Sunderland Marine Insurance Company Limited

Directors' Report, Strategic Report and Financial Statements 2019

Registered in England: Limited by Guarantee

The Quayside, Newcastle upon Tyne, NE1 3DU
Registered Number: 16432

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DIRECTORS

	Position on board
TF Hart	Chairman
JM de Groot	
PA Jennings	
PM Johnson	
FJ Mattera	
T Rutter (Resigned 30 June 2018)	
PB Shirke	
Sir Peter I Talley	
AA Wilson	

Auditors
KPMG LLP
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

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

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the financial statements of the company for the year ended 20 February 2019.

Member

The North of England Protecting and Indemnity Association Limited ("North") is the sole member of the company.

The company forms part of the North group of companies (the "Group") which comprises North and its subsidiaries.

Status

The company is limited by guarantee without share capital.

Corporate governance

The directors are collectively responsible for the long-term success of the company, setting the company's strategic aims and ensuring that the obligations to policyholders and others are understood and met.

The board of directors is responsible for directing the affairs of the company in compliance with statutory and regulatory requirements. The board comprises 8 directors: 6 non-executive directors and 2 executive directors.

The Group nominations committee is responsible for the evaluation of directors.

The Group audit committee is primarily responsible for the oversight of internal and external audit functions across the Group including the review and approval of the company's annual report and financial statements. The principle focus of the Group risk committee is to oversee the integration and operation of risk management functions across the Group.

Directors

The directors of the company are shown on page 1.

The company, through a group insurance policy, maintains insurance policies on behalf of all directors against liability arising from negligence, breach of duty and breach of trust in relation to the company.

Political contributions

No political contributions were made during the year (2018: $nil).

REPORT OF THE DIRECTORS (CONTINUED)

Employees

The employment policies of the company embody the principles of equal opportunity. The sole criteria for selection, training, development and promotion is the individual's suitability for the position of employment offered and his or her aptitudes and abilities. The company takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees by reason of their disability.

The company maintains its commitment to providing employees with information on matters of concern to them as employees. Consultation with employees allows the company to take the view of employees into account in making decisions that are likely to affect their interests.

Financial Instruments

The company has exposure to financial instruments and details of these are included at Note 4 to the financial statements.

Auditor

The directors who held office at the date of approval of this directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps that he ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Pursuant to Section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

A.R

AS Rowland
Secretary

23 May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing the 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 IFRSs as adopted by the EU;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company 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 company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STRATEGIC REPORT

The directors present their strategic report for the year ended 20 February 2019.

Principal Activities

The company underwrites marine insurance for hull and machinery, protection and indemnity, personal accident and war risks as well as aquaculture insurance.

The principal activities of the company's subsidiaries are marine insurance and insurance broking.

The company principally operates from its head office in Newcastle upon Tyne in the UK but also has a number of offices in locations worldwide including Canada, the Netherlands, South Africa and the US. Previously the company had offices in Australia and New Zealand however the Australia and New Zealand branches were transferred to North on 16th November 2018 and 1st November 2018 respectively.

Strategy

The company's business objective is to generate a consistent return for the North of England P&I Association (North) membership and to maintain long-term financial stability. The strategy is to achieve this through providing insurance to markets where its high level of service and knowledge differentiates it from other insurance providers and where sustainable pricing can be achieved. A strategic review was undertaken three years ago with the objective of achieving an enhanced level of financial stability and resilience to economic and other environmental pressures.

At the time of the strategic review, the directors identified that the business model of the company required a high level of operational overhead to achieve the delivery of its underwriting and claims services and agreed a three year strategy to transition to a more sustainable business model. The company has now reached the end of that three year period. The changes made have ensured that the company can continue to deliver long-term financial stability and security. The directors set three strategic priorities for delivery over that timeframe:

Focus on core business – the company has been successful over its long history working in partnership with its policyholders in niche marine and aquaculture sectors. It is a strategic priority to retain the company's focus on policyholders and the service that sets it apart from other insurers. Sustainable premium levels can be achieved in these areas by providing a high quality insurance cover and service which differentiates the company from its competitors. In these core markets the company's priority is to improve and develop the service and products it provides to policyholders and to maintain its unique reputation.

Reduce complexity – the company's overall expense ratio is high in relation to competitors under the current business model and structure. The company's strategy is to transition its business to its parent, North, and operate as a division of that company to achieve operating and cost efficiencies. This is subject to regulatory approval in a number of jurisdictions worldwide. During the year, the company successfully transferred the operations of its Australian and New Zealand branches to the parent company, representing a significant step towards the achievement of this objective.

Reduce exposures to non-core business – in certain markets the premium available for providing a high quality niche insurance cover does not justify the costs of the company's business model. Nonetheless the company retains a strong reputation, experience and knowledge in these markets. The company's strategy is to work with insurance partners to put in place mutually sustainable arrangements which will provide continuity of cover and service for policyholders and improve the financial stability of the company.

Having made significant progress towards all three strategic objectives, the company has delivered a significant return for the North membership in the current year.

Business Environment

The company underwrites a variety of marine risks, including hull and machinery, protection and indemnity and personal accident as well as 'all-risks' cover for the aquaculture industry. Both the marine and aquaculture insurance environments are highly competitive with no indication of generalised upwards pressure on premium rating in the short term.

The company manages a portfolio of risks which is well diversified within its niche marine portfolio in relation to size of vessel, fishery and service activity and within aquaculture by species.

The company also maintains geographical diversification although its strategy is to reduce its underwriting exposure in certain regions where its current business model is not competitive. The company's current markets for marine, based on premiums written in the year, are the UK (31%), Europe (24%), Australasia (37%) and others (8%), and for aquaculture they are UK (18%), North America (23%), Europe (36%), and Australasia (23%).

The UK's decision to leave the EU is likely to lead to a number of changes to the Company's risk profile. The most prominent risk is the potential loss of the UK's passporting rights which enable the Company to write business in other EU states without the need for separate licences. The Group has established an insurance entity in Ireland, North of England P&I Designated Activity Company, which will serve the Group's members and policyholders, including EU business currently underwritten by the Company.

Whilst investment markets remain subject to volatility, the company has a low appetite for risk within its own portfolio.

Business Performance

The company has key financial and other performance indicators (KPIs) which reflect its strategic priorities.

	Year ended 20 February 2019 US$'000	**Year ended 20 February 2018 US$'000**
Long-term financial stability		
Results of operating activities	2,477	2,877
Investment return	2,391	2,275
Total accumulated surplus	54,666	78,153
Reduce complexity		
Expense ratio	43%	46%
Operating expenses	(7,312)	(11,890)

Gross earned premiums

Earned premium decreased from $80,076,000 to $48,358,000 which was a 39.6% decrease.

The marine division accounted for 86% of written premiums (2018: 86%).

Marine business is written mainly in the UK, Europe, Australia and New Zealand.

The aquaculture division accounted for 14% of written premium (2018: 14%).

Operating performance

The results of operating activities of $2,477,000 is slightly down on the prior year ($2,877,000). There has been a slight increase from 52% to 56% in the net loss ratio (a measure of claims incurred compared to premium) and a slight reduction from 46% to 43% in the expense ratio (a measure of expenses incurred compared to premium). The combined ratio, being the net loss ratio plus the expense ratio, has remained relatively stable at 99% (2018: 98%).

Investment return
Investment income and fair value gains for the year ended 20 February 2019 are $2,391,000 (2018: $2,275,000). Dividends from group undertakings are included in this figure and amounted to $579,000 (2018: $1,165,000).

Total accumulated surplus

The total accumulated surplus decreased from $78,153,000 at 20 February 2018 to $54,666,000 at 20 February 2019. The movement is a result of the surplus recorded for the year ($8,283,000) set against foreign exchange losses on foreign operations ($5,579,000) and a net distribution of capital to the parent company ($26,191,000).

Exchange gains of $2,283,000 (2018: loss $6,885,000) in the income statement have been offset by exchange losses of $5,579,000 (2018: gain $8,040,000) in the statement of comprehensive income. There was no actuarial gain or loss on the defined benefit pension scheme (2018: gain $1,485,000) recognised in the statement of comprehensive income as the pension scheme was transferred to the parent company on 2nd February 2018.

Capital structure

The company's primary regulators are the UK's Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The company has developed a risk management framework to identify risks that business units and the company as a whole are exposed to and quantify their impact on economic capital. The company uses financial modelling and other tests to calculate and maintain capital required at a 99.5% confidence level as part of its Own Risk and Solvency Assessment.

The company and its branches all satisfy existing regulatory requirements at the year-end and the company's capital structure is considered appropriate to support the business needs for the foreseeable future. A parental guarantee has been given by North which provides additional comfort that the company will continue to meet all of its financial obligations.

Risk management

The risks, related uncertainties and details on how the company mitigates these risks are reported on in detail in note 4 to the financial statements.

By order of the Board
AS Rowland
Secretary

23 May 2019

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the member of Sunderland Marine Insurance Company Limited

1 Our opinion is unmodified

We have audited the financial statements of Sunderland Marine Insurance Company Limited ("the Company") for the year ended 20 February 2019 which comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 20 February 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- 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 Company before 1986. The total period of uninterrupted engagement is for more than the 33 financial years ended 20 February 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. 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.

We continue to perform procedures over the accuracy and valuation of reinsurers' share of claims outstanding technical provision and the accuracy of reinsurance commission, and the existence and accuracy of earned premium revenue and the accuracy of unearned premium technical provision. However, given the simplification of the Company's reinsurance arrangements and the reduced quantity in adjustable premium we have not assessed these as a significant risk in our current year audit and, therefore, they are not separately identified in our report this year.

The impact of uncertainties due to the UK exiting the European Union on our audit
Refer to pages 5-7 (principal risks)
Risk vs 2018: New

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

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

Our Response

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

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

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

Valuation of claims incurred but not reported
($12.9 million; 2018: $25.7 million)
Risk vs 2018: ◄►
Refer to pages 23 to 24 (accounting policy) and pages 42-46 (financial disclosures).

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

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

Our Response

Our procedures included:

- **Our actuarial expertise:** Using our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
- **Independent reperformance:** Independently re-projecting the reserve for those classes of business we consider to be higher risk;
- **Benchmarking assumptions:** Comparing assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historic experience, current trends and benchmarking to our own industry knowledge;
- **Sensitivity Analysis:** Performing sensitivity analysis over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation;
- **Assessing transparency:** Assessing the 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.

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

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

Materiality for the financial statements as a whole was set at $650k (2018: $700k), determined with reference to a benchmark of Gross Earned Premiums by averaging over the last three years, of $68,894k, of which it represented 0.9% (2018: 0.9%). We consider Gross Earned Premium to be the most appropriate benchmark as it provides a more stable measure year on year than the Company surplus or deficit before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $35k (2018: $35k) in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

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

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

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

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

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

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

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

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

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

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

- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page X, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

Jessica S.S. Katsouris

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

STATEMENT OF FINANCIAL POSITION	Note	At 20 February 2019 $'000	At 20 February 2018 $'000
Assets			
Investment in group undertakings	6	5,735	6,161
Property, plant and equipment	5	7	2,920
Reinsurers' share of technical provision			
• Provision for unearned premium	10	10,567	20,811
• Claims outstanding	10	39,553	79,424
Deferred acquisition costs	10	1,592	3,645
Deferred tax asset	19	-	474
Assets held for sale	26	-	4,663
Current tax receivable		173	359
Financial assets			
• Debt securities - at fair value through profit or loss	7	38,275	32,287
• Loans and receivables including insurance and reinsurance receivables	8	38,721	33,004
Cash and cash equivalents	9	7,288	68,475
Total assets		**141,911**	**252,223**
Accumulated surplus			
Income and expenditure account	20	8,574	291
Translation reserve	20	(4,005)	(51)
Revaluation reserve	20	-	766
Other reserves	20	50,097	77,147
Total accumulated surplus, all attributable to owners of the parent		**54,666**	**78,153**
Liabilities			
Technical provision			
• Provision for unearned premium	10	15,806	32,784
• Claims outstanding	10	57,057	113,794
Provision for unearned reinsurance commission	10	2,047	4,073
Reinsurance payables		9,922	14,436
Trade and other payables	11	2,413	8,726
Deferred tax liability	19	-	231
Current tax liability		-	26
Total liabilities		**87,245**	**174,070**
Total accumulated surplus and liabilities		**141,911**	**252,223**

These financial statements were approved by the board of directors on 23 May 2019 and signed on its behalf by:

PA Jennings

Company registered number 16432

INCOME STATEMENT	Note	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Gross insurance premium revenue		43,245	60,931
Gross insurance premium ceded to reinsurers		(27,580)	(39,371)
Net insurance premium revenue		15,665	21,560
Change in provision for unearned premium		5,113	19,145
Reinsurers' share of change in unearned premium		(3,973)	(14,580)
Change in the net provision for unearned premium		1,140	4,565
Earned premiums net of reinsurance		**16,805**	**26,125**
Investment income	12	1,684	2,041
Net fair value gains at fair value through profit or loss	13	707	234
Net income		**19,196**	**28,400**
Insurance claims and loss adjustment expenses	10	(22,928)	(60,080)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	13,521	46,447
Net insurance claims		(9,407)	(13,633)
Expenses for the acquisition of insurance contracts		(5,217)	(10,868)
Expenses for marketing and administration		(8,333)	(10,726)
Reinsurance commission		6,332	10,661
Other gains and losses	14	-	(836)
Expenses for asset services rendered		(94)	(121)
Operating expenses	15	(7,312)	(11,890)
Total expenses		**(16,719)**	**(25,523)**
Results of operating activities		2,477	2,877
Profit on disposal of subsidiary	26	3,579	-
Net finance income / (charge)	18	2,283	(6,887)
Surplus / (deficit) before tax		8,339	(4,010)
Tax (expense) / income	19	(56)	482
Surplus / (Deficit) for the year, attributable to owners of the parent		**8,283**	**(3,528)**

STATEMENT OF COMPREHENSIVE INCOME	Note	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Surplus / (Deficit) for the year		**8,283**	**(3,528)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	20	(5,579)	8,040
Net other comprehensive income to be reclassified to profit or loss		**(5,579)**	**8,040**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains on defined benefit plans		-	1,485
Net other comprehensive income not to be reclassified to profit or loss		**-**	**1,485**
Total comprehensive income for the year, net of tax, attributable to owners of the parent		**2,704**	**5,997**

STATEMENT OF CHANGES IN EQUITY

	Note	I&E Account $'000	Revaluation Reserve $'000	Translation Reserve $'000	Reserve Fund $'000	Total $'000
At 20 February 2017	**20**	**2,334**	**766**	**(8,091)**	**77,147**	**72,156**
Total comprehensive income for the year						
Deficit for the year	20	(3,528)	-	-	-	(3,528)
Other comprehensive income						
• Foreign exchange rate movements		-	-	8,040	-	8,040
• Remeasurement gain on defined benefit plan		1,485	-	-	-	1,485
Total comprehensive income for the year		**(2,043)**	**-**	**8,040**	**-**	**5,997**
At 20 February 2018	**20**	**291**	**766**	**(51)**	**77,147**	**78,153**
Total comprehensive income for the year						
Surplus for the year	20	8,283	-	-	-	8,283
Other comprehensive income						
• Foreign exchange rate movements	20	-	-	(5,579)	-	(5,579)
Total comprehensive income for the year		**8,283**	**-**	**(5,579)**	**-**	**2,704**
Transactions with owners, recorded directly in equity						
Capital paid to parent company					(15,000)	(15,000)
Capital received from parent company					10,633	10,633
Business transfer		-	(766)	1,625	(22,683)	(21,824)
Total contributions by and distributions to owners		**-**	**(766)**	**1,625**	**(27,050)**	**(26,191)**
At 20 February 2019	**20**	**8,574**	**-**	**(4,005)**	**50,097**	**54,666**

STATEMENT OF CASH FLOWS	Note	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Operating Activities			
Cash absorbed by operating activities	24	(22,563)	(18,954)
Tax received		138	302
Net cash from operating activities		**(22,425)**	**(18,652)**
Cash Flows from investing activities			
Dividends received from subsidiaries		579	1,165
Proceeds from sale of property, plant and equipment		14	13
Proceeds from sale of subsidiary		8,223	-
Net cash from investing activities		**8,816**	**1,178**
Cash flows from financing activities			
Net capital distribution to parent company	20	(4,367)	-
Cashflow from business transfer	27	(39,594)	
Net cash from financing activities		**(43,961)**	**-**
Net decrease in cash and cash equivalents		**(57,570)**	**(17,474)**
Effects of exchange rate adjustments on cash held		(3,617)	2,172
Cash and cash equivalents at beginning of year		68,475	83,777
Cash and cash equivalents at end of year	9	**7,288**	**68,475**

NOTES TO THE FINANCIAL STATEMENTS

1) General information

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The company's results are consolidated into the financial statements of The North of England Protecting and Indemnity Association Limited, a company incorporated in England. Copies of the above accounts can be obtained from the Company Secretary, North of England Protecting and Indemnity Association Limited, The Quayside, Newcastle upon Tyne, NE1 3DU.

2) Significant accounting policies

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

2.1) Basis of presentation

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

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

The financial statements are presented in US Dollars (US$) rounded to the nearest thousand, unless otherwise stated. The company's functional currency is Sterling. The principal rates of exchange to Sterling used in preparing these financial statements are:

	For the year ended 20 February 2019	For the year ended 20 February 2018
United States Dollar	1.3220	1.3086

	At 20 February 2019	At 20 February 2018
United States Dollar	1.3088	1.4003

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

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

The standards and amendments initially applied in the year had no material effect on these financial statements. IFRS 15 has no impact because the company's revenues are generated from insurance contracts, which are outside the scope of the standard.

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

- IFRS 16 Leases

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) **Significant accounting policies (continued)**

2.1) **Basis of presentation (continued)**

The directors believe that there will be no material impact on the financial statements following the implementation of these standards and amendments. The company does not have significant leasing arrangements and the effects of IFRS 16 will not be material.

IFRS 9 is effective for the year ending 20 February 2019 but has not been applied in these financial statements as the company has availed itself of the option to defer adoption until the company adopts IFRS 17 Insurance Contracts which has an effective date of 1 January 2021 but is not yet endorsed by the EU. There is a proposal to further delay the effective date of IFRS 17 currently subject to consultation.

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

	Financial assets that pass the SPPI test		All other financial assets	
	Fair value	Movement in fair value	Fair value	Movement in fair value
	$'000	$'000	$'000	$'000
At 20 February 2019				
Fair value through profit or loss	-	-	38,275	77
Other loans and receivables	19,193	-	-	-
Total	**19,193**	-	**38,275**	**77**

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Whilst there is an intention to transfer the business of the company to its parent, the company will continue to service insurance contracts up until the point that the final transfers are completed and so remains a going concern. They thus continue to adopt the going concern basis of accounting in preparing the financial statements.

The company has reviewed the use of the going concern assumption in the financial statements and is confident that this assumption remains appropriate. The Company has reserves of $54,666,000 and the Company has substantial liquid assets, including debt securities and cash holdings, to meet its liquidity needs. In the opinion of the directors, the Company is fully able to meet its debts as they fall due. If required, support is available to the company in the form of a parent company guarantee.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) **Significant accounting policies (continued)**

2.2) **Foreign currency**

The figures in these financial statements are presented in US Dollars which is the company's presentational currency.

The income and expenses of the company are translated into the presentational currency at the exchange rate ruling at the date of the transactions when practical or at an average rate for the period in which the transactions arose. The assets and liabilities of the company are translated into the presentational currency at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in other comprehensive income.

The company's functional currency is Sterling.

A branch of the company whose functional currency is not Sterling is a foreign operation. The income and expenses of foreign operations are translated into Sterling at the exchange rate ruling at the date of the transactions when practical or at an average rate for the month in which the transactions arose. The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in other comprehensive income.

Foreign currency transactions are transactions undertaken by the company or its foreign operations other than in their functional currency. Foreign currency transactions during the period are translated into the functional currency at the exchange rate ruling at the date of the transactions when practical or at an average rate for the month in which the transactions arose.

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

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are not retranslated.

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

2.3) **Property, plant and equipment**

Land and buildings comprise the offices owned by the company. Land and buildings are shown at fair value, based on periodic 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's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance is charged to the income statement during the financial period in which it is incurred.

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; except that decreases in valuation that offset previous increases of the same asset are charged to other comprehensive income. Any decrease in valuation in excess of an amount previously credited to other comprehensive income is charged to the income statement.

Freehold land is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.3) Property, plant and equipment (continued)

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

Freehold buildings	2% straight line
Fixtures & fittings	10% - 33.3% straight line
Motor vehicles	20% - 33.3% reducing balance
Computers	20% - 33.3% straight line

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

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

2.4) Investment in group undertakings

Investments in group undertakings are held at cost less any accumulated impairment. The value of the investment in group undertakings is reviewed for impairment when events or circumstances indicate that the carrying value may be impaired.

2.5) Financial assets at fair value through profit or loss

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Non-derivative financial investments are classified as financial assets at fair value through profit or loss. Non-derivative financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to the income statement. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the company 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 the company has also transferred substantially all risks and rewards of ownership.

The fair value of quoted investments is based on current bid price.

2.6) Derivative financial instruments

The company occasionally holds derivative financial instruments to manage 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 profit or loss. 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.

2.7) 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 the company intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment when events or changes in circumstances indicate the value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.8) Impairment of assets

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

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the company about the following events:

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

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

2.9) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and, for the purposes of the cash flow statement only, bank overdrafts.

2.10) Provisions and contingent liabilities

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

2.11) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries in which the company operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.13) Retirement benefit scheme

The Company previously operated a pension scheme providing benefits based upon final salary for employees, known as a defined benefit scheme. The Company's defined benefit scheme was transferred to the parent company on 2 February 2018.

The company also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The amounts charged to the income statement represent the contributions payable to the schemes in respect of the accounting period.

2.14) Revenue and expense recognition

All elements of revenue arising from insurance contracts offered by the company and expenses are recognised on an accruals basis in the accounting period in which the contract is related.

2.15) Premiums and reinsurance premiums

Premiums written are accounted for in the year in which the risk commences. 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 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.

Unearned reinsurance premiums and related commissions are those proportions of premiums and commissions 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 losses occurring contracts.

2.16) Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial period. Acquisition costs which relate to a subsequent financial period 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 reporting date.

2.17) Claims and related recoveries

Claims paid are those claims transactions settled up to the reporting 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 reporting 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 reporting date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) **Significant accounting policies (continued)**

2.17) **Claims and related recoveries (continued)**

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

2.18) **Unexpired risks provision**

Provision is made where the cost of claims and expenses arising after the end of the period from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable. The assessment of whether a provision is necessary is made by reference to classes of business which are managed together. The unexpired risks provision is included in claims outstanding.

2.19) **Investment income and net fair value gains**

Investment income includes rental income and interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Net fair value gains or losses on assets at fair value through profit or loss consists of income from debt securities and realised and unrealised gains and losses.

2.20) **Finance income/expense**

Finance income/expense comprises derivative income or charges, and gains and losses relating to foreign exchange movements. Finance expense includes interest payable on borrowings accounted for on an accruals basis.

2.21) **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 period in which they are awarded.

2.22) **Operating lease agreements**

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

2.23) **Non-current assets held for sale and discontinued operations**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3) Critical accounting estimates and judgements used in applying accounting policies

The preparation of the figures in these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period 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.

3.1) Claims made under insurance contracts and reinsurance recoveries thereon

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

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. Case reserves are monitored and agreed by members of the claims department. Internal file audits are performed regularly in order to maintain high standards of claims management and reserving.

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

The main statistical methods used for review of reserve adequacy are the chain ladder triangulation and the Bornhuetter-Ferguson methods. The chain ladder triangulation method involves taking current and prior year premiums and claims developments and projecting potential ultimate outcomes for each class, year and currency. The main assumption behind this method is that development patterns will remain relatively constant, although specific events and occurrences are taken into account.

The Bornhuetter-Ferguson method is a blend of the chain ladder method and of the loss ratio method whereby ultimate claims levels are estimated by applying a judgementally selected ultimate loss ratio to the ultimate earned premium for each accident year. The weight applied to each of these methods varies depending on the maturity of the accident year, with the later accident years having more weight given to the loss ratio method and less weight given to the level of claims incurred to date.

Reserves are set at a best estimate level and a measure of prudence is then applied accordingly to the reserving policy set by the board in order to ensure that the financial statements are prepared on a prudent basis.

There are a number of assumptions and areas of judgement within the process of estimating reserves. The main methods used in estimating reserves are described above. Each requires a number of assumptions made by the actuary in applying these methods; some of the key assumptions are:

- The choice of paid or incurred claims data used for projections – projections using different data sets may yield different reserve estimates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3) **Critical accounting estimates and judgements used in applying accounting policies (continued)**

3.1) **Claims made under insurance contracts and reinsurance recoveries thereon (continued)**

- The subdivision of claims data into projection categories, including the split by class, currency, claims type or claims size. The choice of subdivision of claims data can lead to different reserve estimates as well as impacting the choice of other assumptions.
- The selected development pattern for the chain ladder method, arising out of judgements around the number of prior years' claims history to include within the selection, the type of method used to average prior years' claims movements, and the inclusion or exclusion of any unusual prior year movements. The more variable the prior year claims development and the longer the length of the tail of the class, the more sensitive the reserve estimates will be to this assumption.
- The initial expected loss ratio used within the Bornhuetter-Ferguson method. This loss ratio is set using a combination of prior year claims experience, discussions with underwriters and actuarial judgement. The impact of this assumption is more material for later accident years, that are less developed, than for earlier accident years. The impact is also more material for longer tailed classes.

Due to the large number of factors that make up these assumptions and possible combinations of varying these sets of factors it is not felt practical to include quantification of the impact of sensitivity testing.

Reinsurance recoveries are accrued against gross claims reserves including estimates and provisions where the company has an entitlement to make such recoveries.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) Risk management

The company's management of insurance and financial risk is a critical aspect of the business. The company has a number of procedures in place to manage these risks which are explained below.

4.1) Governance framework

The primary objective of the company's risk management framework is to protect the company from events that hinder the achievement of financial performance objectives. A framework has been put in place that sets out the risk profiles for the company and the board regularly approves the company's risk management policies.

4.2) Risk management framework

The company has an internal risk management framework for identifying risks to which the company is exposed and to quantify their impact on economic capital. The framework indicates how much capital is needed to mitigate the risk of capital exhaustion to a confidence level of 99.5% over one year.

An Audit Committee and a Risk Committee operate across the Group, which are an integral part of the wider risk management framework.

4.3) Regulatory framework

One of the objectives of the company's primary regulator is to protect the rights of the policyholders. The regulator monitors the company closely to ensure that it is satisfactorily managing affairs for the policyholders' benefit. At the same time the regulator is also interested in ensuring that the company maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the company are also subject to regulatory requirements within jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain requirements (e.g. capital adequacy) to minimise the risk of default and insolvency.

4.4) Asset liability management framework

The company has exposure to risks arising from movements in interest rates and currencies which are exposed to general and specific market movements. The principal technique used by the company is to match financial assets to liabilities in the same currency. The company also ensures that there is sufficient cash flow available to meet liabilities as they fall due.

4.5) Insurance risk

The company issues contracts that transfer insurance risk.

The principal risk the company faces under insurance contracts is that actual claims payments or the timing thereof, differ from expectations. This risk is influenced by the frequency of claims, severity of claims and the subsequent development of long-tail claims.

The objective of the company is to ensure that sufficient technical provisions are available to cover these liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) Risk management (continued)

4.5) Insurance risk (continued)

This risk exposure is mitigated by:

i) careful selection and implementation of underwriting strategy guidelines.

ii) diversification across a large portfolio of insurance contracts and geographical areas.

iii) the use of strict claim review processes that assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. These policies and processes ensure that claims are actively managed to reduce the possibility of unpredictable future claims developments.

iv) the company using reinsurance to reduce its exposure to losses and protect capital resources. The company uses a combination of proportional and non-proportional reinsurance to reduce its net exposure to claims and to limit its exposure to catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

The table below sets out the concentration of the company's outstanding claims provisions and related reinsurance by type of contract:-

	At 20 February 2019			At 20 February 2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Marine	44,169	(28,109)	16,060	93,197	(61,506)	31,691
Aquaculture	12,888	(11,444)	1,444	20,597	(17,918)	2,679
	57,057	**(39,553)**	**17,504**	**113,794**	**(79,424)**	**34,370**

The geographical concentration of the company's outstanding claims provisions and related reinsurance is shown in the table below with disclosure based on the countries where the business is written.

	At 20 February 2019			At 20 February 2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Australasia	695	(428)	267	13,724	(8,852)	4,872
Europe	14,871	(10,571)	4,300	16,606	(12,175)	4,431
North America	13,983	(12,057)	1,926	39,942	(30,442)	9,500
United Kingdom	14,588	(8,976)	5,612	25,389	(17,532)	7,857
Others	12,920	(7,521)	5,399	18,133	(10,423)	7,710
	57,057	**(39,553)**	**17,504**	**113,794**	**(79,424)**	**34,370**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk**

The company 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.

The most important components of financial risk are market risk, currency risk and credit risk.

4.6.1) **Market risk**

Market risk is the risk that the value of the company's assets, liabilities or income from its assets may fluctuate as a result of market movements. Sources of general market risk include movements in interest rates (interest rate risk) and exchange rates (currency risk). It is important to note that none of these sources of risk is independent of the others. Market risk is managed by adjusting the allocation to asset classes to reflect the investment risk appetite approved by the directors. The concentration of investments into any one asset is also restricted.

The asset class allocation matches assets against the company's technical provisions by currency and maturity. In addition, the company ensures minimal risk is taken with the committed regulatory capital.

a) **Currency risk**

Currency risk is the risk that the fair value of future cash flows of assets and liabilities will fluctuate because of changes in foreign exchange rates. The company operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US, Canadian and Euro currencies.

The company operates in a number of overseas markets where there is foreign currency exposure. Premiums are invoiced in local currency and the majority of expenses, including claims, are received in local currency which offers a natural hedge.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk (continued)**

4.6.1) **Market risk (continued)**

a) **Currency risk (continued)**

The table below summarises the company's exposure to foreign currency exchange rate risk by categorising the assets and liabilities by major currencies.

	Assets	Liabilities	Net assets/ (liabilities)
	$'000	$'000	$'000
At 20 February 2019			
Australian Dollars	322	(386)	(64)
Canadian Dollars	17,895	(6,176)	11,719
Euro	17,622	(19,846)	(2,224)
New Zealand Dollars	(89)	58	(31)
US Dollars	67,112	(34,983)	32,129
GB Pounds	34,900	(25,162)	9,738
Other currencies	4,149	(750)	3,399
	141,911	**(87,245)**	**54,666**
At 20 February 2018			
Australian Dollars	29,426	(16,081)	13,345
Canadian Dollars	29,562	(17,980)	11,582
Euro	20,102	(23,331)	(3,229)
New Zealand Dollars	10,980	(8,178)	2,802
US Dollars	119,101	(76,532)	42,569
GB Pounds	40,518	(30,695)	9,823
Other currencies	2,534	(1,273)	1,261
	252,223	**(174,070)**	**78,153**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk (continued)**

4.6.1) **Market risk (continued)**

b) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The company uses a number of sensitivity management tools to understand the volatility of earnings. The table below shows the effects of a 0.5% increase or decrease in interest rates on earnings from debt securities:

	At 20 February 2019	At 20 February 2018
0.5% increase in interest rates	(32)	(11)
0.5% decrease in interest rates	32	10

c) **Price risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to price risk on its holdings in debt securities.

The company manages its exposure to price risk by setting constraints on its investments, by limiting its investments in each country, sector and market and by careful and planned use of derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk (continued)**

4.6.2) **Credit risk**

Credit risk is the risk that a counterparty will cause a financial loss for the company by failing to discharge an obligation. This risk arises principally on the company's financial assets.

Investment related credit risk is managed through the investment guidelines issued to the investment managers. The guidelines impose strict diversification limits by credit rating, maturity and per issuer.

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

	At 20 February 2019 $'000	At 20 February 2018 $'000
In up to two years	36,846	29,586
In more than two years but not more than five years	1,429	2,701
	38,275	**32,287**

Reinsurance is placed with counterparties that have an investment grade rating. Management performs regular assessments of the credit-worthiness of reinsurers to ensure all reinsurers on the main reinsurance programmes are A rated or above.

The company employs reinsurance intermediaries that are subject to the regulation and approval of the Financial Conduct Authority in the UK and as such are required to operate client trust accounts to ring-fence the amounts held on their client's behalf.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) Risk management (continued)

4.6) Financial risk (continued)

4.6.2) Credit risk (continued)

The company's exposure to credit risk from insurance receivables in respect of non-payment of premium will only persist during the payment period specified in the policy document. If payment is still outstanding when the payment period expires the policy can be cancelled. If a policyholder has ceased to be insured by the company, the company will not be liable for any claims under the company's general conditions if the incident giving rise to such claim occurred after the cessation of insurance.

The following table summarises the company's aggregate credit risk exposure on financial assets and reinsurers' share of claims outstanding with external credit ratings.

Rating	At 20 February 2019			At 20 February 2018		
	Debt Securities	Reinsurers' share of claims outstanding	Outward Reinsurance Debtors	Debt Securities	Reinsurers' share of claims outstanding	Outward Reinsurance Debtors
	$'000	$'000	$'000	$'000	$'000	$'000
AAA	15,845	-	-	9,646	-	-
AA	10,521	7,752	1,629	11,636	15,501	1,463
A	8,765	31,801	4,442	9,578	63,923	3,598
BBB	2,585	-	-	1,419	-	-
Not rated	559	-	-	8	-	-
Total	**38,275**	**39,553**	**6,071**	**32,287**	**79,424**	**5,061**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk (continued)**

4.6.3) **Liquidity risk**

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. The company's approach to managing liquidity is to monitor its forecast liquidity position by estimating its cash outflows and purchasing investments with similar durations to meet these obligations.

The following table summarises the contractual maturities of the company's financial liabilities.

	No Contractual Maturity $'000	Less than one Year $'000	Total $'000
At 20 February 2019			
Reinsurance payables	-	9,922	9,922
Trade and other payables	-	2,413	2,413
Total	-	**12,335**	**12,335**
At 20 February 2018			
Reinsurance payables	-	14,436	14,436
Trade and other payables	-	8,726	8,726
Total	-	**23,162**	**23,162**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) Risk management (continued)

4.6) Financial risk (continued)

4.6.4) Fair value hierarchy

The following tables analyse assets and liabilities held at fair value by level of the fair value hierarchy:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
At 20 February 2019				
Assets at fair value				
Debt securities at fair value through profit or loss	21,127	17,148	-	38,275
Land and buildings	-	-	-	-
	21,127	**17,148**	**-**	**38,275**
At 20 February 2018				
Assets at fair value				
Debt securities at fair value through profit or loss	18,989	13,298	-	32,287
Land and buildings	-	-	2,885	2,885
	18,989	**13,298**	**2,885**	**35,172**

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

The level of a financial asset or liability in the fair value hierarchy is determined at the reporting date, and any transfers between levels are deemed to have occurred at the reporting date.

Total gains on financial assets recognised in the income statement are included in net fair value gains on assets and shown in note 13.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) **Risk management (continued)**

4.6) **Financial risk (continued)**

4.6.4) **Fair value hierarchy (continued)**

The table below shows the reconciliation of movements in level 3 assets during the year:

	Year ended 20 February 2019			Year ended 20 February 2018		
	Investments	Land and Buildings	Total	Investments	Land and Buildings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Opening balance	-	2,885	2,885	-	2,845	2,845
Exchange rate adjustments	-	(303)	(303)	-	75	75
Depreciation	-	(23)	(23)	-	(35)	(35)
Business transfer	-	(2,559)	(2,559)	-	75	75
Closing balance	-	-	-	-	**2,885**	**2,885**

At 20 February 2019 all of the company's investments are valued based on quoted market information or other observable market data.

Land and buildings are included in level 3 in the hierarchy. The method for valuing the land and buildings is explained in more detail in note 5. The land and buildings were transferred as part of the business transfer, see note 27.

4.7) **Capital management**

The required capital, as measured by the UK Prudential Regulatory Authority's (PRA's) Solvency Capital Requirement (SCR) is determined by the application of a standard formula that contains variables for premium and claims, expenses and reserves.

The company is required to maintain sufficient capital locally to provide solvency coverage for its operations in Canada, in line with the applicable local regulations. The company has capital management procedures in place to regularly monitor and review solvency coverage at internal management committee meetings. As part of this process the company has, where appropriate, developed its own more robust internal solvency calculations to ensure compliance with the regulatory minima.

The company's capital comprises the capital and reserves of $54,666,000 (2018: $78,153,000) shown in the statement of financial position. This core tier one capital at 20 February 2019 includes $514,000 held in local currency to support local solvency requirements in Canada. At 20 February 2018 the company held $27,729,000 in local currency to support local solvency requirements in Australia, Canada, New Zealand and USA.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) Property, plant and equipment	Land and Buildings $'000	Computer Equipment $'000	Motor Vehicles $'000	Office equipment and fittings $'000	Total $'000
Year ended 20 February 2019					
Opening net book amount	2,885	4	29	2	2,920
Adjustment due to exchange rates	(303)	(1)	(2)	-	(306)
Disposals	-	-	(7)	-	(7)
Depreciation charge	(23)	(3)	(4)	(1)	(31)
Transfer of business (note 27)	(2,559)	-	(9)	(1)	(2,569)
Closing net book amount	**-**	**-**	**7**	**-**	**7**
At 20 February 2019					
Cost or valuation	-	104	13	191	308
Accumulated depreciation	-	(104)	(6)	(191)	(301)
Net book amount	**-**	**-**	**7**	**-**	**7**
Year ended 20 February 2018					
Opening net book amount	2,845	9	45	5	2,904
Adjustment due to exchange rates	75	-	1	-	76
Disposals	-	-	(8)	-	(8)
Depreciation charge	(35)	(5)	(9)	(3)	(52)
Closing net book amount	**2,885**	**4**	**29**	**2**	**2,920**
At 20 February 2018					
Cost or valuation	2,937	230	74	272	3,513
Accumulated depreciation	(52)	(226)	(45)	(270)	(593)
Net book amount	**2,885**	**4**	**29**	**2**	**2,920**

The fair value of the Australian property at 20 February 2018 was assessed by the Directors, taking into account a valuation by Sutherland Farrelly, during November 2016.

The fair value of the New Zealand property at 20 February 2018 was assessed by the Directors, taking into account a valuation by Duke & Cooke Limited, Valuers & Property Specialists, during January 2016.

Both of these properties were transferred to the parent company during the current year (see note 27).

There was no committed capital expenditure at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6) Investment in group undertakings

The company has investments in the following undertakings.

Company name	Nature of business	Incorporated	Holding % At February 2019	Holding % At February 2018
Sunderland Marine (Africa) Limited	Marine insurance	South Africa	100	100
Registered address : Suite 6, Steenberg House, Silverwood Close, Tokai, Cape Town 7945				
Salvus Bain Management (USA) LLC	Insurance broker	USA	100	100
Registered address : 999 Third Avenue, Suite 2600, Seattle, WA 98104				
Van Olst de Graaff & Co BV	Insurance broker	Netherlands	82	82
Registered address : Dirk van der Kooijweg 54, Rotterdam				
Harlock Murray Underwriting Limited	Broking and managing general agent	Canada	100	100
Registered address : 701-890 West Pender Street, Vancouver, BC V6C 1J9				
Knighthood Corporate Assurance Services Ltd	Insurance broker	England	-	100
Registered address : Knighthood House, Imberhorne Lane, East Grinstead, West Sussex RH19 1LB				
North Risk Services Limited (previously Aquaculture Risk (Management) Limited)	Dormant	England	100	100
Registered address : The Quayside, Newcastle upon Tyne, NE1 3DU				
Marine Insurance Australia Limited	Dormant	Australia	100	100
Registered address : Shop 11, 37 Main Street, Samford, Queensland 4520				
Aquaculture Risk (Management) Limited (previously Salvus Bain (Management) Limited)	Dormant	England	100	100
Registered address : 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA				
Windward Insurance PCC Limited	Dormant	Guernsey	100	100
Registered address : Level 5 Mill Court La Charroterie St Peter Port, GY1 1EJ				

The value of the subsidiary undertakings is as follows:

	Note	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Opening balance		6,161	10,763
Exchange rate adjustment		(426)	897
Transferred to assets held for sale	26	-	(4,663)
Write-down of investment through income statement	14	-	(836)
Closing balance		**5,735**	**6,161**

Sunderland Marine (Africa) Limited ceased to accept insurance risks during the prior year and the investment was written down to net asset value.

The entire shareholding in Knighthood Corporate Assurance Services Ltd was disposed of on 16 March 2018. The asset was classified as held for sale as at 20 February 2018, see note 26.

The company established trading relationships with the broker subsidiaries before an investment in these companies was made. The company's results therefore have not been affected materially by the interest in these companies. Note 23 provides information on the activity and balances with related parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial assets and liabilities

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

	At 20 February 2019 $'000	At 20 February 2018 $'000
Fair value through profit or loss - designated at initial recognition:		
- Debt securities	38,275	32,287
Loans and receivables including insurance and reinsurance receivables (note 8)	38,640	31,759
Total financial assets	**76,915**	**64,046**
Financial liabilities at amortised cost	12,335	23,162
Total financial liabilities	**12,335**	**23,162**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial assets and liabilities (Continued)

	At 20 February 2019 $'000	At 20 February 2018 $'000
Financial liabilities at amortised cost		
Reinsurance payables	9,922	14,436
Trade and other payables	2,413	8,726
Total financial liabilities at amortised cost	**12,335**	**23,162**
Financial assets at fair value through profit or loss	38,275	32,287
Financial liabilities at fair value through profit or loss	-	-
	38,275	**32,287**

Assets at fair value through profit or loss

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Opening balance	32,287	24,134
Exchange rate adjustment	(1,212)	1,474
Additions	71,253	65,036
Disposals (sales and redemptions)	(64,130)	(58,077)
Realised losses	-	(252)
Unrealised gains / (losses)	77	(28)
Closing balance	**38,275**	**32,287**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8) Loans and receivables

	At 20 February 2019 $'000	At 20 February 2018 $'000
Receivables arising from insurance and reinsurance contracts:		
• due from policyholders	13,376	22,508
• due from reinsurers	6,071	5,061
Other loans and receivables:		
• prepayments	81	1,245
• accrued interest and rent	223	502
• other receivables	18,970	3,688
	38,721	**33,004**

Receivables due from related parties are disclosed in note 23.

9) Cash and cash equivalents

	At 20 February 2019 $'000	At 20 February 2018 $'000
Cash at bank and in hand	6,362	59,257
Short-term bank deposits	926	9,218
	7,288	**68,475**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets	At 20 February 2019 $'000	At 20 February 2018 $'000
Gross		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	44,180	88,101
• claims incurred but not reported and claims handling reserve	12,877	25,693
Total insurance liabilities, gross	**57,057**	**113,794**
Recoverable from reinsurers		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	31,663	63,813
• claims incurred but not reported and claims handling reserve	7,890	15,611
Total reinsurers' share of insurance liabilities	**39,553**	**79,424**
Net		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	12,517	24,288
• claims incurred but not reported and claims handling reserve	4,987	10,082
Total insurance liabilities, net	**17,504**	**34,370**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (Cont'd)

Movements in outstanding claims and recoveries

	Year ended 20 February 2019 Gross $'000	Reins $'000	Net $'000	Year ended 20 February 2018 Gross $'000	Reins $'000	Net $'000
Opening balance	113,794	(79,424)	34,370	121,342	(81,266)	40,076
Adjustment due to exchange rate movement	(3,626)	1,064	(2,561)	5,888	(1,999)	3,889
Insurance claims and loss adjustment expenses/ recoveries	22,928	(13,521)	9,406	60,080	(46,447)	13,633
Claim payments/ recoveries received	(41,872)	28,922	(12,950)	(73,516)	50,288	(23,228)
Business transfer (note 27)	(34,167)	23,406	(10,761)	-	-	-
Closing balance	**57,057**	**(39,553)**	**17,504**	**113,794**	**(79,424)**	**34,370**

Movements in unearned premium and unearned reinsurance premium

	Year ended 20 February 2019 Unearned Premium $'000	Unearned Reins Premium $'000	Net $'000	Year ended 20 February 2018 Unearned Premium $'000	Unearned Reins premium $'000	Net $'000
Opening balance	32,784	(20,811)	11,973	50,435	(35,486)	14,949
Adjustment due to exchange rate movement	(1,698)	532	(1,166)	1,494	95	1,589
Movement during the year	(5,113)	3,973	(1,140)	(19,145)	14,580	(4,565)
Business transfer (note 27)	(10,167)	5,739	(4,428)	-	-	-
Closing balance	**15,806**	**(10,567)**	**5,239**	**32,784**	**(20,811)**	**11,973**

Movements in unearned reinsurance commission and deferred acquisition costs

	Year ended 20 February 2019 Deferred acquis'n Costs $'000	Unearned Reins comm'n $'000	Net $'000	Year ended 20 February 2018 Deferred acquis'n Costs $'000	Unearned Reins comm'n $'000	Net $'000
Opening balance	3,645	(4,073)	(428)	6,402	(7,195)	(793)
Adjustment due to exchange rate movement	(206)	116	(90)	265	21	286
Movement during the year	(1,111)	837	(274)	(3,022)	3,101	79
Business transfer (note 27)	(736)	1,073	337	-	-	-
Closing balance	**1,592**	**(2,047)**	**(455)**	**3,645**	**(4,073)**	**(428)**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (Cont'd)

Policy year analysis (all classes)	**Other Years $'000**	**Policy years 2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**Business Transfer $'000**	**Claims Handling Reserve $'000**	**Total $'000**
At 20 February 2019								
Gross outstanding claims	29,755	12,339	14,841	20,996	13,048	(34,167)	245	57,057
Reinsurance amount	(20,963)	(7,768)	(9,383)	(16,187)	(8,658)	23,406	-	(39,533)
Net outstanding claims	**8,792**	**4,571**	**5,458**	**4,809**	**4,390**	**(10,761)**	**245**	**17,504**
At 20 February 2018								
Gross outstanding claims	40,541	14,294	19,658	38,738	-	-	563	113,794
Reinsurance amount	(28,443)	(8,823)	(12,309)	(29,849)	-	-	-	(79,424)
Net outstanding claims	**12,098**	**5,471**	**7,349**	**8,889**	-	-	**563**	**34,370**

Provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior earned years' claims are shown in the table below.

	Year ended 20 February 2019 $'000	**Year ended 20 February 2018 $'000**
Releases from claims provisions	3,364	5,224

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (Cont'd)

Sensitivity analysis

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

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 claims development observed between the end of the policy year and the end of the subsequent policy year primarily relates to claims reported on unexpired risks. The company's policy year runs from 1 January to 31 December each year, with risks attaching throughout the period. Claims incurred after 31 December on policies attaching prior to 31 December will result in the adverse development suggested by the development tables below.

Insurance claims development - gross

Policy year	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000	2011 $'000
At end of policy year	22,199	59,552	47,465	58,878	83,750	55,448	54,441	42,595
One year later	-	62,531	59,775	87,674	128,611	105,891	93,934	87,354
Two years later	-	-	61,214	83,149	126,197	105,709	91,832	81,989
Three years later	-	-	-	83,463	128,355	110,609	90,114	80,641
Four years later	-	-	-	-	127,163	109,983	89,806	80,278
Five years later	-	-	-	-	-	110,832	89,647	80,635
Six years later	-	-	-	-	-		89,619	81,879
Seven years later	-	-	-	-	-	-	-	81,032
Current estimate of cumulative claims	22,199	62,531	61,214	83,463	127,163	110,832	89,619	81,032
Cumulative payments to date	(9,151)	(41,535)	(46,373)	(71,124)	(117,983)	(104,891)	(86,324)	(78,921)
Liability recognised in statement of financial position	13,048	20,996	14,841	12,339	9,180	5,941	3,295	2,111
Total of eight years								81,751
Liability in respect of other policy years								9,228
Claims handling reserve								245
Business transfer (note 27)								(34,167)
Total liability included in statement of financial position								**57,057**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (Cont'd)

Insurance claims development - net

Policy year	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000	2011 $'000
At end of policy year	8,169	15,492	16,274	21,590	27,631	20,751	21,597	27,524
One year later	-	18,124	20,490	33,333	36,538	35,572	34,623	48,667
Two years later	-	-	21,154	32,044	36,511	36,179	34,345	45,572
Three years later	-	-	-	32,141	35,879	37,071	33,991	43,974
Four years later	-	-	-	-	35,551	36,027	34,318	43,358
Five years later	-	-	-	-	-	36,258	33,334	43,278
Six years later	-	-	-	-	-	-	33,287	44,528
Seven years later	-		-	-	-	-	-	43,870
Current estimate of cumulative claims	8,169	18,124	21,154	32,141	35,551	36,258	33,287	43,870
Cumulative payments to date	(3,779)	(13,315)	(15,696)	(27,570)	(34,377)	(35,403)	(33,127)	(42,359)
Liability recognised in statement of financial position	4,390	4,809	5,458	4,571	1,174	855	160	1,511
Total of eight years								22,928
Liability in respect of other policy years								5,092
Claims handling reserve								245
Business transfer (note 27)								(10,761)
Total liability included in statement of financial position								**17,504**

11) Trade and other payables

	At 20 February 2019 $'000	At 20 February 2018 $'000
Amounts arising out of direct insurance operations	563	852
Other payables	329	3,214
Accruals and deferred income	1,521	4,660
Trade payables and accrued expenses	**2,413**	**8,726**

All the above amounts were due within twelve months of the reporting date. Amounts payable to related parties are disclosed in note 23.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12) Investment income	**Year ended 20 February 2019 $'000**	**Year ended 20 February 2018 $'000**
Interest receivable	1,088	871
Investment income - unlisted	596	1,170
	1,684	**2,041**

The amount of interest income relating to financial instruments which are not at fair value through profit or loss is $1,088,000 (2018: $871,000). Unlisted investment income includes dividends received from subsidiary undertakings of $579,000 (2018: $1,165,000).

13) Net fair value gains on assets at fair value through profit or loss	**Year ended 20 February 2019 $'000**	**Year ended 20 February 2018 $'000**
Net fair value gains on financial assets through profit or loss:		
• fair value gains	743	514
• fair value losses	(36)	(280)
	707	**234**
Net fair value gains on debt securities are as follows:		
Bond interest	640	514
Net realised losses	(36)	(252)
Net movement on unrealised gains / (losses)	103	(28)
	707	**234**

All the gains and losses arise from assets designated at fair value through profit or loss at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14) Other gains and losses

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Write-down of subsidiary undertakings	-	836
	-	**836**

The investments in Sunderland Marine (Africa) Limited and Salvus Bain Management (USA) LLC were written down by $836,000 to net asset value in the prior year.

15) Operating expenses by nature

	Note	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Acquisition costs		5,217	10,868
Depreciation		31	52
Amortisation		-	9
Gain on disposal of fixed assets		(7)	(5)
Staff costs	16	3,716	6,552
Operating lease payments		66	97
Claims handling expenses transferred to loss adjustment expenses		(868)	(1,733)
Write-down of subsidiary investments		-	836
Purchase of goods and services		5,395	5,754
Expenses for asset services rendered		94	121
Reinsurance commission		(6,332)	(10,661)
Total operating expenses		**7,312**	**11,890**

Auditor's remuneration:

	2019 $000	2018 $000
Audit of these financial statements	206	209

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, The North of England Protecting and Indemnity Association Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Staff costs

	Year ended 20 February 2019 Number	Year ended 20 February 2018 Number
The average monthly number of employees (including the executive Director) was:		
Underwriting and entries	9	20
Claims	2	6
Risk	2	5
Other	12	24
	25	**55**

Their aggregate remuneration comprised:		
Wages and salaries	2,491	4,920
Social security costs	192	375
Retirement benefit obligations - defined benefit plans	-	(396)
Net interest on defined benefit plan	-	124
Retirement benefit obligations - defined contribution plans	487	972
Redundancy costs	546	557
	3,716	**6,552**

On 1st October 2018 the company's employees were transferred to North Group Services Limited, another Group company.

17) Directors' remuneration

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
The remuneration of the directors was as follows:		
Short-term employee benefits	239	467
Compensation for loss of office	303	-
	542	**467**

Highest paid director

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

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Short-term employee benefits	179	387
Compensation for loss of office	303	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18) Net finance income / (expense)

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Gains / (losses) on exchange	2,283	(6,885)
Derivative charges	-	(2)
	2,283	**(6,887)**

19) Tax expense / (income)

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Income tax (expense) / income		
Current tax		
Current period	-	227
Adjustment for previous years	(7)	13
	(7)	240
Deferred tax		
Origination and reversal of temporary differences	(49)	(278)
Utilisation of tax losses	-	520
Total tax (expense) / income	**(56)**	**482**

The difference between the total tax charge shown and the amount calculated by applying the standard rate of UK corporation tax to the result before tax is as follows:

Surplus / (deficit) before tax	8,339	(4,010)
Tax on the above at standard UK corporation tax rate of 19.0% / 19.1%	(1,584)	766
Non-taxable income	823	443
Non-deductible expenses	(171)	(430)
Effects of different rates of tax	-	(16)
Deferred tax on losses not recognised	-	(814)
Tax losses utilised	883	520
Adjustment in respect of previous years	(7)	13
Total tax	**(56)**	**482**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19) Tax (expense) / income (continued)

	At 20 February 2019 $'000	At 20 February 2018 $'000
Recognised deferred tax assets & liabilities	**Assets**	
Tax losses	-	261
Other timing differences	-	213
	-	**474**
	Liabilities	
Property and equipment	-	(231)
	-	**(231)**
	Net	
Property and equipment	-	(231)
Tax losses	-	261
Other timing differences	-	213
	-	**243**

The amount of deductible temporary differences and unused tax losses for which no deferred tax asset is recognised amounts to $3,019,000 (2018: $5,027,000).

20) Reserves

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Income and expenditure reserve	8,574	291
Translation reserve	(4,005)	(51)
Revaluation reserve	-	766
Reserve fund	50,097	77,147
	54,666	**78,153**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20) Reserves (continued)

	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
a) Income and expenditure reserve		
Opening balance	291	2,334
Surplus /(deficit) for the year	8,283	(3,528)
Remeasurement gain on defined benefit plan	-	1,485
Closing balance	**8,574**	**291**
b) Translation reserve		
Opening balance	(51)	(8,091)
Exchange rate adjustment	(5,579)	8,040
Business transfer (note 27)	1,625	-
Closing balance	**(4,005)**	**(51)**
c) Revaluation reserve		
Opening balance	766	766
Business transfer (note 27)	(766)	-
Closing balance	**-**	**766**
d) Reserve fund		
Opening balance	77,147	77,147
Capital from parent company	10,633	-
Capital to parent company	(15,000)	-
Business transfer (note 27)	(22,683)	-
Closing balance	**50,097**	**77,147**

The income and expenditure reserve consists of accumulated surpluses net of transfers to or from the reserve fund.

The translation reserve consists of exchange adjustments arising from translating foreign operations into the company's functional currency since the date of transition to IFRS.

The revaluation reserve consists of revaluation surpluses arising from periodic revaluations of land and buildings.

The reserve fund consists of the accumulated surpluses that have been transferred from the income and expenditure reserve and capital received from the parent company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21) Operating leases

The company had commitments under non-cancellable operating leases as set out below:

	Year ended 20 February 2019 Land & Buildings $'000	Year ended 20 February 2019 Other $'000	Year ended 20 February 2018 Land & Buildings $'000	Year ended 20 February 2018 Other $'000
Within one year	-	5	12	40
Within two to five years	-	2	-	42
	-	**7**	**12**	**82**

22) Guarantees

The company has granted a number of guarantees in favour of its subsidiary company Sunderland Marine (Africa) Limited. The level of guarantees ranges from R3,000,000 to unlimited. The guarantees provide comfort to the policyholders of Sunderland Marine (Africa) Limited as the parent will stand as a guarantor on certain policies written by that company, or in the event of insolvency.

The company benefits from a guarantee from its parent company, The North of England Protecting and Indemnity Association Limited, so that in the event of the company needing capital, The North of England Protecting and Indemnity Association Limited will provide it.

23) Related party transactions

Key management consists of the directors and other senior managers.

Key management compensation	**Year ended 20 February 2019 $'000**	**Year ended 20 February 2018 $'000**
The remuneration of key management was as follows:		
Wages and salaries	450	845
Social security costs	91	125
Pension costs	17	81
Other benefits	18	42
Compensation for loss of office	303	226
	879	**1,319**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23) Related party transactions (continued)

Other related parties

The company has the following related party relationships

- The North of England Protecting and Indemnity Association Limited ('North') (Ultimate Parent).
- Van Olst de Graaff & Co BV (Van Olst de Graaff).
- Harlock Murray Underwriting Limited (HMU).
- Canadian and US insurance pools managed by Harlock Murray Underwriting Limited (HMU Pool).
- Salvus Bain Management (USA) LLC (SBM LLC).
- Sunderland Marine (Africa) Limited (SMA).
- North of England P&I DAC ('North EU') (a fellow subsidiary of North)
- North Group Services Limited ('NGS') (a fellow subsidiary of North)

Transactions with related parties have been entered into as follows:

	North $'000	**Van Olst de Graaff $'000**	**HMU $'000**	**HMU Pool $'000**	**NGS $'000**	**SMA $'000**
				Year ended 20 February 2019		
Income statement						
Insurance premium earned	-	5,979	-	(25)	-	-
Acquisition costs	-	(1,022)	-	63	-	-
Reinsurance premium ceded	(18,301)	-	-	1	-	9
Reinsurance commission	4,118	-	-	-	-	(5)
Insurance claims and loss adjustment expenses	-	-	-	387	-	-
Insurance claims and loss adjustment expenses recovered	(2,487)	-	-	(71)	-	(39)
Expenses for marketing and administration	-	-	(87)	-	(1,896)	-
Dividends received	-	579	-	-	-	2
				At 20 February 2019		
Statement of financial position						
Reinsurers' share of technical provisions						
• Provision for unearned premium	6,103	-	-	-	-	-
• Claims outstanding	22,042	-	-	2,503	-	(14)
Technical provision						
• Provision for unearned premium	-	(2,649)	-	(18)	-	-
• Claims outstanding	-	-	-	(3,372)	-	-
Provision for unearned reinsurance commission	(1,373)	-	-	-	-	-
Reinsurance payables	-	-	-	(461)	-	45
Deferred acquisition costs	-	457	-	-	-	-
Trade and other payables	(932)	-	-	(845)	(27)	(226)
Loans and receivables	-	2,256	-	2,609	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23) Related party transactions (continued)

	North $'000	Knight hood $'000	Van Olst de Graaff $'000	HMU $'000	HMU Pool $'000	SBM LLC $'000	SMA $'000
				Year ended 20 February 2018			
Income statement							
Insurance premium earned	-	10,080	5,384	-	3,857	1,612	-
Acquisition costs	-	(2,778)	(929)	-	(1,109)	-	-
Reinsurance premium ceded	(26,071)	-	-	-	(1,489)	-	(276)
Reinsurance commission	5,874	-	-	-	420	-	54
Insurance claims and loss adjustment expenses	-	-	-	-	(2,032)	-	-
Insurance claims and loss adjustment expenses recovered	28,578	-	-	-	468	-	73
Expenses for marketing and administration	(2,100)	-	-	(117)	-	-	(69)
Dividends received	-	620	545	-	-	-	-
				At 20 February 2018			
Statement of financial position							
Reinsurers' share of technical provisions							
• Provision for unearned premium	12,662	-	-	-	-	-	-
• Claims outstanding	45,257	-	-	-	6,040	-	225
Technical provision							
• Provision for unearned premium	-	(3,997)	(3,056)	-	-	-	-
• Claims outstanding	-	-	-	-	(7,694)	-	-
Provision for unearned reinsurance commission	(2,849)	-	-	-	-	-	-
Reinsurance payables	(9,266)	-	-	-	(123)	-	-
Deferred acquisition costs	-	1,148	524	-	-	-	-
Trade and other payables	(3,313)	-	-	(32)	-	(133)	(347)
Loans and receivables	-	159	2,651	-	2,754	-	-

During the year, North contributed $10,633,000 to the company (2018: $nil) as a short-term measure to facilitate the transfer of the company's Australian branch to North.

The consideration receivable by the company from North in respect of the business transfer (details in note 27) was subsequently waived by the company and therefore the net assets of the transferred business have been presented as a capital distribution in these financial statements. The company also distributed $15,000,000 of cash to North during the year. These capital transactions are consistent with the company's strategy to restructure its business to serve the long term interests of its policyholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24) Cash absorbed by operating activities	Year ended 20 February 2019 $'000	Year ended 20 February 2018 $'000
Surplus / (deficit) after taxation	8,283	(3,528)
Adjustments for:		
Tax expense / (income)	56	(482)
Dividends received from subsidiary undertakings	(579)	(1,165)
Amortisation	-	9
Depreciation	31	52
Write-down of investment in subsidiary	-	836
Profit on sale of property, plant and equipment	(7)	(5)
Profit on sale of subsidiary	(3,579)	-
Unrealised (gains) / losses on assets at fair value through profit or loss	(77)	280
Decrease in insurance contracts net of reinsurance recoverable	(12,451)	(5,706)
Decrease in unearned premium reserve net of reinsurers' share	(2,306)	(2,976)
(Increase) / decrease in loans and receivables	(15,802)	13,200
Decrease in deferred acquisition costs	1,317	2,757
(Decrease) / increase in derivative financial instruments	(120)	1
Decrease in unearned reinsurance commission	(953)	(3,122)
Decrease in reinsurance payables	(4,397)	(14,857)
Increase in trade and other payables	15,144	759
Defined benefit pension charge	-	(272)
Defined benefit pension contributions	-	(1,405)
Purchase of debt securities at fair value through profit or loss	(71,253)	(65,036)
Sale of debt securities at fair value through profit or loss	64,130	58,077
Foreign exchange losses	-	3,629
Cash absorbed by operating activities	**(22,563)**	**(18,954)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25) Defined contribution pension schemes

The company operates a number of defined contribution pension schemes. The total pension cost charge for the year to 20th February 2019 represents contributions payable to the schemes and amounted to $487,000 (2018: $972,000). There were no outstanding or prepaid contributions at either the beginning or the end of the year.

26) Assets held for sale

The value of the assets held for sale is as follows:

	Note	At 20 February 2019 $'000	At 20 February 2018 $'000
Transferred from investment in group undertakings	6	-	4,663

The disposal of Knighthood was completed on 16 March 2018 and the profit on disposal recognised was $3,579,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27) Business Transfer

On 1 November 2018, all conditions required for the transfer of the company's New Zealand business to its parent company, North, were met. On this date, the effective date of the transfer, all assets and liabilities of the Sunderland Marine Insurance Company Limited (New Zealand) Branch were transferred to the newly established New Zealand Branch of North.

On 17 November 2018, all conditions required for the transfer of the company's Australia business to North were met. On this date, the effective date of the transfer, all assets and liabilities of the Sunderland Marine Insurance Company Limited (Australia) Branch were transferred to the newly established Australia Branch of North.

The consideration for the transfers was the fair value of the net assets of the branches at the effective date, included in the table below. This consideration receivable was subsequently waived by the company, resulting in a capital distribution (note 23) equal to the fair value of the net assets transferred.

The translation reserve of $(1,625,000) and revaluation reserve of $766,000 associated with the transfer of these foreign operations, as previously accumulated through other comprehensive income, has been recycled to the income and expenditure account as a result of the transfer. Other reserves of $22,683,000 have been transferred to the income and expenditure account to facilitate the subsequent distribution to the parent company.

	At date of transfers
	$'000
Assets	
Property, plant and equipment	2,569
Reinsurers' share of technical provision	
• Provision for unearned premium	5,739
• Claims outstanding	23,406
Deferred acquisition costs	736
Deferred tax asset	174
Current tax receivable	35
Financial asset	
• Derivative financial assets	449
• Loans and receivables including insurance and reinsurance receivables	10,085
Cash and cash equivalents	39,594
Total assets	**82,787**
Liabilities	
Technical provision	
• Provision for unearned premium	10,167
• Claims outstanding	34,167
Provision for unearned reinsurance commission	1,073
Reinsurance payables	117
Trade and other payables	15,439
Total liabilities	**60,963**
Fair value of net assets transferred	**21,824**