Global service built around you

North

Directors' Report 2019

Directors

The North of England Protecting and Indemnity Association Limited

20 February 2019

PB Shirke ■ ◆	Chairman
JM de Groot ■ *	Vice-Chairman
A Engelsman ▲ ■ ◆	
NJA Fairfax *	
NJO Fell	
TF Hart ■ ◆	
PA Jennings ■	Chief Executive Officer
PM Johnson ▲ *	
AM Lynch ▲ *	
JA Tyrrell *	Vice-Chairman
JF Reith	
NR Taylor	
J Procopiou	
AA Wilson ■	Executive Director

▲ Member of the Group Audit Committee

■ Member of the Nominations Committee

◆ Member of the Remuneration Committee

* Member of the Group Risk Committee

Bankers

Nordea Bank
6th Floor
5 Aldermanbury Square
London
EC2V 7AZ

Auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

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 2019

The Directors have pleasure in presenting their report together with the financial statements of the Group and Company for the year ended 20 February 2019.

The Group comprises The North of England Protecting and Indemnity Association Limited ("North") and its subsidiaries, including Sunderland Marine Insurance Company Limited ("SMI"), North Group Services Limited (previously North Insurance Management Limited) ("NGS"), North of England P&I Designated Activity Company ("North EU"), and the segregated cell within Hydra Insurance Company Limited ("Hydra").

Membership

At 20 February 2019 the owned gross tonnage entered in North totalled 147.6 million (2018 – 142.2 million) and there were 4,473 (2018 – 4,409) owned ships.

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, two Executive Directors and up to five Independent 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 nominate 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.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and parent company financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 3 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 additional calls from its Members for open policy years should they be required. As a consequence, 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.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

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 North Directors appointed by the Board from candidates recommended by the Group Nominations Committee. The majority of Committee members shall be non-executive directors. The Committee meets regularly, and its principal duties are to:

- oversee the integration and operation of risk management, compliance and actuarial functions across the Group;
- review and approve the Group's risk management, compliance and actuarial functions framework documentation and related policies and procedures;
- 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 management framework to ensure it is aligned to the Group's strategic objectives;
- oversee the production and maintenance of Risk Registers for each company in the Group;
- review the risk profiles for North, its subsidiaries and the regulatory Group against their respective risk appetites;
- review the Group's risk management framework including the Group's Risk Registers and the controls contained therein to ensure their adequacy and effectiveness in managing the risk profile of the Group;
- monitor Group risk reporting and set appropriate risk reporting triggers;
- review risk reporting exceptions where reporting triggers have been exceeded and the mitigating actions proposed by management to address those reporting exceptions to ensure their adequacy and effectiveness;
- receive regular capital monitoring reports and review the outputs of the Group's regulatory capital assessment processes to satisfy itself that the regulatory capital assessments are appropriate and are being monitored;
- 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;
- assess the appropriateness of Group risk management controls;
- monitor the alignment of the Group risk management framework with the strategic objectives of the Group;
- monitor investment risk of the Group;
- with specific reference to investment risk monitor the Group's compliance with;
  - all Group approved statements 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);
  - the Group's strategic objectives, including but not limited to those related to the credit ratings of any Group entity; and
  - any applicable regulatory requirements concerning the credit ratings of investment counterparties as well as the Group's appointed bankers.
- ensure that in implementing an investment decision consideration is given to the impact on:
  - 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 individual Group companies and in doing so have regard to the Group's strategic objectives in respect thereof; and
  - the regulatory capital requirements in respect of the Group and individual Group companies.
- consult with and receive reports, information and recommendations from other boards and committees within the Group as required to enable the Committee to perform its duties in relation to the Group;
- monitor the Group's relationship and standing with its regulators;
- review the outcomes of regulatory assessments and the response of the Group;
- review Group regulatory breaches and consider what amended or additional controls are required to mitigate the risk of such breaches recurring; and
- review and assess on an annual basis the adequacy and effectiveness of the Group's policies, procedures and controls in respect of illegal acts including whistleblowing, fraud, money laundering and bribery.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

Committees (cont.)

Group Audit Committee

The Group Audit Committee consists of a minimum of three North Directors. All Committee members must be non-executive Directors and the majority must be independent non-executive Directors. Meetings are also attended by representatives of North's Management and staff when appropriate. Its principal duties are:

External audit

- oversee the operation of external audit activities 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's independence and objectivity and the effectiveness of the Group audit process, taking into consideration all applicable professional and regulatory requirements;
- review the Group's arrangements for non-audit services provided by the external auditor;
- 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 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; and
- 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; and
- consider reports from the Group Internal Auditor.

The North of England Protecting and Indemnity Association Limited

20 February 2019

Committees (cont.)

Group Audit Committee (cont.)

General

- receive and review regular capital monitoring reports and review the assessment of the Group's regulatory capital requirements, including the methodologies and assumptions used and monitor the Group's coverage of such capital requirements;
- review and recommend for approval to the Directors of the relevant Group company any regulatory report or public disclosure (including the UK's Solvency and Financial Condition Report and Regular Supervisory Report) requiring board approval prior to their submission and / or disclosure;
- independently monitor the effectiveness of the Group's internal controls, risk management systems and internal audit regarding the financial reporting of the Group;
- consider other topics relating to the Group, as defined by the North Directors from time to time;
- consult with and receive reports, information and recommendations from the boards and committees of other Group companies as required to enable the Committee to perform its duties in relation to the Group;
- 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; 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.

Nominations Committee

The Nominations Committee consists of a minimum of three North Directors. The majority of the Committee shall be non-executive 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 the Group 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 Group companies compared to their current position and make recommendations, as appropriate, to the Directors of Group companies with regard to any changes which may be required to ensure the respective boards of Directors 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 Group companies, taking into account the challenges and opportunities facing the Group and the skills and expertise required;
- identify and recommend suitable candidates for approval for potential appointment as Directors of the Group 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;
  - the Directors;
  - the Chairmen and members of the Nominations, Group Risk, Group Audit and Remuneration committees;
- Establish and maintain the following in respect of each director of Group companies:
  - a skills and experience matrix;
  - a training and development plan; and
  - a succession plan;

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

Committees (cont.)

Nominations Committee (cont.)

- keep under review the leadership needs of 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 the Group;
- undertake annually a formal and rigorous evaluation of the collective and individual performance of the Directors of Group companies (including attendance at meetings) against objective criteria and report to the North Directors upon its findings;
- determine and agree a policy and procedures for assessing the fitness and propriety of Group employees, directors, officers, senior insurance management function holders and key function holders (and holders of equivalent regulated roles and functions in overseas jurisdictions) which comply with and give effect to all applicable laws and regulations;
- review and (where appropriate) update the Group Fit and Proper Policy and Procedures on an annual basis and also upon the occurrence of any events specified in the policy as giving rise to a review of its terms; and
- within the terms of the Group Fit and Proper Policy and Procedures assess both prior to appointment and on an ongoing basis the fitness and propriety of all Group 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 Director (including, without limitation, reporting the same to any regulatory authorities).

Remuneration Committee

The Remuneration Committee consists of a minimum of three North Directors. The majority of the Committee shall be non-executive directors. It meets not less than once a year and its principal duties are to:

- determine and agree a Group Remuneration Policy which complies with and gives effect to all applicable laws and regulations and includes the broad policy of the Group for the remuneration (including pension arrangements) of:
  - the Chairmen and Vice-Chairmen;
  - Executive Directors;
  - Non-executive Directors;
  - senior managers and employees;
- review and (where appropriate) update the Group Remuneration Policy on an annual basis and also upon the occurrence of any events specified in the policy as giving rise to a review of its terms;
- within the terms of the Group Remuneration Policy, make recommendations to the North Directors regarding the remuneration of:
  - the Chairmen and Vice-Chairmen; and
  - the Non-executive Directors;
- within the terms of the Group Remuneration Policy, determine the remuneration of:
  - the Executive Directors and senior managers;
  - the Global Director (Underwriting); and
  - the Global Director (Claims);
- within the terms of the Group Remuneration Policy, determine the scope of the pension arrangements for the Executive Directors and employees;
- monitor the funding position of the Defined Benefit Pension Schemes of North and, if considered appropriate, make recommendations to the Directors in respect thereof;
- ensure that contractual terms relating to termination of the appointment of an Executive Director of Group companies, 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 the Group;
- 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.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

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' 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 (2018 – nil).

Open policy years

Additional calls can be made on any open policy year. Usually a policy year will remain open for three consecutive years after its inception although this is at the discretion of the Directors and depends on the anticipated result of the policy year in question.

The Directors agreed on 14 November 2018 that the 2015/2016 policy year should be closed and amalgamated with the previous closed years for all P&I, FD&D and War Risk classes. No additional calls are anticipated for open policy years for any class of business. It was agreed that there would be no increase to Members' rates for the 2019/2020 mutual premium for P&I or FD&D.

North of England P&I Designated Activity Company ("North EU")

The Group's response to the UK's decision to leave the EU and the consequential loss of the UK's passporting rights was to establish a subsidiary insurance company in Ireland, North of England P&I Designated Activity Company ("North EU"). North EU received authorisation from the Central Bank of Ireland on 31 December 2018 and will insure all members and policyholders with a European Economic Area place of management from 20 February 2019.

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 continued integration of the SMI business and SMI capital reserves into North.

The restructure of the SMI business acquired by the Group in 2014 continues with a view to transferring the business to North in due course. As part of this strategy, the sale of SMI's subsidiary Knighthood Corporate Assurance Services Limited was completed and the Australia and New Zealand branches of SMI were transferred to North during the year. This follows on from the transfer of the SMI defined benefit pension scheme to North in the prior year on the successful completion of a Flexible Apportionment Arrangement.

No other significant developments in North's business are expected in the medium term.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

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 and Remuneration Committee reports
- Directors' Report and financial statements
- FCA and PRA compliance requirements, ORSA and Solvency II
- Policy year closures and Release calls
- Management projects and IT updates
- Errors & Omissions and Directors' & Officers' insurance
- Credit control
- Claims and Non P&I guarantees
- International Group Pooling Agreement, Claims and General Activity
- US Terrorism Risk Insurance Act (TRIA)
- Employees' incentive scheme
- Defined benefit pension scheme
- Stress testing
- Standard and Poor's rating
- Strategy
- Management and organisational structure
- Rule amendments
- Integration of SMI and SMI Capital Reserves
- Investment strategy review
- The Group's response to the UK's decision to leave the EU

On behalf of the Board of Directors

PA Jennings
Executive Director
23 May 2019

Strategic Report

The North of England Protecting and Indemnity Association Limited

20 February 2019

The Directors present their strategic report for the year ended 20 February 2019. All figures are US$ millions unless otherwise stated.

Principal Activities

The North of England Protecting and Indemnity 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. No one Member controls North. The address of the registered office is given on the first page.

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. 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.

A copy of the Rules of the Class for both P&I and FD&D are available on the company's website.

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.

The principal activities of the Group are the insurance and reinsurance of marine P&I, FD&D, War, Hull and Aquaculture risks on behalf of Members and policyholders. The Group principally operates from its head office in Newcastle upon Tyne but also has subsidiary or branch offices in Hong Kong, China, Greece, Singapore, Japan, USA, Ireland, Australia, New Zealand, Canada and the Netherlands.

Strategy

Our purpose – 'We enable our Members to trade with confidence'.

North's mission statement is to be "A world leading marine insurance group, providing the highest quality of cost-effective service". The Directors have developed a series of strategic objectives which are expected to deliver the desired mission outcome. The objectives are as follows:

- To maintain the Group's financial strength, stability and standing in the International Group, and enhance as market conditions allow
- To provide the highest level of personable, professional and cost effective service to all North Group Members and Clients
- To grow market share in a controlled manner
- To explore M&A and JV opportunities
- To realise the benefits of the successful integration of Sunderland Marine

Key Performance Indicators ("KPI's") have been identified against which the management report to the Board on a regular basis to monitor the achievement of these strategic objectives.

Strategic Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

Performance in the year

Objective – To maintain the Group's financial strength, stability and standing in the International Group, and enhance as market conditions allow

The relevant KPI's are:

- To maintain an S&P A rating – S&P reaffirmed North's A rating for the 15th consecutive year in January 2019
- Not to levy unbudgeted additional calls – no unbudgeted additional calls have been levied

Written premium decreased from US$ 368.0 million in 2018 to US$ 339.6 million in 2019.

Premium written, excluding intergroup transactions, by business segment is as follows:

	2019	2018
North – P&I	269.7	287.6
North – FD&D	20.1	19.3
North – War	0.1	0.1
SMI	49.7	61.0
	339.6	**368.0**

Overall the P&I sector has seen the dilution of premium rates over the last five years. A nil general increase declared for the 2018 policy year together with the effects of churn and a reduction in IG reinsurance costs passed onto Members has resulted in a reduction of premium in North of US$28.4 million, despite a growth in tonnage at renewal.

The reduction in SMI premium is a result of pursuing a strategy to focus on core business and the transition of non-core business to alternative security providers.

The 2018 policy year showed an increase in the retained values of claims, with the year producing a greater number of large claims (over US$1 million) for North and more incidents reported across all clubs involved in the International Group pool. This is where our strong reinsurance relationships demonstrate their value and we are protected against adverse outcomes across our own retained and International Group pool claims.

The combined ratio is used to measure performance by comparing expenses and losses incurred to earned premium and is calculated as 'Total expenses' less 'Expenses for asset management services rendered', divided by 'Earned premiums net of reinsurance'. The combined ratio has increased to 94.4% compared to the 2018 value of 79.4%, with both an increase in net claims and a reduction in net premiums contributing to the movement.

The Group's investment assets contributed income of US$3.0 million in the year and there was a loss of US$2.4 million on the Group's derivative hedging arrangements. The derivative contracts in place provide certainty for the Group where the majority of income is in US Dollars but a large proportion of administrative expenses, including staff costs, are incurred in Sterling.

Overall, the Group's surplus after tax decreased slightly from US$19.1 million in 2018 to US$17.5 million in 2019.

The total accumulated surplus attributable to members increased from US$239.7 million at 20 February 2018 to US$248.3 million at 20 February 2019. The increase is driven by the surplus recorded above, offset by unfavourable foreign exchange and pension deficit movements recorded in other comprehensive income.

Objective – To provide the highest level of personable, professional and cost effective service to all North Group Members and Clients

Strategic Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

Performance in the year (cont.)

Relevant KPIs have been set by the Board to measure this objective including Member and client retention, Member satisfaction, and Member and client complaints. Member satisfaction is assessed through independent research at least every three years, and the most recent results showed an increase in overall satisfaction.

Objective – To grow market share in a controlled manner

Objective – To explore M&A and JV opportunities

The strategy, KPIs and metrics associated with these objectives are commercially sensitive and are therefore not disclosed in the financial statements.

Objective – To realise the benefits of the successful integration of Sunderland Marine

The transfer of Sunderland's Australian and New Zealand business to North has been successfully completed in the year. The Group remains focussed on the transfer of Sunderland's remaining business to North to fully realise operating efficiencies.

Risks to achieving our strategic objectives

Insurance and financial risks as set out in note 3 to the financial statements could materialise and prevent the Group from achieving its strategic objectives. Other uncertainties exist in respect of the business environment for our Members. Whilst uncertainty remains about the UK's exit from the European Union, the Group has successfully established a subsidiary insurance company in Ireland to allow the Group to continue to service its Members and policyholders with an EEA place of management. The principal risk to our strategic objectives from the UK's exit from the European Union, being the loss of passporting rights and a consequential inability to do business in the EU, has been mitigated through actions taken in the year.

Business Environment

North underwrites primarily P&I insurance for commercial Ocean-going shipping. The health of the sector generally tracks economic activity, with the dilution of premium rates and lower claims numbers over the past five years reflecting relatively weak freight markets over that period. Whilst we will endeavour to keep premiums as low as we can to support our Members going forward, we continue to believe that an adjustment is needed to premium levels over future renewals if clubs are to underwrite responsibly, especially as freight markets strengthen and hence we would expect both the number of claims and their aggregate value to rise.

SMI underwrites a variety of marine and aquaculture risks, the insurance environment for both sectors is highly competitive with no indication of generalised upwards pressure on premium rating in the short term.

Brexit

There remains uncertainty around the UK's decision to exit the European Union. Whilst our actions in the year have mitigated the principal risk to our business from Brexit, further actions may be needed to ensure the orderly run-off of business underwritten in the EEA should a so-called 'hard Brexit' occur. In this respect we note EIOPA's 'Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union' issued in February 2019 requiring EEA authorities to facilitate an orderly run-off of such business.

On behalf of the Board of Directors

PA Jennings
Executive Director
23 May 2019

Independent Auditor's Report

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED

1 Our opinion is unmodified

We have audited the financial statements of North of England Protecting & Indemnity Association Limited ("the Company") for the year ended 20 February 2019 which comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, 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, including the accounting policies in note 1.

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 2019 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 12 November 2015. The period of total uninterrupted engagement is for the 4 financial years ended 20 February 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. We have refined our key audit matter in relation to the valuation of claims outstanding technical provision to focus on the valuation of claims incurred but not reported reserve and the protection and indemnity claims reported reserve, which better reflect our audit effort over the reserves where there is the highest degree of estimation uncertainty. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 12 (principal risks)

Risk vs 2018: New

The Risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of claims incurred but not reported reserve and the valuation of protection and indemnity claims reported reserve below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report it effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our Response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing the valuation of claims incurred but not reported reserve and the valuation of protection and indemnity claims reported reserve and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of claims incurred but not reported reserve and the valuation of protection and indemnity claims reported we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

As reported under the valuation of claims incurred but not reported reserve and the valuation of protection and indemnity claims reported, we found the resulting estimates and related disclosures of and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Valuation of claims incurred but not reported reserve

($100.5 million; 2018: $101.64 million)

Risk vs 2018: Recurring

Refer to pages 35, 37 and 38 (accounting policy) and pages 51–54 (financial disclosures).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

The Risk

Subjective Valuation

The valuation of the claims incurred but not reported, included within the claims incurred but not reported and claims handling reserve balance in the financial statements, is highly judgemental as it requires management to adopt a number of assumptions, which are inherently subjective. There is a risk that the assumptions adopted are inappropriate which could lead to a material misstatement in valuation.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims incurred but not reported and claims handling reserve has a high degree of estimation uncertainty, with a potential range of outcome greater than our materiality for the financial statements as a whole. The financial statements (note 10) disclose the sensitivity estimated by the Group.

Our Response

Our procedures included:

- **Our actuarial expertise:** Using our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
- **Benchmarking assumptions:** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Group's historic experience, current trends and benchmarking to our own industry knowledge;
- **Independent reperformance:** Independently re-projecting the reserve for those classes of business we consider to be higher risk;
- **Sensitivity Analysis:** Performing sensitivity analysis over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation;
- **Assessing transparency:** Assessing the Group's disclosures surrounding the claims incurred but not reported and claims handling reserve and insurance risk appropriately reflect the inherent uncertainties of the balance.

Our Results

We found the estimated valuation of the claims incurred but not reported reserve to be acceptable.

Valuation of protection and indemnity claims reported reserve

($736.5 million; 2018: $724.4 million)

Risk vs 2018: Recurring

Refer to pages 35, 37 and 38 (accounting policy) and pages 51–54 (financial disclosures).

The Risk

Subjective Valuation

The valuation of protection and indemnity claims reported, included within the claims reported and loss adjustment expenses reserve, is inherently uncertain by nature and is material to the financial statements. Estimates are made of the ultimate cost of settling claims that have been incurred at the balance sheet date which, due to the nature of P&I claims, is judgemental. Case reserves are set by claims handlers based on available information on a case by case basis.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims incurred but not reported and claims handling reserve has a high degree of estimation uncertainty, with a potential range of outcome greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 10) disclose the sensitivity estimated by the Group.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

Our Response

Our procedures included:

- **Control design and observation:** Assessing the design and implementation of the controls relating to the maintenance and updating of case reserves;
- **Tests of details:** Testing, on a sample basis that the Group have followed internal procedures and used the most current information when setting the reserve on a claim.
- **Expectation vs outcome:** Performing a trend analysis on a policy year basis to identify unusual trends in claims development and to inform areas for further investigation.
- **Assessing transparency:** Assessing the Group's disclosures surrounding the P&I claims reported and loss adjustment expenses reserve and insurance risk appropriately reflect the inherent uncertainties of the balance.

Our results

We found the estimated valuation of the protection and indemnity claims reported reserve to be acceptable.

Accuracy of reinsurers' share of claims outstanding technical provision

($748.5 million; 2018: $724.4 million)

Risk vs 2018: <>

Refer to page 35 (accounting policy) and pages 51–54 (financial disclosures)

Accuracy of insurance claims and loss adjustor expenses recovered from reinsurers

($256.5 million; 2018: $152.8 million)

Risk vs 2018: <>

Refer to page 35 (accounting policy) and page 55 (financial disclosures)

The Risk

Calculation error

The reinsurance agreements entered into by the Group are complex and interact with one another depending on the agreement. Due to this complexity there is a risk that the calculation of the recoveries outstanding at the period end and the recoveries incurred in the period is incorrect.

Our response

Our procedures included:

- **Re-performance:** independently re-performing the calculation of the reinsurer's share of claims outstanding technical provision and the insurance claims and loss adjustor expenses recovered from reinsurers balances on a sample basis;
- **Methodology implementation:** Critically assessing the calculation methodology and the accuracy of the outputs produced; and
- **Tests of details:** On a sample basis inspecting the reinsurance contracts to check they are appropriately reflected in the calculation.

Our Results

We found the accuracy of reinsurers' share of claims outstanding technical provision and insurance claims and loss adjustor expenses recovered from reinsurers to be acceptable.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $3.4m (2018: $3.5m), determined with reference to a benchmark of Gross Earned Premiums, of which it represents 1.0% (2018: 0.9%). We consider Gross Earned Premium to be the most appropriate benchmark as it provides a more stable measure year on year than the Group surplus before tax.

Materiality for the parent company financial statements as a whole was set at $2.9m (2018: $3.0m), determined with reference to a benchmark of company Gross Earned Premium, of which it represented 0.9% (2018: 0.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $170k (2018: $175k) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 (2018: 9) reporting components, we subjected 2 (2018: 2) to full scope audits for group purposes and 3 (2018: 1) to specified risk-focused audit procedures. We conducted reviews of financial information (including enquiry) at a further 4 (2018: 6) non-significant components. Component audits were undertaken by the Group audit team.

Two of the components (2018: 1 component) subject to specified risk-focused audit procedures were subject to specific procedures over their investment balances as these balances were material to the Group. The other component was subject to specified risk-focused audit procedures as it had incurred a material payroll expense during the period.

The components for which we performed a review of financial information (including inquiry) were not individually significant enough to require an audit for group reporting purposes but a review was performed to provide additional coverage over the Group's results.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was the impact of Brexit on the costs associated with settling pre-existing European claims.

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from this risk and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page X, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED (cont.)

7. Respective responsibilities (cont.)

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
23 May 2019

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 2019

	Note	2019	2018
Assets			
Intangible assets	5	19,047	15,529
Property, plant and equipment	6	18,780	19,519
Reinsurers' share of technical provision			
Provision for unearned premium		9,877	14,721
Claims outstanding	10	748,220	729,779
Assets held for sale	27	–	1,821
Financial assets			
Equity securities – at fair value through profit or loss	7	50	50
Debt securities – at fair value through profit or loss	7	170,751	213,920
Derivatives – at fair value through profit or loss	7	–	1
Loans and receivables including insurance and reinsurance receivables	8	108,083	66,509
Deferred acquisition costs		1,476	3,519
Corporation tax debtor		541	634
Deferred tax asset		200	310
Cash and cash equivalents	9	141,815	137,048
Total assets		**1,218,840**	**1,203,360**
Accumulated surplus			
Income and expenditure account	20	217,994	219,502
Contingency funds	20	25,660	15,572
Revaluation reserve	20	4,611	4,611
Total accumulated surplus attributable to members		**248,265**	**239,685**
Non-controlling interest		265	361
Total accumulated surplus		**248,530**	**240,046**
Liabilities			
Technical provision			
Provision for unearned premium		26,263	32,787
Claims outstanding	10	836,932	826,053
Derivative financial instruments	7	2,746	39
Reinsurance payables		10,374	18,848
Trade and other payables	11	41,722	30,007
Retirement benefit liabilities	26	52,273	55,580
Total liabilities		**970,310**	**963,314**
Total accumulated surplus and liabilities		**1,218,840**	**1,203,360**

These financial statements were approved by the Board on 23 May 2019.

PA Jennings
Executive 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 2019

	Note	2019	2018
Gross insurance premium revenue		339,597	367,976
Gross insurance premium ceded to reinsurers		(269,970)	(294,079)
Net insurance premium revenue		69,627	73,897
Change in provision for unearned premium		5,422	19,618
Reinsurers' share of change in unearned premium		(5,840)	(14,310)
Change in the net provision for unearned premium		(418)	5,308
Earned premiums net of reinsurance		69,209	79,205
Investment income	12	1,788	1,274
Net fair value gains at fair value through profit or loss	13	577	10,166
Other gains	4	3,440	4,748
Net income		75,014	95,393
Claims and loss adjustment expenses	14	(318,423)	(211,488)
Insurance claims and loss adjustment expenses recovered from reinsurers	14	256,526	152,802
Net insurance claims		(61,897)	(58,686)
Expenses for the acquisition of insurance and investment contracts		(33,330)	(35,581)
Expenses for marketing and administration		(36,665)	(43,597)
Expenses for asset management services rendered		(493)	(594)
Operating expenses	15	(70,488)	(79,772)
Reinsurance commission		66,527	75,001
Total expenses		(65,858)	(63,457)
Results of operating activities		9,156	31,936
Profit on disposal of subsidiary	27	6,322	–
Finance income / (expense)	18	2,469	(11,866)
Surplus before tax		17,947	20,070
Tax expense	19	(469)	(926)
Surplus for the year		**17,478**	**19,144**
Attributable to:			
Owners		17,425	19,019
Non-controlling interest		53	125
Surplus for the year		**17,478**	**19,144**

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 2019

Consolidated Statement of Comprehensive Income not combined

	Note	2019	2018
Surplus for the year		17,478	19,144
Other comprehensive income			
OCI to be reclassified to profit or loss in subsequent periods			
Exchange differences		(5,090)	7,494
Net other comprehensive income to be reclassified to profit or loss		(5,090)	7,494
OCI not to be reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings		–	(2,872)
Remeasurement (losses) / gains on defined benefit plans	26	(3,755)	2,148
Net other comprehensive income not to be reclassified to profit or loss		(3,755)	(724)
Other comprehensive income for the year, net of tax		(8,845)	6,770
Total comprehensive income for the year, net of tax		**8,633**	**25,914**
Attributable to:			
Owners		8,580	25,789
Non-controlling interest		53	125
Total comprehensive income for the year, net of tax		**8,633**	**25,914**

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 2019

	I&E Account	Contingency Fund	Revaluation Reserve	Total Attributable to Members	NCI	Accumulated Surplus
At 20 February 2018	219,502	15,572	4,611	239,685	361	240,046
Total comprehensive income for the year	8,580	–	–	8,580	53	8,633
Dividend paid to non-controlling interest	–	–	–	–	(149)	(149)
Transfer to contingency fund	(10,088)	10,088	–	–	–	–
At 20 February 2019	**217,994**	**25,660**	**4,611**	**248,265**	**265**	**248,530**
At 20 February 2017	194,861	11,552	7,483	213,896	315	214,211
Total comprehensive income for the year	28,661	–	(2,872)	25,789	125	25,914
Dividend paid to non-controlling interest	–	–	–	–	(79)	(79)
Transfer to contingency fund	(4,020)	4,020	–	–	–	–
At 20 February 2018	**219,502**	**15,572**	**4,611**	**239,685**	**361**	**240,046**

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 2019

	Note	2019	2018
Operating activities			
Cash generated from operating activities	25	3,885	11,908
Tax paid		(266)	(1,145)
Net cash from operating activities		**3,619**	**10,763**
Cash flows (used in) / from investing activities			
Purchases of property, plant and equipment	6	(1,109)	(488)
Purchases of intangibles	5	(3,687)	(28)
Proceeds from sale of property, plant and equipment		670	700
Proceeds from sale of subsidiary		8,223	–
Net cash from investing activities		**4,097**	**184**
Cash flows used in financing activities			
Dividends paid to non-controlling interest ("NCI")		(149)	(79)
Net cash used in financing activities		**(149)**	**(79)**
Net increase in cash and cash equivalents		7,567	10,868
Foreign exchange		(2,800)	5,147
Cash and bank overdrafts at beginning of year		137,048	121,033
Cash and cash equivalents at end of year	9	**141,815**	**137,048**

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 2019

	Note	2019	2018
Assets			
Intangible assets	5	19,047	15,529
Property, plant and equipment	6	18,590	16,470
Investment in Group undertakings	21	96,910	44,692
Reinsurers' share of technical provision			
Provision for unearned premium		5,556	6,682
Claims outstanding	10	800,419	763,799
Financial assets			
Equity securities – at fair value through profit or loss	7	50	50
Debt securities – at fair value through profit or loss	7	50,504	99,552
Loans and receivables including insurance and reinsurance receivables	8	84,833	42,600
Current tax asset		154	134
Cash and cash equivalents	9	77,185	63,310
Total assets		**1,153,248**	**1,052,818**
Accumulated surplus			
Income and expenditure account	20	198,492	178,255
Contingency funds	20	25,660	15,572
Revaluation reserve	20	4,009	4,009
Total accumulated surplus attributable to members		**228,161**	**197,836**
Liabilities			
Technical provision			
Provision for unearned premium		15,299	9,900
Insurance contracts	10	801,964	757,092
Derivative financial instruments	7	2,417	39
Reinsurance payables		5,566	13,493
Trade and other payables	11	47,568	18,878
Retirement benefit liability	26	52,273	55,580
Total liabilities		**925,087**	**854,982**
Total accumulated surplus and liabilities		**1,153,248**	**1,052,818**

These financial statements were approved by the Board on 23 May 2019.

PA Jennings
Executive Director

Company number: 505456

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 2019

	Attributable to Members			
	I&E Account	**Contingency Fund**	**Revaluation Reserve**	**Accumulated Surplus**
At 20 February 2018	**178,255**	**15,572**	**4,009**	**197,836**
Total comprehensive income for the year	30,325	–	–	30,325
Transfer to contingency fund	(10,088)	10,088	–	–
At 20 February 2019	**198,492**	**25,660**	**4,009**	**228,161**
At 20 February 2017	**159,413**	**11,552**	**6,881**	**177,846**
Total comprehensive income for the year	22,862	–	(2,872)	19,990
Transfer to contingency fund	(4,020)	4,020	–	–
At 20 February 2018	**178,255**	**15,572**	**4,009**	**197,836**

Parent Company 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 2019

	Note	2019	2018
Operating activities			
Cash generated from operating activities	25	24,692	40,775
Tax received / (paid)		12	(1,145)
Net cash from operating activities		**24,704**	**39,630**
Cash flows (used in) / from investing activities			
Purchases of property, plant and equipment	6	(1,049)	(427)
Purchases of intangibles	5	(3,687)	(28)
Proceeds from sale of property, plant and equipment		624	-
Cash acquired on business transfer	28	39,594	-
Capital transferred to subsidiaries		(62,831)	-
Capital distribution from subsidiaries		15,000	-
Net cash used in investing activities		**(12,349)**	**(455)**
Net increase in cash and cash equivalents		12,355	39,175
Foreign exchange		1,520	–
Cash and bank overdrafts at beginning of yearr		63,310	24,135
Cash and cash equivalents at end of year	9	**77,185**	**63,310**

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 2019

1. 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.

1.1 Basis of preparation

These consolidated and Company financial statements are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS"). 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.

All companies within the Group prepare financial information in accordance with IFRS with the exception of the following companies:

(a) North Group Services Limited ("NGS") (previously North Insurance Management Limited ("NIML"))
NGS prepares its financial statements in accordance with United Kingdom generally accepted accounting standard, including FRS 101 *Reduced Disclosure Framework* ("FRS101"). The recognition and measurement criteria applied for the financial statement figures will therefore be the same as IFRS and appropriate for inclusion in the Group financial statements.

(b) Hydra Insurance Company Limited ("Hydra")
Hydra prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic Ireland*. A conversion to IFRS has not been performed as the relevant North Cell figures are considered as being appropriate for inclusion in the Group financial statements.

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 (US$) 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 income statement of the parent Company was US$30.3 million (2018 – US$22.2 million).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 2.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

1. Summary of Significant Accounting Policies (cont.)

1.2 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 1.3 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.

1.3 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.

1.4 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 transactions. 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 transactions.

Notes to the Consolidated Financial Statements (cont.)

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

1.5 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. Intangible assets not yet brought into use are assessed for impairment on an annual basis. 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 customer relationships such as access to distribution networks and customer lists, the valuation of which reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to North. The Directors have assessed these assets to have a life of 3 years.

1.6 Property, plant and equipment

Land and buildings comprise the offices occupied by the Group. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset 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.
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.

Residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying amount of an asset is written down immediately through the income statement to its recoverable amount if the 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.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

1. Summary of Significant Accounting Policies (cont.)

1.7. 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 because they are managed on a fair value basis. 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, 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 (cont.)

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

1. Summary of Significant Accounting Policies (cont.)

1.7. Investments (cont.)

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
At 20 February 2019								
Equity securities	–	–	–	–	50	50	50	50
Debt securities	131,362	28,263	39,389	22,241	–	–	170,751	50,504
Land and buildings	–	–	–	–	16,210	16,210	16,210	16,210
Derivative assets	–	–	–	–	–	–	–	–
Derivative liabilities	–	–	(2,746)	(2,417)	–	–	(2,746)	(2,417)
	131,362	**28,263**	**36,643**	**19,824**	**16,260**	**16,260**	**184,265**	**64,347**

The opening position is shown in the table below:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
At 20 February 2018								
Equity securities	–	–	–	–	50	50	50	50
Debt securities	100,957	–	112,963	99,552	–	–	213,920	99,552
Land and buildings	–	–	–	–	17,366	14,479	17,366	14,479
Derivative assets	–	–	1	–	–	–	1	–
Derivative liabilities	–	–	(39)	(39)	–	–	(39)	(39)
	100,957	**–**	**112,925**	**99,513**	**17,416**	**14,529**	**231,298**	**114,042**

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 disposals, revaluation, and depreciation in relation to land and buildings. The Directors do not consider that changing one or more of the inputs to reasonably priced alternative assumptions would change the fair value of the land and buildings significantly. Further details are included in note 6.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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1. Summary of Significant Accounting Policies (cont.)

1.8 Impairment of assets

North assesses at each reporting date whether there is any objective evidence that a financial asset or non-financial asset is impaired. Intangible assets not yet available for use are assessed for impairment each year whether or not there is any objective evidence of impairment. 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 North about the following events:

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

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

1.9 Cash and cash equivalents

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

1.10 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.

1.11 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.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

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1. Summary of Significant Accounting Policies (cont.)

1.12 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 but this is not the case for some of North's subsidiaries and adjustments are made for unearned premium. 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).

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 refers 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 and related commissions

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.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

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1. Summary of Significant Accounting Policies (cont.)

1.12 Revenue and expense recognition (cont.)

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. No claims bonuses and profit commissions are recognised when there is sufficient certainty that they will be received.

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 2.

Interest

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

Employee benefits

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

Retirement benefit 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 North defined benefit scheme was closed to new members on 31 March 2006 and closed to future accrual on 31 January 2018

The SMI defined benefit scheme was closed to new members on 1 July 2008 and closed to future accrual on 31 January 2018.

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

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.

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

1. Summary of Significant Accounting Policies (cont.)

1.12 Revenue and expense recognition (cont.)

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 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 statement of financial position date with certain limited exceptions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

1.13 Non-current assets held for sale and discontinued operations

Where the carrying amount of a non-current asset or disposal group will be recovered principally through a sale transaction rather than through continuing use, then that non-current asset or disposal group is classified as held for sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of their pre-classification carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position.

1.14 Changes in accounting standards

The following standards and amendments required initial application in the year ended 20 February 2019:

- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS15
- Annual improvements to IFRS – 2014-2016 cycle
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

At the date of authorisation of these financial statements, the following standards and amendments were in issue and endorsed by the EU but have not been applied in these financial statements because they are not yet effective:

- IFRS 16 Leases

The impact of these changes has been assessed and is not considered to be material for the year ended 20 February 2019 or any future year.

IFRS 9 is effective for the year ending 20 February 2019 but has not been applied in these financial statements as the Group has availed itself of the option to defer adoption until the Group adopts IFRS 17 Insurance Contracts which has an effective date of 1 January 2021 but is not yet endorsed by the EU. There is a proposal to further delay the effective date of IFRS 17 currently subject to consultation. The Group does not have significant leasing arrangements and the effects of IFRS 16, which has an effective date of 1 January 2019, will not be material.

Notes to the Consolidated Financial Statements (cont.)

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

1.14 Changes in accounting standards (cont.)

The Group and Company are able to apply the temporary exemption from IFRS 9 because i) they have not applied IFRS 9 before; and ii) their activities are predominantly connected with insurance. The fair value of the Group's and Company's financial assets at 20 February 2019 is shown below. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately, excluding financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis (which are shown within all other financial assets).

	Financial assets that pass the SPPI test		All other finacial assets	
Financial assets (Group)	**Fair value 2019**	**Movement in fair value 2019**	**Fair value 2019**	**Movement in fair value 2019**
Financial assets at fair value through profit or loss	–	–	170,801	(7,956)
Other loans and receivables	15,968	–	–	–

Financial assets (Company)	**Fair value 2019**	**Movement in fair value 2019**	**Fair value 2019**	**Movement in fair value 2019**
Financial assets at fair value through profit or loss	–	–	50,554	(9,364)
Other loans and receivables	3,764	–	–	–

2. 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 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.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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2. Critical Accounting Estimates and Judgements in Applying Accounting Policies (cont.)

Claims Reserves – Members and Policyholders

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. The extent to which the accumulated surplus may be sensitive to these sources of uncertainty is disclosed in note 10.

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 claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER") based upon Management's estimate of the ultimate likely cost of individual claims following advice from an external actuarial consultant.

Claims Reserves – Pool

The reserves maintained in the books and records of North in respect of claims arising from North's participation in the Pooling Agreement (see note 3.1) 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 reported ("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;
- there are claims 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.

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 26.

3. Management of Insurance Risk and Financial Risk

3.1 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.

The Group models their claims development using primarily internal chain ladder models. For North, 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 programme, estimated to be in the order of US$7.75 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 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. For the policy year commencing 20 February 2018, North is reinsured for P&I claims up to US$3.1 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$100.0 million are shared by the 13 International Group members and each Club carries US$10.0 million retention. The International Group buys Excess Loss reinsurance cover for claims between US$100.0 million and US$3.1 billion, after which costs fall back on the pool, known as 'Overspill'.

Exposure under the Pooling Agreement for claims falling to the layer US$70.0 million in excess of US$30.0 million, as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US$600.0 million, is reinsured by the Hydra North Cell.

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

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

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3. Management of Insurance Risk and Financial Risk (cont.)

3.1 Insurance risk (cont.)

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.

3.2 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. North's Group Risk Committee reports to the board and its remit is to consider all aspects of high level risk which may impact on the business and ensure that appropriate controls and procedures are in place to mitigate the effect of such risk. Risk Policies have been created across a number of areas and these include Capital Management and Investment.

Capital Management

North operates a capital management plan that relates to both global operations and all branches and offices to ensure that regulatory capital minima, supervisory targets and the Group's own internal target are met at all times. Capital is monitored by management, the board and the Group risk committee looking closely at actual and projected coverage across a number of jurisdictions. In the UK this includes meeting the capital requirements of the Prudential Regulation Authority (PRA). The Group's capital comprises the accumulated surplus attributable to members of US$ 248.3 million shown in the statement of financial position. In addition, the Group has approval from the PRA to recognise Ancillary Own Funds arising from the ability to make an additional call on Members.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed by maintaining adequate reserves and banking facilities and ensuring that the spread of investments across short, medium and long term funds will enable any short term funding requirements to be met. The liquidity is continuously monitored by review of actual and forecast cash flows.

Investment risk

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

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited
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3. Management of Insurance Risk and Financial Risk (cont.)

3.2 Financial risk (cont.)

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.

Sensitivity to market risk has been assessed as shown:

Increase / decrease in US Federal funds rate by 1% – change in accumulated surplus	-1,657 / +1,695

Currency Risk

North operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and 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 currency position for the bond fund is:

	North	SMI
US$	61%	25%
£STG	32%	26%
Other	7%	49%

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.

Sunderland Marine operates in a number of overseas markets where there is foreign currency exposure. Premiums are invoiced in local currency and the majority of expenses, including claims, are received / paid in local currency which offers a natural hedge. The North Group has exposure for any non-local currency costs and any surplus or deficit arising in each market.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

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3. Management of Insurance Risk and Financial Risk (cont.)

3.2 Financial risk (cont.)

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

	AAA / AA	A	BBB	Speculative Grade	Not Rated	Value $000s
At 20 February 2019						
Debt securities	80.95%	9.31%	9.41%	0.00%	0.33%	170,751
Derivatives	0.00%	0.00%	0.00%	0.00%	0.00%	–
Reinsurance assets	4.59%	91.23%	3.87%	0.31%	0.00%	748,220
Other receivable	3.07%	51.39%	1.42%	0.00%	44.12%	98,800

	AAA / AA	A	BBB	Speculative Grade	Not Rated	Value $000s
At 20 February 2018						
Debt securities	54.31%	15.78%	22.83%	6.32%	0.76%	213,920
Derivatives	0.00%	0.00%	0.00%	0.00%	100.00%	1
Reinsurance assets	4.61%	93.91%	1.14%	0.34%	0.00%	729,779
Other receivable	3.61%	5.89%	0.12%	0.00%	90.41%	66,509

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 Group Risk Committee. 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 Group Risk Committee and approved for appointment by the Directors. The performance of the investment managers against their respective benchmark is monitored on a monthly basis.

The asset class allocation policy is aligned so as to match the liabilities faced by North. 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 (cont.)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2019

3. Management of Insurance Risk and Financial Risk (cont.)

3.2 Financial risk (cont.)

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. North's policy requires that no more than 2% of reinsurance is rated lower than 'A' with S&P or equivalent at inception and, for existing reinsurance, credit ratings should be no worse than 80% A rated, 18% B rated and 2% other.

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 management 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 Financial Conduct 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.

4. Other Gains and Losses

	2019	2018
Brokerage income	3,789	4,720
Other miscellaneous	(349)	28
Other gains and losses	**3,440**	**4,748**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

5. Intangible assets

The Group	Computer Software	Other Intangibles	Total
Year ended 20 February 2019			
Opening net book amount	15,529	–	15,529
Additions	3,687	–	3,687
Net exchange differences	–	–	–
Amortisation charge	(169)	–	(169)
Closing net book amount	**19,047**	**–**	**19,047**
At 20 February 2019			
Cost or valuation	30,904	3,764	34,668
Accumulated amortisation	(11,857)	(3,764)	(15,621)
Net book amount	**19,047**	**–**	**19,047**
Year ended 20 February 2018			
Opening net book amount	15,849	1,255	17,104
Additions	28	–	28
Net exchange differences	–	353	353
Amortisation charge	(348)	(1,608)	(1,956)
Closing net book amount	**15,529**	**–**	**15,529**
At 20 February 2018			
Cost or valuation	27,217	3,764	30,981
Accumulated amortisation	(11,688)	(3,764)	(15,452)
Net book amount	**15,529**	**–**	**15,529**

Intangible assets include capitalised software costs relating to new commercial software which is not yet available for use with a net book value of US$18,565,000. Therefore the directors are required to perform an annual impairment test. This involves comparing the carrying amount of the asset with its recoverable amount, which is the higher of its value in use and fair value less costs to sell. The directors have adopted a fair value less cost to sell approach for this purpose.

As the asset will contribute to the cash flows of the business as a whole, it is deemed to be a corporate asset. It is therefore the cash generating unit (CGU) to which the asset is allocated which must be considered for impairment testing, that is the business as a whole. The directors consider that the fair value of the business is the amount of capital which would be required for a similar market participant to provide a similar level of service.

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

5. Intangible assets (cont.)

The key assumption is that the service capacity of the Company can be measured with reference to the level of capital required to provide the same level of insurance security as currently provided to Members and policyholders. A change in the key assumption would require a different valuation approach which may result in a different conclusion, but valuations using alternative approaches have not been calculated.

Other intangible assets represent contractual relationships such as access to distribution networks and customer lists recognised on the date of the merger with SMI. The valuation of these reflected market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets would flow to North. The Directors assessed those assets and expected them to have a useful life of 3 years. These were fully amortised in the prior year.

Amortisation expense of US$169,000 (2018 – US$ 1,956,000) has been charged in expenses for marketing and administration.

The Company	**Computer Software**
Year ended 20 February 2019	
Opening net book amount	15,529
Additions	3,687
Amortisation charge	(169)
Closing net book amount	**19,047**
At 20 February 2019	
Cost or valuation	30,816
Accumulated amortisation	(11,769)
Net book amount	**19,047**
Year ended 20 February 2018	
Opening net book amount	15,841
Additions	28
Amortisation charge	(340)
Closing net book amount	**15,529**
At 20 February 2018	
Cost or valuation	27,129
Accumulated amortisation	(11,600)
Net book amount	**15,529**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited
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6. Property, plant and equipment

The Group	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2019					
Opening net book amount	17,366	1,057	107	989	19,519
Additions	–	97	73	939	1,109
Disposals	(568)	(14)	(33)	–	(615)
Net exchange differences	(270)	(1)	12	44	(215)
Depreciation charge	(318)	(342)	(36)	(322)	(1,018)
Closing net book amount	**16,210**	**797**	**123**	**1,650**	**18,780**
At 20 February 2019					
Cost or valuation	17,663	10,331	477	6,891	35,362
Accumulated depreciation	(1,453)	(9,534)	(354)	(5,241)	(16,582)
Net book amount	**16,210**	**797**	**123**	**1,650**	**18,780**
Year ended 20 February 2018					
Opening net book amount	21,263	1,134	151	1,289	23,837
Additions	–	446	–	42	488
Revaluation of land and buildings	(2,872)	–	–	–	(2,872)
Disposals	(709)	–	(17)	(1)	(727)
Reclassified as held for sale	–	(53)	–	(6)	(59)
Net exchange differences	78	4	9	1	92
Depreciation charge	(394)	(474)	(36)	(336)	(1,240)
Closing net book amount	**17,366**	**1,057**	**107**	**989**	**19,519**
At 20 February 2018					
Cost or valuation	18,501	10,249	425	5,908	35,083
Accumulated depreciation	(1,135)	(9,192)	(318)	(4,919)	(15,564)
Net book amount	**17,366**	**1,057**	**107**	**989**	**19,519**

The fair value of the building occupied by North has been assessed by the Directors, taking into account a valuation undertaken by Naylors, an independent Chartered Surveyor on 20 December 2017. The valuation was completed in accordance with the Professional Standards contained within the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 (the "Red Book") and incorporates the International Valuation Standards (IVS) 2017. As at the date of the valuation, there had been two recent investment sales of single let large office buildings in close proximity to the building which has assisted with establishing the market value of the building. The directors do not consider that there have been any changes in the market since the date of the Naylors valuation such that this valuation remains appropriate for 20 February 2019.

Notes to the Consolidated Financial Statements (cont.)

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6. Property, plant and equipment (cont.)

Sensitivity analysis applied to the valuation of the UK head office based in Newcastle upon Tyne of US$14.5 million gives the variations detailed below. The difference between the valuation of US$14.5m and the carrying value of the property at year end relates to overseas properties which are not considered to be material for sensitivity analysis.

Valuation Basis	Used in Valuation	Variation %	Impact on Valuation
Price per square foot	$19.00	5% increase / decrease	+675 / -810
Price per car parking space	$1,000	5% increase / decrease	+15 / -15
Investment yield rate	6.5%	0.5% increase / decrease	-1,226 / +1,283
Rent free period	1 year	increase by 1 year	-752

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 overseas freehold property has been assessed by the Directors, taking into account valuations by Sutherland Farrelly, Australia in November 2016.

The property in New Zealand was sold during the current year for US$634,000 (NZD 925,000), recognising a profit on disposal of US$47,000. The property in the United States of America was sold during the prior year for US$ 700,000, recognising a loss on disposal of US$9,000.

Depreciation expense of US$1,018,000 (2018 – US$1,240,000) 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:

	2019	2018
At 20 February		
Cost	18,237	19,759
Accumulated depreciation	(4,403)	(4,357)
Net book amount	**13,834**	**15,402**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2019

6. Property, plant and equipment (cont.)

The Company	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2019					
Opening net book amount	14,479	989	34	968	16,470
Additions	2,559	73	49	935	3,616
Disposals	(567)	–	(20)	–	(587)
Depreciation charge	(295)	(323)	(13)	(312)	(943)
Net exchange differences	34	–	–	–	34
Closing net book amount	**16,210**	**739**	**50**	**1,591**	**18,590**
At 20 February 2019					
Cost or valuation	17,589	9,890	250	6,429	34,158
Accumulated depreciation	(1,379)	(9,151)	(200)	(4,838)	(15,568)
Net book amount	**16,210**	**739**	**50**	**1,591**	**18,590**
Year ended 20 February 2018					
Opening net book amount	17,705	1,045	50	1,254	20,054
Additions	–	389	–	38	427
Disposals	–	–	(9)	–	(9)
Depreciation charge	(354)	(445)	(7)	(324)	(1,130)
Revaluation	(2,872)	–	–	–	(2,872)
Closing net book amount	**14,479**	**989**	**34**	**968**	**16,470**
At 20 February 2018					
Cost or valuation	15,563	9,817	221	5,494	31,095
Accumulated depreciation	(1,084)	(8,828)	(187)	(4,526)	(14,625)
Net book amount	**14,479**	**989**	**34**	**968**	**16,470**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited
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20 February 2019

7. Financial assets and liabilities

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

	Group 2019	Company 2019	Group 2018	Company 2018
Fair value through profit or loss	170,801	50,554	213,971	99,602
Loans and receivables including insurance and reinsurance receivables (note 8)	105,365	81,724	60,426	37,811
Total financial assets	**276,166**	**132,278**	**274,397**	**137,413**
Financial assets at fair value through profit or loss				
Equity securities – unlisted	50	50	50	50
Debt securities	170,751	50,504	213,920	99,552
Derivatives	–	–	1	–
Total	**170,801**	**50,554**	**213,971**	**99,602**
Maturity dates of the fixed interest debt securities are as follows:				
In up to two years	92,606	13,545	90,894	5,142
In more than two years but not more than three years	60,309	19,447	35,111	7,113
In more than three years but not more than four years	8,807	8,532	9,781	9,679
In more than four years but not more than five years	9,029	8,980	12,344	11,828
In more than five years	–	–	65,790	65,790
	170,751	**50,504**	**213,920**	**99,552**
Opening balance at 20 February	213,971	99,602	209,195	90,582
Additions	194,655	51,832	128,890	2,167
Disposals (sale and redemptions)	(229,208)	(92,231)	(131,776)	(502)
Fair value net (losses) / gains (excluding net realised gains)	(7,956)	(9,364)	6,791	7,676
Exchange	(711)	665	871	(321)
Closing balance at 20 February	**170,751**	**50,504**	**213,971**	**99,602**

Financial liabilities are summarised by measurement category in the table below.

Financial liabilities at fair value through profit or loss

	Group 2019	Company 2019	Group 2018	Company 2018
Derivatives	2,746	2,417	39	39
Total	**2,746**	**2,417**	**39**	**39**

Financial assets and liabilities are designated at FVTPL because they are managed on a fair value basis.

As at 20 February 2019, cash and cash equivalents of US$2,890,000 had been pledged as collateral for the derivatives. The total of the derivative value, valued at current market prices, is pledged in collateral.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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20 February 2019

8. Loans and receivables

	Group 2019	Company 2019	Group 2018	Company 2018
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	24,754	26,531	38,245	24,918
– due from reinsurers	64,643	51,429	12,457	8,784
Other loans and receivables:				
– prepayments and accrued interest	2,718	3,109	6,083	4,789
– accrued interest and rent	1,326	765	691	1
– other debtors	14,642	2,999	9,033	4,108
	108,083	**84,833**	**66,509**	**42,600**

Included in other debtors in both the Group and the Company are US$ NIL (2018 – US$ NIL) that are due more than twelve months after the reporting date.

9. Cash and cash equivalents

	Group 2019	Company 2019	Group 2018	Company 2018
Cash at bank and in hand	113,151	50,420	42,601	28,820
Short-term bank deposits	27,691	25,792	94,097	34,140
Money market funds	973	973	350	350
	141,815	**77,185**	**137,048**	**63,310**

At 20 February 2019, the Group has an unused bank overdraft facility of US$0.7 million (2018 – US$1.6 million unused).

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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10. Insurance liabilities and reinsurance assets

	Group 2019	Company 2019	Group 2018	Company 2018
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	736,468	714,377	724,413	669,151
– claims incurred but not reported and claims handling reserve	100,464	87,587	101,640	87,941
Total insurance liabilities, gross	**836,932**	**801,964**	**826,053**	**757,092**
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	665,387	725,473	647,903	685,508
– claims incurred but not reported and claims handling reserve	82,833	74,945	81,876	78,291
Total reinsurers' share of insurance liabilities	**748,220**	**800,419**	**729,779**	**763,799**
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	71,081	(11,096)	76,510	(16,357)
– claims incurred but not reported and claims handling reserve	17,631	12,641	19,764	9,650
Total insurance liability	**88,712**	**1,545**	**96,274**	**(6,707)**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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

20 February 2019

10. Insurance liabilities and reinsurance assets (cont.)

Movements in insurance liabilities and reinsurance assets

	2019			2018		
The Group	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Outstanding claims at the beginning of the year	826,053	(729,779)	96,274	865,610	(767,158)	98,452
Cash (paid) / recovered for claims settled in the year	(203,488)	170,345	(33,143)	(221,115)	184,970	(36,145)
Increase / (decrease) in liabilities						
– arising from current year claims	298,939	(273,072)	25,867	249,370	(218,082)	31,288
– arising from prior year claims	(80,953)	83,222	2,269	(73,743)	72,491	(1,252)
Exchange movements	(3,619)	1,064	(2,555)	5,931	(2,000)	3,931
Outstanding claims at end of year	**836,932**	**(748,220)**	**88,712**	**826,053**	**(729,779)**	**96,274**

	2019			2018		
The Company	**Gross**	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Outstanding claims at the beginning of the year	757,092	(763,799)	(6,707)	790,642	(737,890)	52,752
Cash (paid) / recovered for claims settled in the year	(181,623)	158,586	(23,037)	(147,367)	135,478	(11,889)
Increase / (decrease) in liabilities						
– arising from current year claims	284,911	(292,628)	(7,717)	200,876	(212,580)	(11,704)
– arising from prior year claims	(58,416)	97,422	39,006	(87,059)	51,193	(35,866)
Outstanding claims at end of year	**801,964**	**(800,419)**	**1,545**	**757,092**	**(763,799)**	**(6,707)**

The Directors have re-evaluated the claims reserves in respect of prior policy year claims.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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20 February 2019

10. Insurance liabilities and reinsurance assets (cont.)

Policy year analysis (all classes)

	Closed Years	2016	2017	2018	Claims Handling Reserve	Total
At 20 February 2019						
Gross outstanding claims	298,664	89,406	137,805	290,045	21,012	836,932
Reinsurance amount	(264,082)	(75,161)	(122,042)	(268,325)	(18,610)	(748,220)
Net outstanding claims	**34,582**	**14,245**	**15,763**	**21,720**	**2,402**	**88,712**
At 20 February 2018						
Gross outstanding claims	418,383	129,954	255,457		22,259	826,053
Reinsurance amount	(374,489)	(113,624)	(222,141)		(19,525)	(729,779)
Net outstanding claims	**43,894**	**16,330**	**33,316**		**2,734**	**96,274**

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 2.

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	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Estimate of ultimate claims cost										
At end of policy year	369.7	298.4	291.8	273.8	372.0	378.5	323.7	356.0	212.1	338.9
One year later		281.0	258.2	293.9	409.8	500.2	310.4	324.6	203.3	261.3
Two years later			236.7	286.4	417.6	463.6	408.9	332.9	195.2	247.1
Three years later				253.1	411.7	461.8	387.1	388.3	200.9	247.8
Four years later					343.7	437.7	357.8	366.4	263.0	248.2
Five years later						456.4	357.2	383.6	267.2	323.7
Six years later							348.0	375.3	263.1	320.2
Seven years later								357.9	258.9	312.2
Eight years later									263.1	311.4
Nine years later										307.4
Current estimate of cumulative claims	369.7	281.0	236.7	253.1	343.7	456.4	348.0	357.9	263.1	307.4
Cumulative payments to date	77.9	142.1	150.8	191.0	310.1	410.0	309.0	335.0	251.6	281.4
Liability recognised in statement of financial position	291.8	138.9	85.9	62.1	33.6	46.4	39.0	22.9	11.5	26.0
Total of ten years										758.1
Liability in respect of prior policy years										57.5
Claims handling reserve										21.3
Total liability included in statement of financial position										**836.9**

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10. Insurance liabilities and reinsurance assets (cont.)

Insurance claims development – Net (US$M)

Policy Year	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Estimate of ultimate claims cost										
At end of policy year	31.1	36.7	33.5	40.0	58.5	23.5	27.5	18.7	21.8	19.3
One year later		37.7	38.8	53.6	62.6	60.5	25.0	17.2	19.2	16.7
Two years later			37.7	52.1	63.5	59.6	60.3	26.3	20.3	15.9
Three years later				48.1	62.7	60.6	58.7	70.7	16.6	16.2
Four years later					53.7	55.8	55.5	66.5	58.1	17.6
Five years later						57.0	58.5	70.5	60.6	78.9
Six years later							53.8	71.0	60.2	78.8
Seven years later								66.7	60.4	78.4
Eight years later									60.0	78.4
Nine years later										78.3
Current estimate of cumulative claims	31.1	37.7	37.7	48.1	53.7	57.0	53.8	66.7	60.0	78.3
Cumulative payments to date	29.0	18.9	28.2	39.8	50.1	50.1	49.3	45.9	56.6	76.5
Liability recognised in statement of financial position	2.1	18.8	9.5	8.3	3.6	6.9	4.5	20.8	3.4	1.8
Total of ten years										79.7
Liability in respect of prior policy years										5.4
Claims handling reserve										3.6
Total liability included in statement of financial position										**88.7**

11. Trade and other payables

	Group 2019	Company 2019	Group 2018	Company 2018
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	15,009	13,918	18,628	17,151
– due to reinsurers	15,483	15,483	–	–
– provision for unearned reinsurance commission	728	–	1,224	–
Other payables				
– employee payables	109	74	527	579
– accruals	9,186	5,770	3,528	257
– amounts due to group undertakings	–	11,023	–	–
– other	1,207	1,300	6,100	891
Trade payables and accrued expenses	**41,722**	**47,568**	**30,007**	**18,878**

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

Notes to the Consolidated Financial Statements (cont.)

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12. Investment income

The Group	2019	2018
Interest on bank deposits	1,788	1,274
Investment Income	**1,788**	**1,274**

13. Net fair value gains on assets and at fair value through profit or loss

The Group	2019	2018
Net fair value gains on financial assets through profit or loss:		
– fair value gains	2,954	3,348
– derivative hedging	(2,377)	6,818
	577	**10,166**
Net fair value gains on debt securities are as follows:		
Bond interest	2,151	3,435
Net realised gains / (losses)	1,377	(603)
Net movement on unrealised (losses) / gains	(574)	516
	2,954	**3,348**

14. Insurance claims

The Group	Gross	Reinsurance	2019 Net
Current year claims and loss adjustment expenses	391,511	(356,660)	34,851
Change in cost for prior year claims and loss adjustment expenses	(72,966)	99,238	26,272
Movement in claims handling reserve	(122)	896	774
Total claims and loss adjustment expenses	**318,423**	**(256,526)**	**61,897**

	Gross	Reinsurance	2018 Net
Current year claims and loss adjustment expenses	312,414	(252,770)	59,644
Change in cost for prior year claims and loss adjustment expenses	(103,617)	102,626	(991)
Movement in claims handling reserve	2,691	(2,658)	33
Total claims and loss adjustment expenses	**211,488**	**(152,802)**	**58,686**

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15. Operating expenses by nature

The Group	Note	2019	2018
Depreciation and amortisation charges		1,187	3,196
(Gain) / loss on disposal of fixed assets		(55)	27
Staff costs	16	47,883	44,202
Allocation of staff costs to claims handling expenses		(28,082)	(26,233)
Brokerage		25,557	28,641
Purchase of goods and services		23,998	29,939
Total operating expenses		**70,488**	**79,772**

Auditor's Remuneration	2019	2018
Amounts payable to KPMG LLP:		
Audit of these financial statements	207	225
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	388	414
Audit related assurance services	73	103
Other assurance services	150	168
All other services	–	–

Amounts receivable by the company's auditor and its associates in respect of the audit of financial statements of associated pension schemes is US$25,260 (2018: US$21,985). Other assurance services are for the audit of the Group's Solvency II returns.

16. Staff costs

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

The Group	2019 Number	2018 Number
P&I claims	85	90
Underwriting	27	36
FD&D	35	40
Loss prevention	12	14
SMI underwriting and claims	22	22
SMI brokerages	20	23
Other	136	138
	337	**363**

	2019	2018
Their aggregate remuneration comprised:		
Wages and salaries	37,371	37,395
Social security costs	2,857	2,792
Retirement benefit obligations – defined benefit plans	52	(460)
Other post-employment benefits	7,603	4,475
	47,883	**44,202**

Notes to the Consolidated Financial Statements (cont.)

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17. Directors' remuneration

The remuneration of the Directors was as follows:

The Group	2019	2018
Short-term employee benefits	3,833	3,631

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

Highest Paid Director	2019	2018
Emoluments	1,419	1,257

No Directors were members of the Company's defined benefit pension scheme during the year or in the prior year. The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 20 February 2019 was US$ nil (2018 – US$ nil).

18. Finance income / (expense)

The Group	2019	2018
Gains / (losses) on exchange – technical	7,279	(18,142)
(Losses) / gains on exchange – investments	(4,810)	6,276
	2,469	**(11,866)**

19. Tax expense

The Group	2019	2018
Current tax	397	1,057
Deferred tax	72	(131)
	469	**926**

Notes to the Consolidated Financial Statements (cont.)

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19. Tax expense (cont.)

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:

	2019	2018
Trading Gain / (loss)	4,360	(3,486)
Investment income	1,612	1,181
Net fair value (losses) / gains on financial assets	(4,626)	9,653
Expenses for asset management services rendered	(343)	(454)
Investment return	**(3,357)**	**10,380**
Taxable surplus	**1,003**	**6,894**
Tax on the above at standard UK corporation tax rate of 19.0% (2018 – 19.1%)	191	1,317
Effect of different rates of tax	111	176
Deferred tax losses not recognised	858	871
Tax losses utilised	(913)	(816)
Adjustment in respect of previous years	222	(622)
Total tax expense	**469**	**926**

The above reconciliation does not start with the surplus for the year as North is only taxed on investment income.

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

The Group	**2019**	**2018**
At 20 February	310	166
Exchange rate adjustments	(21)	13
Movement in the year	(89)	131
At 20 February	**200**	**310**
Differences between the accumulated depreciation and taxation allowances		
on fixed assets	(210)	(231)
other timing differences	410	541
	200	**310**

No deferred tax on accumulated tax losses has been recognised. Unrecognised deferred tax on accumulated tax losses amounts to US$3.3 million (2018 US$5.7 million).

Notes to the Consolidated Financial Statements (cont.)

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20. Reserves

	Group 2019	Company 2019	Group 2018	Company 2018
Income and expenditure reserve	217,994	198,492	219,502	178,255
Contingency funds	25,660	25,660	15,572	15,572
Revaluation reserve	4,611	4,009	4,611	4,009
	248,265	**228,161**	**239,685**	**197,836**

(a) Income and expenditure reserve	Group 2019	Company 2019	Group 2018	Company 2018
Opening balance	219,502	178,255	194,861	159,413
Total comprehensive income for the year	8,580	30,325	28,661	22,862
Transfer to contingency fund	(10,088)	(10,088)	(4,020)	(4,020)
Closing balance	**217,994**	**198,492**	**219,502**	**178,255**

(b) Contingency funds	2019	2019	2018	2018
The Group and Company				
Opening balance		15,572		11,552
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	910		1,380	
Surplus transferred from closed policy years	9,178		2,640	
		10,088		4,020
Closing balance		**25,660**		**15,572**
Protecting & Indemnity Class				
Opening balance		10,684		7,544
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	854		1,159	
Surplus transferred from closed policy years	8,960		1,981	
		9,814		3,140
Closing balance		**20,498**		**10,684**
Freight, Demurrage & Defence Class				
Opening balance		4,888		4,008
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	56		221	
Surplus transferred from closed policy years	218		659	
		274		880
Closing balance		**5,162**		**4,888**

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20. Reserves (cont.)

The following contingency funds were established by the Directors in order to maintain call stability:

- Protecting & Indemnity (established 12 October 1983)
- Freight, Demurrage & Defence (23 September 1994)

The operation of the Contingency Funds is described in the Rules which are available on North's website.

(c) Revaluation reserve

The Group	2019	2018
Opening balance	4,611	7,483
Revaluation of property	–	(2,872)
Closing balance	**4,611**	**4,611**

The Company	2019	2018
Opening balance	4,009	6,881
Revaluation of property	–	(2,872)
Closing balance	**4,009**	**4,009**

The revaluation reserve is used to record unrealised valuation gains, and losses to the extent that they are not considered permanent or reverse a previous gain, on the Group's land and buildings. As the reserve relates to unrealised gains, it is not distributable.

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21. Subsidiary undertakings

The direct subsidiary undertakings, all wholly owned, are:

Company Name	Nature of Business	Incorporated	Holding % at 20 Feb 2019	2018
Hydra Insurance Company Limited (North Cell only) Registered address: Victoria Hall, Victoria Street, P.O. Box HM 1826, Hamilton HMHX, Bermuda.	Reinsurance captive	Bermuda	100	100
Sunderland Marine Insurance Company Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Marine insurance	U.K.	100	100
North of England Marine Consultants (Shanghai) Registered address: Room 11D, Phase B, Shinmei Union Building, 506 Shangcheng Road, Pudong, 200120, Shanghai	Claims consultancy	China	100	100
NEPIA Trust Company Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Corporate trustee	U.K.	100	100
North Group Services Limited (previously North Insurance Management Limited) Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Employee holding company	U.K.	100	100
British Shipowners Association Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100
North Law Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100
North Legal Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100
North of England P&I Designated Activity Company Registered address: Block 4, Harcourt Centre, Harcourt Road, Dublin 2, D02HW77	Marine insurance	Ireland	100	0
North of England Insurance Services Inc. Registered address: 140 Broadway, 46th Floor, New York, NY 10005, USA	Marketing	USA	100	0

Notes to the Consolidated Financial Statements (cont.)

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21. Subsidiary undertakings (cont.)

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.

The segregated cell within Hydra Insurance Company Limited, which reinsures the parent company and North of England P&I DAC for their liabilities 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 the parent company, can be required to provide further funding to their segregated cell in order to maintain its capital and solvency requirements in Bermuda.

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

			Holding % at 20 Feb	
Company Name	**Nature of Business**	**Incorporated**	**2019**	**2018**
Sunderland Marine (Africa) Limited Registered address: Suite 6, Steenberg House, Silverwood Close, Tokai, Cape Town 7945, South Africa	Marine insurance	South Africa	100	100
Salvus Bain Management (USA) LLC Registered address: 2284 West Commodore Way, Suite 200, Seattle, WA 98199	Dormant	U.S.A	100	100
Harlock Murray Underwriting Limited Registered address: 701 – 890 West Pender Street, Vancouver, BC V6C 1J9	Brokerage	Canada	100	100
Knighthood Corporate Assurance Services Ltd Registered address: Knighthood House, Imberhorne Lane, East Grinstead, West Sussex RH19 1LB	Brokerage	U.K.	0	100
Van Olst de Graff & Co BV Registered address: Dirk van der Kooijweg 54, Rotterdam, The Netherlands	Brokerage	Netherlands	82	82
Marine Insurance Australia Limited Registered address: Shop 11, 37 Main Street, Samford, Queensland 4520, Australia	Dormant	Australia	100	100
Windward Insurance PCC Limited (SMIG cell) Registered address: Level 5 Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ	Dormant, business defence	Guernsey	100	100
North Risk Services Limited (previously Aquaculture Risk (Management) Limited) Registered address: The Quayside, Newcastle upon Tyne, NE1 3DU	Risk consulting	U.K.	100	100
Aquaculture Risk (Management) Limited (previously Salvus Bain (Management) Limited) Registered address: 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA	Dormant, brand protection	U.K.	100	100

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21. Subsidiary undertakings (cont.)

The value of the subsidiary undertakings is as follows:

The Company	2019	2018
Balance brought forward	44,692	44,692
Funds advanced to North EU	52,218	–
Balance carried forward	**96,910**	**44,692**

In line with North's accounting policies, the Directors consider that no impairment of the investments in group companies is required at either the 20 February 2019 or 20 February 2018.

SMI disposed of its entire investment in Knighthood Corporate Assurance Services Ltd on 16th March 2018 (note 27).

22. Operating leases

At the year end the Group had commitments under non-cancellable operating leases as set out below:

	Group 2019		Group 2018	
	Land and Buildings	Other	Land and Buildings	Other
Within one year	453	9	421	145
Within two to five years	423	17	345	176
	876	**26**	**766**	**321**

The operating lease expense charged to the income statement in the year was US$1.0 million (2018 – US$ 0.8 million).

23. 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$ 7.1 million (2018 – US$ 5.5 million) as at 20 February 2019.

North has also provided a parent company guarantee to SMI which provides protection to the policy holders of SMI as North will stand as guarantor on all policies written by the company.

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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24. Related party transactions

Key management compensation

The remuneration of the Directors was as follows:

	2019	2018
Short term employee benefits	**3,833**	**3,631**

Short term employee benefits include salaries, cash allowances and benefits in kind such as amounts in respect of company cars and medical insurance.

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$70.0 million in excess of US$30.0 million as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US$600.0 million, is reinsured by Hydra for the 2018 policy year.

Transactions with related parties have been entered into as follows:

The Company	2019 SMI	2019 Shanghai	2019 Hydra	2019 NGS	2019 North EU	2018 SMI	2018 Shanghai	2018 Hydra
Income statement								
Insurance premium	12,677	–	(13,905)	–	–	18,478	–	(8,967)
Insurance claims and loss adjustment expenses	2,521	–	–	–	–	(28,597)	–	–
Unearned premium	5,028	–	–	–	–	1,717	–	–
Insurance claims and loss adjustment expenses recovered	–	–	8,720	–	–	–	–	28,425
Management fee recovered	–	(1,252)	–	–	–	–	(819)	–
Expenses Recharged	1,705	–	–	(12,741)	–	1,794	–	–
Statement of financial position								
Technical provisions – insurance contracts	24,046	–	–	–	–	45,257	–	–
Reinsurers' share of technical provisions	–	–	71,363	–	–	–	–	75,760
Unearned premium	4,841	–	–	–	–	9,900	–	–
Receivables arising from insurance and reinsurance contracts	15,428	–	(2,131)	–	–	9,327	–	(1,311)
Other debtors	791	218	–	(2,205)	–	3,265	219	–
Capital distributed/(introduced)	26,191	–	–	–	(52,218)	–	–	–

Notes to the Consolidated Financial Statements (cont.)

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25. Cash generated from operating activities

	Group 2019	Company 2019	Group 2018	Company 2018
Surplus for the year	17,478	34,008	19,144	22,199
Adjustments for:				
Depreciation and amortisation	1,187	1,112	3,196	1,470
Investment expense / (income)	7,956	8,649	(5,184)	(7,676)
Tax expense	469	177	926	977
(Profit) / Loss on sale of property, plant and equipment	(55)	(36)	27	9
Profit on disposal of subsidiary	(6,322)	–	–	–
(Decrease) / increase in insurance contracts net of reinsurance recoverable	(7,563)	3,837	(2,178)	(59,459)
(Decrease) / increase in unearned premium reserve net of reinsurers' share	(1,681)	1,024	(4,251)	(557)
(Increase) / decrease in loans and receivables	(40,218)	(32,095)	36,061	104,676
(Decrease) / increase in reinsurance payables	(8,474)	(8,045)	(10,067)	2,473
Increase / (decrease) in derivative financial instruments	2,707	2,826	(6,818)	(6,818)
Increase / (decrease) in trade and other payables	10,908	6,109	(22,579)	(18,480)
Defined benefit contributions (in excess of) / less than charge for the year	(7,060)	(7,061)	745	3,626
Purchase of bonds at fair value through profit or loss	(194,655)	(51,832)	(128,890)	(2,167)
Sale of bonds at fair value through profit or loss	229,208	92,231	131,776	502
Distribution from SMI	–	(26,212)	–	–
Cash generated from operating activities	**3,885**	**24,692**	**11,908**	**40,775**

26. Retirement benefit schemes

The Group operates two defined benefit schemes in the United Kingdom which are operated under the Pensions Acts 1995 and 2004. A triennial actuarial valuation for the North Scheme was carried out as at 31 August 2016 and for the SMI Scheme as at 31 December 2017 by a qualified independent actuary.

The schemes are governed by Trust Deeds and Rules and are managed by Trustees some of whom are appointed by the employer and some by the scheme members. In accordance with the Trust Deeds the power of appointing and dismissing Trustees is granted to the employer in respect of the employer appointed trustees and to the members in respect of the member appointed trustees. The employer is ultimately responsible for the funding of the schemes. As a result, the operation of the schemes exposes the group to the risk that the assets held by the schemes are insufficient to meet the schemes' obligations as they fall due for payment.

Both schemes were previously closed to new members and on 31 January 2018 both schemes were closed to the future accrual of benefits. On 2 February 2018 North assumed control of the SMI pension scheme via a Flexible Apportionment Arrangement. SMI is therefore discharged from all its obligations to and under the pension scheme and from its liabilities in relation to the scheme as of this date with North assuming charge of these obligations and liabilities.

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26. Retirement benefit scheme (cont.)

Actuarial assumptions for IAS19 – valuing the scheme liabilities

IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the statement of financial position date. The selection of the inflation assumption is also critical as this is relevant for the salary and the pre-retirement revaluation assumptions. These assumptions are based on market yields at the statement of financial position date, and may not be borne out in practice due to the long-term expected duration of the Scheme. Within the prescribed conditions however assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities. A summary of relevant considerations is set out below.

Assumption for valuing pension liabilities	Comments on prescribed conditions
Discount rate (pre and post retirement)	Based on yields on AA corporate bonds of appropriate duration and currency, or a suitable proxy.
Price inflation	Based on the yield differential between index-linked corporate bonds and fixed-interest corporate bonds of similar credit standing (for example, using appropriate UK Government conventional and index linked stocks).
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.

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26. Retirement benefit scheme (cont.)

Mortality

For the purposes of both the 2018 and 2019 calculations the base mortality rates have been taken from the S2PA Light tables published by the Actuarial Profession's Continuous Mortality Investigation (CMI). An allowance for future improvements in longevity was included in the 2018 calculations in accordance with the CMI 2016 projections with a long-term rate of improvements of 1% per annum. For the purposes of the 2019 calculations the allowance for future improvements in longevity has been updated to the CMI 2017 projections again with long-term rate of improvements of 1.00% per annum.

The key rates assumed are:

	North 2019	SMI 2019	North 2018	SMI 2018
Discount rate	2.75%	2.75%	2.90%	2.90%
Expected rate of salary increases	n/a	n/a	n/a	n/a
Inflation rate	2.50%	2.50%	2.55%	2.55%

The pension schemes, their assets and liabilities, assumptions and projections are based in sterling. The assets and liabilities of the schemes are converted into US Dollars, the North's functional and presentational currency as described in note 1.4.

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

	North 2019	SMI 2019	North 2018	SMI 2018
Equities	28,846	14,627	30,258	18,037
Bonds	26,334	18,671	27,170	20,982
Other	18,891	8,611	20,939	10,289
Cash	4,118	1,864	2,281	248
	78,189	**43,773**	**80,648**	**49,556**

The actual return on plan assets for 2019 amounted to US$756,000 (2018 – US$4,044,000) for North and US$ 1,323,000 (2018 – $2,035,000) for SMI.

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26. Retirement benefit scheme (cont.)

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 2017	**168,697**	**111,714**	**56,983**
Current service cost	3,382	–	3,382
Past service cost	217	–	217
Effect of making the scheme paid up	(4,059)	–	(4,059)
Contributions by members	(67)	(67)	–
Expenses paid	(1)	(1)	–
Net interest	5,589	3,739	1,850
Sub-total included in income	**5,061**	**3,671**	**1,390**
Benefits paid	(9,178)	(9,178)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	2,340	(2,340)
Actuarial changes			
– arising from changes in demographic assumptions	(3,045)	–	(3,045)
– arising from changes in financial assumptions	5,020	–	5,020
Experience adjustments	(1,783)	–	(1,783)
Sub-total included in OCI	**(8,986)**	**(6,838)**	**(2,148)**
Contributions by employer	–	6,994	(6,994)
Exchange	21,012	14,663	6,349
20 February 2018	**185,784**	**130,204**	**55,580**
Past service cost	52	–	52
Net interest	4,938	3,503	1,435
Sub-total included in income	**4,990**	**3,503**	**1,487**
Benefits paid	(6,731)	(6,731)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(1,424)	1,424
Actuarial changes			
– arising from changes in demographic assumptions	(902)	–	(902)
– arising from changes in financial assumptions	5,128	–	5,128
Experience adjustments	(1,895)	–	(1,895)
Sub-total included in OCI	**2,331**	**(1,424)**	**3,755**
Contributions by employer	–	4,781	(4,781)
Exchange	(12,139)	(8,371)	(3,768)
20 February 2019	**174,235**	**121,962**	**52,273**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited

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20 February 2019

26. Retirement benefit scheme (cont.)

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
20 February 2017	**118,875**	**66,258**	**52,617**
Current service cost	2,592	–	2,592
Past service cost	217	–	217
Effect of making the scheme paid up	(2,873)	–	(2,873)
Contributions by members	(224)	(224)	–
Expenses paid	(1)	(1)	–
Net interest	4,069	2,343	1,726
Sub-total included in income	**3,780**	**2,118**	**1,662**
Benefits paid	(4,124)	(4,124)	–
Return on plan assets – excluding amounts included in net interest expense	–	495	(495)
Actuarial changes			
– arising from changes in demographic assumptions	(2,323)	–	(2,323)
– arising from changes in financial assumptions	2,275	–	2,275
Experience adjustments	(120)	–	(120)
Sub-total included in OCI	**(4,292)**	**(3,629)**	**(663)**
Contributions by employer	–	5,589	(5,589)
Exchange	14,992	8,884	6,108
Transfer to North from SMI	52,429	50,984	1,445
20 February 2018	**185,784**	**130,204**	**55,580**
Past service cost	52	–	52
Net interest	4,938	3,503	1,435
Sub-total included in income	**4,990**	**3,503**	**1,487**
Benefits paid	(6,731)	(6,731)	–
Return on plan assets – excluding amounts included in net interest expense	–	(1,424)	1,424
Actuarial changes			
– arising from changes in demographic assumptions	(902)	–	(902)
– arising from changes in financial assumptions	5,128	–	5,128
Experience adjustments	(1,895)	–	(1,895)
Sub-total included in OCI	**2,331**	**(1,424)**	**3,755**
Contributions by employer	–	4,781	(4,781)
Exchange	(12,139)	(8,371)	(3,768)
20 February 2019	**174,235**	**121,962**	**52,273**

The Group and Company have considered the High Court ruling in November 2018 in respect of the equalisation of Guaranteed Minimum Pensions (GMPs) for men and women. Having sought external actuarial advice, included in the past service cost for both the Group and the Company is US$52,000 to provide for the additional benefits payable as a result of the High Court's decision.

The transfer of the SMI pension scheme from SMI to North in the prior year was carried out based on the IAS 19 valuation of the SMI scheme on the date of transfer, which is representative of fair value.

Notes to the Consolidated Financial Statements (cont.)

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26. Retirement benefit scheme (cont.)

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2019 is shown below.

	Impact on Retirement Benefit Liability
North Scheme	
Increase / reduce discount rate by 0.25%	(7,600) / 8,232
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	2,877 / (2,758)
Increase / reduce life expectancy by one year	5,034 / (4,939)
SMI Scheme	
Increase / reduce discount rate by 0.25%	(2,174) / 2,347
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	1,543 / (1,857)
Increase / reduce life expectancy by one year	1,386 / (1,372)

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 Group in 2019/20 is US$4.9 million for North and US$nil for SMI 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 23 years (2018: 24 years) for North scheme and 21 years (2018: 21 years) for SMI scheme.

Defined contribution plans

The Group also operates a number of defined contribution pension schemes. The total pension cost charge for the year represents contributions payable to the schemes and amounted to US$7,603,000 (2018: US$4,416,000). There were no outstanding or prepaid contributions at the beginning or end of the financial year.

27. Assets held for sale

The assets and liabilities of Knighthood Corporate Assurance Services Ltd were classified as held for sale at the end of the prior year as their value was expected to be realised through a sales transaction and the other criteria for recognition in IFRS 5 were met. The amounts classified as held for sale are as follows:

	2019	2018
Loans and receivables including insurance and reinsurance receivables	–	1,447
Cash and cash equivalents	–	2,124
Property, plant and equipment	–	59
Trade and other payables	–	(1,836)
Other	–	27
	–	**1,821**

The disposal of Knighthood was completed on 16 March 2018 and the profit on disposal recognised was $6,322,000.

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28. Business Combinations (Company)

On 17 November 2018 all conditions required for the transfer of the Australian Business of SMI to North were met. On this date, the effective date of transfer, all assets and liabilities of the Sunderland Marine Insurance Company Limited (Australia Branch) were transferred to The North of England Protecting and Indemnity Association Limited (Australian Branch).

In addition, on 1 November 2018 all conditions required for the transfer of the New Zealand Business of SMI to North were met. On this date, the effective date of transfer, all assets and liabilities of the Sunderland Marine Insurance Company Limited (New Zealand Branch) were transferred to The North of England Protecting and Indemnity Association Limited (New Zealand Branch).

The business transfers have been accounted for as common control transactions and conducted at book value. All assets and liabilities as shown in the balance sheet below were transferred at book value on the date of transfer.

The business combination is part of a broader restructuring project to transfer all of the business of SMI into North which is the parent company.

Value of business transferred

Assets	
Property, plant and equipment	2,569
Reinsurers' share of unearned premium	4,666
Reinsurers' share of technical provisions	23,406
Loans and receivables including insurance and reinsurance receivables	11,479
Cash and cash equivalents	39,594
Total assets	**81,714**
Liabilities	
Technical provisions	
Provision for unearned premium	10,167
Insurance contracts	34,167
Reinsurance payables	117
Trade and other payables	10,336
Intercompany	5,103
Total liabilities	**59,890**
Net assets transferred	**21,824**

The value of the surplus contributed by the businesses post acquisition was US$5.9 million. The annualised surplus contributed by the businesses transferred was US$4.0 million.

The consideration for the transfer was an agreement by North to pay cash equivalent to the value of the net assets transferred. However, this consideration receivable was subsequently waived by SMI, resulting in a capital distribution from SMI to North.

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