Global service built around you

North

Directors' Report 2021

Contents

Directors

The North of England Protecting and Indemnity Association Limited

20 February 2021

PB Shirke ■◆●	Resigned as Chair 4 February 2021
JM de Groot ■⁎	
A Engelsman ▲■◆	
NJA Fairfax ⁎	Resigned 4 February 2021
NJO Fell	
TF Hart ■◆	Resigned 9 July 2020
PA Jennings ■●	Chief Executive Officer
PM Johnson ▲⁎	
AM Lynch ▲⁎	
JA Tyrrell ◆■●	Chair as of 4 February 2021 (Formerly Vice-Chair)
JF Reith ⁎	Vice-Chair as of 20 May 2021
NR Taylor ⁎	
I Procopiou ▲	Vice-Chair as of 4 February 2021
EJ Davies	
MR Thompson ▲	Appointed 16 September 2020

▲ 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

Company Secretary

CP Owen

Bankers

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

Auditor

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

Report of the Directors

The North of England Protecting and Indemnity Association Limited

20 February 2021

The Directors have pleasure in presenting their report together with the financial statements of the Group and Company for the year ended 20 February 2021.

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

With an effective date of 30 June 2020 all of the insurance business, and the majority of the assets and liabilities, of Sunderland Marine Insurance Company Limited were transferred to the parent Company via a Part VII Transfer. Further information is provided in Note 27.

The Group established North of England P&I Designated Activity Company in 2018, and from 20 February 2019 all EEA business of the Group has been underwritten by that subsidiary. The parent company has a legacy book of EEA claims in run-off which is being managed in line with the various temporary permission regimes and run-off arrangements announced by EEA regulators. The Directors continue to monitor the development and sufficiency of these arrangements to ensure that the Group can continue to fulfil its obligations to EEA Members and policyholders in relation to this business.

Membership

At 20 February 2021 the owned gross tonnage entered in North totalled 158.4 million (2020 – 159.6 million) and there were 4,581 (2020 – 4,614) 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 and Company Secretary

The Directors and Company Secretary of North are shown on page 2.

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.

Company Registration Number

The Company registration number of North is 505456.

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 2021

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 International Accounting Standards in conformity with the requirements of the Company's Act 2006 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 International Accounting Standards in conformity with the requirements of the Company's Act 2006
- 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 2021.

The North of England Protecting and Indemnity Association Limited

20 February 2021

Going concern (cont.)

The most recent ORSA document specifically addresses pandemic risk, and whether business operations could be negatively impacted by a sustained continuation of the current Covid-19 pandemic. The Directors are satisfied that potential effects of the pandemic, such as increased investment market volatility, a possible reduction in premium income and exposure as a result of repressed global demand, 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 (a period of at least twelve months from the date of approval of the financial statements). North has a total accumulated surplus as at 20 February 2021 of US$292.3 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 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. During the period, this has included considering a paper on the financial risks of climate change and the approach to be adopted for on-going monitoring and management of this risk;
- 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 2021

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 Chair and the Vice-Chair;
  - the Directors;
  - the Chair 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 2021

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 Chair and Vice-Chair;
  - 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 Chair and Vice-Chair; 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 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 2021

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 (2020 – NIL).

Streamlined Energy and Carbon Reporting

Information on North's annual emissions is not disclosed as it is not required in accordance with Schedule 7, Part 7, of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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 24 November 2020 that the 2017/2018 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 10% to Members' rates for the 2021/2022 mutual premium for P&I and 5% for 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.

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

On behalf of the Board of Directors

PA Jennings
Chief Executive Officer
4 June 2021

Strategic Report

The North of England Protecting and Indemnity Association Limited

20 February 2021

The Directors present their Strategic Report for the year ended 20 February 2021. All figures are US$ millions unless otherwise stated.

Principal Activities

The North of England Protecting and Indemnity Association Limited (North) is a mutual insurance 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. The diversified business lines, except for the North Hull product launched in July 2020, are underwritten using the SMI trading name. 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 2021

Strategy

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 premium 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 by 2025, 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.

The Group successfully completed the Part VII transfer of SMI on 30 June 2020. This represents a significant step in the restructure of SMI, further information on the transfer is provided in note 27 of these 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 the year. The results showed an increase in overall satisfaction and confirmed an 'Excellent' Net Promoter Score, in satisfaction of the Directors' KPI for this objective.

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 Club, being 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$357.4 million in 2020 to US$425.4 million in 2021.

Mutual	**2021 US$m**	**2020 US$m**
P&I	292.3	267.7
FD&D	23.9	21.2
War	1.9	1.2
Total Mutual	**318.1**	**290.1**
Non-Mutual	**107.3**	**67.3**
	425.4	**357.4**

Following a prolonged period during which there was a dilution of premium rates in the P&I sector, North declared a general increase of 7.5% for the 2020 policy year. This combined with a growth in tonnage at renewal and through the policy year has resulted in an increase of premium for the Mutual P&I business of US$24.6 million.

Performance in the year (cont.)

Premiums for FD&D increased by US$2.7 million given tonnage added at the February 2020 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$0.7 million.

Non-mutual premium increased by US$40.0 million from US$67.3 million to US$107.3 million. This reflects the growth ambitions of the Group in this area including the launch of the North Hull product during the year, which has exceeded its original business plan targets, and strong growth across the SMI business lines (Hull, P&I and Aquaculture) and Fixed Premium P&I.

The pandemic has had a noticeable impact on the cost of claims during the 2020/21 policy year, reducing the value of Member claims despite the overall number of claims exceeding previous years. At this stage of development, the Group has experienced fewer large claims (over US$1 million) than at the same stage of the 2019 policy year, and has not experienced any pool claims. The first half of the policy year saw an unprecedented level of activity on the International Group pool, and whilst the second half of the year saw a return to a more typical experience, it remains an unusually expensive pool year. Overall, gross claims have reduced from US$821.2 million to US$675.5 million, with net claims falling from US$60.8 million to US$49.2 million.

The pandemic has also had a noticeable impact on operating expenses during the year. Restrictions imposed by the pandemic, including delays to planned recruitment and a reduction in travel costs, resulted in a reduction in expenses compared to the prior year. The increase in gross written premiums has increased the level of reinsurance premiums and associated reinsurance commissions which also form part of the Group's total expenses. Total expenses, comprising net insurance claims, operating expenses and reinsurance commissions, have reduced from US$62.9 million to US$33.1 million.

The Group's investment assets contributed income of US$9.0 million in the year and there was a gain of US$4.3 million on the Group's derivative hedging arrangements. The derivative contracts in place provide increased stability 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 from US$18.8 million in 2020 to US$49.5 million in 2021.

The total accumulated surplus attributable to members increased from US$249.0 million at 20 February 2020 to US$292.1 million at 20 February 2021. The increase is a result of the surplus recorded above, together with favourable foreign exchange movements, a downwards revaluation of the Group's head office property in the UK, and movements on the Group's defined benefit pension deficit 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 continues to be 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 where necessary. Following an extended 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.

Risks to achieving our strategic objectives (cont.)

North underwrites primarily P&I insurance for commercial ocean-going shipping. The health of the sector generally tracks global economic activity which, although initially adversely affected by the pandemic, has largely returned to, and in some cases beyond, pre-Covid-19 levels. Nevertheless, the threat of vaccine resistant variants and further waves of outbreak remain, which could adversely affect our Members' business and have a corresponding impact on the Group. As we have seen in the current financial year, a reduction in economic activity is likely to result in reduced claims activity, which is favourable. A prolonged period of recessionary economic activity however could adversely affect our strategic goal to grow premium income, and may 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.

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 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, was successfully mitigated by the establishment of a subsidiary insurance company in Ireland in 2018. 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 2021.

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.

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
Chief Executive Officer
04 June 2021

Independent Auditor's Report

The North of England Protecting and Indemnity Association Limited

20 February 2021

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 2021 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 2021 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 6 financial years ended 20 February 2021. 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 judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. 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.

Valuation of claims incurred but not reported reserve

(Group: $97.9m (2020: $94.7m), parent Company: $71.9m (2020: $59.4m))

Risk vs 2020: <>

Refer to note 1 on page 33 (accounting policy), note 2 on pages 36 to 38 and note 10 on pages 46 to 49 (financial disclosures)

Independent Auditor’s Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

2. Key audit matters: our assessment of risks of material misstatement (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. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgment and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims. 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 and possibly many times that amount. 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 appropriateness of the methodologies and key assumptions used in the reserving process;
- **Assessing valuer’s credentials:** We evaluated the competence, capabilities and objectivity of the Group and Company’s internal actuaries and the external actuaries used by the Group based on our knowledge of the actuaries’ qualifications and the professional standards that their work is subject to;
- **Independent re-performance:** Independently re-projected the reserve for those classes of business we consider to be higher risk based on our own risk assessment and consideration of the evidence available from other alternative procedures;
- **Margin evaluation:** We evaluated the appropriateness of the Group and Company’s margin held at year end. In order to do this, we assessed the Directors’ approach and assumptions in developing the actuarial best estimate. We assessed the extent to which the margin between the reserves booked and the actuarial best estimate was determined consistently with prior periods and in line with the reserving methodology. We assessed the margin with reference to our own view and market benchmarks;
- **Sensitivity analysis:** Performed sensitivity analysis over the key assumptions and judgments and considered the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation; and
- **Assessing transparency:** Assessed whether the Group and Company’s disclosures surrounding the claims incurred but not reported and claims handling reserve and insurance risk appropriately reflect the inherent uncertainties of the balance.

We performed the tests above rather than seeking to rely on any of the company’s controls because the nature of the balances are such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the estimated valuation of the claims incurred but not reported reserve to be acceptable (2020: acceptable).

Valuation of protection and indemnity claims reported reserve

(Group: $1,190.2m (2020: $1,161.6m), parent Company $946.6m (2020: $992.3m))

Risk vs 2020: <>

Refer to note 1 on page 33 (accounting policy), note 2 on pages 36 to 38 and note 10 on pages 46 to 49 (financial disclosures)

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

2. Key audit matters: our assessment of risks of material misstatement (cont.)

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.

Our Response

Our procedures included:

- **Tests of details:** We agreed a sample of P&I claims reported reserves to underlying documentation to assess whether case reserves held are in line with the Group and Company’s reserving methodology and used the most current information when setting the reserve on a P&I claim;
- **Assessing credentials:** We evaluated the competence, capabilities and objectivity of the Group and Company’s internal claims handlers responsible for estimating the large loss reserves, through inquiry and obtaining an understanding of the judgements made on a sample of large loss reserves;
- **Historical comparisons:** We considered the movement in reserves relating to claims incurred in prior years to assess the reasonableness of the Directors’ past assumptions and the methodology used to estimate P&I claims reported 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 whether the Group and Company’s disclosures surrounding the P&I claims reported and loss adjustment expenses reserve and insurance risk appropriately reflect the inherent uncertainties of the balance.

We performed the tests above rather than seeking to rely on any of the company’s controls because the nature of the balances are such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the estimated valuation of the protection and indemnity claims reported reserve to be acceptable (2020: acceptable)

Accuracy of reinsurers’ share of claims outstanding technical provision

(Group: $1,210.9m (2020: $1,172.8m), parent Company $1,033.1m (2020: $1,060.9m))

Risk vs 2020: <>

Refer to note 1 on page 33 (accounting policy) and note 10 on pages 46 to 49 (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.

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

2. Key audit matters: our assessment of risks of material misstatement (cont.)

Our response

Our procedures included:

- **Independent re-performance:** Independently re-projected the net reserve for those classes of business we consider to be higher risk based on our own risk assessment and consideration of the evidence available from other alternative procedures;
- **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 assess whether they are appropriately reflected in the calculation.

We performed the tests above rather than seeking to rely on any of the company's controls because the nature of the balances are such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our Results

We found the accuracy of reinsurers' share of claims outstanding technical provision to be acceptable (2020: acceptable).

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 $5.2m (2020: $4.2m), determined with reference to a benchmark of accumulated surplus of $292.1 million of which it represents 1.8% (2020: 1.8%) of the accumulated surplus.

Performance materiality for the Group was set at 75% (2020: 75%) of materiality for the financial statements, which equates to $3.9 million (2020: $3.2 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

Materiality for the parent Company financial statements as a whole was set at $5.0m (2020: $3.7m), determined with reference to a benchmark of accumulated surplus of $272.0 million, of which it represents 1.8% (2020: 1.8%) of the accumulated surplus.

Performance materiality for the parent company was set at 75% (2020: 75%) of materiality for the financial statements, which equates to $3.8 million (2020: $2.8 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We consider the Group's and parent company accumulated surplus to be the most appropriate benchmark, as it represents the residual interest that can be ascribed to members after assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $260k (2020: $210k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2020: 9) reportable components, we subjected 2 (2020: 3) to full scope audits for group purposes, and 2 (2020: 2) to specified risk-focussed procedures.

Two of the components (2020: 2 components) were subject to specified risk-focused audit procedures. One was subject to specific procedures over 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 North of England Protecting and Indemnity Association Limited

20 February 2021

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 components within the scope of our work accounted for the percentage of the Group's results as set out in the table below. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these:

	Number of Components	Total Assets	Gross Technical Provisions	Total Accumulated Surplus	Earned Premium
Audits for group reporting purposes	2	99.5%	100.0%	98.0%	98.8%
Specified risk-focused audit procedures over investments and administrative expenses	2	0.5%	0.0%	2.0%	0.0%
Residual components (not in scope)	5	0.0%	0.0%	0.0%	1.2%
Total (2021)	**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	3	99.8%	100%	95.0%	99.9%
Specified risk-focused audit procedures over investments and administrative expenses	2	0.1%	0.0%	4.9%	0.0%
Residual components (not in scope)	4	0.1%	0.0%	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 $1,820k to $5,000k (2020: $1,050k to $3,570k), having regard to the mix of size and risk profile of the Group across the components. The work on one of the two components (2020: one of three) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. The Group team was unable to visit one (2020: one) overseas component location in Dublin to assess the audit risk and strategy. Video and telephone conference meetings were 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 Group or the Company or to cease its operations, and as they have concluded that the Group's and Company financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its 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").

We used our knowledge of the Group and company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group and company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group and company's available financial resources over this period were:

- A significant deterioration in claims experience, potentially caused by market wide events;
- A deterioration in the valuation of the Group's investments arising from fluctuation or negative trend in the economic environment.

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

4. We have nothing to report on going concern (cont.)

We also considered less predictable but realistic second order impacts such as failure of counterparties who have transactions with the Group (such as reinsurers) to meet commitments that could give rise to a negative impact on the Group's financial position and increased illiquidity.

We considered whether these risks could plausibly affect the liquidity or Solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Group and Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures included:

- Critically assessing assumptions in base case and downside scenarios relevant to liquidity and solvency metrics represents reasonably possible downside, in particular in relation to economic forecasts and historical trends in severe economic situations and overlaying knowledge of the entity's plans based on approved budgets and our knowledge of the entity and the sector in which it operates.
- Assessing how second order risks have been considered, most notably with regards to failure of counterparties and potential impacts to credit spreads in relation to the Group's investments portfolio as well as the overall economic impact of the volatility caused by the COVID-19 pandemic on the economic assumptions used in the scenario testing.
- Comparing past budgets to actual results for the group's cash flow forecasts to assess the directors' track record of budgeting accurately.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Group and company will continue in operation.

5. Fraud and Breaches of Laws and Regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee, Risk Committee and Reserving Committee minutes.
- Considering remuneration incentive schemes and performance targets for management/directors.
- Using analytical procedures to identify any usual or unexpected relationships.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

5. Fraud and Breaches of Laws and Regulations – ability to detect (cont.)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of gross claims incurred but not reported reserve. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgment involved in revenue recognition and the amounts are contractually derived.

We also identified a fraud risk related to valuation of gross claims incurred but not reported reserve in response to the required significant judgement by management over uncertain future outcomes, being the ultimate total settlement value of insurance contract liabilities. Further detail in respect of these matter is set out in the key audit matter disclosures in section 2 of this report.

We have also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unexpected individuals, those journals which were unbalanced , those posted to seldom used accounts, and unusual entries posted to cash or revenue accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 Group's regulatory and legal correspondence and we discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and 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 or the loss of the Group's license to operate. We identified the following areas as those most likely to have such as effect: regulatory capital and liquidity and certain aspects of group legislation recognizing 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 inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operation regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect a breach.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

5. Fraud and Breaches of Laws and Regulations – ability to detect (cont.)

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion 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 know ledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports 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

7. 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.

Independent Auditor's Report (cont.)

The North of England Protecting and Indemnity Association Limited

20 February 2021

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

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 5, 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 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 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**.

9. 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
June 2021

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 2021

	Note	2021 $'000	2020 $'000
Assets			
Intangible assets	5	19,205	19,108
Property, plant and equipment	6	21,113	22,313
Reinsurers' share of technical provision			
Provision for unearned premium		36,303	20,470
Claims outstanding	10	1,210,916	1,172,809
Financial assets			
Equity securities – at fair value through profit or loss	7	51	50
Collective Investment Vehicles – at fair value through profit or loss	7	298,123	230,018
Loans and receivables including insurance and reinsurance receivables	8	95,586	103,846
Deferred acquisition costs		7,186	4,138
Deferred tax asset		124	238
Derivative financial instruments	7	3,220	–
Cash and cash equivalents	9	132,071	100,379
Total assets		**1,823,898**	**1,673,369**
Accumulated surplus			
Income and expenditure account	20	246,682	207,487
Contingency funds	20	41,790	36,247
Revaluation reserve	20	3,637	5,300
Total accumulated surplus attributable to members		**292,109**	**249,034**
Non-controlling interest		218	258
Total accumulated surplus		**292,327**	**249,292**
Liabilities			
Technical provision			
Provision for unearned premium		58,482	35,746
Claims outstanding	10	1,288,182	1,256,282
Derivative financial instruments	7	–	1,096
Reinsurance payables		18,754	12,562
Trade and other payables	11	116,353	53,868
Corporation tax payable		2,494	142
Other taxes payable		632	292
Retirement benefit liabilities	26	46,674	64,089
Total liabilities		**1,531,571**	**1,424,077**
Total accumulated surplus and liabilities		**1,823,898**	**1,673,369**

The notes on pages 28 to 62 form part of these financial statements which were approved by the Board on 4 June 2021.

PA Jennings
Chief Executive Officer
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 2021

	Note	2021 $'000	2020 $'000
Gross insurance premium revenue		425,385	357,417
Gross insurance premium ceded to reinsurers		(354,280)	(290,131)
Net insurance premium revenue		71,105	67,286
Change in provision for unearned premium		(19,226)	(10,850)
Reinsurers' share of change in unearned premium		21,228	11,171
Change in the net provision for unearned premium		2,002	321
Earned premiums net of reinsurance		73,107	67,607
Investment (expense) / income	12	(93)	987
Net fair value gains through profit or loss	13	13,340	9,546
Other gains	4	3,444	3,315
Net income		89,798	81,455
Claims and loss adjustment expenses	14	(675,457)	(821,202)
Insurance claims and loss adjustment expenses recovered from reinsurers	14	626,211	760,416
Net insurance claims		(49,246)	(60,786)
Expenses for the acquisition of insurance and investment contracts		(38,909)	(34,214)
Expenses for marketing and administration		(34,414)	(42,773)
Expenses for asset management services rendered		(190)	(301)
Operating expenses	15	(73,513)	(77,288)
Reinsurance commission		89,671	75,167
Total expenses		(33,088)	(62,907)
Results of operating activities		56,710	18,548
Finance (expense) / income	18	(3,541)	827
Surplus before tax		53,169	19,375
Tax expense	19	(3,664)	(540)
Surplus for the year		**49,505**	**18,835**
Attributable to:			
Members		49,424	18,713
Non-controlling interest		81	122
Surplus for the year		**49,505**	**18,835**

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 2021

	Note	2021 $'000	2020 $'000
Surplus for the year		49,505	18,835
Other comprehensive income			
OCI to be reclassified to profit or loss in subsequent periods			
Exchange losses		6,730	(2,490)
Net other comprehensive income to be reclassified to profit or loss		6,730	(2,490)
OCI not to be reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings		(1,663)	689
Remeasurement losses on defined benefit plans	26	(11,416)	(16,143)
Net other comprehensive income not to be reclassified to profit or loss		(13,079)	(15,454)
Other comprehensive income for the year, net of tax		(6,349)	(17,944)
Total comprehensive income for the year, net of tax		**43,156**	**891**
Attributable to:			
Members		43,075	769
Non-controlling interest		81	122
Total comprehensive income for the year, net of tax		**43,156**	**891**

The notes on pages 28 to 62 form part of these financial statements.

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 2021

	I&E Account $'000	Contingency Fund $'000	Revaluation Reserve $'000	Total Attributable to Members $'000	NCI $'000	Accumulated Surplus $'000
At 20 February 2020	207,487	36,247	5,300	249,034	258	249,292
Total comprehensive income for the year	44,738	–	(1,663)	43,075	81	43,156
Dividend paid to non-controlling interest	–	–	–	–	(121)	(121)
Transfer to contingency fund	(5,543)	5,543	–	–	–	–
At 20 February 2021	**246,682**	**41,790**	**3,637**	**292,109**	**218**	**292,327**
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**

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 2021

	Note	2021 $'000	2020 $'000
Operating activities			
Cash generated from / (used in) operating activities	25	32,951	(37,552)
Tax paid		(1,087)	145
Net cash generated from / (used in) from operating activities		**31,864**	**(37,407)**
Cash flows used in investing activities			
Purchases of property, plant and equipment	6	(1,420)	(1,639)
Purchases of intangibles	5	(168)	(128)
Proceeds from sale of property, plant and equipment		25	9
Net cash (used in) / from investing activities		**(1,563)**	**(1,758)**
Cash flows used in financing activities			
Payment of lease liabilities		(704)	(548)
Dividends paid to non-controlling interest ("NCI")		(121)	(129)
Net cash used in financing activities		**(825)**	**(677)**
Net increase / (decrease) in cash and cash equivalents		29,476	(39,842)
Foreign exchange		2,216	(1,594)
Cash and cash equivalents at beginning of year		100,379	141,815
Cash and cash equivalents at end of year	9	**132,071**	**100,379**

The notes on pages 28 to 62 form part of these financial statements.

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 2021

	Note	2021 $'000	2020 $'000
Assets			
Intangible assets	5	19,186	19,108
Property, plant and equipment	6	19,942	21,017
Investment in Group undertakings	21	87,678	96,910
Reinsurers' share of technical provision			
Provision for unearned premium		26,903	10,528
Claims outstanding	10	1,033,053	1,060,882
Financial assets			
Equity securities – at fair value through profit or loss	7	51	50
Collective Investment Vehicles - at fair value through profit or loss	7	123,908	58,313
Loans and receivables including insurance and reinsurance receivables	8	94,830	90,221
Deferred acquisition costs		4,254	2,067
Deferred tax asset		4	33
Derivative financial instruments	7	3,220	–
Cash and cash equivalents	9	84,552	65,753
Total assets		**1,497,581**	**1,424,882**
Accumulated surplus			
Income and expenditure account	20	227,173	172,434
Contingency funds	20	41,790	36,247
Revaluation reserve	20	3,035	4,698
Total accumulated surplus attributable to members		**271,998**	**213,379**
Liabilities			
Technical provision			
Provision for unearned premium		41,936	19,772
Insurance contracts	10	1,018,445	1,051,728
Derivative financial instruments	7	–	1,096
Reinsurance payables		14,041	5,271
Corporation tax payable		2,340	518
Other taxes payable		772	192
Trade and other payables	11	101,375	68,837
Retirement benefit liability	26	46,674	64,089
Total liabilities		**1,225,583**	**1,211,503**
Total accumulated surplus and liabilities		**1,497,581**	**1,424,882**

The notes on pages 28 to 62 form part of these financial statements which were approved by the Board on 4 June 2021.

PA Jennings
Chief Executive Officer

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 2021

	Attributable to Members			
	I&E Account $'000	**Contingency Fund $'000**	**Revaluation Reserve $'000**	**Accumulated Surplus $'000**
At 20 February 2020	**172,434**	**36,247**	**4,698**	**213,379**
Total comprehensive income for the year	60,282	–	(1,663)	58,619
Transfer to contingency fund	(5,543)	5,543	–	–
At 20 February 2021	**227,173**	**41,790**	**3,035**	**271,998**
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**

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 2021

	Note	2021 $'000	2020 $'000
Operating activities			
Cash generated from / (used in) operating activities	25	34,279	(8,397)
Tax paid		(1,478)	(39)
Net cash from / (used in) operating activities		**32,801**	**(8,436)**
Cash Flows used in Investing Activities			
Purchases of property, plant and equipment	6	(1,225)	(1,566)
Purchases of intangibles	5	(168)	(128)
Proceeds from sale of property, plant and equipment		25	9
Cash acquired on business transfer	27	3,719	–
Purchase of additional shareholding in NCI		(336)	–
Capital contributed to subsidiaries	21	(17,940)	–
Net cash used in investing activities		**(15,925)**	**(1,685)**
Cash Flows used in Financing Activities			
Payment of lease liabilities		(452)	(314)
Net cash used in financing activities		**(452)**	**(314)**
Net increase / (decrease) in cash and cash equivalents		16,424	(10,435)
Foreign exchange		2,375	(997)
Cash and cash equivalents at beginning of year		65,753	77,185
Cash and cash equivalents at end of year	9	**84,552**	**65,753**

The notes on pages 28 to 62 form part of these financial statements.

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 2021

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 2021 of US$292.3million (2020: 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. 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. The most recent ORSA document for the Group was considered and approved by the Board in February 2021.

The Directors are satisfied that potential effects of the Covid-19 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 at least 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 ("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 2021

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$69.3 million (2020 – US$2.0 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.

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.

The business transfer, of SMI following the Part VII approval on 30 June 2020, has been accounted for as a common control transaction at book value. All assets and liabilities incorporated in the Part VII transfer as shown in the balance sheet below were transferred at book value on the effective dates of the transfer.

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 2021

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.

The principal rates of exchange relative to US Dollars used in preparing these financial statements are:

	At February 2021	At February 2020
Pound Sterling	1.4018	1.2873
Euro	1.2118	1.0793

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.

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 2021

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 rate (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. In the cash flow statement, purchases and sales of investments are recognised as operating cash flows.

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.

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.

The North of England Protecting and Indemnity Association Limited

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

20 February 2021

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 assets and liabilities measured at fair value by level of the fair value hierarchy:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
At 20 February 2020								
Equity securities	–	–	–	–	51	51	51	51
Collective Investment Vehicles	298,123	123,908	–	–	–	–	298,123	123,908
Land and buildings	–	–	–	–	16,868	15,970	16,868	15,970
Derivative liabilities	–	–	3,220	3,220	–	–	3,220	3,220
	298,123	**123,908**	**3,220**	**3,220**	**16,919**	**16,021**	**318,262**	**143,149**

The opening position is shown in the table below:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
At 20 February 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**

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 2021

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 for the mutual business line, but this is not the case for all of the diversified business line or 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.

The North of England Protecting and Indemnity Association Limited

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

20 February 2021

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 their 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 2021

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, including 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 is the sponsoring employer for 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 2021

1. Summary of Significant Accounting Policies (cont.)

1.11 Revenue and expense recognition (cont.)

Leases

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 Leases.

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.

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 if 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

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 2021

1. Summary of Significant Accounting Policies (cont.)

1.12 Changes in accounting standards

A number of new standards and revisions are effective for the financial year commencing on 20 February 2020, 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 but have not been applied in these financial statements because they are not yet effective:

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Not yet endorsed by the UK EB Estimates
- Amendments to IFRS 3, IAS 16, IAS 37, Annual Improvements 2018, 2020
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9

IFRS 17 Insurance Contracts has an effective date of 1 January 2023, following the deferral announced in March 2020. The adoption of IFRS 17,to be adopted by the Group for the year ending 20 February 2024, 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 2021 and 20 February 2020 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 2021

1. Summary of Significant Accounting Policies (cont.)

1.12 Changes in accounting standards (cont.)

	Financial assets that pass the SPPI test		All other financial assets	
Financial assets (Group) 20 February 2021	**Fair value $'000**	**Movement in fair value $'000**	**Fair value $'000**	**Movement in fair value $'000**
Financial assets at fair value through profit or loss	–	–	298,174	3,818
Other loans and receivables	4,413	–	–	–

Financial assets (Company) 20 February 2021	**Fair value**	**Movement in fair value**	**Fair value**	**Movement in fair value**
Financial assets at fair value through profit or loss	–	–	123,959	2,270
Other loans and receivables	19,710	–	–	–

	Financial assets that pass the SPPI test		All other Financial Assets	
Financial assets (Group) 20 February 2020	**Fair value**	**Movement in fair value**	**Fair value**	**Movement in fair value**
Financial assets at fair value through profit or loss	–	–	230,068	926
Other loans and receivables	5,533	–	–	–

Financial assets (Company) 20 February 2020	**Fair value**	**Movement in fair value**	**Fair value**	**Movement in fair value**
Financial assets at fair value through profit or loss	–	–	58,363	95
Other loans and receivables	2,832	–	–	–

All financial assets passing the SPPI test are unrated other loans and receivables. 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 2021

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. No material impact has arisen from the ongoing Covid-19 pandemic. 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. This includes the projection of ultimate claims liabilities using standard actuarial techniques such as chain ladder and Bornhuetter-Ferguson methods. The projection methods used are most sensitive to assumptions about the initial loss pick and the treatment of large losses, and these are determined to be the key assumptions influencing the amount recognised in the financial statements. The initial loss pick, which is selected based on historic data for the books of business underwritten, takes into account any observable trends, the volume of exposure written, and the level of maturity of the policy years. It is calculated separately for each line of business, further segregated into mutual and non-mutual categories where applicable, and for claims value bands to allow the application of the reinsurance programmes. The Group's experience shows that large losses are expected to have different development patterns to most of the portfolio. To avoid a distortion of patterns used, large losses are excluded from the initial projection and then added back in at a best estimate value as determined by the claim handlers.

The booked reserves include an uplift to allow for volatility in the Group's claims experience. The uplift is calculated using a Mack method, which is a standard actuarial technique to determine reserve volatility. The key assumptions in the calculation of the uplift are the selected volatility for each class of business and policy year, and the correlation between these cohorts.

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 2021

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 P&I 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.

Pensions and other post-retirement benefits

North is the sponsoring employer for 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.

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 2021

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

The underwriting strategy 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 2020, 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.

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.

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 2021

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

3.1 Insurance risk (cont.)

Closing of policy years for overspill calls

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

Closing of policy years for other purposes

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

3.2 Financial risk

North is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. North's Group Risk Committee reports to the board and its remit is to consider all aspects of 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$292.1 million (2020: 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.

The North of England Protecting and Indemnity Association Limited

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

20 February 2021

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:	**$'000**
Increase / decrease in relevant yield curve by 1% - change in accumulated surplus	+/- 7,012

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:

	2021	**2020**
US$	91%	72%
£STG	9%	20%
Other	0%	8%

The diversified business line products are sold 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 2021

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 2021						
Collective Investment Vehicles	62.73%	14.13%	22.28%	0.11%	0.75%	298,123
Reinsurance assets	2.27%	92.18%	5.29%	0.26%	0.00%	1,210,916
Other receivable	0.95%	20.14%	3.87%	0.00%	75.04%	95,586

	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

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 2021

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 them or on their behalf (or in a fleet entry in which any one or all of their ships are entered) if having failed to pay when due and demanded by management any sum due from the Member 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

	2021 $'000	2020 $'000
Brokerage income	3,285	3,064
Other miscellaneous	159	251
Other gains and losses	**3,444**	**3,315**

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 2021

5. Intangible assets

The Group	Computer software $'000
Year ended 20 February 2021	
Opening net book amount	19,108
Additions	168
Net exchange differences	19
Amortisation charge	(90)
Closing net book amount	**19,205**
At 20 February 2021	
Cost or valuation	31,219
Accumulated amortisation	(12,014)
Net book amount	**19,205**
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**

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 2021

5. Intangible assets (cont.)

The Company	Computer software $'000
Year ended 20 February 2020	
Opening net book amount	19,108
Additions	168
Amortisation charge	(90)
Closing net book amount	**19,186**
At 20 February 2020	
Cost or valuation	31,112
Accumulated amortisation	(11,926)
Net book amount	**19,186**
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**

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 (2020 – 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$ 90,000 (2020 - US$ 67,000) 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 2021

6. Property, plant and equipment

The Group	Land and Buildings $'000	Computer Equipment $'000	Motor Vehicles $'000	Office Equipment and Fittings $'000	Total $'000
Year ended 20 February 2021					
Opening net book amount	18,960	1,650	109	1,594	22,313
Additions	7	1,300	91	22	1,420
Disposals	–	(58)	(2)	–	(60)
Net exchange differences	492	6	10	11	519
Loss on revaluation	(1,663)	–	–	–	(1,663)
Depreciation charge	(928)	(154)	(46)	(288)	(1,416)
Closing net book amount	**16,868**	**2,744**	**162**	**1,339**	**21,113**
At 20 February 2021					
Cost or valuation	20,164	12,900	593	7,205	40,862
Accumulated depreciation	(3,296)	(10,156)	(431)	(5,866)	(19,749)
Net book amount	**16,868**	**2,744**	**162**	**1,339**	**21,113**
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**

The fair value of the head office building occupied by North has been assessed by the Directors, taking into account a valuation undertaken by Naylors Gavin Black, an independent Chartered Surveyor on 12 November 2020. This Valuation Report was carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards (Issued November 2019, effective from 31st January 2020 ("the Red Book") which incorporate the IVSC International Valuation Standards (IVS).

The Directors do not consider that there have been any material changes to the market since the date of the valuation such that this valuation remains appropriate at 20 February 2021.

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 2021

6. Property, plant and equipment (cont.)

Sensitivity analysis applied to the valuation of the UK head office based in Newcastle upon Tyne of US$11.9 million gives the variations detailed below. The difference between the valuation of US$11.9 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 US$000
Price per square foot	$25.00	5% increase / decrease	+580 / -580
Price per car parking space	$1,302	5% increase / decrease	+12 / -12
Investment yield rate	6.5%	0.5% increase / decrease	-1,023 / +887
Rent free period	1 year	increase by 6 months	-490

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.

Depreciation expense of US$1.4 million (2020 - US$1.8 million) 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	2021 $'000	2020 $'000
Cost	18,226	18,237
Accumulated depreciation	(4,958)	(4,667)
Net book amount	**13,268**	**13,570**

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 2021

6. Property, plant and equipment (cont.)

The Company	Land and Buildings $'000	Computer Equipment $'000	Motor Vehicles $'000	Office Equipment and Fittings $'000	Total $'000
Year ended 20 February 2021					
Opening net book amount	17,844	1,586	38	1,549	21,017
Additions	7	1,248	–	3	1,258
Disposals	–	(58)	(2)	–	(60)
Net exchange differences	474	3	–	18	495
Gain on revaluation	(1,663)	–	–	–	(1,663)
Depreciation charge	(692)	(126)	(6)	(281)	(1,105)
Closing net book amount	**15,970**	**2,653**	**30**	**1,289**	**19,942**
At 20 February 2021					
Cost or valuation	18,715	12,371	245	6,728	38,059
Accumulated depreciation	(2,745)	(9,718)	(215)	(5,439)	(18,117)
Net book amount	**15,970**	**2,653**	**30**	**1,289**	**19,942**
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**

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 2021

7. Financial assets and liabilities

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

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Fair value through profit or loss	301,394	127,179	230,068	58,363
Loans and receivables including insurance and reinsurance receivables (note 8)	92,808	92,746	100,591	87,633
Total financial assets	**394,202**	**219,925**	**330,659**	**145,996**
Financial assets at fair value through profit or loss				
Equity securities – unlisted	51	51	50	50
Collective Investment Vehicles	298,123	123,908	230,018	58,313
Derivatives	3,220	3,220	–	–
Total	**301,394**	**127,179**	**230,068**	**58,363**
Maturity dates of the fixed interest collective investment vehicles are as follows:				
In up to two years	126,659	39,723	127,212	19,674
In more than two years but not more than three years	90,220	29,213	64,746	16,530
In more than three years but not more than four years	36,134	24,444	14,803	8,598
In more than four years but not more than five years	36,715	24,838	17,635	10,241
In more than five years	8,395	5,690	5,622	3,270
	298,123	**123,908**	**230,018**	**58,313**
Opening balance at 20 February	230,018	58,313	170,751	50,504
Additions	255,265	175,147	438,435	98,016
Disposals (sale and redemptions)	(200,452)	(155,521)	(378,781)	(89,382)
Investments transferred from SMI	–	36,152	–	–
Fair value net gains	9,085	4,758	926	95
Exchange	4,207	5,059	(1,313)	(920)
Closing balance at 20 February	**298,123**	**123,908**	**230,018**	**58,313**

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

Financial liabilities at fair value through profit or loss

Derivatives	–	–	1,096	1,096
Total	**–**	**–**	**1,096**	**1,096**

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

As at 20 February 2021, cash and cash equivalents of US$ NIL million (2020: US$0.52 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 2021

8. Loans and receivables

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	59,275	42,025	33,026	18,425
– due from reinsurers	29,117	31,011	62,032	66,376
Other loans and receivables:				
– prepayments and accrued interest	2,778	2,084	3,255	2,588
– accrued interest and rent	3	–	412	5
– amounts due from group undertakings	–	15,462	–	–
– other debtors	4,413	4,248	5,121	2,827
	95,586	**94,830**	**103,846**	**90,221**

Included in other debtors in both the Group and the Company are US$ NIL (2020 - US$ NIL) that are due more than twelve months after the reporting date.

9. Cash and cash equivalents

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Cash at bank and in hand	81,748	36,961	64,899	33,818
Short-term bank deposits	49,973	47,241	35,123	31,588
Money market funds	350	350	357	347
	132,071	**84,552**	**100,379**	**65,753**

At 20 February 2021, the Group has an unused bank overdraft facility of US$20.0 million (2020: US$0.7 million unused).
As of 20 February 2021, US$3.7 million of the cash reported in the Group and Company are designated for the regulatory requirements of the North Japan Branch.

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

10. Insurance liabilities and reinsurance assets

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	1,190,284	946,576	1,161,577	992,326
– claims incurred but not reported and claims handling reserve	97,898	71,869	94,705	59,402
Total insurance liabilities, gross	**1,288,182**	**1,018,445**	**1,256,282**	**1,051,728**
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	1,125,149	969,602	1,092,626	1,008,453
– claims incurred but not reported and claims handling reserve	85,767	63,451	80,183	52,429
Total reinsurers' share of insurance liabilities	**1,210,916**	**1,033,053**	**1,172,809**	**1,060,882**
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	65,135	(23,026)	68,951	(16,127)
– claims incurred but not reported and claims handling reserve	12,131	8,418	14,522	6,973
Total insurance liability	**77,266**	**(14,608)**	**83,473**	**(9,154)**

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

10. Insurance liabilities and reinsurance assets (cont.)

Movements in insurance liabilities and reinsurance assets

The Group	2021 Gross	2021 Reinsurance $'000	2021 Net $'000	2020 Gross $'000	2020 Reinsurance $'000	2020 Net $'000
Outstanding claims at the beginning of the year	1,256,282	(1,172,809)	83,473	836,932	(748,220)	88,712
Cash (paid) / recovered for claims settled in the year	(576,324)	550,500	(25,824)	(231,112)	199,882	(31,230)
Increase / (decrease) in liabilities						
– arising from current year claims	344,936	(315,899)	29,037	639,831	(608,510)	31,321
– arising from prior year claims	259,075	(272,025)	(12,950)	12,593	(16,489)	(3,896)
Exchange movements	4,213	(683)	3,530	(1,962)	528	(1,434)
Outstanding claims at end of year	**1,288,182**	**(1,210,916)**	**77,266**	**1,256,282**	**(1,172,809)**	**83,473**

The Company	2021 Gross	2021 Reinsurance $'000	2021 Net $'000	2020 Gross $'000	2020 Reinsurance $'000	2020 Net $'000
Outstanding claims at the beginning of the year	1,051,728	(1,060,882)	(9,154)	801,964	(800,419)	1,545
Cash recognised on the transfer of SMI	43,208	(28,257)	14,951	–	–	–
Cash (paid) / recovered for claims settled in the year	(478,967)	462,889	(16,078)	(195,040)	173,637	(21,403)
Increase / (decrease) in liabilities						
– arising from current year claims	175,555	(185,725)	(10,170)	444,750	(450,564)	(5,814)
– arising from prior year claims	223,112	(220,297)	2,815	662	16,374	17,036
Exchange movements	3,809	(781)	3,028	(608)	90	(518)
Outstanding claims at end of year	**1,018,445**	**(1,033,053)**	**(14,608)**	**1,051,728**	**(1,060,882)**	**(9,154)**

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 2021

10. Insurance liabilities and reinsurance assets (cont.)

Policy year analysis (all classes)

	Closed Years $'000	2018 $'000	2019 $'000	2020 $'000	Claims Handling Reserve $'000	Total $'000
At 20 February 2021						
Gross outstanding claims	261,168	133,896	550,805	319,041	23,272	1,288,182
Reinsurance amount	(234,905)	(124,458)	(538,527)	(292,696)	(20,330)	(1,210,916)
Net outstanding claims	**26,263**	**9,438**	**12,278**	**26,345**	**2,942**	**77,266**
At 20 February 2020						
Gross outstanding claims	413,426	204,833	616,787	–	21,236	1,256,282
Reinsurance amount	(371,462)	(189,072)	(593,718)	–	(18,557)	(1,172,809)
Net outstanding claims	**41,964**	**15,761**	**23,069**	**–**	**2,679**	**83,473**

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	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Estimate of ultimate claims cost										
At end of policy year	390.2	803.5	369.7	298.4	291.8	273.8	372.0	378.5	323.7	356.0
One year later		1,198.4	364.2	281.0	258.2	293.9	409.8	500.2	310.4	324.6
Two years later			346.6	299.7	236.7	286.4	417.6	463.6	408.9	332.9
Three years later				276.9	243.1	253.1	411.7	461.8	387.1	388.3
Four years later					232.7	241.7	343.7	437.7	357.8	366.4
Five years later						243.0	373.4	456.4	357.2	383.6
Six years later							360.9	451.9	348.0	375.3
Seven years later								408.3	333.1	357.9
Eight years later									327.6	357.1
Nine years later										355.1
Current estimate of cumulative claims	390.2	1,198.4	346.6	276.9	232.7	243.0	360.9	408.3	327.6	355.1
Cumulative payments to date	65.3	653.5	215.1	198.4	182.4	211.2	326.2	433.1	315.9	345.9
Liability recognised in statement of financial position	324.9	544.9	131.5	78.5	50.3	31.8	34.7	(24.8)	11.7	9.2
Total of ten years										1,192.7
Liability in respect of prior policy years										72.2
Claims handling reserve										23.3
Total liability included in statement of financial position										**1,288.2**

Notes to the Consolidated Financial Statements (cont.)

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

10. Insurance liabilities and reinsurance assets (cont.)

Insurance claims development – Net (US$M)

Policy Year	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Estimate of ultimate claims cost										
At end of policy year	33.7	36.5	31.1	36.7	33.5	40.0	58.5	23.5	27.5	18.7
One year later		35.6	34.4	37.7	38.8	53.6	62.6	60.5	25.0	17.2
Two years later			32.7	39.6	37.7	52.1	63.5	59.6	60.3	26.3
Three years later				37.2	40.8	48.1	62.7	60.6	58.7	70.7
Four years later					37.1	48.7	53.7	55.8	55.5	66.5
Five years later						50.3	62.8	57.0	58.5	70.5
Six years later							62.2	59.4	53.8	71.0
Seven years later								58.4	56.5	66.7
Eight years later									55.9	69.5
Nine years later										69.2
Current estimate of cumulative claims	33.7	35.6	32.7	37.2	37.1	50.3	62.2	58.4	55.9	69.2
Cumulative payments to date	7.0	24.1	23.3	29.8	34.8	47.0	59.0	57.4	54.8	67.6
Liability recognised in statement of financial position	26.7	11.5	9.4	7.4	2.3	3.3	3.2	1.0	1.1	1.6
Total of ten years										67.5
Liability in respect of prior policy years										6.9
Claims handling reserve										2.9
Total liability included in statement of financial position										**77.3**

11. Trade and other payables

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	33,611	29,378	23,544	19,138
– due to reinsurers	69,372	56,286	15,483	15,483
– provision for unearned reinsurance commission	3,684	3,684	2,261	–
Other payables				
– employee payables	33	66	20	175
– accruals	5,575	2,417	7,800	2,467
– amounts due to group undertakings	–	6,933	–	29,268
– lease liability	1,962	981	2,479	1,328
– VAT creditor	120	342	1,134	–
– other	1,996	1,288	1,147	978
Trade payables and accrued expenses	**116,353**	**101,375**	**53,868**	**68,837**

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 2021

12. Investment income

The Group	2020 $'000	2019 $'000
Interest on bank deposits	(93)	987
Investment Income (Expense)	**(93)**	**987**

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

The Group	2020 $'000	2019 $'000
Net fair value gains on financial assets through profit or loss:		
– fair value gains	9,025	8,225
– derivative hedging	4,315	1,321
	13,340	**9,546**
Net fair value gains on collective investment vehicles and debt securities are as follows:		
Bond interest	(229)	5,573
Net realised gains	3,194	1,514
Net movement on unrealised gains	6,060	1,138
	9,025	**8,225**

14. Insurance claims

The Group	2021 Gross $'000	2021 Reinsurance $'000	2021 Net $'000
Current year claims and loss adjustment expenses	449,522	(383,896)	65,626
Change in cost for prior year claims and loss adjustment expenses	224,035	(240,605)	(16,570)
Movement in claims handling reserve	1,900	(1,710)	190
Total claims and loss adjustment expenses	**675,457**	**(626,211)**	**49,246**

	2020 Gross $'000	2020 Reinsurance $'000	2020 Net $'000
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**

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 2021

15. Operating expenses by nature

The Group	Note	2021 $'000	2020 $'000
Depreciation and amortisation charges		1,506	1,818
Loss / (gain) on disposal of fixed assets		35	(6)
Staff costs	16	48,969	48,764
Allocation of staff costs to claims handling expenses		(29,678)	(27,495)
Brokerage		30,535	26,725
Purchase of goods and services		22,146	27,482
Total operating expenses		**73,513**	**77,288**

Auditor's Remuneration	2021 $'000	2020 $'000
Amounts payable to KPMG LLP:		
Audit of these financial statements	579	278
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	389	569
Audit related assurance services	114	95
Other assurance services	268	128
	1,350	**1,070**

Amounts receivable by the company's auditor and its associates in respect of the audit of financial statements of associated pension schemes is US$30,791 (2020: US$25,260). 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	2021 Number	2020 Number
P&I claims	96	95
Underwriting	50	41
FD&D	43	40
Loss prevention	13	14
Brokerages	20	19
Other	156	156
	378	**365**

	2021 $'000	2020 $'000
Their aggregate remuneration comprised:		
Wages and salaries	40,884	41,089
Social security costs	3,317	2,879
Other post-employment benefits	4,768	4,796
	48,969	**48,764**

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 2021

17. Directors' remuneration

The remuneration of the Directors was as follows:

The Group	2021 $'000	2020 $'000
Short-term employee benefits	2,025	2,971

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

Highest Paid Director	2021 $'000	2020 $'000
	1,117	1,334

No Directors were members of the Company's defined benefit pension schemes 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 2021 was US$ NIL (2020 - US$ NIL).

18. Finance (expense) / Income

The Group	2021 $'000	2020 $'000
(Losses) / Gains on exchange	(3,497)	880
Interest expense on Corporation Tax	–	(1)
Interest expense on lease liabilities	(44)	(52)
	(3,541)	**827**

19. Tax expense

The Group	2021 $'000	2020 $'000
Current tax	3,692	579
Deferred tax	(28)	(39)
	3,664	540
Corporation tax payable as at 20 February	**2,494**	**142**

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 2021

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:

	2021 $'000	2020 $'000
Trading gain / (loss)	8,816	(6,114)
Investment income	1,468	967
Net fair value gains on financial assets	6,486	4,126
Expenses for asset management services rendered	(133)	(196)
Investment return	**7,821**	**4,897**
Taxable surplus / (deficit)	**16,637**	**(1,217)**
Tax on the above at standard UK corporation tax rate of 19.0%	3,161	(231)
Effect of different rates of tax	567	83
Deferred tax losses not recognised	216	359
Write off deferred tax on losses previously recognised	–	138
Tax losses utilised	(448)	(349)
Adjustment in respect of previous years	168	540
Total tax expense	**3,664**	**540**

The above reconciliation does not start with the surplus for the year as North mutual business 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	2021 $'000	2020 $'000
At 20 February	238	200
Exchange rate adjustments	9	(24)
Movement in the year	(123)	62
At 20 February	**124**	**238**
Differences between the accumulated depreciation and taxation allowances		
other timing differences	124	238
	124	**238**

No deferred tax on accumulated tax losses has been recognised. Unrecognised deferred tax on accumulated tax losses amounts to US$0.1million (2020 - US$6.2 million).

The financial statements have been prepared on the basis that surpluses and deficits from the mutual classes of business underwritten by a subsidiary company are not subject to income tax. It is considered probably that the tax treatment will be accepted in the relevant jurisdiction, and as such the financial statements have been prepared consistently with the treatment used in the subsidiary's income tax filings to 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 2021

20. Reserves

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Income and expenditure reserve	246,682	227,173	207,487	172,434
Contingency funds	41,790	41,790	36,247	36,247
Revaluation reserve	3,637	3,035	5,300	4,698
	292,109	**271,998**	**249,034**	**213,379**

(a) Income and expenditure reserve	Group 2021	Company 2021	Group 2020	Company 2020
Opening balance	207,487	172,434	217,994	198,492
Total comprehensive income for the year	44,738	60,282	80	(15,471)
Transfer to contingency fund	(5,543)	(5,543)	(10,587)	(10,587)
Closing balance	**246,682**	**227,173**	**207,487**	**172,434**

(b) Contingency funds

	2021 $'000	2021 $'000	2020 $'000	2020 $'000
The Group and Company				
Opening balance		36,247		25,660
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	4,199		5,392	
Surplus transferred from closed policy years	1,344		5,195	
		5,543		10,587
Closing balance		**41,790**		**36,247**
The following provides a further analysis of the movement on the contingency fund by class of business:				
Protecting & Indemnity Class				
Opening balance		30,688		20,498
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	3,851		5,066	
Surplus transferred from closed policy years	899		5,124	
		4,750		10,190
Closing balance		**35,438**		**30,688**
Freight, Demurrage & Defence Class				
Opening balance		5,559		5,162
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	347		326	
Surplus transferred from closed policy years	446		71	
		793		397
Closing balance		**6,352**		**5,559**

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 2021

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	2021 $'000	2020 $'000
Opening balance	5,300	4,611
Revaluation of property	(1,663)	689
Closing balance	**3,637**	**5,300**

The Company	2021 $'000	2020 $'000
Opening balance	4,698	4,009
Revaluation of property	(1,663)	689
Closing balance	**3,035**	**4,698**

The revaluation reserve is used to record unrealised valuation gains and losses in property 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 2021

21. Subsidiary undertakings

The direct subsidiary undertakings, all wholly owned, are:

Company Name	Nature of Business	Incorporated	Holding % at 20 Feb 2021	2020
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 (Deregistered) 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 2021

21. Subsidiary undertakings (cont.)

The following subsidiaries of SMI which are wholly owned, with the exception of Van Olst de Graff & Co BV, were transferred to North during the year ended 20 February 2021, following the Part VII transfer of SMI on 30 June 2020 and are included in the consolidation:

			Holding % at 20 Feb	
Company Name	**Nature of Business**	**Incorporated**	**2021**	**2020**
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	91	82
Marine Insurance Australia Limited Registered address: Shop 11, 37 Main Street, Samford, Queensland 4520, Australia	Dormant	Australia	100	100
North Risk Services Limited (previously Aquaculture Risk (Management) Limited) Registered address: The Quayside, Newcastle upon Tyne, NE1 3DU	Risk consulting	U.K.	100	100
Aquaculture Risk (Management) Limited (previously Salvus Bain (Management) Limited) Registered address: 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA	Dormant, brand protection	U.K.	100	100

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 2021

21. Subsidiary undertakings (cont.)

The value of the subsidiary undertakings is as follows:

The Company	2021 $'000	2020 $'000
Balance brought forward	96,910	96,910
Impairment of investment in SMI	(33,402)	–
Capital contributed to Hydra during the year	17,940	–
Purchase of additional share capital in Van Olst de Graff & Co BV	336	–
Value of subsidiary undertakings transferred with SMI	5,894	–
Balance carried forward	**87,678**	**96,910**

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 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. The parent company has agreed, with shareholders of other segregate cells in Hydra Insurance Company Limited, to maintain a certain level of capital within each segregated cell. The parent company was required to make a contribution to the Hydra North Cell in the current financial year in accordance with that agreement.

As described in more detail in note 27, the insurance business of SMI, and its related assets and liabilities except for those noted above, were transferred to the Company during the year. The investment in SMI has been written down to its estimated realisable value following that transfer.

In line with North's accounting policies, the Directors consider that no further impairment of the investments in group companies is required at either 20 February 2021 or 20 February 2020.

22. Leases

The Group have 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.

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 2021

22. Leases (cont.)

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 $'000	Motor Vehicles $'000	Computer Equipment $'000	Total $'000
Balance at 21 February 2020	2,402	2	13	2,417
Additions to ROU asset	7	–	–	7
Depreciation charge for year	(593)	(2)	(3)	(598)
Balance at 20 February 2021	**1,816**	**–**	**10**	**1,826**

The Company	Land and Buildings $'000	Motor Vehicles $'000	Computer Equipment $'000	Total $'000
Balance at 21 February 2020	1,283	–	–	1,283
Additions to ROU asset	7	–	–	7
Depreciation charge for year	(402)	–	–	(402)
Balance at 20 February 2021	**888**	**–**	**–**	**888**

ii. Amounts to be recognised in profit or loss

The Group	2021 $'000	2020 $'000
Interest on lease liabilities	44	52
Expenses relating to short term and low value leases	187	254
Depreciation charge for year	598	593
Total expense in year	**829**	**899**

iii. Amounts recognised in statement of cash flows

The Group	2021 $'000	2020 $'000
Total cash outflow for leases	**704**	**548**

The Company	2021 $'000	2020 $'000
Total cash outflow for leases	**452**	**314**

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

22. Leases (cont.)

iv. Maturity analysis of lease liabilities

The Group	Land and Buildings $'000	Computer Equipment $'000	Total $'000
Maturity analysis - contractual undisclosed cash flows amounts due:			
Less than one year	633	4	637
One to five years	1,151	8	1,159
More than five years	384	–	384
Balance at 20 February 2021	**2,168**	**12**	**2,180**
Total lease liabilities included in the statement of financial position	**1,951**	**11**	**1,962**

The Company	Land and Buildings $'000	Computer Equipment $'000	Total $'000
Maturity analysis - contractual undisclosed cash flows amounts due:			
Less than one year	359	–	359
One to five years	531	–	531
More than five years	252	–	252
Balance at 20 February 2021	**1,142**	**–**	**1,142**
Total lease liabilities included in the statement of financial position	**981**	**–**	**981**

23. Guarantees

In the normal course of business, North has provided letters of credit and guarantees totalling US$13.2 million.

24. Related party transactions

Key management compensation

The remuneration of the Directors was as follows:

	2021 $'000	2020 $'000
Short term employee benefits	**2,025**	**2,971**

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

Certain Directors are representatives or agents of member companies. Other than the insurance and membership interests those Directors have no financial interests in the Company.

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.

The Group operates two defined benefit schemes and further information can be found in note 26 of these Financial Statements.

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

24. Related party transactions (cont.)

Transactions with related parties have been entered into as follows:

The Company	2021 $'000 SMI	2021 $'000 Shanghai	2021 $'000 Hydra	2021 $'000 NGS	2021 $'000 North EU	2020 $'000 SMI	2020 $'000 Shanghai	2020 $'000 Hydra	2020 $'000 NGS	2020 $'000 North EU
Income statement										
Insurance premium	(1,852)	-	(17,779)	-	-	6,278	-	(17,736)	-	-
Insurance claims and loss adjustment expenses	15,212	-	-	-	-	(7,049)	-	-	-	-
Unearned premium	3,987	-	-	-	-	584	-	-	-	-
Insurance claims and loss adjustment expenses recovered	-	-	47,157	-	-	-	-	18,030	-	-
Management fee recovered	-	(1,369)	-	-	-	-	(1,334)	-	-	-
Expenses Recharged	380	-	-	(27,274)	-	602	-	-	(27,901)	6,071
Statement of financial position										
Technical provisions - insurance contracts	-	-	-	-	-	17,956	-	-	-	-
Reinsurers' share of technical provisions	-	-	99,596	-	-	-	-	79,135	-	-
Unearned premium	-	-	-	-	-	3,987	-	-	-	-
Receivables arising from insurance and reinsurance contracts	-	-	-	-	-	6,145	-	(2,210)	-	-
Other debtors	(6,933)	215	-	1,558	13,689	1	226	-	88	(14,143)
Capital distributed/ (introduced)	45,808	-	(17,940)	-	-	–	–	–	–	–

Further disclosures are made on the Part VII transfer of SMI in note 27 of these 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 2021

25. Cash generated from operating activities

	Group 2021 $'000	Company 2021 $'000	Group 2020 $'000	Company 2020 $'000
Surplus for the year	49,505	63,278	18,835	2,203
Adjustments for:				
Depreciation and amortisation	1,506	1,195	1,818	1,511
Investment (income) / expense	(9,085)	(4,797)	(926)	(95)
Tax expense	3,664	3,773	540	707
Interest expense	44	28	52	30
Loss / (profit) on sale of property, plant and equipment	35	35	(6)	(6)
(Decrease) / increase in insurance contracts net of reinsurance recoverable	(6,207)	(20,405)	(5,238)	(10,699)
(Decrease) / increase in unearned premium reserve net of reinsurers' share	6,903	969	(1,111)	(497)
Decrease / (increase) in loans and receivables	5,212	30,659	1,250	(7,700)
Increase / (decrease) in reinsurance payables	6,192	(1,327)	2,188	(294)
Derivative financial instruments	(4,316)	(4,316)	(1,650)	(1,321)
Increase in trade and other payables	63,142	26,029	10,679	20,727
Defined benefit contributions in excess of the charge for the year	(28,831)	(28,831)	(4,329)	(4,329)
Purchase of bonds at fair value through profit or loss	(255,265)	(175,147)	(438,435)	(98,016)
Sale of bonds at fair value through profit or loss	200,452	155,521	378,781	89,382
Distribution from SMI (note 27)	–	(12,385)	–	–
Cash generated from / (used in) operating activities	**32,951**	**34,279**	**(37,552)**	**(8,397)**

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 2019 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.

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

26. Retirement benefit scheme (cont.)

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The schemes have experienced historical transfers out which will be subject to adjustment as a result of this second ruling. Management have obtained an estimate of the top up transfer values which relate to equalisation of scheme benefits for the period prior to 31 December 2018 and together with their actuary have deemed this immaterial, with no requirement to recognise an adjustment as a past service cost within the financial statements for the year ended 20 February 2021.

Actuarial assumptions for IAS19 – valuing the scheme liabilities

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

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

The Group has updated its approach to setting RPI and CPI inflation assumptions considering the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK Statistics Authority. The Group continued to set inflation based on the prescribed conditions above. The Group reduced the assumed difference between RPI and CPI inflation by 0.4% compared to prior year methodology to reflect increased clarity on the future RPI index. The estimated impact of the change in the methodology is approximately a US$3.3m increase in the defined benefit obligation in respect of the North scheme and US$1.2m in respect of the SMI pension scheme.

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 2021

26. Retirement benefit scheme (cont.)

The fair value of plan assets are as follows:

	North 2021	SMI 2021	North 2020	SMI 2020
Discount rate	1.80%	1.80%	1.80%	1.80%
Inflation rate	2.70%	2.70%	2.10%	2.10%

Mortality

For the purposes of both the 2020 and 2021 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 2020 calculations in accordance with the CMI 2018 projections with a long-term rate of improvements of 1% per annum. For the purposes of the 2021 calculations the allowance for future improvements in longevity has been updated to the CMI 2019 projections again with long-term rate of improvements of 1.00% per annum.

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 2021 $'000	SMI 2021 $'000	North 2020 $'000	SMI 2020 $'000
Equities	35,682	13,942	38,505	14,131
Other	7,894	3,075	8,293	3,074
Credit/ Debt funds	28,522	–	14,135	–
Diversified credit funds	–	14,011	–	12,892
Liability driven investments	52,011	18,453	25,238	15,602
Cash	1,131	402	824	308
	125,240	**49,883**	**86,995**	**46,007**

The actual return on plan assets for 2021 amounted to a loss of US$2.9 million (2020: a gain of US$9.9 million) for North and a gain of US$0.7 million (2020: US$5.4 million) for SMI.

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2021

26. Retirement benefit scheme (cont.)

Defined benefit plans

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

Group and Company	Defined benefit obligation $'000	Fair value of plan assets $'000	Benefit liability $'000
20 February 2019	**174,235**	**121,962**	**52,273**
Past service cost	–	–	–
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**
Net interest	3,836	2,898	938
Sub-total included in income	**3,836**	**2,898**	**938**
Benefits paid	(2,937)	(2,937)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	(5,056)	5,056
Actuarial changes			
– arising from changes in demographic assumptions	9,288	–	9,288
– arising from changes in financial assumptions	9,070	–	9,070
Experience adjustments	(11,998)	–	(11,998)
Sub-total included in OCI	**6,360**	**(5,056)**	**11,416**
Contributions by employer	–	33,961	(33,961)
Exchange rate movements	17,447	13,255	4,192
20 February 2021	**221,797**	**175,123**	**46,674**

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 2021

26. Retirement benefit scheme (cont.)

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2021 is shown below.

North Scheme	Impact on retirement benefit liability $'000
(Increase) / reduce discount rate by 0.5%	(17,312) / 20,201
Increase / (reduce) inflation assumption by 0.5% (assumed affects deferred and pensioner increases and not salary increases)	6,239 / (7,261)
Increase life expectancy by one year	7,188
SMI Scheme	
(Increase) / reduce discount rate by 0.5%	(5,403) / 6,204
Increase / (reduce) inflation assumption by 0.5% (assumed affects deferred and pensioner increases and not salary increases)	2,784 / (2,358)
Increase life expectancy by one year	2,164

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 2021/22 is US$4.25 million for North and US$ NIL for SMI.

The average duration of the defined benefit plan obligation at the end of the reporting period is 23 years (2020: 25 years) for North scheme and 21 years (2020: 20 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$5.0 million (2020: US$4.8 million). 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 2021

27. Part VII Transfer of SMI (Company)

Pursuant to an order of the High Court of England and Wales dated 16 June 2020, and following application by the Group, all of the insurance business, with the exception of the residual policies, of Sunderland Marine Insurance Company Limited ("SMI"), a wholly owned subsidiary, was transferred to the Company with effect from midnight on 30 June 2020 ("the Part VII transfer").

The remaining policies, including those relating to the Canadian branch, were transferred pursuant to the same Part VII transfer but with an effective date of 8 January 2021.

The business transfer has been accounted for as a common control transaction at book value. All assets and liabilities incorporated in the Part VII transfer as shown in the balance sheet below were transferred at book value on the effective dates of the transfer.

The business combination marks the conclusion of a broader restructuring project to transfer all of the business of SMI into the Company, following acquisition of SMI by the Company in 2014.

Consideration of US$45,808,000 payable in respect of the transfer was subsequently waived by SMI, resulting in a capital distribution from the subsidiary. Following the capital distribution, the investment in SMI was written down to its net realisable value, resulting in an impairment charge. The excess of the capital distribution over the amount of the impairment, being US$12,385,000, has been recognised as income in the parent company financial statements.

Value of business transferred

Assets	$'000
Property, plant and equipment	33
Investments in group undertakings	5,264
Reinsurers' share of unearned premium	4,391
Reinsurers' share of technical provisions	28,257
Loans and receivables including insurance and reinsurance receivables	29,267
Debt securities	36,152
Cash and cash equivalents	3,719
Total assets	**107,083**
Liabilities	
Technical provisions	
Provision for unearned premium	8,386
Insurance contracts	43,208
Trade and other payables	9,681
Total liabilities	**61,275**
Net assets transferred	**45,808**

28. Events subsequent to the statement of financial position date

There have been no events subsequent to the balance sheet date that materially impact the carrying value of assets and liabilities reported in these financial statements.

Connect

www.nepia.com

@NorthPandIClub

NorthPandIClub

The North of England P&I Association Limited

North P&I Club