investment result and exchange movements	8.5	13.9	17.3	18.0	(43.6)
Building revaluation	–	(7.5)	–	–	–
Increase / (decrease) in free reserve	(1.8)	1.6	72.1	29.2	(8.9)

Balance Sheet

	Feb-13	Feb-12	Feb-11	Feb-10	Feb-09
Investments, cash and cash equivalents	914.9	877.3	770.5	671.3	640.7
Other assets	59.2	58.2	61.6	51.6	45.6
	974.1	935.5	832.1	722.9	686.3
Creditors	(56.4)	(39.3)	(21.7)	(16.2)	(22.8)
Net assets	917.7	896.2	810.4	706.7	663.5
Net outstanding claims	(605.5)	(582.2)	(498.0)	(466.4)	(452.4)
Free reserves	312.2	314.0	312.4	240.3	211.1
Combined ratio	104.2%	101.8%	78.8%	94.8%	82.0%

CHAIRMAN'S STATEMENT

This has been a challenging year for the shipping industry as a whole, a year which has seen no abatement in the fragile and unstable global economy and further deterioration in the claims environment. Despite this, North is pleased to report another stable result which has further consolidated our position as one of the leading P&I clubs.

Our Members continue to operate in very unpredictable shipping markets, the duration of which has not been experienced for many decades. Recovery of the global economy and correction of the supply and demand imbalance in shipping may still take a number of years to develop, despite continued growth in world seaborne trade.

Once again it has been a notable year for claims, with the P&I industry experiencing both high frequency and increasing severity in claims reported. At International Group Pool level, the experience has been very adverse and shows a significant increase in the frequency of claims. As we predicted last year, high profile claims such as the "RENA" and "COSTA CONCORDIA" continue to have a significant influence on the Group's Pooling and Reinsurance arrangements for the 2013/14 policy year, with increasing costs exerting more pressure on Members who are constantly looking at ways to reduce operating expenses. It is particularly during such economic conditions that Members look to the Club for support, excellent service and financial stability.

A key strategic objective for the Club is to maintain financial stability. This has been the cornerstone of our financial strategy for over two decades now, and during this period we have remained one of the few financially strong clubs that have not burdened their Members with unbudgeted supplementary premiums. At the recent renewal we decided it was prudent, in continuation of this strategy, to increase overall premiums to deal with the current and anticipated claims experience. We were of course very mindful of the harsh shipping market conditions and therefore we varied the method of premium collection to provide Members with a significant cash flow benefit over the year, and also deferred a considerable proportion of the premium until December 2014, thereby allowing us the opportunity to assess whether our projection of claims has been too prudent, and therefore whether it will be possible to provide further financial relief to our Members by reducing the deferred element of the premium.

Pratap Shirke
Chairman

Our renewal strategy and approach was described by Standard & Poor's as "*credible and realistic*" and as a result of overwhelming support from our membership, we were able to achieve our financial targets for both P&I and FD&D. The renewal most certainly brought into sharp focus the value of the excellent service North provides, at a time when shipping is in an economically stressed condition. Financial strength and stability is more important to North than membership growth and despite our decision not to renew approximately 7 million GT of entries, we still emerged from the renewal as one of the largest and most financially secure members of the International Group. Whilst our total tonnage of 170 million GT has shown little movement over the past 12 months, we are pleased to report that we have secured significant growth in premium income.

The Club continues to adopt a very cautious financial approach, with a risk averse investment policy, very strong financial controls and a very cautious claims reserving methodology – with Member claims reserved at a conservative 95% confidence level. Overall we are pleased to report a satisfactory financial result for the year, with an increase in premium income to US$365.3 million and a net investment income of US$8.5 million (+1.58% return). However, the high levels of P&I claims (International Group Pool claims in particular, where despite our historical good performance, our contribution to other Club's claims is significant) is reflected in the underwriting result and led to a deficit of US$1.8 million and a modest fall in the free reserve from US$314 million to US$312.2 million, with a combined ratio of 104.2%.

There have been a number of changes to the reinsurance programme for the International Group this year, which has resulted in both increased cost and risk for International Group clubs and their Members. A strong and sustainable relationship with our reinsurers and recognition of the increasing involvement of Hydra, are vitally important for the continued ability of the International Group to offer the requisite levels of cover, and to facilitate global trade.

I am pleased to report that the Club maintained an "A" Stable credit rating for the ninth consecutive year from leading ratings agency Standard & Poor's (S&P). North's stable outlook reflects S&P's view "*that the Club will maintain its strong capitalisation, strong financial flexibility and strong competitive position*". This is testament to the continuing quality, diversity and international spread of our membership portfolio as well as our financial prudence and service excellence.

As previously reported, partly in response to the ongoing implementation of Solvency II, we have been reviewing our corporate governance arrangements. Following approval at the General Meeting of the Members in January 2013, a new corporate structure for the Club took effect from 20 February 2013. The new structure is designed to meet regulatory requirements, whilst at the same time maintaining the existing mutual ethos of the Club and the overriding control of the Club by our Members, I am confident this will be achieved.

It has been another busy year for the Club, as we have continued to welcome many Members and other visitors to our headquarters on Newcastle Quayside. Our newly established branch office in Tokyo has developed strongly over the last 12 months and our strategic alliance with Sunderland Marine Mutual Insurance (SMMI) has also strengthened considerably as we have entered a second year of reinsurance cooperation. The development and diversification opportunities resulting from this alliance are very exciting and positive for both companies. As previously reported, during the last 12 months we were also pleased to see the closure of the European Commission investigation into the International Group, and we were all heartened by the overwhelming support from shipowning Members worldwide for the continuance of the International Group system.

The ongoing challenges for the shipping industry which we highlighted last year still remain. In particular, a continued lack of experience and expertise of personnel both at sea and on shore, which contribute directly to many major liability claims.

In addition to the global economic uncertainty, as well as rising operating and claims costs, our Members are also faced with the ongoing challenges brought about by the continued threat of piracy, economic sanctions and continued increase in regulation and legislation. It is important that the Club continues to assist Members with these issues.

North is in a sound financial position, with a quality membership and an outstanding reputation for service. However, in view of the many challenges facing the shipping industry, we must continue to take appropriate and proactive steps to ensure the continued success of the Club. Just as our strategic vision has been refined, the way in which we intend to achieve our strategic objectives has been developed too. We have been embarking upon efficiency and effectiveness initiatives which are focused on three core areas: Membership Review, Operational Effectiveness and Management Leadership and Development. These initiatives are all part of our strategic vision to ensure North is "the most cost-effective marine insurance mutual providing the highest levels of service".

I would like to take this opportunity to thank North's Directors and Board members for their dedication to North's affairs and I look forward to working with them over the coming year. I would also like to thank all of the Club's Members for their ongoing support and commitment to the Club and to North's staff for their endless passion and drive towards achieving North's strategic vision and objectives.

Pratap Shirke
Chairman
July 2013


JOINT MANAGING DIRECTORS' STATEMENT

Service, Strength and Quality continue to be the values that underpin our Club and provide the framework for how we do business. They guide us in everything that we do, from key strategic decisions to day-to-day activities.

We continually assess the environment in which we operate and as a result, review the appropriateness of the Club's strategic objectives. Our overarching strategic objective is to be "the most cost-effective marine insurance mutual providing the highest levels of service". We intend to achieve this by further strengthening our core mutual P&I, FD&D and War business through prudent financial management and controlled growth. In addition, we will continue to develop non-mutual and diversified areas of business which have the potential to benefit the mutual membership overall.

We have therefore embarked upon a range of efficiency and effectiveness initiatives, of which there are three focus areas: Membership Review, Operational Effectiveness and Management Leadership and Development. These initiatives are all part of our strategic vision to achieve high service levels whilst remaining cost-effective.

Membership Review

This is something we have always carried out in the lead up to renewal but we applied more focus to our approach this year, with the aim of gaining a much greater understanding of each Member, how they operate and what they expect from their Club. These reviews informed our renewal strategy for the 2013/14 policy year.

This year, we transparently said that we would be focussing on financial strength in order to protect the foundations that we have in place for the benefit of the membership, and to ensure that the Club is in the best possible position to meet the current and emerging challenges in the maritime industry.

This renewal was always going to be challenging given the difficult economic environment our Members are operating in and the increase in reinsurance rates which were more than expected this year, and we were challenged with balancing this against maintaining the stability of the Club. With this in mind, we implemented a series of renewal measures for the new policy year, which we believed was the correct approach to assist our Members during a difficult trading environment, whilst at the same time maintaining the Club's financial stability.

Our strategy was to consolidate the Club's membership and thereafter seek controlled growth in core business areas. As a result, owned and chartered entries have increased slightly to 127 million GT and 43 million GT respectively, with a total entered tonnage of 170 million GT.

Overall, we are pleased to report a financially sound result at the 2013 renewal. A modest investment return was offset by an overall increase in Members' and Pool claims, resulting in the free reserve dipping marginally to US$312.2 million.

JOINT MANAGING DIRECTORS' STATEMENT CONTINUED

Operational Effectiveness

The remit of this review is wide and covers everything that we do. The objective is to ensure that, whilst delivering a high level of service to all of our Members, we make the most effective use of all of our resources.

This ongoing initiative is not simply about reducing the resources that we use, it is about ensuring that we best direct those resources towards delivering high levels of service in a cost-effective manner. As an integral part of this initiative, North is embarking on a major business and IT transformation programme "Quay Change" which aims to completely replace a number of our core business systems with a bespoke single, seamless system. Quay Change is expected to be completed in late 2014 and will bring significant benefits to the Club and our Members.

Management Leadership and Development Programme

It is important that North's management team is suitably equipped with the tools to carry out their roles effectively and to enhance the leadership and management skills that are required on a daily basis. The management training and development programme covers the key areas in managing people and resources which are critical to effective delivery of service.

North's culture is centred around service and as we continue to evaluate our resources, where appropriate, we will continue to recruit new members of staff and strengthen our capabilities across our five offices.

Diversification and New Services

In 2012 North announced, via a liability reinsurance arrangement, the formation of a new strategic alliance with Sunderland Marine Mutual Insurance Company Limited (SMMI), and we are pleased to report that the reinsurance arrangement has been renewed for another year. This alliance forms part of our diversification policy and enables both companies to explore new business opportunities worldwide.

Throughout the year we have made further progress in expanding our range of services for Members, including the launch of a new medical service to assist seafarers who have been repatriated to the Philippines as a result of injury or illness. In the USA, North launched First Call, the medical service for North's Members who are disembarking crew for medical treatment in the USA.

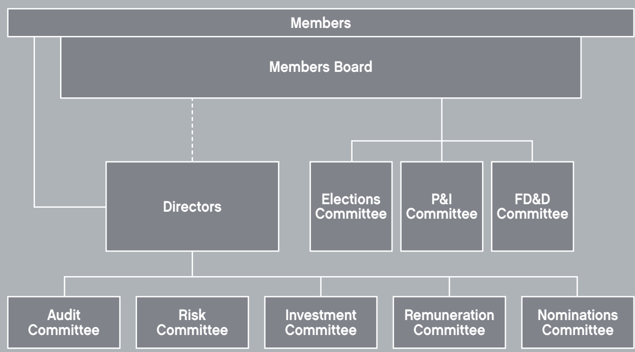
Industry Challenges

Our Members and the P&I industry have continued to face a number of challenges over the past year, from the global economic outlook, increased sanctions and deteriorating claims environment to legislative developments and the ongoing threat of piracy. We will continue to support initiatives which promote the interests of our Members at International Group level and through the Club's various training and loss prevention initiatives.

The shipping industry is set for another unpredictable year and the Club's strategic priorities are clear: to remain a financially strong and stable mutual partner, responsive to our Members' needs and providing the highest and most cost-effective levels of service.

Alan Wilson & Paul Jennings
Joint Managing Directors
July 2013

CORPORATE GOVERNANCE



North's systems of governance play a central role in developing and achieving the Club's strategic aims, meeting the Club's obligations to Members, complying with legal and regulatory requirements and managing the Club's risk profile.

The contribution of perceived corporate governance failures within the financial services sector to the recent global financial crisis, as well as the increased focus upon systems of governance within the incoming European Solvency II Directive, has led a number of P&I clubs to re-evaluate their existing corporate structure and governance arrangements.

Following a long and detailed review of North's corporate governance structure, the Club's Directors recommended a number of changes which were subsequently approved by the Club's membership and implemented with effect from 20 February 2013.

In developing the new structure, the Directors were mindful to ensure that the relevant changes meet current and prospective Solvency II requirements whilst at the same time maintaining the Club's mutual ethos.

Members

The Club's mutual membership is at the head of the governance structure.

An Annual General Meeting of the Members is normally held in autumn each year to receive the Club's annual report and accounts and to attend to other matters such as the appointment and remuneration of Non-Executive Directors and auditors.

Further General Meetings are held where required to obtain Members' approval in accordance with the requirements of the Club's constitutional documents and applicable Company law.

Members Board

The Members Board ("Board") has been created to provide a forum for Members to play an enhanced role in the governance of the Club outside of General Meetings. It has separate committees to consider matters relating to the P&I Class and FD&D Class and an Elections Committee which considers appointments to the Board.

Meetings are held three times per year at which Board members receive reports from, and consult with, the Directors upon a wide range of matters affecting the Club. This includes a range of strategically important matters which are reserved for prior consultation before any proposed action is taken by the Directors. The Board also has powers to determine discretionary matters in relation to Members claims under the Club's Rules.

Directors

The Directors are collectively responsible for governing and directing the affairs of the Club, setting the Club's strategic aims and ensuring that the Club's obligations to Members and others are understood and met.

As part of their duties, the Directors must ensure that the Club complies with all applicable legal and regulatory requirements and that the Club's risk profile is adequately and effectively managed.

The Club has three general categories of Director:

- Member Directors – appointed on a non-executive basis to represent the Club's shipowner Members;
- Executive Directors – appointed to represent the executive management of the Club; and
- Independent Directors – appointed on a non-executive basis to provide additional specialist expertise in relation to key governance functions.

The balance of power at Directors meetings is held by the Member Directors to ensure that the Club remains representative of its shipowner Members. Overall leadership is provided by the Club's Chairman with assistance from the Vice-Chairman, both of whom are elected by the Directors from amongst the Member Directors.

Member Directors, Independent Directors and the posts of Chairman and Vice-Chairman are subject to fixed terms and tenures to ensure that appointments to these positions are progressively refreshed on a regular basis.

Directors are also subject to formal requirements in relation to time commitment, training, performance evaluation and succession planning to ensure that they perform their functions effectively and maintain the necessary balance of knowledge, skills and experience.

Directors Committees

The Directors have also established the following committees to provide enhanced focus and scrutiny upon a range of key areas:

- Audit Committee – overseeing the Club's external and internal audit functions including those relating to the Club's annual financial statements and regulatory returns;
- Risk Committee – reviewing the effectiveness of the Club's risk management framework, regulatory capital assessments, regulatory compliance and policies and procedures;
- Investment Committee – reviewing and implementing the Club's investment strategy;
- Remuneration Committee – overseeing the process of determining the remuneration of Directors and Executive Management; and
- Nominations Committee – overseeing the processes surrounding Directors appointments, training, performance evaluation and succession planning for Directors and Executive Management.

FINANCIAL OVERVIEW

Financial Position

Against the backdrop of continuing economic uncertainty, persistently recessionary markets across most shipping sectors and the significant increase in the severity of both current and projected marine insurance claims, we are able to report a satisfactory result, albeit with a small deficit of US$1.8 million for the financial year to 20 February 2013, which has led to a modest decrease in free reserves from US$314 million to US$312.2 million.

An increase in (pro-rata) tonnage during the year, together with income from the Sunderland Marine Mutual Insurance (SMMI) Company Limited reinsurance agreement, increased premium income by US$19 million to US$365.3 million.

Investment income net of fees and tax and exchange movements produced a return of US$8.5 million. The very conservative investment portfolio performance was a modest +1.58% against the benchmark of +1.38%.

The high levels and frequency of P&I claims and costs experienced during 2011/12 continued into the 2012/13 policy year. This was reflected in the P&I Class underwriting result which showed a loss of US$16.6 million. The underwriting surplus on the FD&D Class was US$6.3 and therefore the overall underwriting result was a loss of US$10.3 million, resulting in a combined ratio of 104.2% (2011/12 – 101.8%).

Net retained claims of US$282.9 million have been notified at 20 February 2013 for the policy year. At the same 12 month development point, the 2011 year had net retained claims of US$257.1 million and the very benign 2010 year just US$176.5 million.

North's owned and chartered Members' claims are reserved by an Independent Actuary at a very conservative 95% confidence level. This is consistent with prior years and compliant with North's Claims Reserving Policy.

One of the major concerns over the past year has been the very substantial escalation in the frequency and cost of large casualty incidents for the International Group Pool. The pattern of IG Pool claims has been markedly different to 2011/12 and more costly in terms of overall retained cost.

The Pool claims for 2012/13 have an incurred value of US$369 million at 20 February 2013 and the ultimate cost is expected to be in excess of US$600 million. There is currently just one claim, “BARELI”, which is likely to fall to the International Group market reinsurance programme, with a current ground up value of US$95 million. The 2011/12 year included two very large claims, “COSTA CONCORDIA” and “RENA”, which currently have incurred values of US$744 million and US$300 million respectively. The total Pool cost for 2011/12 is expected to be US$1170 million. However, after International Group reinsurance recoveries, the net cost is expected to reduce to US$540 million. If the two large claims were excluded, then the cost of the Pool in 2011/12 would be just US$142 million. This clearly highlights the extreme volatility of claims at this level of the pooling arrangements and also demonstrates that the 2012/13 year will be very expensive for Pool claims. The Club has, for a number of years, purchased reinsurance to help to protect the Club’s exposure to this volatile area.

Investment Result

The P&I Class investment returned a positive 1.58% against a benchmark position of +1.38%. Including all invested assets in FD&D and War Risks classes and those held in Hydra and cash on deposit, the total investment contribution was US$ 8.5 million. The investment portfolio remained very conservatively positioned throughout 2012 with 83.3% of the portfolio invested in government bonds and cash and the remainder in corporate bonds. Funds within an Absolute Return fund amounting to US$77.3 million were liquidated in December 2012, with the proceeds invested in corporate bond funds managed by Schroders.

The financial year to 20 February 2013 has been financially challenging for North, with a modest decrease in the free reserve to US$312.2 million. An underlying underwriting loss driven by an overall increase in Members’ claims and an expensive year for the International Group Pool was offset by a small but positive return on investments.

Notwithstanding this result, the Club’s Directors are pleased to report that the overall financial position is satisfactory. The Club’s capital remains in the AA category as determined by the S&P capital model and is significantly in excess of current and expected solvency requirements.

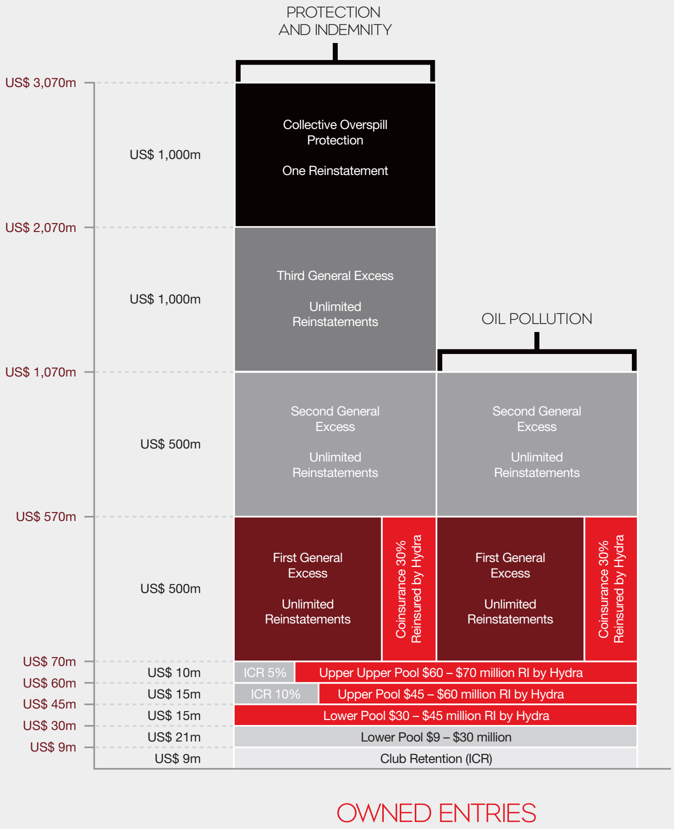
FINANCIAL OVERVIEW CONTINUED

Enterprise Risk Management

North continues to make steady progress towards full Solvency II compliance, which has again been deferred and is unlikely to come into force before 2016. Solvency II will require European insurance companies to meet the requirements of three "pillars":

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

The Directors and Management have focused on ensuring that the Club is well prepared in advance of the implementation date. As far as pillars 1 and 2 are concerned, the financial position of the Club is very robust with capital significantly in excess of Solvency II capital requirements. The corporate governance of the Club was restructured during the year and the newly formed Risk Committee, (supported by the Enterprise Risk Management Committee), has implemented the second calibration of the Club's Risk Register and its Risk Reporting framework.



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

20 FEBRUARY 2013

Reinsurance

The retention of the individual Clubs within the International Group has increased from US$8 million to US$9 million for the 2013/14 policy year, with the International Group Pool retention also rising from US$60 million to US$70 million.

There are now three layers to the Pool, a primary layer of US$9 million to US$45 million, a second layer of US$45 million to US$60 million, where a retention of 10% is applicable to an individual Club making a claim, and a third layer of US$60 million to US$70 million, with an individual Club retention of 5%. Hydra's participation on the first layer of the Group's Excess Loss programme (US$500 million excess US$70 million) has increased from 25% to 30%.

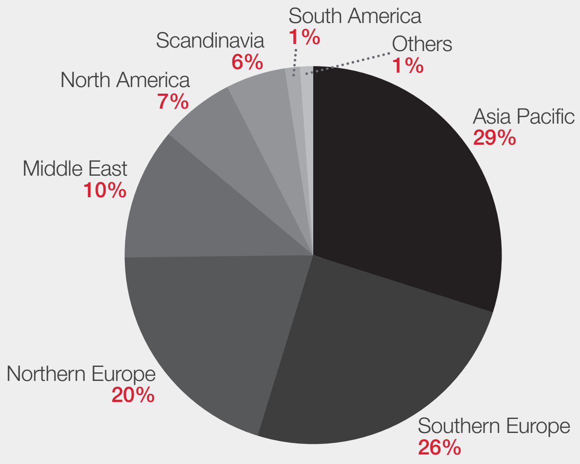
Notwithstanding these changes, this year's renewal was very difficult and the International Group faced a significant premium increase which was ultimately passed on to Members at renewal 2013, mainly impacting upon the passenger and dry ship categories, where the Group's loss experience has been affected the most. The number of Pool claims currently reported for 2012/13 is higher than that for 2011/12. North has presented two Pool claims in each of the last two years but overall, remains a net contributor to the Pool. The ability of North's Members to benefit from the protection provided by the International Group Excess Loss contract (which remains the largest marine reinsurance contract in the world) and the sharing of retained risk through pooling and Hydra is a key feature and benefit of the International Group system.

The Club continues its policy of protecting, by way of reinsurance, claims on the P&I Class within its US$9 million retention. For the 2013/14 policy year, this is protected by a new multi-line excess loss programme, in co-operation with our long-term reinsurance partners. In 2012, the Club purchased Pool protection reinsurance which is expected to negate some of the impact of the high cost of Pool claims last year. The Club has also arranged Pool protection reinsurance for the 2013/14 policy year. North also utilises reinsurance to support one of its key strategic objectives of prudently and conservatively expanding the range of products offered to its Members. This includes a range of non-poolable covers, including comprehensive covers for charterers, with limits of up to US$750 million, and the continuing development of an offshore facility. These policies meet the need to reduce volatility in a cost effective manner, whilst maintaining our longstanding and important relationships with reinsurers.

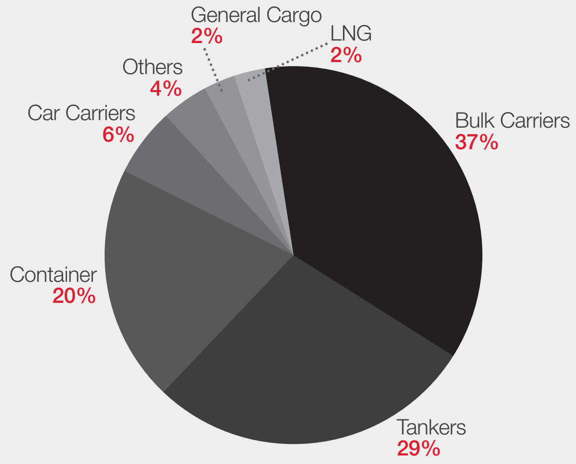
North also arranges stop loss protection cover for the FD&D Class, which complements the protection provided by the multi-line programme, whilst the War Class is fully reinsured through the pooling and reinsurance arrangements of the Combined Group of War Risk Associations.

BUSINESS & OPERATIONAL OVERVIEW

ENTERED GT (OWNED AND CHARTERED) BY GEOGRAPHICAL REGION
20 FEBRUARY 2013



ENTERED GT (OWNED AND CHARTERED) BY SHIP TYPE
20 FEBRUARY 2013



Renewal 2013 and Membership

We are pleased to report a stable membership year, culminating at the recent renewal at 20 February 2013. Considerable progress has been made towards the Club's key strategic objective of enhancing the quality of the membership whilst also maintaining financial strength and stability.

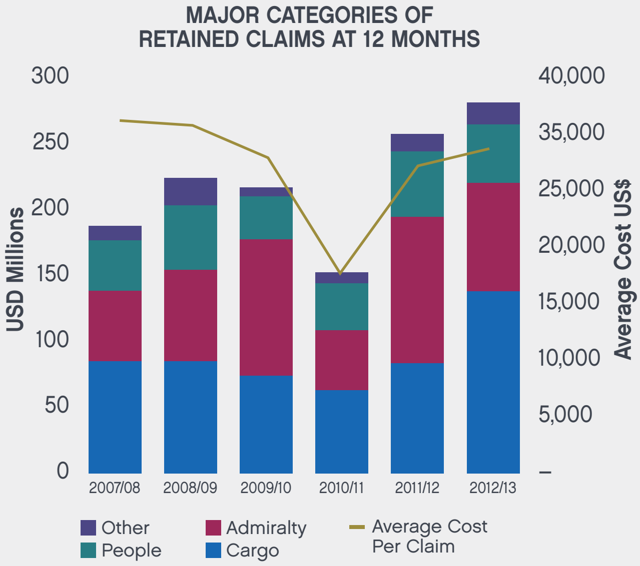
2012/13 was an extremely difficult year for global shipping, largely as a result of a continued supply and demand imbalance, as shipping remains in one of the deepest recessions in recent history. At the same time, the P&I industry is continuing to experience a significant increase in the frequency and value of claims, this made it necessary for North to take robust underwriting measures to maintain the financial stability and wellbeing of the Club for the benefit of the membership.

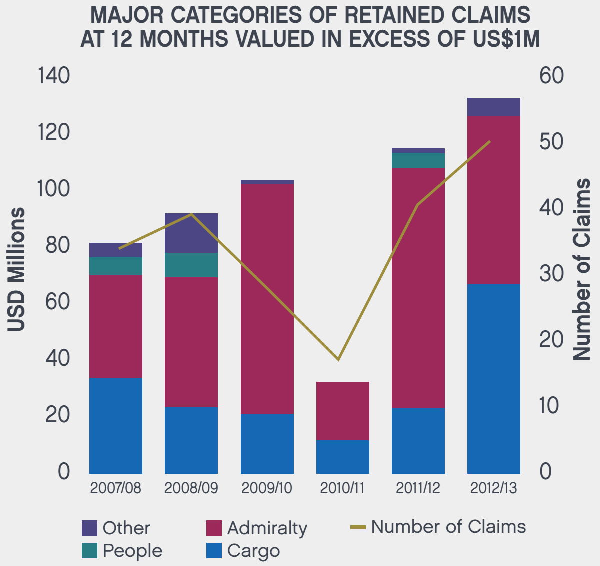
Our strategy at renewal was to consolidate the Club's position. We were seeking significantly increased premiums from our membership, with General Increases of +15% for P&I and +10% for FD&D. The overall renewal outcome was very close to these figures, and in addition, deductible increases have been implemented, as well as the introduction of a fee deductible for the P&I Class. Significant increases in the cost of the International Group reinsurance programme were also passed on to Members, which inevitably put further pressures on the renewal process where our Members' objective was understandably to save on their operating expenses.

In recognition of the financial pressures our membership is operating under, we implemented a number of changes to our premium collection programme for 2013/14, to provide a significant cash flow advantage to our Members. In particular, we decided to defer 30% of the estimated annual premium until December 2014, by which stage we will be able to accurately assess if this deferred instalment is required in part or in full.

The entered owned tonnage reached 127 million GT at 20 February 2013, representing a growth of 4% over the year. Our chartered business maintained a steady position of around 43 million GT, therefore the total entered tonnage remains at approximately 170 million GT. The overwhelming majority of the Club's membership supported our prudent financial policy at the renewal, and whilst we were of course disappointed to see a small number of Members leave the Club, we firmly believe that a fundamental principle of mutuality is the understanding that all Members make a fair contribution, to ensure the financial health of the Club is maintained.

This has been a positive renewal which contributes to North's objectives of maintaining the financial strength of the Club and maintaining a quality membership.





P&I Claims

The high levels of claims costs and frequency experienced during 2011/12 have continued into the 2012/13 policy year. This is disappointing as conventional wisdom would suggest that a depressed trading environment should translate into fewer claims which would result in a lower claims cost.

The number and value of all claim types below US$1 million consistently tracks the growth of the Club's membership and it is a relatively small number of high value claims that have had a significant impact on the overall claims experience. Over the period since 2007, the impact of large claims has been very significant; the number of claims exceeding US$1 million was less than 0.5% of the total, but accounted for 45% of the total value of claims.

There is a continuing trend towards a greater number of large claims, with 50 claims in excess of US$1 million in the 2012/13 policy year. North incurred two claims of sufficient size to fall on the International Group Pool in 2012/13. The first arose out of a collision and subsequent loss of the vessel in the North Sea and gave rise to claims for personal injury and death, wreck removal and cargo. The second claim involved a fire resulting in significant damage to the cargo and ship.

Looking at the breakdown of claims in more detail, the split and average cost of claims across the various categories of loss covered by the Club remains consistent with one notable exception. The average cost of cargo claims has increased from just under US$85,000 in 2011/12 to almost US$150,000 in 2012/13 accounting for approximately 50% of the total value of all claims.

Whilst there has been a slight rise in commodity prices over this period, the increase cannot be explained by that alone. There has also been a sharp increase in the number of high value cargo claims, particularly from the dry bulk, car carrier and container fleets. Human error plays a significant role in a number of these claims and North remains concerned that when margins are tight, insufficient attention is paid to the training and competence of seafarers who are already in short supply.

Of the other historically high value claims categories, namely collisions and crew claims, it is pleasing to note that there were significantly fewer collisions during the 2012/13 policy year than in 2011/12, although this was partly offset by the increase in the average cost. While the cost of crew claims remains remarkably consistent, North is nevertheless investigating a number of ways in which to reduce these claims, including the continued promotion of the benefits of the Club's existing Pre-Employment medical schemes in the Philippines and the Ukraine.

North promoted two new initiatives during 2012/13, both providing medical services to seafarers who are injured or become ill on board ships. *First Call* is a service which aims to ensure that crew claims in the USA are handled by the Club's specialist correspondents rather than involving medical intermediaries which may benefit from referring a matter to a particular hospital or medical group. *Ship to Shore Assist* is a new Post Repatriation Medical (PRM) scheme for Filipino seafarers, which aims to improve the management and effectiveness of treatment of Filipino seafarers following their repatriation on medical grounds. North continues to work with Members by developing such initiatives to assist with the operational and technical challenges they face.

BUSINESS & OPERATIONAL OVERVIEW CONTINUED

FD&D Claims

The economic recession affecting world shipping has shown no respite during 2012/13 and not only has this impacted on the frequency and type of FD&D disputes arising over the past 12 months, it has also encouraged vigorous pursuit of claims with some parties more resistant to compromise as every dollar counts.

As a result, Members continue to take precautions by regularly seeking assistance and advice. Although the overall frequency of claims and general enquiries has decreased slightly compared to the previous year, this does not necessarily reflect the amount of time spent on individual matters to protect the interests of Members.

As the global economic climate continues to bite, there has been an increase in claims resulting from the sudden insolvency of parties in the market, including claims pursued bunker suppliers against Members for the debts of the insolvent party. Of greater concern is the fact that inherently risky business becomes more attractive in tough economic times. Consequently, there has been an increase in claims arising from Members fixing with counterparties of dubious repute or precarious financial standing (often with sparse pre-fixture checks), who then fail to comply with their contractual obligations. Members are reminded of the importance of “Checking before Fixing”.

During the year, North has continued to experience a large number of disputes in connection with potentially dangerous iron and nickel ore cargoes that are prone to liquefaction and a trend now towards wet bauxite cargoes being shipped out of Indonesia.

In addition to the issues outlined above, and alongside the perennial claims such as demurrage, off hire, underperformance, hull fouling and off-spec bunkers, there have been numerous queries generated by the ever-tightening sanctions regime, including specific problems arising from the shipment of cargoes to and from Iran and incidents of clandestine oil cargoes of Iranian origin being transhipped in Malaysia and Indonesia.

The recession-fuelled culture of fighting rather than compromising claims and an increase in high value matters coincides with a climate of escalating legal costs. With a current FD&D team of 28 qualified lawyers, the majority of claims are handled in-house. If external lawyers are required, we apply strict monitoring and supervision of costs to ensure an effective but value for money service. The Club remains committed to early settlement of disputes, where possible, and the use of mediation for that purpose.

The Club continues to optimise effective use of resources with senior lawyers working more closely with less experienced members of the team, to help with training and supervision and also with an eye on the future to ensure that the enormous wealth of expertise and knowledge is widely and effectively disseminated and available to support the Club’s membership during these challenging economic times.

Loss Prevention

Difficult market conditions, problematic jurisdictions and regulatory compliance continue to focus the minds of Members’ operational and technical departments. The growth in demand for assistance with these issues was reflected in the twofold increase in the number of enquiries answered by the Club’s dedicated loss prevention enquiry response team when compared to the 2011/12 policy year.

In addition, the characteristics and carriage requirements of bulk and break bulk cargoes featured prominently in North’s work with Members during 2012/13, particularly following the tragic loss of 15 crew on the “HARITA BAUXITE” which sank with a cargo of nickel ore off the Philippines earlier this year. This trade continues to pose particular challenges for our Members, such as the risks associated with liquefaction and lack of proper cargo testing. It is hoped the efforts of the International Group of P&I Clubs and the International Maritime Organization will help to bring about change in the way local authorities oversee this trade.

Crew Competence

North experienced 50 claims in excess of US$1 million during 2012/13, with over 40% relating to admiralty claims. Analysis of these claims in the early part of 2013 reaffirmed North’s concerns that poor crew training and a lack of experience and competence in key areas of ship operation contributed to these incidents. Crew selection, management and the composition of the bridge team in particular will feature prominently in North’s support for Members in the coming year.

Piracy

North’s alliance with Gray Page (who provide Armed Maritime Security Provider vetting) continued this year, with 17 AMSPs participating in the scheme. ISO Standard PAS 28007: Procedures for Private Maritime Security Companies, due to enter into force later this year, is intended to establish an international benchmark for the level of service required by maritime guards working in the maritime sector.

Membership Reviews

During 2012/13, North introduced a comprehensive programme of Membership Reviews, reaffirming the Club's commitment to managing risk and ensuring appropriate mitigation measures are in place to reduce the consequences of claims. This process, which enhances the Club's understanding of Members' operations and requirements, is now firmly established as a key function of the Club's loss prevention activities and is set to continue for the foreseeable future.

Surveys

North's conservative approach to underwriting is supported by the Club's targeted survey programme, focussed on assessing vessels which may pose an increased risk to the Club's membership. In recent years, North has experienced an overall decline in the number of condition surveys carried out when vessels enter the Club, as a consequence of a younger fleet, with an average age of 11 years.

Loss Prevention Working Group

The Club's Loss Prevention Working Group continues to play an important role in the development of initiatives to assist Members in addressing particular issues. The group (which comprises two loss prevention working parties, one in Europe and one in Asia Pacific) meets twice per year to consider the current issues affecting P&I cover and general loss prevention guidance and dissemination of information. Many of the Club's loss prevention initiatives, including the guide *Collisions: how to avoid them* published in November 2012, stem from the recommendations of the Working Group.

Publications

North continues to produce a wide range of publications to assist Members in making informed decisions. Topical subjects covered during 2012/13 included piracy in the Gulf of Guinea, the safe carriage of bulk cargoes, break bulk cargoes loaded in China, revisions to MARPOL Annex V and the entry into force of the Maritime Labour Convention (MLC).

Providing Members with topical and targeted loss prevention information and guidance remains a key part of North's loss prevention strategy in claims avoidance.

Corporate Social Responsibility (CSR)

North is committed to behaving ethically and responsibly, protecting the environment and building relationships with the communities in which we live and work and therefore our approach to CSR is focussed on three key areas:

- Our Workplace
- The Environment
- Community Involvement

We are committed to providing a safe and healthy working environment, encouraging staff to develop and providing equal opportunities for all. Our corporate values guide our behaviour, operational activities and long-term business strategy. We will work with openness, honesty and integrity with our staff, Members and third parties.

North's aim is to adapt working practices to, as far as possible, to minimise impact upon the environment. We have made considerable progress towards improving efficiency in recycling and reducing waste in recent years through introducing new business systems which promote a paperless office environment and reduce energy usage.

At the core of our CSR efforts is North's development of relationships with charitable organisations in the communities in which we live and work. Over the past year, we have donated more than US$90,000 from the North 150 Fund. Our staff continue to participate in various activities to raise money for this Fund, and we are very grateful to our Board for making an annual donation to the Fund which enables us to continue with our CSR initiatives.

North's CSR programme is also designed to encourage staff engagement through volunteering and supporting in the local community.

NORTH 150 NE P&I FUND

INDUSTRY ISSUES

European Commission Investigation

North welcomed the decision of the EU competition authorities to close their investigation of the International Group of P&I Clubs' claims sharing and reinsurance agreements. The International Group has now been subjected to no fewer than three separate investigations or reviews, the collective outcome of which has been to recognise the value and worth that the mutual P&I system provides to shipowners worldwide. Whilst it was disappointing, and some might feel curious, that the Commission decided to initiate such an investigation in the absence of any third party complaint, it is nonetheless gratifying that once again the benefits of the International Group system have been recognised and endorsed by one of the world's most rigorous competition authorities, which leaves the Group clubs free to focus on what they do best – managing claims costs, finding insurance solutions to evolving liabilities and providing practical day to day assistance in an ever more complex legal and regulatory environment.

Claims Environment

Managing claims costs has proved particularly challenging within the evolving storm of depressed trade, increased capacity and the inevitable depressed rates. Claims remain stubbornly high across the industry but the real story has been the increase in cost of major incidents notably the "RENA" and "COSTA CONCORDIA". There are already 21 notified pool claims for the 2012/13 policy year and this will inevitably increase as the 2012/13 claims mature.

Mindful of the need to build confidence with reinsurers, the International Group clubs established a working group comprising senior and experienced claims mangers drawn from across the International Group clubs to investigate the factors which have caused and contributed to the significant escalation in the costs of managing recent major casualties, particularly with reference to wreck removal and SCOPIC costs. At individual Club level, the report's authors identified sound expertise and competence within the International Group. Of less comfort were the report's conclusions that simple bad luck can play a significant role in the cost escalation of a casualty, particularly if environmental factors such as weather or the depth of wreck present hazardous working conditions.

The report also tackled the issue of state intervention in casualty management, noting that government or other authority intervention *"…was a significant driver of cost and was identified as having the most significant impact of the key factors considered".*

Sanctions

Extraterritorial sanctions legislation specifically targeting underwriters and other service providers remains a significant and developing issue for all International Group clubs. States' expectations in this regard are wholly unrealistic. Clubs cannot possibly be aware of the trading activities of all the vessels they insure; however new legislation such as the National Defence Authorisation Act of 2013, which enters into force in July 2013, takes no account of that, preferring instead to broaden the scope of sanctionable conduct beyond the deliberate sanctions breaker to the unknowing insurer.

The effect of these and other measures is all rather unfortunate as it can deprive non-European shipowners, who are trading legitimately, of cover from the International Group of P&I Clubs. Alternative providers of P&I cover for such vessels are normally unable to provide both the high levels of cover needed to meet a shipowner's obligations in the event of major casualty and the expertise to handle a large claim. This cannot be in the interests of States and other interests who may be affected by the consequences of a large tanker claim, as the burden of the clean up, wreck removal and compensation claims will inevitably fall disproportionately on IOPC funds and the States affected by the casualty.

INDUSTRY ISSUES CONTINUED

Legislative Developments

The International Group clubs have had greater success in presenting their Members' position and achieving pragmatic outcomes to new legislation over the past 12 months. In particular, the International Group Claims Co-operation Sub-committee has made real progress in dealing with the problems presented by solid bulk cargoes prone to liquefaction. The need for this sub-committee was identified a number of years ago by North's Directors, who recognised the importance of finding a forum within which the claims expertise of the clubs could be pooled and brought to bear on topical claims issues of the day. It has proven its worth in the context of the very real dangers presented by nickel ore and iron ore fines, both of which have caused the loss of a number of ships and tragically their crews. The International Group, along with other industry bodies, has been able to engage with governments and the IMO to improve the testing of such cargoes. It has forged relationships with major shippers to work together to ensure that research conducted into the properties of such cargoes is agreed and properly understood and can form the basis of appropriate changes to the IMSBC Code. In addition, all of the International Group clubs have supported their Members when they seek to challenge cargo data that is often unrepresentative of the cargo that is presented for loading.

This year also sees the entry into force of the Maritime Labour Convention (MLC) 2006. This is an unusual treaty which presents shipowners and operators with a number of practical difficulties. It represents an attempt to codify 60 existing ILO standards and in doing so presents particular problems for shipowners. Some of the liabilities it introduces arise out of the insolvency of a shipowner, for which the insurance required by the convention did not previously exist. Over a number of years, Club Boards have considered the difficulties presented to shipowners by the new treaty, trying to find a solution to balance the insurance needs of their Members against an understandable reluctance to underwrite losses flowing from the insolvency of a shipowner. Again, engagement with those responsible for implementing the legislation has borne fruit, limiting the scope of shipowners' liabilities and providing an environment in which all International Group club Boards have been able to adopt rule changes, meeting their Members' needs to have insurance cover for the costs of repatriating crew following the insolvency of a shipowner.

The introduction of the European Union Passenger Liability Directive 329/2009 or "PLR" at the end of 2012 presented a particular dilemma for the clubs who have historically refused to recognise and provide for liabilities arising out of national, as opposed to IMO, legislation. However, the PLR mirrors, in most parts, the IMO sponsored Protocol to the Athens Convention and represented the means by which the EU proposed to give the IMO Protocol legal effect. North's Board agreed to cover and provide the necessary certification to shipowners to enable them to comply with their obligations under the PLR, with the important caveat that the decision would be revisited in the event that the EU States failed to ratify and give effect to the IMO treaty. However, the likelihood is that the Protocol will come into force in the near future with (as at February 2013) only one further State ratification required.

Piracy

Piracy remains a constant but evolving threat. 2012/13 has seen a significant reduction in the number of successful attacks in the Gulf of Aden, although this will be of little consolation to those shipowners and crews who were unfortunate enough to have had a vessel seized. This improvement is a result of a number of factors, but undoubtedly shipowners now have a much greater awareness of the threat and the measures needed to provide effective protection to ships. The armed guard industry has matured with more balanced contracts in place, particularly BIMCO's GUARDCON, and developing a much greater awareness of the legal and operational context in which they provide their services. North has been at the forefront of the provision of practical advice and guidance to shipowners considering the use of armed guards and these developments are pleasing.

The position in the Gulf of Guinea by contrast gives cause for concern. The geography of the region presents practical difficulties when deploying security consultants and the region's governments, understandably, are concerned and normally prohibit the use of private armed security guards. Different security solutions are being developed and it is hoped over time, and in partnership with States, that these will provide an effective solution to the threat of piracy in the region.

COMBINED FINANCIAL STATEMENTS

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

The North of England P&I Association Limited's ("North") financial statements for the year ended 20 February 2013 are provided in a separate document and The North of England Mutual Insurance Association (Bermuda) Limited's ("NoE (Bermuda)"), collectively "the Associations", financial statements for the same period will be issued to Members on behalf of the Managers of that Company. Financial statements which combine the results and financial position of the Associations follow in this report. All Members are Members of both Clubs and the combined financial statements have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Prudential Regulation Authority is based upon the combined position.

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

ACCOUNTANTS' REPORT

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

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

We report on the unaudited combined financial statements and policy year statement of The North of England Protecting and Indemnity Association Limited ("North") and The North of England Mutual Insurance Association (Bermuda) Limited ("NoE (Bermuda)") for the year ended 20 February 2013 ("the combined financial statements"). Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to perform agreed upon procedures". The procedures were performed solely to assist the Directors with the preparation of the combined financial statements.

Agreed upon procedures

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

1. We agreed North's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of North as at 20 February 2013. The auditor's report on the statutory consolidated financial statements of North was issued by ourselves on 20 May 2013 and was unqualified;
2. We agreed NoE (Bermuda)'s figures used in the combined financial statements working papers to the signed statutory financial statements of NoE (Bermuda) as at 20 February 2013. The auditor's report on the statutory financial statements of NoE (Bermuda) was issued by ourselves on 20 May 2013 and was unqualified;
3. We checked the numerical accuracy of the combined financial statements working papers;
4. In respect of the by class analysis in notes 2 to 14, our procedures have been limited to agreeing the figures used to the underlying systems;
5. In respect of the policy year statements, our procedures been limited to agreeing the figures used to underlying working papers; and
6. We read the accounting policies adopted by North and NoE (Bermuda), as defined in their respective statutory financial statements, to agree that they are consistent with each other.

Findings

We report that:

a. With respect to items 1 and 2 we found that the combined financial statements have been correctly extracted from the statutory financial statements of North and NoE (Bermuda); and
b. With respect to item 3, we found that the combined financial statements working papers are numerically accurate; and
c. With respect to item 4, we found that the by class analysis included with the notes agree to the underlying system; and
d. With respect to item 5, we found that the policy year statements agree to underlying working papers; and
e. With respect to item 6, we found that consistent accounting policies have been adopted by North and NoE (Bermuda).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing (UK and Ireland) or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statement as at 20 February 2013.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, we might have identified other issues that would be of relevance to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than North and NoE (Bermuda) and of the common Members of North and NoE (Bermuda) as a body, for this report.

Ernst & Young LLP
London
20 May 2013

COMBINED STATEMENT OF FINANCIAL POSITION

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

	Note	2013	2012
Assets			
Intangible assets		5,312	2,788
Property, plant and equipment		15,037	15,982
Reinsurers share of technical provision			
Provision for unearned premium		1,094	–
Claims outstanding	5	275,168	232,226
Financial assets			
Equity securities – at fair value through income	3	50	51
Debt securities – at fair value through income	3	796,606	675,073
Absolute return fund – at fair value through income	3	–	77,317
Loans and receivables including insurance and reinsurance receivables		27,622	25,021
Retirement benefit asset		10,097	14,418
Corporation tax debtor		90	–
Cash and cash equivalents	4	118,230	124,834
Total assets		1,249,306	1,167,710
Accumulated Surplus			
Income and expenditure account		1,935	20,581
Contingency funds		310,301	293,432
Total accumulated surplus		312,236	314,013
Liabilities			
Technical provision			
Provision for unearned premium		7,732	–
Claims outstanding	5	880,655	814,450
Derivative financial instruments		115	257
Reinsurance payables		15,292	13,717
Trade and other payables		33,276	25,273
Total liabilities		937,070	853,697
Total accumulated surplus and liabilities		1,249,306	1,167,710

These financial statements were approved by the Board of Directors on 17 May 2013

AA Wilson
Joint Managing Director

COMBINED INCOME STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

	Note	2013	2012
Insurance premium revenue		370,095	346,348
Insurance premium ceded to reinsurers	6	(71,502)	(55,432)
		298,593	290,916
Change in provisions for unearned premiums		(4,748)	–
Reinsurers' share of change in unearned premium		714	–
		(4,034)	–
Investment income		261	387
Net fair value gains at fair value through income	7	13,139	19,675
Other gains and losses	8	8	440
Net income		**307,967**	**311,418**
Insurance claims and loss adjustment expenses	9	(323,097)	(246,420)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	69,585	348
Net insurance claims		(253,512)	(246,072)
Expenses for the acquisition of insurance and investment contracts	11	(30,315)	(28,315)
Expenses for marketing and administration	12	(20,562)	(23,301)
Expenses for asset management services rendered		(1,044)	(1,065)
Operating expenses		(51,921)	(52,681)
Total expenses		**(305,433)**	**(298,753)**
Results of operating activities		2,534	12,665
Finance expense	13	(4,024)	(3,430)
(Deficit) / surplus before tax		(1,490)	9,235
Tax expense		(287)	(1,665)
(Deficit) / surplus for the year		**(1,777)**	**7,570**

COMBINED STATEMENT OF COMPREHENSIVE INCOME

	2013	2012
Loss on revaluation of land and buildings	–	(5,990)
(Deficit) / surplus for the year	(1,777)	7,570
	(1,777)	**1,580**

NOTES TO THE ACCOUNTS

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

1. Accounting Policies

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

1.1 Basis of presentation

These combined financial statements do not constitute The North of England P&I Association Limited's ("North") statutory accounts for the years ended 20 February 2013 and 20 February 2012. They are the non-statutory combined financial statements of North and The North of England Mutual Insurance Association (Bermuda) Limited ("NoE (Bermuda)").

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

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

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

IFRS 9 Financial Instruments – Effective for periods commencing on or after 1 January 2015 and will be applied in the year ended 20 February 2016. The Directors believe that there will be no material impact on the financial statements following the implementation of the amendment to IFRS 9.

IAS 19 Employee Benefits – Effective for periods commencing on or after 1 January 2013 and will be applied in the year ended 20 February 2014. The effect of the removal of the corridor approach is referred to in note 27.

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

1.2 Combination

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

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

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

1.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

1.4 Property, plant and equipment

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

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

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

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

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

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

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

1.5 Intangible assets

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

Intangible assets include capitalised software costs which are not yet available for use. The amortisation charged in previous periods relating to these assets of US$385,000 has been released in the year ended 20 February 2013 and no amortisation will be further charged until the assets are available for use.

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

1.6 Investments

Financial assets at fair value through income

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

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

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

Derivative financial instruments

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

Loans and receivables

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

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

1. Accounting Policies (Continued)

1.7 Impairment of assets

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

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

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

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

1.8 Cash and cash equivalents

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

1.9 Revenue and expense recognition

Premium income

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

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

Reinsurance premiums and recoveries

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

(All amounts in US Dollar thousands unless otherwise stated)

Claims and related expenses

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

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

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

Interest

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

Employee benefits

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

Retirement benefit scheme

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

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

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

Leases

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

Taxation

UK corporation tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2013 (2012 – nil).

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

		2013		2012
United Kingdom	£	0.646 = US$1	(£	0.632 = US$1)
Euro	€	0.749 = US$1	(€	0.760 = US$1)
Japan	¥	93.520 = US$1	(¥	79.360 = US$1)

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
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2. Segmental Analysis by Class

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

Statement of Financial Position

	Note	P&I	FD&D	War Risks	Total
Assets					
Intangible assets		5,312	–	–	5,312
Property, plant and equipment		15,037	–	–	15,037
Reinsurers share of technical provision					
Provision for unearned premium		1,094	–	–	1,094
Claims outstanding	5	270,903	4,265	–	275,168
Financial assets					
Equity securities					
– at fair value through income	3	50	–	–	50
Debt securities					
– at fair value through income	3	793,072	–	3,534	796,606
Absolute return fund					
– at fair value through income	3	–	–	–	–
Loans and receivables including insurance and reinsurance receivables		23,246	4,309	67	27,622
Retirement benefit asset		10,097	–	–	10,097
Corporation tax debtor		90	–	–	90
Cash and cash equivalents	4	70,742	45,794	1,694	118,230
Total assets		1,189,643	54,368	5,295	1,249,306
Accumulated Surplus					
Income and expenditure account		(5,343)	2,016	5,262	1,935
Contingency funds	14	291,401	18,900	–	310,301
Total accumulated surplus		286,058	20,916	5,262	312,236
Liabilities					
Technical provision					
Provision for unearned premium		7,732	–	–	7,732
Claims outstanding	5	849,184	31,471	–	880,655
Derivative financial instruments		115	–	–	115
Reinsurance payables		13,609	1,658	25	15,292
Trade and other payables		32,945	323	8	33,276
Total liabilities		903,585	33,452	33	937,070
Total accumulated surplus and liabilities		1,189,643	54,368	5,295	1,249,306

(All amounts in US Dollar thousands unless otherwise stated)

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

Income Statement

	Note	P&I	FD&D	War Risks	Interclass Adjustments	Total
Insurance premium revenue		346,081	23,173	1,591	(750)	370,095
Insurance premium ceded to reinsurers	6	(69,955)	(941)	(1,356)	750	(71,502)
		276,126	22,232	235	–	298,593
Change in provisions for unearned premiums		(4,748)	–	–	–	(4,748)
Reinsurers' share of change in unearned premiums		714	–	–	–	714
		(4,034)	–	–	–	(4,034)
Investment income		151	110	–	–	261
Net fair value gains at fair value through income	7	13,132	(1)	8	–	13,139
Other gains and losses	8	8	–	–	–	8
Net income		**285,383**	**22,341**	**243**	**–**	**307,967**
Insurance claims and loss adjustment expenses	9	(312,855)	(10,242)	–	–	(323,097)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	69,911	(326)	–	–	69,585
Net insurance claims		(242,944)	(10,568)	–	–	(253,512)
Expenses for the acquisition of insurance and investment contracts	11	(28,725)	(1,507)	(83)	–	(30,315)
Expenses for marketing and administration	12	(16,471)	(3,923)	(168)	–	(20,562)
Expenses for asset management services rendered		(1,043)	–	(1)	–	(1,044)
Operating expenses		(46,239)	(5,430)	(252)	–	(51,921)
Total expenses		**(289,183)**	**(15,998)**	**(252)**	**–**	**(305,433)**
Results of operating activities		(3,800)	6,343	(9)	–	2,534
Finance expense	13	(3,100)	(921)	(3)	–	(4,024)
(Deficit) / surplus before tax		(6,900)	5,422	(12)	–	(1,490)
Tax expense		(287)	–	–	–	(287)
(Deficit) / surplus for the year		**(7,187)**	**5,422**	**(12)**	**–**	**(1,777)**

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
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2. Segmental Analysis by Class (Continued)

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

Statement of Financial Position

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

(All amounts in US Dollar thousands unless otherwise stated)

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

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		322,334	22,430	1,584	346,348
Insurance premium ceded to reinsurers	6	(52,929)	(1,372)	(1,131)	(55,432)
		269,405	21,058	453	290,916
Investment income		269	118	–	387
Net fair value gains at fair value through income	7	19,665	–	10	19,675
Other gains and losses	8	440	–	–	440
Net income		289,779	21,176	463	311,418
Insurance claims and loss adjustment expenses	9	(244,440)	(1,980)	–	(246,420)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	5,393	(5,045)	–	348
Net insurance claims		(239,047)	(7,025)	–	(246,072)
Expenses for the acquisition of insurance and investment contracts	11	(26,911)	(1,369)	(35)	(28,315)
Expenses for marketing and administration	12	(19,297)	(3,869)	(135)	(23,301)
Expenses for asset management services rendered		(1,063)	–	(2)	(1,065)
Operating expenses		(47,271)	(5,238)	(172)	(52,681)
Total expenses		(286,318)	(12,263)	(172)	(298,753)
Results of operating activities		3,461	8,913	291	12,665
Finance (expense) / income	13	(3,451)	20	1	(3,430)
Surplus / (deficit) before tax		10	8,933	292	9,235
Tax expense		(1,665)	–	–	(1,665)
Surplus / (deficit) for the year		(1,655)	8,933	292	7,570

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
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3. Fair Value Securities

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

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

4. Cash and Cash Equivalents

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

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

(All amounts in US Dollar thousands unless otherwise stated)

5. Insurance Contracts

Policy Year Analysis

	Closed Years	Open Policy Years 2010	2011	2012	Handling Reserve	Total
All Classes						
At 20 February 2013						
Gross outstanding claims	298,898	99,200	179,597	279,730	23,230	880,655
Reinsurance amount	121,167	26,519	64,998	62,484	–	275,168
Net outstanding claims	177,731	72,681	114,599	217,246	23,230	605,487
At 20 February 2012						
Gross outstanding claims	349,209	136,277	309,298	–	19,666	814,450
Reinsurance amount	120,231	31,160	80,835	–	–	232,226
Net outstanding claims	228,978	105,117	228,463	–	19,666	582,224

	Closed Years	Open Policy Years 2010	2011	2012	Handling Reserve	Total
P&I Class						
At 20 February 2013						
Gross outstanding claims						
Members	260,278	81,764	152,133	222,796	18,676	735,647
Pooling agreement	27,708	13,751	23,488	48,590	–	113,537
	287,986	95,515	175,621	271,386	18,676	849,184
Reinsurance amount						
Recoveries due under the pooling agreement	60,040	–	4,390	26,200	–	90,630
Recoveries due from reinsurers	56,862	26,519	60,608	36,284	–	180,273
	116,902	26,519	64,998	62,484	–	270,903
Net outstanding claims	171,084	68,996	110,623	208,902	18,676	578,281
At 20 February 2012						
Gross outstanding claims	333,779	129,672	299,788	–	15,385	778,624
Reinsurance amount	114,461	31,160	80,835	–	–	226,456
Net outstanding claims	219,318	98,512	218,953	–	15,385	552,168

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
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5. Insurance Contracts (Continued)

	Closed Years	Open Policy Years 2010	2011	2012	Handling Reserve	Total
FD&D Class						
At 20 February 2013						
Gross outstanding claims	10,912	3,685	3,976	8,344	4,554	31,471
Reinsurance amount	4,265	–	–	–	–	4,265
Net outstanding claims	6,647	3,685	3,976	8,344	4,554	27,206
At 20 February 2012						
Gross outstanding claims	15,430	6,605	9,510	–	4,281	35,826
Reinsurance amount	5,770	–	–	–	–	5,770
Net outstanding claims	9,660	6,605	9,510	–	4,281	30,056

War Risks Class

There were nil outstanding claims at 20 February 2013 (20 February 2012 – nil).

(All amounts in US Dollar thousands unless otherwise stated)

6. Insurance Premium Ceded to Reinsurers

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

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

7. Net Fair Value Gains at Fair Value through Income

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

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

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
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8. Other Gains and Losses

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

	Year ended 20 February 2012 P&I	FD&D	War Risks	Total
Negative goodwill written off on acquisition of MSMI	1,940	–	–	1,940
Revaluation of property	(1,500)	–	–	(1,500)
Other gains and losses	440	–	–	440

9. Insurance Claims and Loss Adjustment Expenses

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

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

(All amounts in US Dollar thousands unless otherwise stated)

10. Insurance Claims and Loss Adjustment Expenses Recovered from Reinsurers

	Year ended 20 February 2012			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	18,786	1,179	–	19,965
Claims recoverable under the pooling agreement	6,677	–	–	6,677
	25,463	1,179	–	26,642
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	4,693	(1,505)	–	3,188
Recoveries due under the pooling agreement	39,755	–	–	39,755
	44,448	(1,505)	–	42,943
Total	69,911	(326)	–	69,585

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

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
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11. Expenses for the Acquisition of Insurance and Investment Contracts

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

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

In accordance with Schedule 3 of the International Group Agreement 1999 we are required to disclose the Average Expense Ratio for North's P&I business for the five years ended 20 February 2013. The Ratio of 13.1% (2012 –12.6%) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant financial statements of North and NoE (Bermuda).

12. Expenses for Marketing and Administration

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	44,584	8,005	168	52,757
Acquisition costs	(7,065)	–	–	(7,065)
Claims handling costs	(21,048)	(4,082)	–	(25,130)
	16,471	3,923	168	20,562

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

(All amounts in US Dollar thousands unless otherwise stated)

13. Finance Income and Expenditure

	Year ended 20 February 2013			
	P&I	FD&D	War Risks	Total
Foreign exchange (expenditure) / income on investments	(2,616)	(920)	(3)	(3,539)
Other	(484)	(1)	–	(485)
	(3,100)	(921)	(3)	(4,024)

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

14. Contingency Funds

Protecting and Indemnity Class

	2013	2013	2012	2012
Opening balance		272,483		234,330
The transfer from the income and expenditure account comprises:				
Allocation of investment income	(8,500)		(2,163)	
Surplus transferred from closed policy years	27,418		40,316	
		18,918		38,153
Closing balance		291,401		272,483

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

Freight, Demurrage & Defence Class

	2013	2013	2012	2012
Opening balance		20,949		19,107
The transfer (to) / from the income and expenditure account comprises:				
Allocation of investment income	(1,336)		(688)	
(Deficit) / surplus transferred from closed policy years	(713)		2,530	
		(2,049)		1,842
Closing balance		18,900		20,949

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

NOTES TO THE ACCOUNTS (CONTINUED)

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
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15. International Group Disclosure

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

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

	2013	2012
Recoveries due under the pooling agreement	613	221
Recoveries due from other reinsurers	324	649
	937	870

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

	2013	2012
Gross outstanding claims		
Members	58,374	35,950
Pooling agreement	12,186	28,178
	70,560	64,128
Reinsurers' share		
Recoveries due from reinsurers	(4,693)	(13,411)
Recoveries due under the pooling agreement	(39,755)	1,158
	(44,448)	(12,253)
Movement in net outstanding claims	26,112	51,875

COMBINED P&I CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

	Closed Years $000s	2010/ 2011 $000s	2011/ 2012 $000s	2012/ 2013 $000s	Claims Handling Reserve $000s	Contingency Fund $000s	Total $000s
Premium							
Mutual & fixed premium							
Invoiced in prior years		277,464	299,980	–	–	–	577,444
Invoiced in current year		(217)	12,174	306,303	–	–	318,260
		277,247	312,154	306,303	–	–	895,704
Release premium		589	1,720	913	–	–	3,222
		277,836	313,874	307,216	–	–	898,926
Reinsurance premium		(58,975)	(56,062)	(69,722)	–	–	(184,759)
		218,861	257,812	237,494	–	–	714,167
Investment income, gains on sales of investments, and exchange movements		30,768	16,005	18,691	–	85,103	150,567
Other income		–	440	–	–	–	440
Transfers		–	–	–	–	209,365	209,365
		249,629	274,257	256,185	–	294,468	1,074,539
Members' & pool claims		(87,687)	(138,079)	(39,923)	–	–	(265,689)
Expenses & tax		(36,228)	(47,328)	(43,729)	–	(3,067)	(130,352)
Surplus available on Closed years	171,084	–	–	–	–	–	171,084
Balances available for outstanding claims	171,084	125,714	88,850	172,533	–	291,401	849,582
Outstanding claims	(287,986)	(95,515)	(175,621)	(271,386)	(18,676)	–	(849,184)
Reinsurance recoveries	116,902	26,519	64,998	62,484	–	–	270,903
Claims assumed on MSMI acquisition	–	–	14,757	–	–	–	14,757
	(171,084)	(68,996)	(95,866)	(208,902)	(18,676)	–	(563,524)
Surplus / (deficit) at 20 February 2013	**–**	**56,718**	**(7,016)**	**(36,369)**	**(18,676)**	**291,401**	**286,058**
Surplus / (deficit) at 20 February 2012	16,236	53,273	(33,362)	–	(15,385)	272,483	293,245

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

i. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of North and NoE (Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which North reinsures 90% of its P&I risks and accumulated outstanding claims with NoE (Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the year ended 20 February 2013.

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

iii. Premium is net of brokerage.

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

	2010/2011	2011/2012	2012/13
General and administrative expenses	34,777	44,598	42,368
Investment expenses	961	1,065	1,074
Taxation	490	1,665	287
	36,228	47,328	43,729

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

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

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

viii. Transfers are made from the contingency fund to meet exceptional items and to maintain call stability.

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

2010/11	US$23.7 million
2011/12	US$26.0 million
2012/13	US$25.8 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

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

(All amounts in US Dollar thousands unless otherwise stated)

20 February 2013

	Closed Years $000s	2010/ 2011 $000s	2011/ 2012 $000s	2012/ 2013 $000s	Claims Handling Reserve $000s	Contingency Fund $000s	Total $000s
Premium							
Mutual & fixed premium							
Invoiced in prior years		17,797	20,576	–	–	–	38,373
Invoiced in current year		(61)	(108)	21,641			21,472
		17,736	20,468	21,641	–	–	59,845
Release premium		120	146	69	–	–	335
		17,856	20,614	21,710	–	–	60,180
Reinsurance premium		(1,168)	(1,302)	(966)	–	–	(3,436)
		16,688	19,312	20,744	–	–	56,744
Investment income, gains on sales of investments, and exchange movements		952	826	524	–	2,007	4,309
Transfers		–	–	–	–	16,893	16,893
		17,640	20,138	21,268	–	18,900	77,946
Members' & pool claims		(7,671)	(4,486)	(1,323)	–	–	(13,480)
Expenses & tax		(7,253)	(7,733)	(8,005)	–	–	(22,991)
Surplus available on Closed years	6,647	–	–	–	–	–	6,647
Balances available for outstanding claims	6,647	2,716	7,919	11,940	–	18,900	48,122
Outstanding claims	(10,912)	(3,685)	(3,976)	(8,344)	(4,554)	–	(31,471)
Reinsurance recoveries	4,265	–	–	–	–	–	4,265
	(6,647)	(3,685)	(3,976)	(8,344)	(4,554)	–	(27,206)
Surplus / (deficit) at 20 February 2013	**–**	**(969)**	**3,943**	**3,596**	**(4,554)**	**18,900**	**20,916**
Surplus / (deficit) at 20 February 2012	(1,708)	(1,162)	1,696	–	(4,281)	20,949	15,494

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

The North of England P&I Association Limited and The North of England Mutual Insurance Association (Bermuda) Limited
(All amounts in US Dollar thousands unless otherwise stated)
20 February 2013

i. The Combined FD&D Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE (Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its FD&D risks and accumulated outstanding claims with NoE (Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2013.

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

iii. Premium is net of brokerage.

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

	2010/2011	2011/2012	2012/13
General and administrative expenses (note 12)	7,232	7,733	8,005
Investment expenses	–	–	–
Taxation	21	–	–
	7,253	7,733	8,005

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

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

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

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

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

2010/11	US$1.3 million
2011/12	US$1.5 million
2012/13	US$1.6 million

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