NORTH
SERVICE, STRENGTH, QUALITY

Sunderland Marine

DIRECTORS' Report 2015

DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2015

PB Shirke ● ■ ◆	Chairman
LB Christensen ■ ◆ ⁎	Vice-Chairman
AJ Agarwal	
A Engelsman ▲ ■ ◆	
NJA Fairfax	
NJO Fell	Appointed 30 March 2015
JM de Groot ▲ ⁎	
TF Hart ● ■ ◆	
PA Jennings ● ■	Joint Managing Director
PM Johnson ▲ ⁎	
AM Lynch ▲ ⁎	
SY Michael ⁎	
GC Parkinson	
JS Tyrrell	
AA Wilson ● ■	Joint Managing Director

▲ Member of the Audit Committee
● Member of the Investment Committee
■ Member of the Nominations Committee
◆ Member of the Remuneration Committee
⁎ Member of the Risk Committee

Bankers

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

Auditors

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

Company Registered Office

100 The Quayside
Newcastle upon Tyne
NE1 3DU

Company Registration Number 505456

REPORT OF THE DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2015

The Directors have pleasure in presenting their report together with the financial statements of the Group and Company for the year ended 20 February 2015.

The Group comprises The North of England Protecting and Indemnity Association Limited ("North") and its subsidiaries, being Sunderland Marine Insurance Company Limited ("SMI"), NEPIA Trust Company Limited, North Insurance Management Limited ("NIML"), the segregated cell within Hydra Insurance Company Limited ("Hydra"), Marine Shipping Mutual Insurance Company Limited ("MSMI") and The North of England P&I Association (Bermuda) Limited ("BDA").

Membership

At 20 February 2015 the owned gross tonnage entered in North totalled 127.0 million (2014 – 127.8 million) and there were 4,061 (2014 – 4,192) owned ships.

Events After the Reporting Period

On 27 February 2015 the liquidation of The North of England P&I Association (Bermuda) Limited was approved at the final general meeting of the Members. A final distribution of US$ 123,470 was paid to North. As at 20 February 2015 the value of the investment in BDA in the parent company financial statements was US$ 123,470.

Corporate Governance

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

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

The Members Board provides a forum for Members to play an enhanced role in the governance of the Group. 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 Members Board.

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

Directors

The Directors of North are shown on page 1.

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

Statement of Disclosure of Information to Auditors

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

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

Directors' Responsibilities

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

- select suitable accounting policies and apply them consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Directors' Responsibilities (continued)

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and the Group's financial position and financial performance; and
- state that the Company and the Group have complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements.

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

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

Going Concern

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

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

Committees

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

Group Risk Committee

The Group Risk Committee consists of a minimum of three Directors appointed by the Board. The Committee meets regularly, and its principal duties are to:

- hear reports from the Group Chief Risk Officer, oversee the integration and operation of risk management functions across the Group;
- review the risk appetite of the Group as determined from time to time by the North Directors and make recommendations to the North Directors in relation to the Group's risk appetite;
- oversee the production and maintenance of a consolidated Group Risk Register incorporating the individual risk profiles of North and SMI and their respective subsidiaries, as set out in their respective individual risk registers.
- review the Group's risk profile, as set out in the Group Risk Register, against the Group's risk appetite;
- review the Group's risk management framework including the ORSA, Group Risk Register and the controls contained therein to ensure their adequacy and effectiveness in managing the risk profile of the Group;
- review the assessment of the Group's regulatory capital requirements, including the methodologies and assumptions used;
- review the outputs of the Group's regulatory capital assessment processes to satisfy itself that the regulatory capital assessments are appropriate;
- review the stress tests and reverse stress tests of the Group, assess the adequacy and effectiveness of the tests in benchmarking the capital assessment of the Group and determine any actions which need to be taken in light of the results;
- monitor the Group's relationship and standing with its regulators;
- review the outcomes of regulatory assessments and the response of the Group;
- assess the appropriateness of Group risk management controls;
- review Group regulatory breaches and consider what amended or additional controls are required to mitigate the risk of such breaches recurring;
- monitor the alignment of the Group risk management framework with the strategic objectives of the Group;

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Group Audit Committee

The Audit Committee consists of a minimum of three Non-executive Directors and meetings are also attended by representatives of North's Management and staff. The Committee meets not less than twice a year, and its principal duties are:

External Audit

- oversee the integration and operation of external audit functions across the Group;
- consider the appointment of Group external auditors, their audit fee and any questions of their resignation or dismissal;
- review and monitor the external auditor independence and objectivity and the effectiveness of the Group audit process;
- discuss with the Group external auditor before the Group audit commences the nature and scope of the audit;
- review North's annual report and consolidated annual financial statements before submission to the North Directors, focusing particularly on:
  - any changes in accounting policies and practices;
  - major judgmental areas;
  - significant adjustments resulting from the audit;
  - the going concern assumption;
  - compliance with accounting standards;
  - compliance with legal requirements;
- report to the North Directors on the approval of all Subsidiary financial statements by the directors of the relevant Subsidiary and all relevant matters relating to these financial statements.
- discuss problems and reservations arising from all Group interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

Internal Audit

- oversee the integration and operation of internal audit functions across the Group;
- consider the appointment of the Group Internal Auditor, their fee and any questions of their resignation or dismissal;
- consider the Group Internal Audit plan and approve the same on an annual basis;
- consider the work of the Group Internal Auditor against its plan;
- consider reports from the Group Internal Auditor.

General

- review and assess the adequacy and effectiveness of the Group's policies, procedures and controls in respect of illegal acts including fraud, money laundering and bribery;
- consider other topics relating to the Group, as defined by the North Directors from time to time;
- review the Group's accounting policies and ensure that they comply with all applicable laws and accounting standards;
- monitor Group critical value estimates and the going concern assumption;
- review the financial content of management accounts and reports to the North Directors and their reconciliation with the final statutory accounts of the Group and/or any subsidiary;
- review the Group's arrangements for non-audit services provided by the external auditor; and
- report to the North Directors, identifying any relevant matters in respect of which the Committee considers that action or improvement is needed, and making recommendations as to the steps to be taken.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Investment Committee

The Investment Committee consists of a minimum of three Directors. Meetings are held not less than three times per year and its principal duties are:

- define, periodically review and make recommendations to the North Directors in respect of the Group's investment strategy;
- ensure that the Group's investment strategy complies with:
  - all Group approved Statement of Risk Appetite, Risk Registers and risk limits;
  - each Group entity's solvency and regulatory capital requirements;
  - all applicable regulatory requirements (including but not limited to counterparty/concentration risk requirements); and
  - the Group's strategic objectives, including but not limited to those related to the credit ratings of any Group entity.
- any applicable regulatory requirements concerning the credit ratings of reinsurance and investment counterparties as well as the Group's appointed bankers.
- make recommendations to the North Directors in respect of investment decisions to further the objectives of the Group's investment strategy;
- prior to making any recommendations to the North Directors, consider the impact of any proposed investment decisions upon:
  - each Group Risk Register valuation and in doing so have regard to any risk limits set in respect of such Risk Register valuation;
  - the credit ratings of the Group and in doing so have regard to the Group's strategic objectives in respect thereof;
  - the regulatory capital requirements in respect of the Group, North and SMI (and SMI subsidiaries where applicable);
  - periodically review North's reinsurance arrangements, including investment strategy, with North of England Mutual Insurance Association (Bermuda) Limited ("NEMIA") and provide the North Directors with proposals for recommendations to be considered by NEMIA;
  - ensure the adequacy of the custodian arrangements of the Group;
  - investigate and make recommendations to the North Directors regarding the appointment of Investment Managers (recognising that the Committee does not itself have authority to change the Investment Managers);
  - review and monitor the performance of the Investment Managers;
  - receive written and personal presentations from Investment Managers;
  - report and make recommendations to the North Directors in respect of matters arising from the Investment Managers' reports; and
  - make recommendations to the North Directors in respect of managing exchange exposure.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Nominations Committee

The Nominations Committee consists of a minimum of three Directors. Meetings are held not less than three times per year and its principal duties are to:

- consider, keep under review and make recommendations to the North Board in relation to a formal, rigorous and transparent procedure for appointments to the board of directors and the directors' committees of both North and SMI with a view to ensuring all appointments are made on merit, against objective criteria and with due regard for the benefits of diversity;
- consider and regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board of directors of both North and SMI compared to their current position and make recommendations, as appropriate, to the directors of North and/or SMI with regard to any changes which may be required to ensure the respective boards of directors of North and SMI have the appropriate balance of skills and experience to promote the success of each company in the long term;
- give full consideration to and make recommendations to the North Board on succession planning for directors of both North and SMI, taking into account the challenges and opportunities facing North, SMI and the Group and the skills and expertise required;
- identify and recommend suitable candidates for approval for potential appointment as directors of North and/or SMI in order to fill any vacancies on such relevant board or committee and, in particular, identify and recommend suitable candidates for potential appointment to the following positions:
  - the Chairmen and the Vice-Chairmen of North and SMI;
  - the Directors of North and SMI;
  - the Chairmen and members of the Group Nominations, Investment and Remuneration committees;
  - the Chairmen and members of the Group Audit and Group Risk committees.
  - Establish and maintain the following in respect of each director of North and SMI:
    - a skills and experience matrix;
    - a training and development plan; and
    - a succession plan;
- keep under review the leadership needs of North, SMI and the Group, both executive and non-executive, with a view to ensuring their continued ability to compete effectively in the market place;
- consider and if appropriate agree recommendations from North's Executive Directors with regard to senior management appointments within North and SMI;
- undertake annually a formal and rigorous evaluation of the collective and individual performance of the directors of North and SMI (including attendance at meetings) against objective criteria and report to the North Directors upon its findings;
- consult with the SMI Policyholders' Committee and have regard to its views when identifying and recommending a suitable candidate to fill a vacancy arising upon any SMI Director ceasing to be a Director of North and/or SMI and/or upon the resignation or retirement of the SMI Chief Executive Officer; and
- assess both prior to appointment and on an ongoing basis the fitness and propriety of all North and SMI directors in accordance with all applicable legal and regulatory requirements in force from time to time and ensure that all necessary and appropriate actions are taken in respect of any matters or circumstances that bring in to question the fitness and propriety of any North or SMI Director (including, without limitation, reporting the same to any regulatory authorities).

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Remuneration Committee

The Remuneration Committee consists of a minimum of three Directors. It meets not less than once a year and its principal duties are to:

- determine and agree the broad policy for the remuneration of:
  - the Chairmen and Vice-Chairmen of North and SMI;
  - Executive Directors of North and SMI;
  - Non-executive Directors of North and SMI;
  - senior managers of North and SMI;
- within the terms of the agreed policy, make recommendations to the North Directors regarding the remuneration of:
  - the Chairmen and Vice-Chairmen of North and SMI;
  - the Non-executive directors of North and SMI; and
- within the terms of the agreed policy, determine the remuneration of:
  - the Executive Directors and senior managers of North & SMI.
- determine the policy for and scope of the pension arrangements for the Executive Directors and employees of North;
- ensure that contractual terms relating to termination of the appointment of an Executive Director of North and/or SMI (as the case may be), and any payments made (whether contractual or otherwise) in the event of such termination, are appropriate having regard to, amongst other things, fairness to the individual and to North and/or SMI(as the case may be);
- ensure that the relevant statutory and regulatory provisions regarding remuneration (including but not limited to disclosure of remuneration and pensions requirements) are fulfilled;
- be exclusively responsible for establishing the selection criteria and selecting, appointing and setting terms of reference for any remuneration consultants who advise the Committee; and
- undertake such other tasks as may be delegated to it by the North Directors from time to time.

Disabled Employees

North gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is North's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee Involvement

North operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the Group has been continued through the newsletters 'Quayside Update', 'Headway' and '360 Degrees North'. Regular presentations are made by management which allow a free flow of information and ideas.

Donations

North made no political donations (2014 – nil).

Protecting & Indemnity Class

The directors agreed that the 2011/2012 policy year should be closed and amalgamated with the previous closed years. No Supplementary Calls are anticipated for open policy years. A general increase of 4.75% was agreed for the 2015/2016 mutual premium.

Freight Demurrage & Defence Class

The Directors representing the FD&D Members agreed to close the 2011/2012 policy year. No Supplementary Calls are anticipated for open policy years. A general increase of 2.5% was agreed for the 2015/2016 mutual premium.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

War Risks Class

The Directors representing the War Risks Members agreed to close the 2011/2012 policy year. No Supplementary Calls are anticipated for open policy years.

Likely Future Developments in the Business of the Company and its Subsidiary Undertakings

Aside from business as usual activities, the management will be focussed on the successful integration of the SMI business into the North Group. No other significant developments in North's business are expected in the medium term.

Meetings

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

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

On behalf of the Board of Directors

AA Wilson

Joint Managing Director
19 May 2015

STRATEGIC REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2015

Principal Activities

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

On 28 February 2014 North entered into an agreement with Sunderland Marine Mutual Insurance Company Limited ("SMMI"), under which control of the assets and liabilities of SMMI passed to North for nil consideration and North became the sole Member of SMMI. As a result SMMI is consolidated into the financial statements of the Group for the year ended 20th February 2015.

On 31 July 2014 SMMI changed its name to Sunderland Marine Insurance Company Limited ("SMI").

North's business continues to develop successfully and was in a sound financial position at 20 February 2015 and remains so.

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

	2015 US$M	**2014 US$M**
Gross written premiums	526.2	384.6
Underwriting income	(1.1)	65.7
Surplus after tax	61.3	61.7
Free Reserves (total accumulated surplus)	172.9	136.5
Combined ratio	101%	48%
Average number of employees	387	233

Underwriting income is calculated as earned premiums net of reinsurance ceded less claims incurred net of reinsurance recoveries, less acquisition, marketing and administration costs. The combined ratio is calculated as claims incurred, net of reinsurance, plus acquisition, marketing and administration costs as a percentage of net earned premiums. The increase in premium, underwriting income and surplus after tax reflects the inclusion of SMI for the first time and the gain on acquisition in what was otherwise a challenging underwriting year.

The increase in the average number of employees primarily arose from the inclusion of SMI employees within the group.

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

The principal risks that the Group faces are discussed in Note 4.

On behalf of the Board of Directors

AA Wilson

Joint Managing Director
19 May 2015

INDEPENDENT AUDITOR'S REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2015

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

We have audited the financial statements of North of England Protecting and Indemnity Association Limited (North) for the year ended 20 February 2015 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent Company statement of financial position, the parent Company statement of changes in equity, the parent Company statement of cash flows, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and consolidated 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2015

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 20 February 2015 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

London
26 May 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	2015	2104
Assets			
Intangible assets	6	17,104	8,252
Property, plant and equipment	7	32,183	14,445
Reinsurers' share of technical provision			
Provision for unearned premium		36,277	6,032
Claims outstanding	11	962,288	901,875
Financial assets			
Equity securities – at fair value through profit or loss	8	50	50
Debt securities – at fair value through profit or loss	8	223,572	156,751
Derivatives – at fair value through profit or loss	8	293	–
Loans and receivables including insurance and reinsurance receivables	9	130,038	105,633
Deferred acquisition costs		9,019	–
Corporation tax debtor		62	175
Deferred tax asset		621	–
Cash and cash equivalents	10	132,702	62,676
Total assets		**1,544,209**	**1,255,889**
Accumulated Surplus			
Income and expenditure account	21	157,680	129,322
Contingency funds	21	8,340	7,226
Revaluation reserve	21	6,881	–
Total accumulated surplus		**172,901**	**136,548**
Non-controlling interest		230	–
Liabilities			
Technical provision			
Provision for unearned premium		63,938	8,825
Claims outstanding	11	1,069,483	964,222
Derivative financial instruments		440	107
Reinsurance payables		143,064	85,704
Trade and other payables	12	42,126	34,180
Current tax liability		1,284	–
Deferred tax liability		4	–
Retirement benefit liabilities	27	50,739	26,303
Total liabilities		**1,371,078**	**1,119,341**
Total accumulated surplus and liabilities		**1,544,209**	**1,255,889**

These financial statements were approved by the Board on 19 May 2015

AA Wilson

Joint Managing Director

Company number: 505456

CONSOLIDATED INCOME STATEMENT

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	2015	2104
Gross insurance premium revenue		526,195	384,627
Gross insurance premium ceded to reinsurers		(362,519)	(233,763)
Net insurance premium revenue		163,676	150,864
Change in provision for unearned premium		(55,113)	(1,094)
Reinsurers' share of change in unearned premium		30,245	412
Change in the net provision for unearned premium		(24,868)	(682)
Earned premiums net of reinsurance		138,808	150,182
Investment income	13	971	58
Net fair value gains / (losses) at fair value through profit or loss	14	6,072	(484)
Other gains and (losses)	5	56,890	32
Net income		**202,741**	**149,788**
Claims and loss adjustment expenses	15	(418,006)	(398,486
Insurance claims and loss adjustment expenses recovered from reinsurers	15	349,788	365,339
Net insurance claims		(68,218)	(33,147)
Expenses for the acquisition of insurance and investment contracts		(53,873)	(30,827)
Expenses for marketing and administration		(17,785)	(20,543)
Expenses for asset management services rendered		(602)	(377)
Operating expenses	16	(72,260)	(51,747)
Total expenses		**(140,478)**	**(84,894)**
Results of operating activities		62,263	64,894
Finance income / (expense)	19	760	(3,038)
Surplus before tax		63,023	61,856
Tax expense	20	(1,735)	(110)
Surplus for the year		61,288	61,746
Attributable to:			
Owners		61,152	61,746
Non controlling interest		136	–
Surplus for year		**61,288**	**61,746**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	2015	2104
Other comprehensive income			
Surplus income		61,288	61,746
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences		(3,917)	–
Exchange adjustment on land and building		(28)	–
Net other comprehensive income to be reclassified to profit or loss		**(3,945)**	**–**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings		6,881	–
Remeasurement (losses) / gains on defined benefit plans		(27,735)	6,238
Net other comprehensive income not to be reclassified to profit or loss		**(20,854)**	**6,238**
Total comprehensive income for the year, net of tax		**36,489**	**67,984**
Attributable to:			
Owners		36,353	67,984
Non controlling interest		136	–
Total comprehensive income for the year, net of tax		**36,489**	**67,984**
Income and Expenditure Account			
Opening balance		129,322	69,174
Total comprehensive income for the year		29,472	67,984
Transfer to contingency fund		(1,114)	(7,836)
Closing balance		**157,680**	**129,322**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2014		129,322	7,226	–	136,548
Surplus for the year	21	57,207	–	–	57,207
Other comprehensive income	21	(27,735)	–	6,881	(20,854)
Transfer to contingency fund	21	(1,114)	1,114	–	–
At 20 February 2015		**157,680**	**8,340**	**6,881**	**172,901**
At 20 February 2013		69,174	(610)	–	68,564
Surplus for the year	21	67,984	–	–	67,984
Revaluation of land and buildings	21	–	–	–	–
Transfer to contingency fund	21	(7,836)	7,836	–	–
At 20 February 2014		**129,322**	**7,226**	**–**	**136,548**

CONSOLIDATED STATEMENT OF CASH FLOWS

The North of England Protecting and Indemnity Association Limited

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

20 February 2015

	Note	2015	2104
Operating Activities			
Cash generated from operating activities	26	48,531	7,401
Tax paid		(405)	(149)
Net cash from operating activities		**48,126**	**7,252**
Cash Flows from / (used in) Investing Activities			
Purchases of property, plant and equipment	7	(1,236)	(1,474)
Purchases of intangibles	6	(5,514)	(3,502)
Proceeds from sale of property, plant and equipment		198	93
Cash acquired on acquisition of MSMI		34,606	–
Non controlling interest		(136)	–
Net cash from / (used in) investing activities		**27,918**	**(4,883)**
Cash Flows (used in) / from Financing Activities			
Repayments of borrowings		(12,268)	–
Net cash used in financing activities		**(12,268)**	**–**
Net increase in cash and cash equivalents		63,776	2,369
Foreign exchange		6,250	(43)
Cash and bank overdrafts at beginning of year		62,676	60,350
Cash and cash equivalents at end of year	10	**132,702**	**62,676**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	2015	2104
Assets			
Intangible assets	6	13,283	8,252
Property, plant and equipment	7	21,236	14,445
Investment in group undertakings	22	25,787	10,757
Reinsurers' share of technical provision			
Provision for unearned premium		10,027	6,032
Claims outstanding	11	961,042	937,583
Financial assets			
Equity securities – at fair value through profit or loss	8	50	50
Debt securities – at fair value through profit or loss	8	73,995	73,925
Derivatives – at fair value through profit or loss	8	–	–
Loans and receivables including insurance and reinsurance receivables	9	104,837	114,687
Corporation tax debtor		–	175
Cash and cash equivalents	10	69,424	55,771
Total assets		**1,279,681**	**1,221,677**
Accumulated Surplus			
Income and expenditure account	21	80,155	114,884
Contingency funds	21	8,340	7,226
Revaluation reserve	21	6,881	–
Total accumulated surplus		**95,376**	**122,110**
Liabilities			
Technical provision			
Provision for unearned premium		13,163	8,825
Insurance contracts	11	977,279	950,793
Derivative financial instruments		260	107
Reinsurance payables		116,836	85,332
Trade and other payables	12	30,310	28,207
Current tax liability		1,028	–
Retirement benefit liability		45,429	26,303
Total liabilities		**1,184,305**	**1,099,567**
Total accumulated surplus and liabilities		**1,279,681**	**1,221,677**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

	Note	I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
		Attributable to Members			
At 20 February 2014		114,884	7,226	–	122,110
Deficit for the year	21	(33,615)	–	–	(33,615)
Revaluation of land & buildings	21	–	–	6,881	6,881
Transfer to contingency fund	21	(1,114)	1,114	–	–
At 20 February 2015		**80,155**	**8,340**	**6,881**	**95,376**

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

PARENT COMPANY STATEMENT OF CASH FLOWS

	Note	2015	2104
Operating Activities			
Cash generated from operating activities	26	19,825	2,004
Tax paid		306	(149)
Net cash from operating activities		**20,131**	**1,855**
Cash Flows used in Investing Activities			
Purchases of property, plant and equipment	7	(1,075)	(1,474)
Purchases of intangibles	6	(5,514)	(3,502)
Proceeds from sale of property, plant and equipment		127	93
Net cash used in investing activities		**(6,462)**	**(4,883)**
Net increase / (decrease) in cash and cash equivalents		13,669	(3,028)
Foreign exchange		(16)	(46)
Cash and bank overdrafts at beginning of year		55,771	58,845
Cash and cash equivalents at end of year	10	**69,424**	**55,771**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2015

1. General Information

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

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

(a) in respect of the Member's interest in an Entered Ship,

(b) out of events occurring during the period of entry of the Ship in North, and

(c) in connection with the operation of the Ship.

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

(a) in respect of the Member's interest in an Entered Ship;

(b) in relation to any dispute or matter arising during the period of Entry of the Ship, and;

(c) in connection with the operation, ownership, management or chartering of the Ship.

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

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

2. Summary of Significant Accounting Policies

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

2.1 Basis of presentation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
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2. Summary of Significant Accounting Policies (continued)

2.1 Basis of presentation (continued)

All companies within the group prepare financial information in accordance with IFRS with the exception of the following companies which prepare individual accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

(a) MSMI

The company ceased underwriting on 30 June 2011 and has been in run off from that date. It is considered therefore that the cost of converting to IFRS will outweigh the benefits which can only be realised in the short term.

(b) NIML

The company provides management services to MSMI and activity is limited to one management agreement with no other trading exposures. Due to the simple nature of the Company's activities conversion to IFRS is not deemed to be required.

(c) Hydra

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

(d) Knighthood

Knighthood, a subsidiary of Sunderland Marine Insurance Company, prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom

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

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

In accordance with section 408 of The Companies Act 2006, the parent Company income statement and related notes have not been presented separately. The surplus dealt with in the account of the parent Company was US$ 30.6m (2014 – US$ 66.8m).

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:

- Annual improvements to IFRS's – 2010-2012 cycle
- Annual improvements to IFRS's – 2011-2013 cycle
- Annual improvements to IFRS's – 2012-2014 cycle
- Defined benefit plans: employee contributions – amendments to IAS 19
- Amendments to IAS 1: Disclosure initiative

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
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2. Summary of Significant Accounting Policies (continued)

2.2 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined in note 2.3 below.

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

The Group measures goodwill at the acquisition date as:

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

Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the underlying net assets of the subsidiaries and associated undertakings at the time of acquisition. Negative goodwill arising on business combinations is written off to the income statement in the year of acquisition. After initial recognition, positive goodwill is measured at cost less any accumulated impairment losses.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships.

Transaction costs that the Group incurs in connection with business combinations are expensed as incurred.

2.3 Consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

2.4 Foreign currency translation

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

2.5 Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the statement of financial position and amortised over the expected life of the software of up to 10 years. Amortisation is charged once the asset is available for use.

Other intangibles represent contractual relationships such as access to distribution networks and customer lists, the valuation of which reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to North. The Directors have assessed these assets to have an indefinite life and consequently will not be subject to amortisation. Intangibles with indefinite lives are subject to regular (at least annual) impairment testing.

2.6 Property, plant and equipment

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

Increases in the carrying amount arising on revaluation of land and buildings are recorded in Other Comprehensive Income and credited to the revaluation reserve. Decreases are recognised in the income statement except to the extent that they offset an existing surplus on the same asset recognised in the revaluation reserve.

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

Land	No depreciation charged.
Freehold buildings	2% per annum reducing balance method or 2% per annum straight line.
Short leasehold buildings	7% straight line.
Computer Equipment	20% – 33.3% per annum straight line method.
Motor Vehicles	20% – 33.3% per annum reducing balance method.
Office Equipment and Fittings	10% – 33.3% per annum straight line method.

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

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

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

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
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2. Summary of Significant Accounting Policies (continued)

2.7 Investments

Financial assets at fair value through profit and loss

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

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

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

Derivative financial instruments

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

Loans and receivables

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

Investments in group undertakings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
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2. Summary of Significant Accounting Policies (continued)

2.7 Investments (continued)

Determination of fair value and fair value hierarchy

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

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
Equity securities	–	–	–	–	50	50	50	50
Debt securities	193,053	73,995	30,093	–	426	–	223,572	73,995
Cash and cash equivalents	132,702	69,424	–	–	–	–	132,702	69,424
Land and buildings	–	–	–	–	28,568	18,149	28,568	18,149
Derivative assets	–	–	293	–	–	–	293	–
Derivative liabilities	–	–	(440)	(260)	–	–	(440)	(260)
	325,755	**143,419**	**29,946**	**(260)**	**29,044**	**18,199**	**384,745**	**161,358**

The opening position is shown in the table below:

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

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

The movement in assets measured at fair value based on level 3 relates to additions and depreciation in relation to land and buildings.

The sensitivity of the valuation of land and buildings to reasonably possible alternative assumptions for unobservable inputs is set out in Note 7.

The North of England Protecting and Indemnity Association Limited
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2. Summary of Significant Accounting Policies (continued)

2.8 Impairment of assets

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

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

2.9 Cash and cash equivalents

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

2.10 Government grants

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

2.11 Provisions and contingent liabilities

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

2.12 Revenue and expense recognition

All elements of revenue arising from insurance contracts and other related services offered by North are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. North's policy year runs from noon GMT on any 20 February to noon GMT on the next following 20 February. North's financial year is coterminous with its policy year.
The significant categories of revenue arising from insurance contracts are as follows:

Mutual Premium

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

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

The North of England Protecting and Indemnity Association Limited
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2. Summary of Significant Accounting Policies (continued)

2.12 Revenue and expense recognition (continued)

Fixed Premium

Premiums written are accounted for in the year in which the risk commences. Where applicable 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 financial year. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Laid Up Returns

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

Fixed Premium

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

Time Charter Premium

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

Unearned premiums

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

Reinsurance premiums and recoveries

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

Related commissions and profit commissions are accounted for in the same accounting period as the premiums for the related direct insurance or inward reinsurance business.

Unearned reinsurance premiums and related commissions

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

Claims and related expenses

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
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2. Summary of Significant Accounting Policies (continued)

2.12 Revenue and expense recognition (continued)

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

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

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

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

Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Leases

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

Taxation

UK corporation tax is provided on relevant investment income.

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

2. Summary of Significant Accounting Policies (continued)

2.13 Changes in accounting policies

The following additional IFRS changes required initial application in the year ended 20 February 2015:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of interest in other entities
- IAS 27 Consolidated and separate financial statements
- IAS 28 Investment in associates and joint ventures
- IAS 39 Novation of Derivative and Continuation of Hedge Accounting – Narrow Scope Amendment
- IAS 32 Financial instruments – presentation
- IAS 36 Recoverable amount disclosures for non-financial assets

The impact of these changes has been assessed and is not considered to be material for the year ended 20 February 2015.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Receivables

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

Pensions and other post-retirement benefits

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

Claims Reserves – Members

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

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

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

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

Claims Reserves – Policyholders

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

Provision is made for outstanding claims based upon Management's estimate of the ultimate likely cost of individual claims following advice from the internal actuary.

Claims Reserves – Pool

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

The additional provision covers the likelihood that:

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

Claims Reserves – Asbestosis

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

Claims Reserves – Future in house claims handling costs for previous policy years

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

Reinsurance Recoveries

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

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4. Management of Insurance Risk and Financial Risk

4.1 Insurance risk

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

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

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

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

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

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

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

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

For the policy year commencing 20 February 2015, North is reinsured for P&I claims up to US$3.07 billion through a combination of the International Group of P&I Clubs' pooling and excess loss programme and the North's own retention reinsurance.

All claims up to US$80.0 million are shared by the 13 International Group members and each Club carries US$9.0 million retention. The International Group buys Excess Loss reinsurance cover at Lloyd's for claims between US$80.0 million and US$3.08 billion, after which costs fall back on the pool, known as 'Overspill'.

Exposure under the Pooling Agreement for claims falling to the layer US$50.0 million in excess of US$30.0 million, as well as a multi layered quota share retention under the first layer of the Excess Loss contract, up to US$580.0 million, is reinsured by Hydra.

North also has a 'quota share' reinsurance contract with NEMIA, a company wholly owned by Members, which reinsures 90% of North's retained risks.

SMI issues contracts that transfer insurance risk, the principal risk being that actual claims payments, or the timing thereof, differ from expectations. This risk is influenced by the frequency and severity of claims and the subsequent development of long-tail claims. SMI's objective is to ensure that sufficient technical provisions are available to cover these liabilities. This risk exposure is mitigated by the careful selection and implementation of underwriting strategy guidelines, diversification across a large portfolio of insurance contracts and geographical areas, the use of strict claim review processes and the use of reinsurance to reduce its exposure to losses and protect capital resources

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

4.1 Insurance risk (continued)

Closing of policy years for overspill calls

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

Closing of policy years for other purposes

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

4.2 Financial risk

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

Investment risk

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

Market Risk

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

Currency Risk

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

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

	North	SMI
US$	82%	15%
£STG	5%	33%
EUR	10%	–
Other	3%	52%

The bond managers who manage discretionary portfolios are allowed to deviate from the neutral position but only to a maximum as allowed by specific investment guidelines and amended from time to time.

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

4.2 Financial risk (continued)

Credit Risk

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

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

At 20 February 2015

	AAA	AA	A	BBB	Speculative Grade	Not Rated	NEMIA	Value $000s
Debt securities	7.98%	81.2%	5.87%	3.31%	0.66%	0.98%	0.00%	223,572
Derivatives	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	293
Reinsurance assets	0.00%	8.09%	17.22%	12.42%	0.00%	0.33%	61.94%	962,288
Other receivable	0.33%	8.07%	2.21%	1.53%	0.01%	87.85%	0.00%	130,038

At 20 February 2014

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

Investment Risk management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

4.2 Financial risk (continued)

Other areas where North is exposed to credit risk are:

Reinsurer's share of insurance liabilities

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

Amounts due from Members

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

Amounts due from insurance intermediaries

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

5. Other Gains and Losses

	2015	2014
Hull Claims Facility Income	118	3
Fees for security charge	25	29
North Hull Claims	6	–
Other operating income	8,361	–
Rental income	76	–
Other miscellaneous	18	–
Goodwill impairment	(12)	–
Negative goodwill written off on acquisition of SMI	48,298	–
Other gains and losses	**56,890**	**32**

On 28 February 2014, North assumed the assets and liabilities of SMMI for nil consideration. The transaction involved the SMMI Board and Members appointing North as the sole member of SMMI. The primary reason for the business combination was to enhance diversification and promote financial stability for the Group. On 31 July 2014 SMMI changed its name to Sunderland Marine Insurance Company Limited ("SMI").

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5. Other Gains and Losses (continued)

Assets and liabilities assumed

The fair values of the identifiable assets and liabilities of SMMI at the 28 February 2014 were:

	Note	Book value	Fair value adj	Fair value 2014
Assets				
Intangible assets	6	8,895	(4,568)	4,327
Property, plant and equipment	7	14,194	(1,830)	12,364
Reinsurers' share of technical provision				
Provision for unearned premium		41,102	(41,102)	–
Claims outstanding	11	62,555	(22,957)	39,598
Financial assets				
Equity securities – at fair value through profit or loss	8	6,863	–	6,863
Debt securities – at fair value through profit or loss	8	57,402	–	57,402
Loans and receivables including insurance and reinsurance receivables		67,357	–	67,357
Derivatives – at fair value through profit or loss	8	924	–	924
Deferred acquisition costs		9,698	(9,698)	–
Corporation tax debtor		107	–	107
Deferred tax asset		582	–	582
Cash and cash equivalents		34,606	–	34,606
Total assets acquired		**304,285**	**(80,155)**	**224,130**
Liabilities				
Technical provision				
Provision for unearned premium		67,019	(67,019)	–
Claims outstanding	11	107,858	(21,105)	86,753
Other Insurance liabilities		–	23,723	23,723
Provision for unearned reinsurance commission		7,504	(7,504)	–
Reinsurance payables		41,182	–	41,182
Trade and other payables		9,999	–	9,999
Borrowings		12,268	–	12,268
Deferred tax liability		13	–	13
Current tax liability		155	–	155
Retirement benefit liability		1,362	–	1,362
Total liabilities acquired		**247,360**	**(71,905)**	**175,455**
Total identifiable net assets at fair value		**56,925**	**(8,250)**	**48,675**
Non-controlling interest measured at fair value		377	–	377
Consideration paid		–	–	–
Gain arising on business combination		**56,548**	**(8,250)**	**48,298**

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5. Other Gains and Losses (continued)

Assets and liabilities assumed (continued)

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

On acquisition, no SMI trade receivables were impaired and the full contractual amounts were collected.

The non-controlling interest relates to 18% of Van Olst De Graaf & Co B.V, which is not owned by the Group.

The amount of revenue that has been recognised in the consolidated income statement since 28 February 2014 is US$149.0 million. Had the business combination occurred on the first day of the reporting period, the amount of revenue that would have been recognised in the consolidated income statement would have been US$151.2 million.

The amount of loss that has been recognised in the consolidated income statement since 28 February 2014 is $6.2m. Had the business combination occurred on the first day of the reporting period, the amount of profit/loss that would have been recognised in the consolidated income statement would have been US$6.6 million.

6. Intangible Assets

The Group	Computer software	Other Intangibles	Total
Year ended 20 February 2015			
Opening net book amount	8,252	–	8,252
Additions	5,514	–	5,514
Arising on business combination	81	4,246	4,327
Written off during the year	–	(12)	(12)
Net exchange differences	(5)	(470)	(475)
Amortisation charge	(502)	–	(502)
Closing net book amount	**13,340**	**3,764**	**17,104**
At 20 February 2015			
Cost or valuation	21,028	8,100	29,128
Accumulated amortisation	(7,688)	(4,336)	(12,024)
Net book amount	**13,340**	**3,764**	**17,104**
Year ended 20 February 2014			
Opening net book amount	5,312	–	5,312
Additions	3,502	–	3,502
Amortisation charge	(562)	–	(562)
Closing net book amount	**8,252**	**–**	**8,252**
At 20 February 2014			
Cost or valuation	15,126	–	15,126
Accumulated amortisation	(6,874)	–	(6,874)
Net book amount	**8,252**	**–**	**8,252**

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6. Intangible Assets (continued)

Intangible assets include capitalised software costs relating to new commercial software which is not yet available for use. Once the system is available for use the Directors expect the software to be amortised over a useful life of 10 years. Other intangible assets represent contractual relationships such as access to distribution networks and customer lists, the valuation of which reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to North. The Directors have assessed these assets to have an indefinite life and consequently will not be subject to amortisation.

The Company	Computer software
Year ended 20 February 2015	
Opening net book amount	8,252
Additions	5,514
Written off during the year	–
Amortisation charge	(483)
Closing net book amount	**13,283**
At 20 February 2015	
Cost or valuation	20,640
Accumulated amortisation	(7,357)
Net book amount	**13,283**
Year ended 20 February 2014	
Opening net book amount	5,312
Exchange differences	–
Additions	3,502
Amortisation charge	(562)
Closing net book amount	**8,252**
At 20 February 2014	
Cost or valuation	15,126
Accumulated amortisation	(6,874)
Net book amount	**8,252**

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7. Property, plant and equipment

The Group

	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2015					
Opening net book amount	11,601	1,194	491	1,159	14,445
Additions	159	725	85	267	1,236
Transfers	(262)	–	–	262	–
Revaluation surplus	6,881	–	–	–	6,881
Arising on business combination	11,576	220	422	146	12,364
Disposals	-	-	(152)	(3)	(155)
Net exchange differences	(939)	(11)	(38)	(8)	(996)
Depreciation charge	(448)	(574)	(212)	(358)	(1,592)
Closing net book amount	**28,568**	**1,554**	**596**	**1,465**	**32,183**
At 20 February 2015					
Cost or valuation	28,717	10,253	1,285	7,179	47,434
Accumulated depreciation	(149)	(8,699)	(689)	(5,714)	(15,251)
Net book amount	**28,568**	**1,554**	**596**	**1,465**	**32,183**

	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2014					
Opening net book amount	11,769	1,279	620	1,369	15,037
Grant receipts	–	–	–	–	–
Additions	199	1,145	105	25	1,474
Disposals	–	(325)	(77)	–	(402)
Depreciation charge	(367)	(905)	(157)	(235)	(1,664)
Closing net book amount	**11,601**	**1,194**	**491**	**1,159**	**14,445**
At 20 February 2014					
Cost or valuation	12,274	8,360	1,021	4,407	26,062
Accumulated depreciation	(673)	(7,166)	(530)	(3,248)	(11,617)
Net book amount	**11,601**	**1,194**	**491**	**1,159**	**14,445**

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7. Property, plant and equipment (continued)

The fair value of the building occupied by North has been assessed by the Directors, taking into account a valuation by Naylors, an independent Chartered Surveyor on 30 January 2015. The revaluation surplus has been credited to other comprehensive income and is shown in the revaluation reserve.

The valuation has been completed in accordance with the Professional Standards contained within the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards January 2014 (the "Red Book") and incorporates the standards of the International Valuation Standards Council. Since there have been no sales of comparable office buildings for owner occupation from which to draw direct comparison the valuation has been performed using an investment method approach which involves an assessment of the likely annual rental value of the property which is then translated to a freehold capital value by applying an appropriate investment yield.

Sensitivity analysis applied to the valuation of $18.15m gives the variations detailed below

Valuation basis	Used in valuation	Variation %	Impact on valuation
Price per square foot	$32.00	5% increase / decrease	+$880k / -$865k
Price per car parking space	$2,300	5% increase / decrease	+$31k / -$31k
Investment yield rate	7.25%	0.5% increase / decrease	-$1,128k / +$1,345k
Rent free period & letting void	NIL	increase by 1 year	-$1,313k

Inputs for the valuation model are not based on observable market data and are therefore classified as level 3 in the fair value hierarchy.

The fair value of the building occupied by SMI has been assessed by the Directors, taking into account a valuation by Bradley Hall, an independent Chartered Surveyor in November 2013

The fair value of overseas freehold property has been assessed by the Directors, taking into account valuations by Sutherland Farrelly, Australia in September 2013, Duke & Cooke, New Zealand in August 2010 and CBRE Valuation & Advisory Services, USA in August 2013.

Depreciation expense of US$ 1,592,000 (2014 – US$1,664,000) has been charged in expenses for marketing and administration.

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

	2015	2014
At 20 February		
Cost	30,347	16,113
Accumulated depreciation	(5,581)	(2,824)
Net book amount	**24,766**	**13,289**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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7. Property, plant and equipment (continued)

The Company

	Land Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2015					
Opening net book amount	11,601	1,194	491	1,159	14,445
Additions	159	671	–	245	1,075
Transfers	(262)	–	–	262	–
Revaluation surplus	6,881	–	–	–	6,881
Disposals	–	–	(91)	–	(91)
Depreciation charge	(230)	(454)	(99)	(291)	(1,074)
Closing net book amount	**18,149**	**1,411**	**301**	**1,375**	**21,236**
At 20 February 2015					
Cost or valuation	18,149	8,979	763	4,982	32,873
Accumulated depreciation	–	(7,568)	(462)	(3,607)	(11,637)
Net book amount	**18,149**	**1,411**	**301**	**1,375**	**21,236**
Year ended 20 February 2014					
Opening net book amount	11,769	1,279	620	1,369	15,037
Additions	199	1,145	105	25	1,474
Disposals	–	(325)	(77)	–	(402)
Depreciation charge	(367)	(905)	(157)	(235)	(1,664)
Closing net book amount	**11,601**	**1,194**	**491**	**1,159**	**14,445**
At 20 February 2014					
Cost or valuation	12,274	8,360	1,021	4,407	26,062
Accumulated depreciation	(673)	(7,166)	(530)	(3,248)	(11,617)
Net book amount	**11,601**	**1,194**	**491**	**1,159**	**14,445**

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8. Financial Assets

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

	Group 2015	Company 2015	Group 2014	Company 2014
Fair value through profit or loss	223,915	74,045	156,801	73,975
Loans and receivables including insurance and reinsurance receivables (note 9)	130,038	88,724	105,633	114,687
Total financial assets	**353,953**	**162,769**	**262,434**	**188,662**

Financial assets at fair value through profit or loss

	Group 2015	Company 2015	Group 2014	Company 2014
Equity securities – unlisted	50	50	50	50
Debt securities – government bonds	223,572	73,995	156,751	73,925
Derivatives	293	–	–	–
Total	**223,915**	**74,045**	**156,801**	**73,975**

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

	Group 2015	Company 2015	Group 2014	Company 2014
In up to two years	130,882	21,658	57,910	12,365
In more than two years but not more than three years	22,431	131	40,845	13,704
In more than four years but not more than five years	30,594	21,146	30,926	24,687
In more than five years	39,665	31,060	27,070	23,169
	223,572	**73,995**	**156,751**	**73,925**

	Group 2015	Company 2015	Group 2014	Company 2014
Opening balance at 21 February	156,801	73,975	132,447	74,621
Additions	409,365	183,610	466,488	269,453
Arising on business combination	65,189	–	–	–
Disposals (sale and redemptions)	(404,093)	(184,726)	(440,269)	(268,959)
Fair value net (losses) / gains (excluding net realised gains)	1,473	1,186	(1,865)	(1,141)
Exchange	(4,820)	–	–	–
Closing balance at 20 February	**223,915**	**74,045**	**156,801**	**73,975**

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9. Loans and Receivables

	Group 2015	Company 2015	Group 2014	Company 2014
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	99,588	70,586	87,318	87,252
– due from reinsurers	12,613	1,637	13,327	11,199
Other loans and receivables:				
– prepayments and accrued interest	12,319	5,724	3,261	3,200
– accrued interest and rent	753	245	364	319
– other debtors	4,765	26,645	1,363	12,717
	130,038	**104,837**	**105,633**	**114,687**

Included in other debtors in both the Group and the Company are US$ 50,745 (2014 – US$ 5,297) that are due more than twelve months after the reporting date.

10. Cash and Cash Equivalents

	Group 2015	Company 2015	Group 2014	Company 2014
Cash at bank and in hand	40,349	21,683	23,182	16,529
Short-term bank deposits	76,087	32,245	37,565	37,565
Money market funds	16,266	15,496	1,929	1,677
	132,702	**69,424**	**62,676**	**55,771**

At 20 February 2015, the unused bank overdraft facility, repayable on demand, amounted to US$ 1.7m (2014 – US$ 1.7m) for North, US$ nil (2014 – US$ nil) for Marine Shipping Mutual Insurance Company Limited and US$ 10m (2014 – US$ 232k) for Sunderland Marine Insurance Company Limited.

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11. Insurance Liabilities and Reinsurance Assets

	Group 2015	Company 2015	Group 2014	Company 2014
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	947,952	890,127	860,290	848,838
– claims incurred but not reported and claims handling reserve	121,531	87,152	103,932	101,955
Total insurance liabilities, gross	**1,069,483**	**977,279**	**964,222**	**950,793**
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	861,462	882,605	808,335	845,823
– claims incurred but not reported and claims handling reserve	100,826	78,437	93,540	91,760
Total reinsurers' share of insurance liabilities	**962,288**	**961,042**	**901,875**	**937,583**
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	86,490	7,522	51,955	3,015
– claims incurred but not reported and claims handling reserve	20,705	8,715	10,392	10,195
Total insurance liability	**107,195**	**16,237**	**62,347**	**13,210**

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11. Insurance Liabilities and Reinsurance Assets (continued)

Movements in insurance liabilities and reinsurance assets

The Group

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at the beginning of the year	964,222	(901,875)	62,347	880,655	(820,106)	60,549
Cash (paid) / recovered for claims settled in the year	(345,550)	289,264	(56,286)	(217,999)	202,891	(15,108)
Increase / (decrease) in liabilities						
– arising from current year claims	299,548	(258,352)	41,196	323,044	(303,207)	19,837
– arising on business combination	86,753	(39,598)	47,155			
– arising from prior year claims	64,510	(51,727)	12,783	(21,478)	18,547	(2,931)
Outstanding claims at end of year	**1,069,483**	**(962,288)**	**107,195**	**964,222**	**(901,875)**	**62,347**

The Company

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at the beginning of the year	950,793	(937,583)	13,210	859,760	(829,350)	30,410
Cash (paid) / recovered for claims settled in the year	(241,572)	222,594	(18,978)	(204,393)	188,069	(16,324)
Increase / (decrease) in liabilities						
– arising from current year claims	239,319	(235,033)	4,286	323,044	(328,424)	(5,380)
– arising from prior year claims	28,739	(11,020)	17,719	(27,618)	32,122	4,504
Outstanding claims at end of year	**977,279**	**(961,042)**	**16,237**	**950,793**	**(937,583)**	**13,210**

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

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11. Insurance Liabilities and Reinsurance Assets (continued)

Movements in insurance liabilities and reinsurance assets (continued)

Policy year analysis (all classes)

	Closed years	Opening policy years 2012	2013	2014	Handling reserve	Total
At 20 February 2015						
Gross outstanding claims	308,423	160,240	274,886	299,548	26,386	1,069,483
Reinsurance amount	287,408	140,323	253,579	258,352	22,626	962,288
Net outstanding claims	**21,015**	**19,917**	**21,307**	**41,196**	**3,760**	**107,195**
At 20 February 2014						
Gross outstanding claims	412,516	202,990	323,044	–	25,672	964,222
Reinsurance amount	387,180	188,383	303,207	–	23,105	901,875
Net outstanding claims	**25,336**	**14,606**	**19,837**	**–**	**2,567**	**62,346**

Sensitivity analysis

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

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11. Insurance Liabilities and Reinsurance Assets (continued)

Movements in insurance liabilities and reinsurance assets (continued)

Sensitivity analysis (continued)

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

Insurance claims development – Gross (US$M)

Policy year	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Estimate of ultimate claims cost										
At end of policy year	372.0	378.5	323.7	356.0	212.1	339.0	255.8	236.5	226.9	137.2
One year later		500.2	310.4	324.6	203.3	261.3	256.3	201.5	229.3	150.9
Two years later			408.9	332.9	195.1	247.1	205.7	177.4	198.2	126.4
Three years later				388.3	200.9	247.8	187.1	170.5	205.6	111.5
Four years later					263.0	249.2	181.3	167.6	181.6	113.4
Five years later						323.7	181.7	176.8	176.0	113.9
Six years later							262.3	172.3	174.3	111.9
Seven years later								234.7	160.3	108.6
Eight years later									248.4	106.6
Nine years later										173.9
Current estimate of cumulative claims	372.0	500.2	408.9	388.3	263.0	323.7	262.3	234.7	248.4	173.9
Cumulative payments to date	71.9	225.3	248.7	309.9	223.8	242.4	232.9	222.1	234.3	159.8
Liability recognised in statement of financial position	300.1	274.9	160.2	78.4	39.2	81.3	29.4	12.6	14.1	14.1
Total of ten years										1004.3
Liability in respect of prior policy years										38.8
Claims handling reserve										26.4
										1069.5

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11. Insurance Liabilities and Reinsurance Assets (continued)

Movements in insurance liabilities and reinsurance assets (continued)

Sensitivity analysis (continued)

Insurance claims development – Net (US$M)

Policy year	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Estimate of ultimate claims cost										
At end of policy year	58.5	23.5	27.5	18.7	21.8	19.3	19.1	26.8	16.3	14.8
One year later		60.5	25.0	17.2	19.2	16.7	16.6	17.0	15.0	14.7
Two years later			60.3	26.3	20.3	15.9	15.0	16.7	12.9	13.4
Three years later				70.7	16.6	16.2	14.6	15.3	10.7	12.8
Four years later					58.1	17.6	15.1	15.1	11.6	12.3
Five years later						78.9	16.1	15.7	11.3	12.5
Six years later							86.2	14.4	11.0	12.2
Seven years later								67.2	14.3	13.1
Eight years later									74.5	10.7
Nine years later										71.3
Current estimate of cumulative claims	58.5	60.5	60.3	70.7	58.1	78.9	86.2	67.2	74.5	71.3
Cumulative payments to date	17.3	39.2	48.5	61.2	52.6	74.6	84.0	65.3	73.5	70.0
Liability recognised in statement of financial position	41.2	21.3	11.8	9.5	5.5	4.3	2.2	1.9	1.0	1.5
Total of ten years										100.2
Liability in respect of prior policy years										3.2
Claims handling reserve										3.8
										107.2

The consolidated results include SMI for the first time in the year ended 20 February 2015. Its claims have all been brought in in the year in which the book was acquired and do not show historic developments in respect of SMI beyond this. This accounts for the increase in the gross and net liability shown above between the current estimate of ultimate claims costs and those reported in prior years.

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12. Trade and Other Payables

	Group 2015	Company 2015	Group 2014	Company 2014
Trade payables and accrued expenses	**42,126**	**30,310**	**34,180**	**28,207**

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

13. Investment Income

The Group	2015	2014
Interest on bank deposits	758	58
Dividend Income	213	–
Investment Income	**971**	**58**

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

The Group	2015	2014
Net fair value gains on financial assets through profit or loss:		
– Fair value gains	6,193	1,615
– Fair value losses	(121)	(2,099)
	6,072	**(484)**
Net fair value gains on debt securities are as follows:		
– Bond interest	3,105	1,502
– Net realised gains / (losses)	2,154	(2,099)
– Net movement on unrealised gains	934	113
	6,193	**(484)**
Net fair value gains on equity are as follows:		
– Net realised losses	(99)	–
– Net movement on unrealised losses	(22)	–
	(121)	**–**

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15. Insurance Claims

The Group

	2015 Gross	2015 Reinsurance	2015 Net
Current year claims and loss adjustment expenses	382,126	(314,705)	67,421
Increase in cost for prior year claims and loss adjustment expenses	36,475	(35,563)	912
Movement in claims handling reserve	(595)	480	(115)
Total claims and loss adjustment expenses	**418,006**	**(349,788)**	**68,218**

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

16. Operating Expenses by Nature

The Group	Note	2015	2014
Auditors' remuneration – group auditors fee		458	573
Auditors' remuneration – other auditors fee		667	–
Depreciation and amortisation charges		2,094	2,226
Staff costs	17	52,583	36,447
Allocation of staff costs to claims handling expenses		(30,937)	(26,161)
Brokerage		48,154	23,300
Reinsurance commission		(22,288)	–
Purchase of goods and services		21,529	15,362
Total operating expenses		**72,260**	**51,747**

The auditors were also remunerated US$ 10,612 (2014 – US$ 9,330) for the audit of The North of England Protecting and Indemnity Association Limited Retirement Benefit Scheme. The assets of North's pension scheme are held separately from those of North and as such the costs for the audit of the pension scheme were not borne by North. The auditors were also remunerated US$ 3,851 for the audit of the SMI Pension Scheme.

Non-audit actuarial and tax services were provided to the Japan Branch office totalling US$ 47,600 (2014 – US$ 42,300).

Costs totalling US$ NIL (2014 – US$ 1,069k) were incurred in relation to the acquisition of SMI. All of the associated costs have been expensed and are recognised within expenses for marketing and administration in the consolidated income statement.

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17. Staff Costs

The Group

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

	2015 Number	2014 Number
P&I claims and MSMI	97	98
FD&D	42	41
Underwriting and entries	28	27
Risk management	13	14
SMI Underwriting and claims	46	–
Other	161	53
	387	**233**

Their aggregate remuneration comprised:

	2015	2014
Wages and salaries	42,400	26,185
Social security costs	3,400	2,137
Retirement benefit obligations – defined benefit plans	3,333	5,816
Other post-employment benefits	3,450	2,309
	52,583	**36,447**

18. Directors’ Remuneration

The Group

The remuneration of the Directors was as follows:

	2015	2014
Short-term employee benefits	**3,064**	**2,648**

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

Highest paid director

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

	2015	2014
Emoluments	**1,205**	**1,111**

The accrued pension entitlement under the Company’s defined benefit scheme of the highest paid director at 20 February 2015 was US$ nil (2014 – US$ nil).

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19. Finance Expense

The Group	2015	2014
Gains / (Losses) on exchange – technical	1,713	(2,204)
Losses on exchange – investments	(953)	(830)
Interest on corporation tax	–	(4)
	760	**(3,038)**

20. Tax Expense

The Group	2015	2014
Current tax	1,828	110
Deferred tax	(93)	–
	1,735	**110**

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

	2015	2014
Trading Income	(2,588)	–
Investment income	971	138
Net fair value gains on financial assets	5,707	945
Expenses for asset management services rendered	(368)	(524)
Investment return	**6,310**	**559**
Tax on the above at standard UK corporation tax rate of 21.2% (2014 – 23.1%)	789	129
Effect of different rates of tax	295	–
Deferred tax losses not recognised	1,467	–
Tax losses utilised	(935)	–
Adjustment in respect of previous years	119	(19)
Current tax	**1,735**	**110**

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20. Tax Expense (continued)

The provision for deferred tax assets has been made at the rate of tax relevant in each overseas jurisdiction as follows:

The Group	2015	2014
At 20 February	–	–
Acquired as part of business combinations	569	–
Exchange rate adjustments	(45)	–
Movement in the year	93	–
At 20 February	617	–
Differences between the accumulated depreciation and taxation allowances on fixed assets	46	–
Other timing differences	571	–
	617	–

The timing differences above relate to accumulated losses in jurisdictions where the group has a taxable presence. They have been recognised only to the extent that it is probably that they are recoverable in the next five years. No deferred tax on accumulated tax losses has been recognised. Unrecognised deferred tax on accumulated tax losses amounts to US$1.6m.

21. Reserves

	Group 2015	Company 2015	Group 2014	Company 2014
Income and expenditure reserve	157,680	80,155	129,322	114,884
Contingency fund	8,340	8,340	7,226	7,226
Revaluation reserve	6,881	6,881	–	–
	172,901	**95,376**	**136,548**	**122,110**

(a) Income and expenditure reserve

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

	Group 2015	Company 2015	Group 2014	Company 2014
Opening balance	129,322	114,884	69,174	55,903
Total comprehensive income for the year	29,472	(33,615)	67,984	66,817
Transfer (to) / from contingency fund	(1,114)	(1,114)	(7,836)	(7,836)
Closing balance	**157,680**	**80,155**	**129,322**	**114,884**

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21. Reserves (continued)

(b) Contingency funds

	Group 2015	Company 2015	Group 2014	Company 2014
The Group				
Opening balance		7,226		(610)
The transfer (to) / from the income and expenditure reserve comprises:				
– Allocation of realised investment gains / losses and income	1,357		(537)	
– (Deficit) / Surplus transferred from closed policy years	(243)		8,373	
		1,114		7,836
Closing balance		**8,340**		**7,226**

	Group 2015	Company 2015	Group 2014	Company 2014
The Company				
Protecting & Indemnity Class				
Opening balance		3,977		(3,733)
The transfer (to) / from the income and expenditure reserve comprises:				
– Allocation of realised investment gains / losses and income	1,627		(685)	
– (Deficit) / Surplus transferred from closed policy years	(579)		8,395	
		1,048		7,710
Closing balance		**5,025**		**3,977**

	Group 2015	Company 2015	Group 2014	Company 2014
Freight, Demurrage & Defence Class				
Opening balance		3,249		3,123
The transfer (to) / from the income and expenditure reserve comprises:				
– Allocation of realised investment gains / losses and income	(270)		148	
– Surplus / (Deficit) transferred from closed policy years	336		(22)	
		66		126
Closing balance		**3,315**		**3,249**

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

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21. Reserves (continued)

(c) Revaluation reserve

The Group	2015	2014
Opening balance	–	–
Revaluation of property	6,881	–
Closing balance	**6,881**	**–**

The Company	2015	2014
Opening balance	–	–
Revaluation of property	6,881	–
Closing balance	**6,881**	**–**

22. Subsidiary Undertakings

The principal subsidiary undertakings, all wholly owned, are;

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

The North of England P&I Association (Bermuda) Limited did not trade in the current or previous year and was liquidated on 27 February 2015.

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

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

The segregated cell within Hydra Insurance Company Limited, which reinsures North for its liability under the upper layer of the pool and its share of the first layer of the International Group excess loss reinsurance contract, has also been consolidated. It is possible that in certain circumstances preferred shareholders, including North, can be required to provide further funding to their segregated cell.

Marine Shipping Mutual Association Company Limited is a marine mutual insurer of which North is the sole Member. Marine Shipping Mutual Association Company Limited ceased underwriting on 30 June 2011 and is in run-off from that date.

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22. Subsidiary Undertakings (continued)

Sunderland Marine Insurance Company Limited was acquired on 28 February 2014. SMI insures against marine and war risks as well as risks incidental to marine insurance including protection and indemnity and aquaculture. The principal subsidiaries of SMI which are wholly owned, with the exception of Van Olst de Graff & Co BV, and included in the consolidation are:

Company Name	Nature of business	Incorporated	Holding %
Sunderland Marine (Africa) Limited	Marine insurance	South Africa	100
SM Insurance (Bermuda) Limited	Marine reinsurance	Bermuda	100
Salvus Bain Management (USA) LLC	Brokerage	U.S.A	100
Harlock Murray Underwriting Limited	Brokerage	Canada	100
Knighthood Corporate Assurance Services Plc	Insurance broker	U.K.	100
Van Olst de Graff & Co BV	Brokerage	Netherlands	82

The value of the subsidiary undertakings is as follows:

The Company	2015	2014
Balance brought forward	10,757	11,757
Funds advanced to SMI	15,335	–
Write down of investment in The North of England P&I Association (Bermuda) Limited	(27)	–
Write down of investment in Marine Shipping Mutual Insurance Company Limited	(278)	(1,000)
Balance carried forward	**25,787**	**10,757**

In line with North's accounting policies, the Directors consider that no further impairment of the investments in group companies is required at either the 20 February 2015 or 20 February 2014.

23. Operating leases

As at 20 February the group had annual commitments under non-cancellable operating leases as set out below:

		2015		2014
	Land and buildings	Other	Land and buildings	Other
Operating leases which expire;				
Within one year	517	212	–	–
Within two to five years	664	301	–	–
	1,181	**513**	**–**	**–**

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24. Other Guarantees

In the normal course of business, North has provided letters of credit and guarantees on behalf of its Members. These are secured by investments lodged with North amounting to US$ 12.6 million (2014 – US$ 23.6 million).

25. Related Party Transactions

Key management compensation

The remuneration of the Directors was as follows:

	2015	2014
Short term employee benefits	**2,496**	**2,215**

Other related parties

Hydra, the International Group's Bermuda based captive, is a segregated accounts company and North is an Account Owner. Exposure under the International Group Pooling Agreement for claims falling to the layer US$50.0 million in excess of US$30.0 million as well as a multi-layer quota share retention under the first layer of the Excess Loss contract, up to US$580.0 million, is reinsured by Hydra.

North is the ultimate parent company of MSMI. North has a Reinsurance to Close contract with MSMI under which the Association assumes all of the net claims liabilities after MSMI's market reinsurances. Transactions between North and MSMI are eliminated on consolidation.

During the reporting period MSMI made payments of US$ 507,000 (2014 – US$ 692,000) to NIML, a subsidiary of the North. NIML subsequently made payments of US$ 507,000 (2014 – US$ 692,000) to North.

Transactions with related parties have been entered into as follows:

The Company	**2015 NIML**	**2015 SMI**	**2015 MSMI**	**2015 Hydra**	**2014 NIML**	**2014 MSMI**	**2014 Hydra**
Income statement							
Insurance premium	–	–	–	(31,116)	–	–	(29,083)
Insurance claims and loss adjustment expenses	–	(17,468)	1,725	–	–	166	–
Insurance claims and loss adjustment expenses recovered	–	–	–	8,698	–	–	22,663
Management fee recovered	507	–	–	–	692	–	–
Statement of financial position							
Technical provisions – insurance contracts	–	–	(2,007)	–	–	(5,901)	–
Reinsurers' share of technical provisions	–	31,980	–	53,588	–	–	52,909
Intercompany current account	–	–	18,173	–	–	16,846	–

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26. Cash generated from / (absorbed by) operating activities

	Group 2015	Company 2015	Group 2014	Company 2014
Surplus before taxation	31,207	(32,702)	68,094	66,926
Adjustments for:				
Depreciation and amortisation	2,093	1,556	2,226	2,226
Revaluation	12	–	–	–
Investment income	(1,473)	(16,523)	1,864	1,141
Gain on sale of property, plant and equipment	(43)	(36)	309	309
Gain on acquisition of SMI	(48,298)	–	–	–
Increase / (decrease) in insurance contracts net of reinsurance recoverable	(26,031)	3,026	1,799	(17,198)
Increase in unearned premium reserve net of reinsurers' share	24,867	343	682	682
Decrease in loans and receivables	33,933	9,850	(78,972)	(74,856)
Decrease / (increase) in reinsurance payables	16,178	31,503	39,755	39,951
Increase / (decrease) in derivative financial instruments	964	153	74	74
(Increase) / decrease in trade and other payables	(2,051)	2,103	1,078	(14,467)
(Increase) / decrease in retirement benefit liability	23,075	19,127	(3,289)	(3,289)
Purchase of bonds at fair value through profit or loss	(409,365)	(183,606)	(466,488)	(269,453)
Sale of bonds at fair value through profit or loss	403,463	184,726	440,269	268,958
Write down of investment in subsidiary	–	305	–	1,000
Cash generated from operating activities	**48,531**	**19,825**	**7,401**	**2,004**

27. Retirement Benefit Schemes

The group operates two defined benefit schemes in the United Kingdom. A triennial actuarial valuation for the North Scheme was carried out as at 31 August 2013 and for the SMI Scheme as at December 2011 by a qualified independent actuary.

Actuarial assumptions for IAS19 – valuing the Scheme liabilities

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

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27. Retirement Benefit Schemes (continued)

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

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

Actuarial assumptions for IAS19 – expected return on Scheme assets

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

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

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

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

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27. Retirement Benefit Schemes (continued)

Mortality

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

The key rates assumed are:

	SMI 2015	North 2015	North 2014
Discount rate	3.55%	3.55%	4.60%
Expected return on assets	5.75%	3.00%	3.00%
Expected rate of salary increases	3.00%	3.95%	4.25%
Inflation rate	2.20%	2.20%	2.55%

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

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

	2015	2014
Equities	13,696	–
Bonds	28,406	–
Other	24,194	–
Cash	11,682	75,047
	77,978	**75,047**

The actual return on plan assets for 2015 amounted to US$3,558,000 (2014 – US$242,000).

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27. Retirement Benefit Schemes (continued)

Defined benefit plans

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

Group	Defined benefit obligation	Fair value of plan assets	Benefit liability
21 February 2013 (restated)	**95,550**	**65,958**	**29,592**
Service Cost	4,398	–	4,398
Contributions by members	641	641	–
Net interest	4,705	3,287	1,418
Sub-total included in income	**9,744**	**3,928**	**5,816**
Benefits paid	(2,096)	(2,096)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(3,140)	3,140
Actuarial changes			
– arising from changes in demographic assumptions	–	–	–
– arising from changes in financial assumptions	(4,681)	–	(4,681)
Experience adjustments	(4,696)	–	(4,696)
Sub-total included in OCI	**(11,473)**	**(5,236)**	**(6,237)**
Contributions by employer	–	4,963	(4,963)
Exchange	7,529	5,434	2,095
20 February 2014 (restated)	**101,350**	**75,047**	**26,303**
SMI on acquisition	50,585	49,223	1,362
Service Cost	3,072	–	3,072
Contributions by members	1,079	1,079	–
Settlement cost	(5,889)	(5,070)	(819)
Net interest	6,366	5,281	1,085
Sub-total included in income	**4,628**	**1,290**	**3,338**
Benefits paid	(1,774)	(1,774)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	3,537	(3,537)
Actuarial changes			
– arising from changes in demographic assumptions	(2,490)	–	(2,490)
– arising from changes in financial assumptions	32,633	–	32,633
Experience adjustments	1,129	–	1,129
Sub-total included in OCI	**29,498**	**1,763**	**27,735**
Contributions by employer	–	6,021	(6,021)
Exchange	(11,376)	(9,398)	(1,978)
20 February 2015	**174,685**	**123,946**	**50,739**

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27. Retirement Benefit Schemes (continued)

Defined benefit plans

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

Parent	Defined benefit obligation	Fair value of plan assets	Benefit liability
21 February 2013 (restated)	**95,550**	**65,958**	**29,592**
Service Cost	4,398	–	4,398
Contributions by members	641	641	–
Net interest	4,705	3,287	1,418
Sub-total included in income	**9,744**	**3,928**	**5,816**
Benefits paid	(2,096)	(2,096)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(3,140)	3,140
Actuarial changes			
– arising from changes in demographic assumptions	–	–	–
– arising from changes in financial assumptions	(4,681)	–	(4,681)
Experience adjustments	(4,696)	–	(4,696)
Sub-total included in OCI	**(11,473)**	**(5,236)**	**(6,237)**
Contributions by employer	–	4,963	(4,963)
Exchange	7,529	5,434	2,095
20 February 2014 (restated)	**101,350**	**75,047**	**26,303**
Service Cost	2,101	–	2,101
Contributions by members	745	745	–
Net interest	4,362	3,309	1,053
Sub-total included in income	**7,208**	**4,054**	**3,154**
Benefits paid	(1,075)	(1,075)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	374	(374)
Actuarial changes			
– arising from changes in demographic assumptions	(2,356)	–	(2,356)
– arising from changes in financial assumptions	25,573	–	25,573
Experience adjustments	124	–	124
Sub-total included in OCI	**22,266**	**(701)**	**22,967**
Contributions by employer	–	5,340	(5,340)
Exchange	(7,416)	(5,761)	(1,655)
20 February 2015	**123,408**	**77,979**	**45,429**

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27. Retirement Benefit Schemes (continued)

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2015 is shown below.

	Impact on retirement benefit liability
Increase / reduce discount rate by 0.25%	(7,409) / 8,036
Increase / reduce real salary growth by 0.25%	114 / (111)
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	3,589 / (3,634)
Increase / reduce life expectancy by one year	4,248 / (4,217)

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

The amount expected to be contributed into the plans by the company in 2015/16 is US$3.7m subject to the finalisation of the actuarial report.

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