



FINANCIAL 2014
Statements

THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED

NORTH 
SERVICE, STRENGTH, QUALITY



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

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

Going Concern

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

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

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

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

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

Respective Responsibilities of Directors and Auditor

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the financial statements:

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

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

19 May 2014

BALANCE SHEET

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

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

20 February 2014

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

See accompanying notes to the financial statements

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

Signed on behalf of the Board on 16 May 2014

Cyril Rance, Director

Nick Warren, Director

INCOME AND EXPENDITURE ACCOUNT

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

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

20 February 2014

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

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

See accompanying notes to the financial statements

CASH FLOW STATEMENT

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

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

20 February 2014

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

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

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

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

20 February 2014

1. General

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

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

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

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

2. Basis of Financial Statements and Significant Accounting Policies

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

The following accounting policies have been adopted by the Company:

a) Reinsurance premiums and calls

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

b) Claims and related expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

20 February 2014

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

c) Foreign currency translation

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

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

d) Marketable securities

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

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

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

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

f) Cash at bank and in hand

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

g) Other financial investments

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

h) International Financial Reporting Standards ("IFRS")

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

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

3. Commitment

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

4. Marketable Securities

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

20 February 2014

4. Marketable Securities (Continued)

(ii) Fixed interest securities – maturities

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

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

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

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

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

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

5. Segmental Reporting

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

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

6. Ceding Company Debtor

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

20 February 2014

7. Estimated Outstanding Claims

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

8. Members' Contributions

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

9. Contingency Reserve

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

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

10. Movement in Members' Funds

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

11. Taxation

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

NOTES

