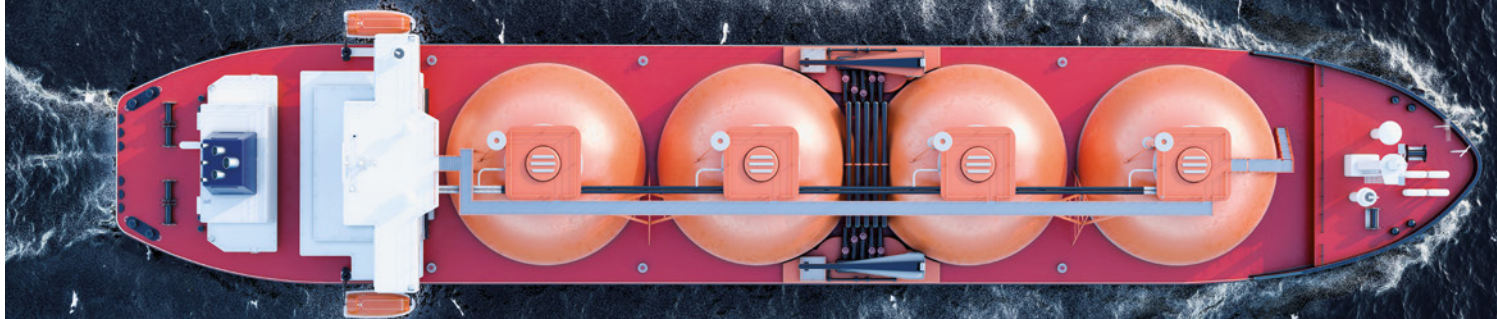


Global service
built around you

North

Directors' Report 2020



Directors

The North of England Protecting and Indemnity Association Limited

20 February 2020

PB Shirke ■◆●	Chairman
JM de Groot ■■*	
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 *	
I Procopiou	
AA Wilson	Resigned 31 May 2019
EJ Davies	Appointed 6 August 2019

- ▲ Member of the Group Audit Committee
- Member of the Nominations Committee
- ◆ Member of the Remuneration Committee
- * Member of the Group Risk Committee
- Member of the Investment 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 2020

The Directors have pleasure in presenting their report together with the financial statements of the Group and Company for the year ended 20 February 2020.

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 ("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 2020 the owned gross tonnage entered in North totalled 159.6 million (2019 – 147.6 million) and there were 4,614 (2019 – 4,473) 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 2020

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 produces a detailed Own Risk and Solvency Assessment ("ORSA") document each year in line with the Group's ORSA Policy and the requirements of the PRA for a Solvency II regulated firm. The document records the ORSA activities undertaken by the Group during the year and provides an overview of the Group's strategy, the risks faced by the Group, and an assessment of its future solvency requirements as the Group's strategy is implemented. It also records the results of stress and reverse stress testing conducted on the business plans approved by the Board, including a consideration of divergence from expected underwriting, operational and investment performance. The most recent ORSA document for the Group was considered and approved by the Board in February 2020.

The most recent ORSA document does not specifically address pandemic risk, and the Directors have therefore considered separately the potential implications of the Covid-19 pandemic when reaching their judgment on the appropriateness of the going concern basis of preparation of the financial statements. Following this further consideration, The Directors are satisfied that potential effects of the pandemic, such as increased investment market volatility, a possible reduction in premium income, and operational consequences from staff being unable to work, have been considered in the Group's ORSA process during the year. As a result they are satisfied that the level of capital resources available to the Group is sufficient such that the Group will be able to meet its obligations to Members, policyholders and others for the foreseeable future.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Going concern (cont.)

North has a total accumulated surplus as at 20 February 2020 of \$249 million and as such the Directors consider North to have suitable 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.

Committees

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

Group Risk Committee

The Group Risk Committee consists of a minimum of three Directors appointed by the Board from candidates recommended by the Nominations Committee. The majority of the Committee members shall be non-executive Directors. The Committee meets at least three times a year, and its principal duties are to:

- review and approve the Group's risk management, compliance and actuarial functions' framework documentation and related policies and procedures;
- oversee the integration and operation of risk management, compliance and actuarial functions across the Group;
- receive, review and approve reports, information and recommendations from the Group's risk management, compliance and actuarial functions, and from other Boards and committees within the Group as required;
- review the risk appetite of the Group as determined by the Board of Directors, and make recommendations to the Board in relation to those risk appetites to ensure they are aligned to the Group's strategic objectives;
- set appropriate risk reporting triggers and monitor risk reporting exceptions and mitigating actions proposed by management to ensure their adequacy and effectiveness; and
- review and assess the adequacy and effectiveness of the Group's policies, procedures and controls in respect of illegal acts, including fraud, money laundering and bribery.

Group Audit Committee

The Group Audit Committee consists of a minimum of three Directors. All Committee members must be non-executive Directors and the majority must be independent non-executive Directors. The Committee meets at least three times a year, and its principal duties are to:

- oversee the operation of external audit activities across the Group, including considering the appointment of the Group's external auditors, their fee, their independence, and any questions of their resignation or dismissal;
- receive reports from the external auditor in relation to the nature and the scope of the audit, and any problems, reservations or recommendations arising from the audit;
- review North's Directors' Report, Strategic Report and Financial Statements before submission to the Board for approval;
- oversee the operation of internal audit activities across the Group, including considering the appointment of the Group's internal auditors, their fee, their independence, and any questions of their resignation or dismissal;
- receive reports from the internal auditor, including any recommendations arising from their work; and
- review the Group's annual Solvency II reporting before submission to the Board for approval.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Committees (cont.)

Nominations Committee

The Nominations Committee consists of a minimum of three Directors. The majority of the Committee must be non-executive Directors. The Committee meets at least three times a 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, Remuneration and Investment 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;
- 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).

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Committees (cont.)

Remuneration Committee

The Remuneration Committee consists of a minimum of three Directors. The majority of the Committee must be non-executive directors. The Committee meets at least three times 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 Chief Underwriting Officer; and
 - the Global Directors (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.

Investment Committee

The Investment Committee was established by the Board in the current financial year and consists of a minimum of three Directors. The majority of the Committee must be non-executive Directors. The Committee meets at least four times a year, and its principal duties are to:

- review the investment strategy of North and its Group against the risk appetite and risk management framework approved by the Directors;
- make recommendations to the Board in relation to investment risk appetite, asset allocation, and the execution of investment activities in accordance therewith;
- monitor investments and their performance against benchmarks;
- review, monitor the performance, and make recommendations in relation to the appointment of investment advisors and investment managers; and
- receive presentations from investment advisors and investment managers.

Report of the Directors (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

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 engagement

The Group has a number of arrangements designed to provide employees with information and to gather the views of employees so that their views can be taken into account when decisions are taken which are likely to affect their interest.

The Group has an established Staff Liaison Committee, chaired by the Group's Global Director (People), which meets on a regular basis through the year and which provides a forum for employees across the business to be consulted by, and to raise any employee concerns with, senior management. Regular employee newsletters, a twice annual all-employee presentation, and more regular informal briefings and presentations all contribute to ensuring that the employees are aware of the financial and economic factors affecting the Group and our Members.

The involvement of employees in the performance of the business is encouraged as part of the annual bonus arrangements, overseen by the Remuneration Committee, is linked to the achievement of strategic KPIs, with this link clearly communicated to employees.

Engagement with other stakeholders

The Group is a mutual organisation run on behalf of our Members. The engagement of the Group with these stakeholders is broad and frequent through the day to day activities necessary to run the business. More formally, the Members Board provides a forum through which Members can play an enhanced role in the governance of the Group and ensure that their views and needs can be taken into account in the decisions taken by the Group during the year.

Donations

North made no political donations (2019 – 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 13 November 2019 that the 2016/2017 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 a general increase of 7.5% to Members' rates for the 2019/2020 mutual premium for P&I and FD&D.

Likely future developments in the business of the company and its subsidiary undertakings

The Group's strategy including its objectives are described in the Strategic Report.

The restructure of the SMI business acquired by the Group in 2014 continues with a view to completing the transfer of the business to North in the year ending February 2021. The focus in the year to February 2020 has been the run-off of the SMI Canadian marine business and preparing for the UK Part VII transfer of the remaining business.

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. From 21 February 2019 all insurance policies relating to EEA Members are written by North of England P&I DAC.

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

On behalf of the Board of Directors

PA Jennings

Executive Director

28 May 2020

Strategic Report

The North of England Protecting and Indemnity Association Limited

20 February 2020

The Directors present their Strategic Report for the year ended 20 February 2020. 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. The Group principally operates from its head office in Newcastle upon Tyne, but also through offices in London, China, Greece, Singapore, Hong Kong, Japan, USA, Ireland, Australia, New Zealand, Canada and the Netherlands.

Mutual business

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.

Cover is also provided 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.

Non-Mutual business

North, both as a Company and through the activities of its subsidiaries, also provides fixed premium Hull, P&I, Personal Accident and Aquaculture insurance. This business is underwritten using the SMI trading name and includes the fixed premium P&I product launched during the year. The objective for the fixed premium business is to deliver financial benefits for our mutual Members consistent with our diversification strategy.

Strategic Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Strategy

During the year the Board has considered and refreshed the Group's strategy statements. This did not represent any significant change to the strategy compared to the prior year, but the revised statements help to more clearly articulate the strategic direction of the Group.

North's purpose is 'to enable our Members to trade with confidence', and North's vision statement is 'to be the Club of choice'. The Directors have developed 4 strategic goals to further the vision over the next 5 years as follows:

- Increase our mutual and diversified income
- Be a leader in all our key service and product areas
- Build our financial strength and standing in the International Group
- Empower our people to develop, and connect responsibly with our communities and the environment.

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 goals.

Performance in the year

Increase our mutual and diversified income

The KPIs for this strategic goal are set with reference to a five-year underwriting growth target to achieve a specified income in 2023, a specified percentage of which is non-mutual business. The strategies and metrics associated with this objective are commercially sensitive and are therefore not disclosed in the financial statements.

Be a leader in all our key service and product areas

The KPIs for this strategic goal are set with reference to the triennial member and broker survey. The most recent member and broker survey was completed in 2017 and showed an increase in overall satisfaction.

Build our financial strength and standing in the International Group

The KPIs for this strategic goal are set with reference to the information included in the Combined Financial Statements produced annually by the Club. The Combined Financial Statements report the financial position and performance of the North Group combined with that of North of England Mutual Insurance Association (Bermuda) Limited, a mutual company controlled by the Members. The KPIs reviewed by the Board therefore do not correspond directly to the information provided in these financial statements. Progress towards achieving the strategic goal is therefore presented without reference to the KPIs set by the Board.

Written premium increased from US\$339.6 million in 2019 to US\$357.4 million in 2020.

Mutual	2020	2019
P&I	267.7	269.7
FD&D	21.2	20.1
War	1.2	0.1
Total Mutual	290.1	289.9
Non-Mutual	67.3	49.7
	357.4	339.6

Overall the P&I sector has seen the dilution of premium rates over the last five years. A nil general increase declared for the 2019 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 for the Mutual P&I business of US\$2.0 million despite a growth in tonnage at renewal.

Premiums for FD&D increased by US\$1.1 million given tonnage added at the February 2019 renewal, whilst additional war risk premiums charged where vessels are operating in areas of perceived enhanced risk contributed to an increase of war premium by US\$1.1 million.

Strategic Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Performance in the year (cont.)

Non-mutual premium increased by US\$17.6 million from US\$49.7 million to US\$67.3 million. This reflects the growth ambitions of the Group in this area including the launch of the fixed premium P&I product during the year and a return to growth for the SMI business lines (Hull, P&I and Aquaculture) having restructured the business acquired to focus on core underwriting and divest of unprofitable business lines and geographies over the past few years.

The 2019 policy year saw an increase in both the number and the retained values of claims compared to the same stage of development for the 2018 policy year and has produced a greater number of large claims (over US\$1 million) for North. Whilst the number of incidents reported across all clubs involved in the International Group pool is consistent with the prior policy year at the same stage of development, the value has increased significantly. 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. Gross claims incurred have increased from US\$318.4 million to US\$821.2 million, whereas net claims incurred have remained relatively stable at US\$60.8 million this year compared to US\$61.9 million in the prior year.

Total expenses, comprising net insurance claims, operating expenses and reinsurance commissions, have reduced slightly in the current year from US\$65.9 million to US\$62.9 million.

The Group's investment assets contributed income of US\$8.2 million in the year and there was a gain of US\$1.3 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 increased slightly from US\$17.5 million in 2019 to US\$18.8 million in 2020.

The total accumulated surplus attributable to members increased from US\$248.3 million at 20 February 2019 to US\$249.0 million at 20 February 2020. The surplus recorded above was mostly offset by unfavourable foreign exchange and pension deficit movements recorded in other comprehensive income.

Empower our people to develop, and connect responsibly with our communities and the environment

The KPIs for this strategic goal have been set to measure this objective with reference to employee satisfaction, as measured through an annual people survey, employee retention and high levels of engagement in corporate social responsibility, wellbeing and environmental initiatives. The most recently completed people survey showed a net promoter score of 'excellent' and an overall improvement on the previous survey.

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. Potential threats to achieving our strategic objectives from the current environment in which the Group operates have been identified in relation to the Covid-19 pandemic and Brexit.

Covid-19 Pandemic

North's primary concern from the Covid-19 pandemic is for the health and wellbeing of all those associated with the Club. The Group has been following the applicable guidance in all the global locations in which it operates in terms of employees working from home. Following a period of operating under these conditions we have demonstrated that our operations can continue indefinitely without access to our usual office locations and the Group continues to serve its Members and policyholders on a business as usual basis.

North underwrites primarily P&I insurance for commercial ocean-going shipping. The health of the sector generally tracks global economic activity which has been severely disrupted by the Covid-19 pandemic. We have seen a downturn in freight markets as a result of the outbreak, with dry bulk and containership markets particularly adversely affected. The tanker markets have been more resilient to date given the fall in oil prices but are likely to also suffer from slowing global industrial production as the pandemic endures. The reduction in economic activity is likely to result in reduced claims activity, which is favourable, but may also reduce the ability of our Members and policyholders to meet their payment obligations to the Club. North's growth strategy over the last ten years has been to have strong relationships with financially resilient shipowners in each sector, and this, together with the insurance cessation provisions for non-payment of any obligation due to the Group as set out in note 3.2 to the financial statements, mitigates credit risk for the Group to a sufficiently low level.

Strategic Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

Risks to achieving our strategic objectives (cont.)

The strategic goal to grow our premium income may be adversely affected if there is a prolonged period of recessionary economic activity.

The pandemic has led to significant investment market turbulence. The investment strategy employed by the Group is to invest in highly liquid, short-term Government and investment grade corporate credit instruments matched by currency and duration to our claim obligations, in order to ensure sufficient liquidity to meet those claims obligations as they become due. We have not seen significant volatility in the valuation of the Group's financial investments as a result of the pandemic to date, or in the valuation of the Group's defined benefit pension obligation.

Brexit

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 a loss of passporting rights and a consequential inability to do business in the EU, has been mitigated. Some uncertainties remain in relation to the future trading relationship between the UK and the EU and the consequences for business underwritten in the EEA prior to the establishment of the Irish subsidiary company. Further actions may be needed to ensure the orderly run-off of such business. 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.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of North consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its Members in the decisions taken during the year ended 20 February 2020.

The business plan approved by the Board during the year covers a five-year period and is designed to pursue the strategic goals of the Group for the benefit of all Members. In approving the business plan the long-term consequences of decisions are explicitly considered by the Directors.

The Board, operating through the Remuneration Committee, have pursued employee engagement having considered the linkage between making progress towards the Group's strategic goals and a proportion of the annual bonus scheme reward that all staff participate in. In addition, the Board has adopted a strategic goal specifically targeted at the empowerment of the Group's employees during the year.

The strategic goals set by the Board also require the Group to foster its business relationships with suppliers, customers and others as necessary to be a leader in all our key service and product areas and encourage the Group's employees to participate in community and environmental initiatives. The Members Board provides a forum for Members to play an enhanced role in the governance of the Group as described in the Directors' report.

The Board, including through the Group Risk Committee, formally consider policies on whistleblowing, money laundering, bribery, modern slavery and other policies and procedures designed to ensure the Group maintains high standards of business conduct on an annual basis.

On behalf of the Board of Directors

PA Jennings

Executive Director

28 May 2020

Independent Auditor's Report

The North of England Protecting and Indemnity Association Limited

20 February 2020

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 2020 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 2020 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 five financial years ended 20 February 2020. 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. 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of claims incurred but not reported reserve

(Group: \$94.7 million (2019: \$100.5 million), parent Company: \$59.4 million (2019: \$87.6 million))

Risk vs 2019: <>

Refer to note 1.11 on page 32 (accounting policy), note 2 on page 38 and note 10 on pages 51 to 54 (financial disclosures)

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

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

The Risk

Subjective Valuation

The valuation of 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 and methodology adopted are inappropriate and could lead to 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:** Used our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
- **Independent re-performance:** Independently re-projected the reserve for those classes of business we consider to be higher risk;
- **Sensitivity analysis:** Performed sensitivity analysis over the assumptions and considered the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation; and
- **Assessing transparency:** Assessed 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 (2019: acceptable).

Valuation of protection and indemnity claims reported reserve

(Group: \$1,161.6 million (2019: \$736.5 million), parent Company \$992.3 million (2019: \$714.3 million))

Risk vs 2019: <>

Refer to note 1.11 on page 29 (accounting policy), note 2 on page 32 and note 10 on pages 43 to 45 (financial disclosures)

The Risk

Subjective Valuation

The valuation of protection and indemnity ("P&I") claims reported, included within the protection and indemnity claims reported and loss adjustment expenses reserve, is inherently uncertain in 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 reported and loss adjustment expenses 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 2020

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:** Assessed the design and implementation of the controls relating to the maintenance and updating of case reserves;
- **Tests of details:** Tested, on a sample basis that the Group has followed internal procedures and used the most current information when setting the reserve on a claim;
- **Assessing credentials:** Assessed the qualification and experience of the claims handlers responsible for setting the case reserves;
- **Expectation vs outcome:** Performed a trend analysis on a policy year basis to identify unusual trends in claims development and to inform areas for further investigation; and
- **Assessing transparency:** Assessed 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 (2019: acceptable)

Accuracy of reinsurers' share of claims outstanding technical provision

Group: \$1,172.8 million (2019: \$748.2 million), parent Company \$1,060.9 million (2019: \$800.4 million))

Risk vs 2019: <>

Refer to note 1.11 on page 32 (accounting policy) and note 10 on pages 51 to 54 (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 is incorrect.

Our response

Our procedures included:

- **Re-performance:** Independently re-performed, on a sample basis, the calculation of the reinsurer's share of claims outstanding technical provision balance;
- **Methodology implementation:** Critically assessed the calculation methodology and the accuracy of the outputs produced; and
- **Tests of details:** On a sample basis inspected the reinsurance contracts to ensure they are appropriately reflected in the calculation.

Our Results

We found the accuracy of reinsurers' share of claims outstanding technical provision to be acceptable (2019: acceptable).

We continue to perform procedures over the impact of uncertainties of the UK exiting the European Union on our audit. However, following developments relating to Brexit in the year and action taken by management, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

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 Group financial statements as a whole was set at \$4.2 million (2019: \$3.4 million), determined with reference to a benchmark of total accumulated surplus of \$248.7 million of which it represented 1.7% (2019: 0.9% of gross earned premium of \$339.6 million). We changed our benchmark in the current year to total accumulated surplus from gross earned premium as it is considered a more relevant measure for the users of the financial statements.

Materiality for the parent Company financial statements as a whole was set at \$3.7 million (2019: \$2.9 million), determined with reference to a benchmark of total accumulated surplus of \$213.8 million, of which it represents 1.5% (2019: 0.9% of gross earned premium of \$304.0 million). We changed our benchmark to total accumulated surplus in the current year from gross earned premium as it is considered a more relevant measure for the users of the financial statements.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$210k (2019: \$170k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2019: 9) reportable components, we subjected 3 (2019: 2) to full scope audits for group purposes, and 2 (2019: 3) to specified risk-focussed procedures. We conducted reviews of financial information (including inquiry) at a further 4 (2019: 4) non-significant components.

Two of the components (2018: 2 components) 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.

The components within the scope of our work accounted for the following percentage of the Group's results:

	Number of Components	Total Assets	Gross Technical Provisions	Total Accumulated Surplus	Earned Premium
Audits for group reporting purposes	3	99.8%	100.0%	95.0%	99.9%
Specified risk-focused audit procedures over investments and administrative expenses	2	0.1%	0.0%	4.9%	0.0%
Reviews of financial information (including inquiry)	4	0.1%	0.0%	0.1%	0.1%
Total (2020)	9	100.0%	100.0%	100.0%	100.0%

	Number of Components	Total Assets	Gross Technical Provisions	Total Accumulated Surplus	Earned Premium
Audits for group reporting purposes	2	98.1%	99.9%	95.4%	99.9%
Specified risk-focused audit procedures over investments and administrative expenses	3	1.5%	0.0%	4.5%	0.0%
Reviews of financial information (including inquiry)	4	0.4%	0.1%	0.1%	0.1%
Total (2019)	9	100.0%	100.0%	100.0%	100.0%

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from \$1,050k to \$3,570k (2019: \$650k to \$2,900k), having regard to the mix of size and risk profile of the Group across the components. The work on one of the three components (2019: none of the components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2020

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 (cont.)

The Group team visited one (2019: nil) component location in Dublin (2019: nil) to assess the audit risk and strategy. Video and telephone conference meetings were also held with this component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

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 parent Company or the Group or to cease their operations, and as they have concluded that the parent 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 parent Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and the parent 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 the parent Company's available financial resources over this period was the impact of the Covid-19 pandemic.

As these were risks that could potentially cast significant doubt on the Group's and the parent 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 these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of COVID-19 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 2020

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 3, 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 2020

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 and legal 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) and taxation 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 compliance 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 and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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
28 May 2020

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 2020

	Note	2020	2019
Assets			
Intangible assets	5	19,108	19,047
Property, plant and equipment	6	22,313	18,780
Reinsurers' share of technical provision			
Provision for unearned premium		20,470	9,877
Claims outstanding	10	1,172,809	748,220
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
Collective Investment Vehicles – at fair value through profit or loss	7	230,018	–
Loans and receivables including insurance and reinsurance receivables	8	103,846	108,083
Deferred acquisition costs		4,138	1,476
Corporation tax debtor		–	541
Deferred tax asset		238	200
Cash and cash equivalents	9	100,379	141,815
Total assets		1,673,369	1,218,840
Accumulated surplus			
Income and expenditure account	20	207,487	217,994
Contingency funds	20	36,247	25,660
Revaluation reserve	20	5,300	4,611
Total accumulated surplus attributable to members		249,034	248,265
Non-controlling interest		258	265
Total accumulated surplus		249,292	248,530
Liabilities			
Technical provision			
Provision for unearned premium		35,746	26,263
Claims outstanding	10	1,256,282	836,932
Derivative financial instruments	7	1,096	2,746
Reinsurance payables		12,562	10,374
Trade and other payables	11	53,868	41,722
Corporation tax payable		142	–
Other taxes payable		292	–
Retirement benefit liabilities	26	64,089	52,273
Total liabilities		1,424,077	970,310
Total accumulated surplus and liabilities		1,673,369	1,218,840

These financial statements were approved by the Board on 28 May 2020.

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 2020

	Note	2020	2019
Gross insurance premium revenue		357,417	339,597
Gross insurance premium ceded to reinsurers		(290,131)	(269,970)
Net insurance premium revenue		67,286	69,627
Change in provision for unearned premium		(10,850)	5,422
Reinsurers' share of change in unearned premium		11,171	(5,840)
Change in the net provision for unearned premium		321	(418)
Earned premiums net of reinsurance		67,607	69,209
Investment income	12	987	1,788
Net fair value gains at fair value through profit or loss	13	9,546	577
Other gains	4	3,315	3,440
Net income		81,455	75,014
Claims and loss adjustment expenses	14	(821,202)	(318,423)
Insurance claims and loss adjustment expenses recovered from reinsurers	14	760,416	256,526
Net insurance claims		(60,786)	(61,897)
Expenses for the acquisition of insurance and investment contracts		(34,214)	(33,330)
Expenses for marketing and administration		(42,773)	(36,665)
Expenses for asset management services rendered		(301)	(493)
Operating expenses	15	(77,288)	(70,488)
Reinsurance commission		75,167	66,527
Total expenses		(62,907)	(65,858)
Results of operating activities		18,548	9,156
Profit on disposal of subsidiary		-	6,322
Finance income	18	827	2,469
Surplus before tax		19,375	17,947
Tax expense	19	(540)	(469)
Surplus for the year		18,835	17,478
Attributable to:			
Members		18,713	17,425
Non-controlling interest		122	53
Surplus for the year		18,835	17,478

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 2020

	Note	2020	2019
Surplus for the year		18,835	17,478
Other comprehensive income			
<i>OCI to be reclassified to profit or loss in subsequent periods</i>			
Exchange losses		(2,490)	(5,090)
Net other comprehensive income to be reclassified to profit or loss		(2,490)	(5,090)
<i>OCI not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation of land and buildings		689	-
Remeasurement losses on defined benefit plans	26	(16,143)	(3,755)
Net other comprehensive income not to be reclassified to profit or loss		(15,454)	(3,755)
Other comprehensive income for the year, net of tax		(17,944)	(8,845)
Total comprehensive income for the year, net of tax		891	8,633
Attributable to:			
Members		769	8,580
Non-controlling interest		122	53
Total comprehensive income for the year, net of tax		891	8,633

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 2020

	I&E Account	Contingency Fund	Revaluation Reserve	Total Attributable to Members	NCI	Accumulated Surplus
At 20 February 2019	217,994	25,660	4,611	248,265	265	248,530
Total comprehensive income for the year	80	-	689	769	122	891
Dividend paid to non-controlling interest	-	-	-	-	(129)	(129)
Transfer to contingency fund	(10,587)	10,587	-	-	-	-
At 20 February 2020	207,487	36,247	5,300	249,034	258	249,292
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

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 2020

	Note	2020	2019
Operating activities			
Cash (used in) / generated from operating activities	25	(37,552)	3,885
Tax paid		145	(266)
Net cash (used in) / from operating activities		(37,407)	3,619
Cash flows (used in) / from investing activities			
Purchases of property, plant and equipment	6	(1,639)	(1,109)
Purchases of intangibles	5	(128)	(3,687)
Proceeds from sale of property, plant and equipment		9	670
Proceeds from sale of subsidiary		-	8,223
Net cash (used in) / from investing activities		(1,758)	4,097
Cash flows used in financing activities			
Payment of lease liabilities		(548)	
Dividends paid to non-controlling interest ("NCI")		(129)	(149)
Net cash used in financing activities		(677)	(149)
Net (decrease) / increase in cash and cash equivalents		(39,842)	7,567
Foreign exchange		(1,594)	(2,800)
Cash and cash equivalents at beginning of year		141,815	137,048
Cash and cash equivalents at end of year	9	100,379	141,815

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 2020

	Note	2020	2019
Assets			
Intangible assets	5	19,108	19,047
Property, plant and equipment	6	21,017	18,590
Investment in Group undertakings	21	96,910	96,910
Reinsurers' share of technical provision			
Provision for unearned premium		10,528	5,556
Claims outstanding	10	1,060,882	800,419
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
Collective Investment Vehicles- at fair value through profit or loss	7	58,313	–
Loans and receivables including insurance and reinsurance receivables	8	90,221	84,833
Deferred acquisition costs		2,067	–
Current tax asset		–	154
Deferred tax asset		33	–
Cash and cash equivalents	9	65,753	77,185
Total assets		1,424,882	1,153,248
Accumulated surplus			
Income and expenditure account	20	172,434	198,492
Contingency funds	20	36,247	25,660
Revaluation reserve	20	4,698	4,009
Total accumulated surplus attributable to members		213,379	228,161
Liabilities			
Technical provision			
Provision for unearned premium		19,772	15,299
Insurance contracts	10	1,051,728	801,964
Derivative financial instruments	7	1,096	2,417
Reinsurance payables		5,271	5,566
Corporation tax payable		518	–
Other taxes payable		192	–
Trade and other payables	11	68,837	47,568
Retirement benefit liability	26	64,089	52,273
Total liabilities		1,211,503	925,087
Total accumulated surplus and liabilities		1,424,882	1,153,248

These financial statements were approved by the Board on 28 May 2020.

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 2020

	Attributable to Members			
	I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2019	198,492	25,660	4,009	228,161
Total comprehensive income for the year	(15,471)	-	689	(14,782)
Transfer to contingency fund	(10,587)	10,587	-	-
At 20 February 2020	172,434	36,247	4,698	213,379
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

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 2020

	Note	2020	2019
Operating activities			
Cash (used in) / generated from operating activities	25	(8,397)	24,692
Tax (paid) / received		(39)	12
Net cash (used in) / from operating activities		(8,436)	24,704
Cash Flows (used in) / from Investing Activities			
Purchases of property, plant and equipment	6	(1,566)	(1,049)
Purchases of intangibles	5	(128)	(3,687)
Proceeds from sale of property, plant and equipment		9	624
Cash acquired on business transfer	27	-	39,594
Capital transferred to subsidiaries		-	(62,831)
Capital distribution from subsidiaries		-	15,000
Net cash used in investing activities		(1,685)	(12,349)
Cash Flows used in Financing Activities			
Payment of lease liabilities		(314)	-
Net cash used in financing activities		(314)	-
Net (decrease) / increase in cash and cash equivalents		(10,435)	12,355
Foreign exchange		(997)	1,520
Cash and cash equivalents at beginning of year		77,185	63,310
Cash and cash equivalents at end of year	9	65,753	77,185

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 2020

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

The Group has a total accumulated surplus as at 20 February 2020 of US\$249.3 million and as a mutual organisation has the facility to raise additional capital via additional calls from its Members for open policy years should they be required. As such, the Directors consider that North's financial statements should be prepared on a going concern basis.

The Group produces a detailed Own Risk and Solvency Assessment ("ORSA") document each year in line with the Group's ORSA Policy and the requirements of the PRA for a Solvency II regulated firm. The document records the ORSA activities undertaken by the Group during the year and provides an overview of the strategy, the risks faced, and an assessment of the future solvency requirements as the strategy is implemented. It also records the results of stress and reverse stress testing conducted on the business plans approved by the Board including a consideration of divergence from expected underwriting, operational and investment performance and what the directors consider to be reasonably possible severe downside scenarios. These stress tests are over a period of at least twelve months from the date of approval of these financial statements.

The most recent ORSA document does not specifically address pandemic risk, and the Directors have therefore considered separately the potential implications of the Covid-19 pandemic when reaching their judgment on the appropriateness of the going concern basis of preparation for the financial statements. Following this further consideration, the Directors are satisfied that potential effects of the pandemic, such as increased investment market volatility, a possible reduction in premium income, and operational consequences from staff being unable to work, have been considered in the ORSA process during the year. As a result they are satisfied that based on the reasonably possible downside scenarios, and after considering the level of capital resources available to the Group, it will be able to meet its obligations to Members, policyholders and others for the foreseeable future, being a minimum of twelve months from the date of approval of these financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

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")

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 of 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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.1 Basis of preparation (cont.)

The consolidated financial statements have been prepared under the historical cost convention, except for 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\$2.0 million (2019 – US\$34.0 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.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 1.12.

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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

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.

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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.6 Property, plant and equipment (cont.)

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.
Leased property, plant and equipment	The shorter of the lease term or the above (note 1.12)

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.

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.

Purchases and sales of investments are recognised on the 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.

Collective investment vehicles are valued by the fund administrator in line with the agreed valuation policy. The fund administrator values the assets and liabilities for the purposes of calculating the net asset value of each fund and for each class of shares issued by each fund as of each dealing day. Within the discretionary portfolio, 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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.7 Investments (cont.)

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.

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:

	The Group	Level 1 The Company	The Group	Level 2 The Company	The Group	Level 3 The Company	Total Fair Value The Group	The Company
At 20 February 2020								
Equity securities	-	-	-	-	50	50	50	50
Collective Investment Vehicles	211,238	58,313	18,780	-	-	-	230,018	58,313
Land and buildings	-	-	-	-	18,960	17,844	18,960	17,844
Derivative liabilities	-	-	(1,096)	(1,096)	-	-	(1,096)	(1,096)
	211,238	58,313	17,684	(1,096)	19,010	17,894	247,932	75,111

The opening position is shown in the table below:

	The Group	Level 1 The Company	The Group	Level 2 The Company	The Group	Level 3 The Company	Total Fair Value 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 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

Level 1 consists of assets that are valued according to published quotes in an active market. An 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 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

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

20 February 2020

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 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.

1.11 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 the North Rule Book 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.

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.)

1.11 Revenue and expense recognition (cont.)

Mutual Premium (cont.)

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.

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.

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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.11 Revenue and expense recognition (cont.)

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.

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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.11 Revenue and expense recognition (cont.)

Leases

The Group has applied IFRS 16 Leases for the first time in the period using the modified retrospective approach and therefore the comparative information has not been restated.

Policy applicable prior to 20 February 2019

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.

Policy applicable subsequent to 20 February 2019

The Group assesses whether contracts entered into constitute a lease. A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group used the definition of a lease in IFRS 16.

The Group recognises a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, and subsequently at amortised cost using the effective interest method.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and leases which have a lease term of less than 12 months. Payments associated with such leases are recognised as an expense on a straight-line basis over the lease term. See note 22 for further disclosures relating to the adoption of the standard.

Impact on transition to IFRS 16

On transition to IFRS 16, the Group recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	2020
Right-of-use assets	2,246
Lease liabilities	(2,246)

In calculating the present value of the lease payments in order to determine the lease liability, the Group has used its incremental borrowing rate at the lease commencement date, if the interest rate implicit in the lease is not readily determinable. Generally, the Group has used its incremental borrowing rate of 1.85%. Judgement has been required in order to arrive at this rate; as the Group has no external borrowings this rate has been derived with reference to yields on US Corporate Bonds.

Taxation

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.

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.12 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.

1.13 Changes in accounting standards

The Group initially applied IFRS 16 *Leases* from 20 February 2019, as outlined in note 1.12. A number of other new standards and revisions are also effective for periods commencing after 1 January 2019, but they do not have a material effect on the Group's financial statements.

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 17 *Insurance Contracts* (not yet endorsed)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- Amendments to References to Conceptual (Framework in IFRS Standards).

IFRS 17 *Insurance Contracts* has an effective date of 1 January 2021 but has not yet been endorsed by the EU. An Exposure Draft *Amendments to IFRS 17* was issued by the IASB in June 2019 which proposed to defer both the effective date of IFRS 17, and to extend the option to defer the application of IFRS 9 described below, to 1 January 2023. The adoption of IFRS 17 is expected to result in a number of significant changes to the financial statements of the Group, not least presentational. The Group is working through a transitional plan for the adoption of this new standard.

The Group has availed itself of the option to defer the application of IFRS 9 *Financial Instruments* contained within IFRS 4 *Insurance Contracts* as i) it has not previously adopted IFRS 9; and ii) its activities are predominantly connected with insurance. IFRS 9, which otherwise has an effective date of 1 January 2018, will be applied by the Group when IFRS 17 is adopted.

The adoption of IFRS 9 is not expected to have a significant impact on the financial statements of the Group.

The fair value of the Group's and Company's financial assets at 20 February 2020 and 20 February 2019 are 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).

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 2020

1. Summary of Significant Accounting Policies (cont.)

1.13 Changes in accounting standards (cont.)

	Financial assets that pass the SPPI test		All other Financial Assets	
	Fair value	Movement in fair value	Fair value	Movement in fair value
Financial assets (Group) 20 February 2020				
Financial assets at fair value through profit or loss	-	-	230,068	926
Other loans and receivables	5,533	-	-	-
	Fair value	Movement in fair value	Fair value	Movement in fair value
Financial assets (Company) 20 February 2020				
Financial assets at fair value through profit or loss	-	-	58,363	95
Other loans and receivables	2,832	-	-	-
	Fair value	Movement in fair value	Fair value	Movement in fair value
Financial assets (Group) 20 February 2019				
Financial assets at fair value through profit or loss	-	-	170,801	(7,956)
Other loans and receivables	15,968	-	-	-
	Fair value	Movement in fair value	Fair value	Movement in fair value
Financial assets (Company) 20 February 2019				
Financial assets at fair value through profit or loss	-	-	50,554	(9,364)
Other loans and receivables	3,764	-	-	-

No other future standards currently issued are expected to have a material effect on the Group's financial statements.

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 2020

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.

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.

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 2020

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

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 deterministic based model which is updated and processed annually by external actuarial advisors.

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\$1 billion. FD&D cover is in theory unlimited, albeit subject to the discretion of the Directors, however, disputes arising in relation to ship building, purchase, sale, negligent repair, alteration or conversion are limited to US\$250,000, unless a higher amount is otherwise agreed between Members and Managers. War risks cover is limited to the hull and machinery value of the entered ship.

The underwriting strategy is designed 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 2019, 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 North's own retention reinsurance.

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.)

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 the first US\$100.0 million of a 70% share under the first layer of the Excess Loss contract, up to US\$750.0 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.

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\$249.0 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

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

20 February 2020

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 relevant yield curve by 1% - change in accumulated surplus +/- 4,419

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 selection of specific funds and associated share class.

Asset/ liability currency management is achieved by holding assets to match liabilities in the required individual currency proportions. At present the currency position of the collective investment vehicles and the discretionary portfolio is:

US\$	72%
£STG	20%
Other	8%

SMI 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.

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 within the collective investment vehicles is managed through the investment restrictions contained within the prospectus applicable to each fund. Within the discretionary portfolio, it is managed through the investment guidelines issued to the fixed income manager.

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

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 2020

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

3.2 Financial risk (cont.)

	AAA / AA	A	BBB	Other Rated	Not Rated	Value \$000s
At 20 February 2020						
Collective Investment Vehicles	75.17%	10.16%	14.23%	0.01%	0.43%	230,018
Reinsurance assets	3.85%	89.25%	6.64%	0.26%	0.00%	1,172,809
Other receivable	2.54%	51.97%	4.14%	0.00%	41.35%	103,846
	AAA / AA	A	BBB	Other Rated	Not Rated	Value \$000s
At 20 February 2019						
Debt securities	80.95%	9.31%	9.41%	0.00%	0.33%	170,751
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

Investment Risk management

North manages its investment funds in accordance with an investment framework set out in the Statement of Investment Principles which is approved by the Directors. The framework determines investment policy and the management of investment risk and is reviewed on a regular basis. The detailed consideration of investment strategy is the responsibility of the Investment Committee. Investment management is outsourced to professional investment managers.

The Board of Directors, having considered recommendations from the Group Investment Committee, select the collective investment vehicles that the Group wishes to invest in. The investment manager of each fund is then responsible for selecting the underlying investment managers within these funds. The sub-investment managers have responsibility for investing and managing the assets of the relevant fund according to its investment objectives. The performance of each fund as a whole and each sub-investment managers against their respective benchmark is monitored on a regular 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 2020

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

	2020	2019
Brokerage income	3,064	3,789
Other miscellaneous	251	(349)
Other gains and losses	3,315	3,440

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 2020

5. Intangible assets

The Group	Computer Software
Year ended 20 February 2020	
Opening net book amount	19,047
Additions	128
Net exchange differences	-
Amortisation charge	(67)
Closing net book amount	19,108
At 20 February 2020	
Cost or valuation	31,032
Accumulated amortisation	(11,924)
Net book amount	19,108
Year ended 20 February 2019	
Opening net book amount	15,529
Additions	3,687
Net exchange differences	-
Amortisation charge	(169)
Closing net book amount	19,047
At 20 February 2019	
Cost or valuation	30,904
Accumulated amortisation	(11,857)
Net book amount	19,047

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 2020

5. Intangible assets (cont.)

The Company	Computer Software
Year ended 20 February 2020	
Opening net book amount	19,047
Additions	128
Amortisation charge	(67)
Closing net book amount	19,108
At 20 February 2020	
Cost or valuation	30,944
Accumulated amortisation	(11,836)
Net book amount	19,108
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

Intangible assets for the Group and Company 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. The Directors are required to perform an annual impairment test for this asset. 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.

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.

Amortisation expense of US\$67,000 (2019 - US\$169,000) has been charged in expenses for marketing and administration.

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 2020

6. Property, plant and equipment

The Group	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2020					
Opening net book amount	16,210	797	123	1,650	18,780
Additions	-	1,313	31	295	1,639
Recognition of right of use assets	2,986	17	7	-	3,010
Disposals	-	-	(3)	-	(3)
Net exchange differences	(10)	(9)	(18)	(14)	(51)
Gain on revaluation	689	-	-	-	689
Depreciation charge	(915)	(468)	(31)	(337)	(1,751)
Closing net book amount	18,960	1,650	109	1,594	22,313
At 20 February 2020					
Cost or valuation	21,328	11,652	494	7,172	40,646
Accumulated depreciation	(2,368)	(10,002)	(385)	(5,578)	(18,333)
Net book amount	18,960	1,650	109	1,594	22,313
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

The fair value of the building occupied by North has been assessed by the Directors, taking into account a valuation undertaken by Naylor's, 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 Naylor's valuation such that this valuation remains appropriate for 20 February 2020.

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 2020

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\$14.5 million 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 2019.

During the year the Group recognised US\$3 million in respect of initial adoption of IFRS 16 Leases on 21 February 2019 and leasing arrangements entered into throughout year.

Depreciation expense of US\$1,751,000 (2019 - US\$1,018,000) has been charged in expenses for marketing and administration.

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

At 20 February	2020	2019
Cost	18,237	18,237
Accumulated depreciation	(4,667)	(4,403)
Net book amount	13,570	13,834

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 2020

6. Property, plant and equipment (cont.)

The Company	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2020					
Opening net book amount	16,210	739	50	1,591	18,590
Additions	-	1,288	-	278	1,566
Recognition of right of use assets	1,633	-	-	-	1,633
Disposals	-	-	(3)	-	(3)
Net exchange differences	(14)	-	-	-	(14)
Gain on revaluation	689	-	-	-	689
Depreciation charge	(674)	(441)	(9)	(320)	(1,444)
Closing net book amount	17,844	1,586	38	1,549	21,017
At 20 February 2020					
Cost or valuation	19,897	11,178	247	6,707	38,029
Accumulated depreciation	(2,053)	(9,592)	(209)	(5,158)	(17,012)
Net book amount	17,844	1,586	38	1,549	21,017
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

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 2020

7. Financial assets and liabilities

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

	Group 2020	Company 2020	Group 2019	Company 2019
Fair value through profit or loss	230,068	58,363	170,801	50,554
Loans and receivables including insurance and reinsurance receivables (note 8)	100,591	87,633	105,365	81,724
Total financial assets	330,659	145,996	276,166	132,278
Financial assets at fair value through profit or loss				
Equity securities – unlisted	50	50	50	50
Collective Investment Vehicles	230,018	58,313	-	-
Debt securities	-	-	170,751	50,504
Derivatives	-	-	-	-
Total	230,068	58,363	170,801	50,554
Maturity dates of the fixed interest collective investment vehicles (2019: debt securities) are as follows:				
In up to two years	127,212	19,674	92,606	13,545
In more than two years but not more than three years	64,746	16,530	60,309	19,447
In more than three years but not more than four years	14,803	8,598	8,807	8,532
In more than four years but not more than five years	17,635	10,241	9,029	8,980
In more than five years	5,622	3,270	-	-
	230,018	58,313	170,751	50,504
Opening balance at 20 February	170,751	50,504	213,971	99,602
Additions	438,435	98,016	194,655	51,832
Disposals (sale and redemptions)	(378,781)	(89,382)	(229,208)	(92,231)
Fair value net gains / (losses) (excluding net realised gains)	926	95	(7,956)	(9,364)
Exchange	(1,313)	(920)	(711)	665
Closing balance at 20 February	230,018	58,313	170,751	50,504

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

	Group 2020	Company 2020	Group 2019	Company 2019
Financial liabilities at fair value through profit or loss				
Derivatives	1,096	1,096	2,746	2,417
Total	1,096	1,096	2,746	2,417

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

As at 20 February 2020, cash and cash equivalents of US\$0.52 million (2019: US\$2.89 million) had been pledged as collateral for the derivatives.

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 2020

8. Loans and receivables

	Group 2020	Company 2020	Group 2019	Company 2019
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	33,026	18,425	24,754	26,531
– due from reinsurers	62,032	66,376	64,643	51,429
Other loans and receivables:				
– prepayments and accrued interest	3,255	2,588	2,718	3,109
– accrued interest and rent	412	5	1,326	765
– other debtors	5,121	2,827	14,642	2,999
	103,846	90,221	108,083	84,833

Included in other debtors in both the Group and the Company are US\$ NIL (2019 - US\$ NIL) that are due more than twelve months after the reporting date.

From the year ending 20 February 2020 tax receivables and payables have been reported according to the type of tax to which they relate. The Directors do not believe this to have a material impact on the comparative financial information and therefore the 2019 balances have not been restated. The impact on both the Group and Company is as follows:

The Group

Within the US\$541,000 corporation tax debtor reported in 2019, US\$40,000 related to other taxes payable.

The Company

Within the US\$154,000 corporation tax asset reported in 2019; US\$16,000 related to corporation tax, \$177,000 related to deferred tax and \$40,000 related to other taxes payable.

9. Cash and cash equivalents

	Group 2020	Company 2020	Group 2019	Company 2019
Cash at bank and in hand	64,899	33,818	113,151	50,420
Short-term bank deposits	35,123	31,588	27,691	25,792
Money market funds	357	347	973	973
	100,379	65,753	141,815	77,185

At 20 February 2020, the Group has an unused bank overdraft facility of US\$0.7 million (2019 - US\$0.7 million unused). As at 20 February 2020, cash and cash equivalents of US\$0.52 million (2019: US\$2.89 million) had been pledged as collateral for derivatives.

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 2020

10. Insurance liabilities and reinsurance assets

	Group 2020	Company 2020	Group 2019	Company 2019
Gross				
Short term insurance contracts:				
- claims reported and loss adjustment expenses	1,161,577	992,326	736,468	714,377
- claims incurred but not reported and claims handling reserve	94,705	59,402	100,464	87,587
Total insurance liabilities, gross	1,256,282	1,051,728	836,932	801,964
Recoverable from reinsurers				
Short term insurance contracts:				
- claims reported and loss adjustment expenses	1,092,626	1,008,453	665,387	725,473
- claims incurred but not reported and claims handling reserve	80,183	52,429	82,833	74,945
Total reinsurers' share of insurance liabilities	1,172,809	1,060,882	748,220	800,419
Net				
Short term insurance contracts:				
- claims reported and loss adjustment expenses	68,951	(16,127)	71,081	(11,096)
- claims incurred but not reported and claims handling reserve	14,522	6,973	17,631	12,641
Total insurance liability	83,473	(9,154)	88,712	1,545

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 2020

10. Insurance liabilities and reinsurance assets (cont.)

Movements in insurance liabilities and reinsurance assets

The Group	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at the beginning of the year	836,932	(748,220)	88,712	826,053	(729,779)	96,274
Cash (paid) / recovered for claims settled in the year	(231,112)	199,882	(31,230)	(203,488)	170,345	(33,143)
Increase / (decrease) in liabilities						
– arising from current year claims	639,831	(608,510)	31,321	298,939	(273,072)	25,867
– arising from prior year claims	12,593	(16,489)	(3,896)	(80,953)	83,222	2,269
Exchange movements	(1,962)	528	(1,434)	(3,619)	1,064	(2,555)
Outstanding claims at end of year	1,256,282	(1,172,809)	83,473	836,932	(748,220)	88,712

The Company	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims at the beginning of the year	801,964	(800,419)	1,545	757,092	(763,799)	(6,707)
Cash (paid) / recovered for claims settled in the year	(195,040)	173,637	(21,403)	(181,623)	158,586	(23,037)
Increase / (decrease) in liabilities						
– arising from current year claims	444,750	(450,564)	(5,814)	284,911	(292,628)	(7,717)
– arising from prior year claims	662	16,374	17,036	(58,416)	97,422	39,006
Exchange movements	(608)	90	(518)	–	–	–
Outstanding claims at end of year	1,051,728	(1,060,882)	(9,154)	801,964	(800,419)	1,545

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

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

20 February 2020

10. Insurance liabilities and reinsurance assets (cont.)

Policy year analysis (all classes)

	Closed Years	2017	2018	2019	Claims Handling Reserve	Total
At 20 February 2020						
Gross outstanding claims	295,679	117,747	204,833	616,787	21,236	1,256,282
Reinsurance amount	(264,960)	(106,502)	(189,072)	(593,718)	(18,557)	(1,172,809)
Net outstanding claims	30,719	11,245	15,761	23,069	2,679	83,473
At 20 February 2019						
Gross outstanding claims	388,070	137,805	290,045		21,012	836,932
Reinsurance amount	(339,243)	(122,042)	(268,325)		(18,610)	(748,220)
Net outstanding claims	48,827	15,763	21,720		2,402	88,712

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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Estimate of ultimate claims cost										
At end of policy year	803.5	369.7	298.4	291.8	273.8	372.0	378.5	323.7	356.0	212.1
One year later		364.2	281.0	258.2	293.9	409.8	500.2	310.4	324.6	203.3
Two years later			299.7	236.7	286.4	417.6	463.6	408.9	332.9	195.2
Three years later				243.1	253.1	411.7	461.8	387.1	388.3	200.9
Four years later					241.7	343.7	437.7	357.8	366.4	263.0
Five years later						373.4	456.4	357.2	383.6	267.2
Six years later							451.9	348.0	375.3	263.1
Seven years later								333.1	357.9	258.9
Eight years later									357.1	263.1
Nine years later										254.1
Current estimate of cumulative claims	803.5	364.2	299.7	243.1	241.7	373.4	451.9	333.1	357.1	254.1
Cumulative payments to date	184.6	161.5	182.4	172.1	208.2	320.8	426.8	313.8	345.6	244.9
Liability recognised in statement of financial position	618.9	202.7	117.3	71.0	33.5	52.6	25.1	19.3	11.5	9.2
Total of ten years										1,161.1
Liability in respect of prior policy years										74.0
Claims handling reserve										21.2
Total liability included in statement of financial position										1,256.3

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 2020

10. Insurance liabilities and reinsurance assets (cont.)

Insurance claims development – Net (US\$M)

Policy Year	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Estimate of ultimate claims cost										
At end of policy year	36.5	31.1	36.7	33.5	40.0	58.5	23.5	27.5	18.7	21.8
One year later		34.4	37.7	38.8	53.6	62.6	60.5	25.0	17.2	19.2
Two years later			39.6	37.7	52.1	63.5	59.6	60.3	26.3	20.3
Three years later				40.8	48.1	62.7	60.6	58.7	70.7	16.6
Four years later					48.7	53.7	55.8	55.5	66.5	58.1
Five years later						62.8	57.0	58.5	70.5	60.6
Six years later							59.4	53.8	71.0	60.2
Seven years later								56.5	66.7	60.4
Eight years later									69.5	60.0
Nine years later										59.2
Current estimate of cumulative claims	36.5	34.4	39.6	40.8	48.7	62.8	59.4	56.5	69.5	59.2
Cumulative payments to date	13.5	18.9	28.4	33.4	46.5	57.9	57.0	54.7	67.7	56.7
Liability recognised in statement of financial position	23.0	15.5	11.2	7.4	2.2	4.9	2.4	1.8	1.8	2.5
Total of ten years										72.7
Liability in respect of prior policy years										8.1
Claims handling reserve										2.7
Total liability included in statement of financial position										83.5

11. Trade and other payables

	Group 2020	Company 2020	Group 2019	Company 2019
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	23,544	19,138	15,009	13,918
– due to reinsurers	15,483	15,483	15,483	15,483
– provision for unearned reinsurance commission	2,261	–	728	–
Other payables				
– employee payables	20	175	109	74
– accruals	7,800	2,467	9,186	5,770
– amounts due to group undertakings	–	29,268	–	11,023
– lease liability	2,479	1,328	–	–
– VAT creditor	1,134	–	–	–
– other	1,147	978	1,207	1,300
Trade payables and accrued expenses	53,868	68,837	41,722	47,568

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

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 2020

12. Investment income

The Group	2020	2019
Interest on bank deposits	987	1,788
Investment Income	987	1,788

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

The Group	2020	2019
Net fair value gains on financial assets through profit or loss:		
- fair value gains	8,225	2,954
- derivative hedging	1,321	(2,377)
	9,546	577
Net fair value gains on collective investment vehicles and debt securities are as follows:		
Bond interest	5,573	2,151
Net realised gains	1,514	1,377
Net movement on unrealised gains / (losses)	1,138	(574)
	8,225	2,954

14. Insurance claims

The Group	Gross	Reinsurance	2020 Net
Current year claims and loss adjustment expenses	861,181	(773,363)	87,818
Change in cost for prior year claims and loss adjustment expenses	(40,560)	12,832	(27,728)
Movement in claims handling reserve	581	115	696
Total claims and loss adjustment expenses	821,202	(760,416)	60,786
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

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 2020

15. Operating expenses by nature

The Group	Note	2020	2019
Depreciation and amortisation charges		1,818	1,187
Gain on disposal of fixed assets		(6)	(55)
Staff costs	16	48,764	47,883
Allocation of staff costs to claims handling expenses		(27,495)	(28,082)
Brokerage		26,725	25,557
Purchase of goods and services		27,482	23,998
Total operating expenses		77,288	70,488

Auditor's Remuneration	2020	2019
Amounts payable to KPMG LLP:		
Audit of these financial statements	278	207
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	569	388
Audit related assurance services	95	73
Other assurance services	128	150
	1,070	818

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	2020 Number	2019 Number
P&I claims	85	85
Underwriting	36	27
FD&D	40	35
Loss prevention	14	12
SMI underwriting and claims	21	22
SMI brokerages	19	20
Other	150	136
	365	337

	2020	2019
Their aggregate remuneration comprised:		
Wages and salaries	41,089	37,371
Social security costs	2,879	2,857
Retirement benefit obligations – defined benefit plans	–	52
Other post-employment benefits	4,796	7,603
	48,764	47,883

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 2020

17. Directors' remuneration

The remuneration of the Directors was as follows:

The Group	2020	2019
Short-term employee benefits	2,971	3,833

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

Highest Paid Director	2020	2019
	1,334	1,419

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 2020 was US\$ nil (2019 - US\$ nil).

18. Finance income / (expense)

The Group	2020	2019
Gains on exchange - technical	880	7,279
Losses on exchange - investments	-	(4,810)
Interest expense on Corporation Tax	(1)	-
Interest expense on lease liabilities	(52)	-
	827	2,469

19. Tax expense

The Group	2020	2019
Current tax	579	397
Deferred tax	(39)	72
	540	469

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 2020

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:

	2020	2019
Trading (loss) / gain	(6,114)	4,360
Investment income	967	1,612
Net fair value gains / (losses) on financial assets	4,126	(4,626)
Expenses for asset management services rendered	(196)	(343)
Investment return	4,897	(3,357)
Taxable (deficit) / surplus	(1,217)	1,003
Tax on the above at standard UK corporation tax rate of 19.0%	(231)	191
Effect of different rates of tax	83	111
Deferred tax losses not recognised	359	858
Write off deferred tax on losses previously recognised	138	-
Tax losses utilised	(349)	(913)
Adjustment in respect of previous years	540	222
Total tax expense	540	469

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	2020	2019
At 20 February	200	310
Exchange rate adjustments	(24)	(21)
Movement in the year	62	(89)
At 20 February	238	200
Differences between the accumulated depreciation and taxation allowances on fixed assets	-	(210)
other timing differences	238	410
	238	200

No deferred tax on accumulated tax losses has been recognised. Unrecognised deferred tax on accumulated tax losses amounts to US\$6.2 million (2019 – US\$3.3 million).

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 2020

20. Reserves

	Group 2020	Company 2020	Group 2019	Company 2019
Income and expenditure reserve	207,487	172,434	217,994	198,492
Contingency funds	36,247	36,247	25,660	25,660
Revaluation reserve	5,300	4,698	4,611	4,009
	249,034	213,379	248,265	228,161

(a) Income and expenditure reserve	Group 2020	Company 2020	Group 2019	Company 2019
Opening balance	217,994	198,492	219,502	178,255
Total comprehensive income for the year	80	(15,471)	8,580	30,325
Transfer to contingency fund	(10,587)	(10,587)	(10,088)	(10,088)
Closing balance	207,487	172,434	217,994	198,492

(b) Contingency funds	2020	2020	2019	2019
The Group and Company				
Opening balance		25,660		15,572
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	5,392		910	
Surplus transferred from closed policy years	5,195		9,178	
		10,587		10,088
Closing balance		36,247		25,660
Protecting & Indemnity Class				
Opening balance		20,498		10,684
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	5,066		854	
Surplus transferred from closed policy years	5,124		8,960	
		10,190		9,814
Closing balance		30,688		20,498
Freight, Demurrage & Defence Class				
Opening balance		5,162		4,888
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	326		56	
Surplus transferred from closed policy years	71		218	
		397		274
Closing balance		5,559		5,162

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 2020

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	2020	2019
Opening balance	4,611	4,611
Revaluation of property	689	-
Closing balance	5,300	4,611

The Company	2020	2019
Opening balance	4,009	4,009
Revaluation of property	689	-
Closing balance	4,698	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.

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 2020

21. Subsidiary undertakings

The direct subsidiary undertakings, all wholly owned, are:

Company Name	Nature of Business	Incorporated	Holding % at 20 Feb	
			2020	2019
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 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, D02 HW77	Marine insurance	Ireland	100	100
North of England Insurance Services Inc. Registered address: 140 Broadway, 46th Floor, New York, NY 10005, USA	Marketing	USA	100	100

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 2020

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:

Company Name	Nature of Business	Incorporated	Holding % at 20 Feb	
			2020	2019
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
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
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

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 2020

21. Subsidiary undertakings (cont.)

The value of the subsidiary undertakings is as follows:

The Company	2020	2019
Balance brought forward	96,910	44,692
Funds advanced to North EU	0	52,218
Balance carried forward	96,910	96,910

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 2020 or 20 February 2019.

22. Leases

The Group has entered into a number of leases of which the majority are for the lease of office space. The lease term, extension options and other conditions vary between contracts.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

i. Right-of-use assets

Right-of-use assets related to leased assets are presented within property, plant and equipment.

The Group	Land and Buildings	Motor Vehicles	Computer Equipment	Total
Balance at 21 February 2019	2,222	7	17	2,246
Additions to ROU asset	764	0	0	764
Depreciation charge for year	(584)	(5)	(4)	(593)
Balance at 20 February 2020	2,402	2	13	2,417

The Company	Land and Buildings	Motor Vehicles	Computer Equipment	Total
Balance at 21 February 2019	869	0	0	869
Additions to ROU asset	764	0	0	764
Depreciation charge for year	(350)	0	0	(350)
Balance at 20 February 2020	1,283	0	0	1,283

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 2020

22. Leases (cont.)

ii. Amounts to be recognised in profit or loss

Previously, these leases were classified as operating leases under IAS 17. The amount recognised as a lease expense in the year ending 20 February 2019 under IAS 17 was \$1.0 million.

The Group	2020
Interest on lease liabilities	52
Expenses relating to short term and low value leases	254
Depreciation charge for year	593
Balance at 20 February 2020	899

iii. Amounts recognised in statement of cash flows

The Group	2020
Total cash outflow for leases	548

The Company	2020
Total cash outflow for leases	314

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\$15.4 million (2019 - US\$7.1 million) as at 20 February 2020.

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.

24. Related party transactions

Key management compensation

The remuneration of the Directors was as follows:

	2020	2019
Short term employee benefits	2,971	3,833

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 the first US\$100.0 million of a 70% share under the first layer of the Excess Loss contract, up to US\$750.0 million, is reinsured by Hydra North Cell for the 2019 policy year.

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 2020

24. Related party transactions (cont.)

Transactions with related parties have been entered into as follows:

The Company	2020 SMI	2020 Shanghai	2020 Hydra	2020 NGS	2020 North EU	2019 SMI	2019 Shanghai	2019 Hydra	2019 NGS	2019 North EU
Income statement										
Insurance premium	6,278	-	(17,736)	-	-	12,677	-	(13,905)	-	-
Insurance claims and loss adjustment expenses	(7,049)	-	-	-	-	2,521	-	-	-	-
Unearned premium	584	-	-	-	-	5,028	-	-	-	-
Insurance claims and loss adjustment expenses recovered	-	-	18,030	-	-	-	-	8,720	-	-
Management fee recovered	-	(1,334)	-	-	-	-	(1,252)	-	-	-
Expenses Recharged	602	-	-	(27,901)	6,071	1,705	-	-	(12,741)	-
Statement of financial position										
Technical provisions - insurance contracts	17,956	-	-	-	-	24,046	-	-	-	-
Reinsurers' share of technical provisions	-	-	79,135	-	-	-	-	71,363	-	-
Unearned premium	3,987	-	-	-	-	4,841	-	-	-	-
Receivables arising from insurance and reinsurance contracts	6,145	-	(2,210)	-	-	15,428	-	(2,131)	-	-
Other debtors	1	226	-	88	(14,143)	791	218	-	(2,205)	-
Capital distributed/ (introduced)	-	-	-	-	-	26,191	-	-	-	(52,218)

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 2020

25. Cash generated from operating activities

	Group 2020	Company 2020	Group 2019	Company 2019
Surplus for the year	18,835	2,203	17,478	34,008
Adjustments for:				
Depreciation and amortisation	1,818	1,511	1,187	1,112
Investment (income) / expense	(926)	(95)	7,956	8,649
Tax expense	540	707	469	177
Interest expense	52	30	-	-
Profit on sale of property, plant and equipment	(6)	(6)	(55)	(36)
Profit on disposal of subsidiary	-	-	(6,322)	-
(Decrease) / increase in insurance contracts net of reinsurance recoverable	(5,238)	(10,699)	(7,563)	3,837
(Decrease) / increase in unearned premium reserve net of reinsurers' share	(1,111)	(497)	(1,681)	1,024
Decrease / (increase) in loans and receivables	1,250	(7,700)	(40,218)	(32,095)
Increase / (decrease) in reinsurance payables	2,188	(294)	(8,474)	(8,045)
(Decrease) / increase in derivative financial instruments	(1,650)	(1,321)	2,707	2,826
Increase in trade and other payables	10,679	20,727	10,908	6,109
Defined benefit contributions in excess of the charge for the year	(4,329)	(4,329)	(7,060)	(7,061)
Purchase of bonds at fair value through profit or loss	(438,435)	(98,016)	(194,655)	(51,832)
Sale of bonds at fair value through profit or loss	378,781	89,382	229,208	92,231
Distribution from SMI	-	-	-	(26,212)
Cash (used in) / generated from operating activities	(37,552)	(8,397)	3,885	24,69

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.

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 2020

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

Discount rate (pre and post retirement)

Price inflation

Pension increases

Demographic assumptions (for example, rates of mortality and early retirement)

Administration expenses

Comments on prescribed conditions

Based on yields on AA corporate bonds of appropriate duration and currency, or a suitable proxy.

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).

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.

Compatible assumptions that lead to a best estimate of future cash flows.

As advised by the Company based on realistic forecasts.

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 2020

26. Retirement benefit scheme (cont.)

Mortality

For the purposes of both the 2019 and 2020 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 2019 calculations in accordance with the CMI 2017 projections with a long-term rate of improvements of 1% per annum. For the purposes of the 2020 calculations the allowance for future improvements in longevity has been updated to the CMI 2018 projections again with long-term rate of improvements of 1.00% per annum.

The key rates assumed are:

	North 2020	SMI 2020	North 2019	SMI 2019
Discount rate	1.8%	1.8%	2.75%	2.75%
Expected rate of salary increases	n/a	n/a	n/a	n/a
Inflation rate	2.10%	2.10%	2.50%	2.50%

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 fair value of plan assets are as follows:

	North 2020	SMI 2020	North 2019	SMI 2019
Equities	38,505	14,131	28,846	14,627
Bonds	-	-	26,334	18,671
Other	8,293	3,074	18,891	8,611
Credit/ Debt funds	14,135	-	-	-
Diversified credit funds	-	12,892	-	-
Liability driven investments	25,238	15,602	-	-
Cash	824	308	4,118	1,864
	86,995	46,007	78,189	43,773

The actual return on plan assets for 2020 amounted to US\$9,884,000 (2019 - US\$756,000) for North and US\$5,392,000 (2019 - US\$1,323,000) for SMI.

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 2020

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
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 rate movements	(12,139)	(8,371)	(3,768)
20 February 2019	174,235	121,962	52,273
Net interest	4,618	3,269	1,349
Sub-total included in income	4,618	3,269	1,349
Benefits paid	(7,117)	(7,117)	-
Return on plan assets			
- excluding amounts included in net interest expense	-	12,007	(12,007)
Actuarial changes			
- arising from changes in demographic assumptions	(4,241)	-	(4,241)
- arising from changes in financial assumptions	32,391	-	32,391
Sub-total included in OCI	28,150	12,007	16,143
Contributions by employer	-	4,613	(4,613)
Exchange rate movements	(2,795)	(1,732)	(1,063)
20 February 2020	197,091	133,002	64,089

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 2020

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 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 rate movements	(12,139)	(8,371)	(3,768)
20 February 2019	174,235	121,962	52,273
Net interest	4,618	3,269	1,349
Sub-total included in income	4,618	3,269	1,349
Benefits paid	(7,117)	(7,117)	-
Return on plan assets			
- excluding amounts included in net interest expense	-	12,007	(12,007)
Actuarial changes			
- arising from changes in demographic assumptions	(4,241)	-	(4,241)
- arising from changes in financial assumptions	32,391	-	32,391
Sub-total included in OCI	28,150	12,007	16,143
Contributions by employer	-	4,613	(4,613)
Exchange rate movements	(2,795)	(1,732)	(1,063)
20 February 2020	197,091	133,002	64,089

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 2020

26. Retirement benefit scheme (cont.)

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2020 is shown below.

	Impact on Retirement Benefit Liability
North Scheme	
Increase / reduce discount rate by 0.5%	(15,730) / 18,282
Increase / reduce inflation assumption by 0.5% (assumed affects deferred and pensioner increases and not salary increases)	7,862 / (5,614)
Increase life expectancy by one year	6,185
SMI Scheme	
Increase / reduce discount rate by 0.5%	(4,664) / 5,368
Increase / reduce inflation assumption by 0.5% (assumed affects deferred and pensioner increases and not salary increases)	2,232 / (2,166)
Increase life expectancy by one year	1,860

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 2020/21 is US\$4.8 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 25 years (2019: 23 years) for North scheme and 20 years (2019: 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\$4,796,000 (2019: US\$7,603,000). There were no outstanding or prepaid contributions at the beginning or end of the financial year.

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 2020

27. 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
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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. No lookback adjustments were required to any acquisition date fair values.

28. Events subsequent to the statement of financial position date


Subsequent to the year end, the World Health Organization has declared the Covid-19 diseases outbreak a pandemic. There have been no material impacts of the pandemic on the carrying value of assets and liabilities reported in these financial statements subsequent to the balance sheet date.

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