Sunderland Marine Insurance Company Limited

Directors' Report, Strategic Report and Financial Statements 2020

Registered in England: Limited by Guarantee

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

CONTENTS **PAGE**

DIRECTORS

	Position on board
TF Hart	Chairman
JM de Groot	
PA Jennings	
PM Johnson	
FJ Mattera	
PB Shirke	
Sir Peter I Talley	
AA Wilson (resigned 31st December 2019)	
EJ Davies (appointed 6th August 2019)	

Auditors	**Bankers**
KPMG LLP	Nordea Bank
Quayside House	6th Floor
110 Quayside	5 Aldermanbury Square
Newcastle Upon Tyne	London
NE1 3DX	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 2020.

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 (2019: $nil).

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 2020.

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 insurance broking.

The company principally operates from its head office in Newcastle upon Tyne in the UK but also has offices in Canada and the Netherlands.

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.

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 by providing a high-quality insurance cover and service which differentiates the company from its competitors.

The company's strategy, as part of the Group strategy to reduce complexity of the Group structure, is to transition its business to its parent, North, from which point the business will operate as a division of that Company. The transfer is subject to regulatory approval which it is anticipated will be forthcoming later in the current financial year. The Company will continue to service insurance contracts up until the point the final transfers are completed and so remains a going concern. As noted in the basis of preparation, the Company has therefore continued to adopt the going concern basis of accounting in preparing the financial statements.

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. We have seen some upward pressure on marine premium rates given the reduction in underwriting capacity in the company's main markets.

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 Covid-19 pandemic has led to a global reduction in economic activity. For a number of SMI policyholders, a lack of access to fish markets has had an adverse impact, or is expected to have an adverse impact, on both the fishing vessel fleet and the aquaculture industry. The reduced activity of the fishing vessel fleet is expected to lead to a reduction in claims, but also to an increase in laid up returns and an increased credit risk associated with policyholders who may find it harder to meet their obligations to the Company. As the pandemic endures, stocking levels at aquaculture sites are expected to increase, with an increased propensity for certain types of claim. SMI policies have carefully constructed policy limits and exclusions to mitigate increased risk in this area.

The impact of the continuing uncertainty about the future trade relationship between the UK and the EU following the UK's decision to leave the EU is restricted to managing the run-off of EEA business, as all EEA business has been underwritten by a fellow subsidiary of North since 20 February 2019. The risks for the company are mitigated by the planned transfer of this book of business to North in the current financial year.

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 2020 US$'000	Year ended 20 February 2019 US$'000
Long-term financial stability		
Result of operating activities	(1,000)	2,477
Investment return	1,456	2,391
Total accumulated surplus	53,660	54,666
Reduce complexity		
Expense ratio	41%	43%
Operating expenses	(3,392)	(7,312)

Gross earned premiums

Earned premium decreased from $48,358,000 to $25,457,000 which is primarily the result of EEA business being underwritten by a fellow subsidiary within the Group from 20 February 2019.

Operating performance

The loss from operating activities of $1,000,000 compares to a profit of $2,477,000 in the prior year. There has been an increase in the net loss ratio (a measure of claims incurred compared to premium) from 56% to 89% and a smaller decrease in the expense ratio (a measure of expenses incurred compared to premium) from 43% to 41%. Both ratios are affected by the significant reduction in premium as described above. During the year, significant aquaculture claims have been incurred which account for the increase in both gross claims and reinsurance recoveries reported in the income statement. The combined ratio, being the net loss ratio plus the expense ratio, has increased from 98% to 130%% as a result.

Investment return
Investment income and fair value gains for the year ended 20 February 2020 are $1,456,000 (2019: $2,391,000). Dividends from group undertakings are included in this figure and amounted to $551,000 (2019: $579,000).

Total accumulated surplus

The total accumulated surplus decreased from $54,666,000 at 20 February 2019 to $53,660,000 at 20 February 2020. The movement is a result of the deficit recorded for the year ($181,000) together with foreign exchange losses on the translation of foreign operations ($825,000).

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

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 2020 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 2020 and of its deficit 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 34 financial years ended 20 February 2020. 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 Material uncertainty related to going concern

We draw attention to note 2.1 to the financial statements which indicate that a proposed Part VII transfer of the Company's insurance business to its parent entity will occur if court approval is achieved, following which the directors will then wind down the activities of the Company. If however court approval was not obtained, the directors intend to continue to operate the business that they had intended to transfer within the Company. These events and conditions, along with the other matters explained in note 2.1, constitute a material uncertainty that may cast doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The Risk

Disclosure Quality

There is little judgement involved in the directors' conclusion that risks and circumstances described in note 2.1 to the financial statement represent a material uncertainty over the ability of the company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.

However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that this be reported as a key audit matter.

Our Response

Our procedures included:

- **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure.

Our results

We found the disclosure of the material uncertainty to be acceptable.

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

3. Other 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. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other 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.

Valuation of claims incurred but not reported
($11.4 million; 2019: $12.9 million)
Risk vs 2019: ◄►
Refer to page 23 (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 and methodology adopted are inappropriate and 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:** Used our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
- **Independent re-performance:** Independently re-projected the reserve for those classes of business we consider to be higher risk;
- **Sensitivity Analysis:** Performed sensitivity analysis over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation; and
- **Assessing transparency:** Assessed 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 (2019: acceptable).

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

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

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

Materiality for the financial statements as a whole was set at $950k (2019: $650k), determined with reference to a benchmark of total accumulated surplus of $53.1 million, of which is represents 1.8% (2019: 1.5% of gross earned premium of $43.2 million). We changed our benchmark to total accumulated surplus in the current year from gross earned premium as it is considered a more relevant measure for the users of the financial statements.

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

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 4, 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.

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

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 and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

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

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

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

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

Jessica 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
28 May 2020

STATEMENT OF FINANCIAL POSITION	At 20 February	At 20 February

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INCOME STATEMENT	Note	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Gross insurance premium revenue		22,374	43,245
Gross insurance premium ceded to reinsurers		(14,636)	(27,580)
Net insurance premium revenue		7,738	15,665
Change in provision for unearned premium		3,082	5,113
Reinsurers' share of change in unearned premium		(2,566)	(3,973)
Change in the net provision for unearned premium		516	1,140
Earned premiums net of reinsurance		**8,254**	**16,805**
Investment income	12	621	1,684
Net fair value gains at fair value through profit or loss	13	835	707
Net income		**9,710**	**19,196**
Insurance claims and loss adjustment expenses	10	(38,107)	(22,928)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	30,789	13,521
Net insurance claims		(7,318)	(9,407)
Expenses for the acquisition of insurance contracts		(2,520)	(5,217)
Expenses for marketing and administration		(4,330)	(8,333)
Reinsurance commission		3,597	6,332
Other losses	14	(119)	-
Expenses for assets services rendered		(20)	(94)
Operating expenses	15	(3,392)	(7,312)
Total expenses		**(10,710)**	**(16,719)**
Results of operating activities		(1,000)	2,477
Profit on disposal of subsidiary	26	-	3,579
Net finance income	18	819	2,283
(Deficit)/surplus before tax		(181)	8,339
Tax expense	19	-	(56)
(Deficit)/surplus for the year, attributable to owners of the parent		**(181)**	**8,283**

STATEMENT OF COMPREHENSIVE INCOME	Note	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
(Deficit)/surplus		**(181)**	**8,283**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	20	(825)	(5,579)
Net other comprehensive loss to be reclassified to profit or loss		**(825)**	**(5,579)**
Net other comprehensive income not to be reclassified to profit or loss		-	-
Total comprehensive loss for the year, net of tax, attributable to owners of the parent		**(1,006)**	**2,704**

STATEMENT OF CHANGES IN EQUITY

	Note	I&E Account $'000	Revaluation Reserve $'000	Translation Fund $'000	Reserve Fund $'000	Total $'000
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**
Total comprehensive income for the year						
Deficit for the year	20	(181)	-	-	-	(181)
Other comprehensive income						
Foreign exchange rate movements		-	-	(825)	-	(825)
Total comprehensive income for the year		(181)	-	(825)	-	(1,006)
Total contributions by and distributions to owners		-	-	-	-	-
At 20 February 2020	**20**	**8,393**	-	**(4,830)**	**50,097**	**53,660**

STATEMENT OF CASH FLOWS	Note	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Operating Activities			
Cash absorbed by operating activities	24	(631)	(22,563)
Tax received		-	138
Net cash from operating activities		**(631)**	**(22,425)**
Cash Flows from investing activities			
Dividends received from subsidiaries		551	579
Proceeds from sale of property, plant and equipment		6	14
Proceeds from sale of subsidiary		-	8,223
Purchases of property, plant and equipment		(31)	-
Net cash from investing activities		**526**	**8,816**
Cash flows from financing activities			
Net capital distribution to parent company	20	-	(4,367)
Cashflow from business transfer	27	-	(39,594)
Payment of lease liabilities	21	(5)	-
Net cash from financing activities		**(5)**	**(43,961)**
Net decrease in cash and cash equivalents		**(110)**	**(57,570)**
Effects of exchange rate adjustments on cash held		(275)	(3,617)
Cash and cash equivalents at beginning of year		7,288	68,475
Cash and cash equivalents at end of year	9	**6,903**	**7,288**

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 2020	**For the year ended 20 February 2019**
United States Dollar	1.2785	1.3220
	At 20 February 2020	**At 20 February 2019**
United States Dollar	1.2878	1.3088

This is the first set of the company's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 2.22.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.1) Basis of presentation (continued)

The fair value of the company's financial assets at 20 February 2020 is shown below. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately, excluding financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis (which are shown within all other financial assets).

	Financial assets that pass the SPPI test		All other financial assets	
	Fair value $'000	Movement in fair value $'000	Fair value $'000	Movement in fair value $'000
At 20 February 2020				
Fair value through profit or loss	-	-	34,609	41
Other loans and receivables	20,236	-	-	-
Total	**20,236**	**-**	**34,609**	**41**

	Financial assets that pass the SPPI test		All other financial assets	
	Fair value $'000	Movement in fair value $'000	Fair value $'000	Movement in fair value $'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**

Going concern

The Company has a total accumulated surplus as at 20 February 2020 of $53.7m. The Directors have reviewed the use of the going concern assumption in the financial statements, including a comparison of its resources to its obligations and the liquidity of those resources to meet its obligations as they fall due. In their review, the Directors have considered the potential impact on the Company of the Covid-19 pandemic, and determined that the pandemic is unlikely to have a material impact on the carrying value of the Company's assets or liabilities, or on the future cash flows associated with the Company's revenues and expenses. In the opinion of the Directors, the Company is fully able to meet its debts as they fall due.

The Directors intend to transfer the Company's business (with the exception of Canadian risks in run-off) to its parent company through the completion of an insurance business transfer scheme in accordance with Part VII of the Financial Services and Markets Act 2000. The completion of the transfer is contingent on court approval with a court hearing currently scheduled for June 2020. Should the transfer be approved, then it is the Directors' intention that a wind up of the Company will follow after settlement of the Canadian risks in run-off. The Company will continue to service insurance contracts up until the point that the transfer is completed. As the transfer of the business is dependent upon the successful application, the outcome of which is uncertain, the Company remains a going concern at the date of approval of the financial statements. If court approval was not obtained, the Directors intend to continue to operate the business that they had intended to transfer within the Company.

The Directors continue to adopt the going concern basis of accounting in preparing the financial statements. However, the Directors' intention for the Company creates a material uncertainty that the Company will be a going concern for the foreseeable future. Hence this material uncertainty may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.1) Basis of presentation (continued)

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.

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

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.

Purchases and sales of investments are recognised on the 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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

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.

2.13) 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.

2.14) 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.

2.15) 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.

2.16) 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.17) 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 collective investment vehicles, debt securities and realised and unrealised gains and losses.

2.18) 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.

2.19) Leases

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

Policy applicable prior to 20 February 2019
Where a significant portion of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases. Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant lease.

Policy applicable subsequent to 20 February 2019
The Company assesses whether contracts entered into constitute a lease in accordance with the definition pursuant to IFRS 16. A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group used the definition of a lease in IFRS 16

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

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and leases with a term of less than 12 months. Payments associated with such leases are recognised as an expense on a straight-line basis over the lease term. On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities as disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Significant accounting policies (continued)

2.19) Leases (continued)

Impact on transition to IFRS 16

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

	2020
	$'000
Right-of-use assets	7
Lease liabilities	(7)

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

2.20) 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.

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.

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 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.

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
- 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.

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 2020			At 20 February 2019		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Marine	34,852	(21,064)	13,788	44,169	(28,109)	16,060
Aquaculture	29,501	(28,079)	1,422	12,888	(11,444)	1,444
	64,353	**(49,143)**	**15,210**	**57,057**	**(39,553)**	**17,504**

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 2020			At 20 February 2019		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Australasia	1,595	(939)	656	695	(428)	267
Europe	8,345	(5,692)	2,653	14,871	(10,571)	4,300
North America	28,789	(27,564)	1,225	13,983	(12,057)	1,926
United Kingdom	15,668	(9,083)	6,585	14,588	(8,976)	5,612
Others	9,956	(5,865)	4,091	12,920	(7,521)	5,399
	64,353	**(49,143)**	**15,210**	**57,057**	**(39,553)**	**17,504**

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, having considered recommendations from the Group Investment Committee. 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.

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 2020			
Australian Dollars	152	-	152
Canadian Dollars	32,604	(21,458)	11,146
Euro	6,542	(8,089)	(1,547)
New Zealand Dollars	-	-	-
US Dollars	68,631	(34,196)	34,435
GB Pounds	29,568	(22,436)	7,132
Other currencies	4,174	(1,832)	2,342
	141,671	**(88,011)**	**53,660**
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**

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 collective investment vehicles and debt securities:

	At 20 February 2020	At 20 February 2019
0.5% increase in interest rates	(99)	(32)
0.5% decrease in interest rates	99	32

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 collective investment vehicles and 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.

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

Maturity dates of the fixed interest collective investment vehicles and debt securities are as follows:

	At 20 February 2020 $'000	**At 20 February 2019 $'000**
In up to two years	34,609	36,846
In more than two years but not more than five years	-	1,429
	34,609	**38,275**

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 2020			At 20 February 2019		
	Collective investment vehicles & Debt Securities $'000	Reinsurers' share of claims outstanding $'000	Outward Reinsurance Debtors $'000	Debt Securities $'000	Reinsurers' share of claims outstanding $'000	Outward Reinsurance Debtors $'000
AAA	9,901	-	-	15,845	-	-
AA	22,049	16,521	2,629	10,521	7,752	1,629
A	2,659	32,622	2,412	8,765	31,801	4,442
BBB	-	-	-	2,585	-	-
Not rated	-	-	1	559	-	-
Total	34,609	49,143	5,042	38,275	39,553	6,071

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 2020			
Reinsurance payables	-	8,454	8,454
Trade and other payables	-	417	417
Total	-	**8,871**	**8,871**
At 20 February 2019			
Reinsurance payables	-	9,922	9,922
Trade and other payables	-	2,413	2,413
Total	-	**12,335**	**12,335**

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 2020				
Assets at fair value				
Collective investment vehicles at fair value through profit or loss	15,829	-	-	15,829
Debt securities at fair value through profit or loss	-	18,780	-	18,780
	15,829	**18,780**	**-**	**34,609**
At 20 February 2019				
Assets at fair value				
Debt securities at fair value through profit or loss	21,127	17,148	-	38,275
	21,127	**17,148**	**-**	**38,275**

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 2020		Year ended 20 February 2019	
	Land and Buildings $'000	Total $'000	Land and Buildings $'000	Total $'000
Opening balance	-	-	2,885	2,885
Exchange rate adjustments	-	-	(303)	(303)
Depreciation	-	-	(23)	(23)
Business transfer	-	-	(2,559)	(2,559)
Closing balance	-	-	-	-

Land and buildings were included in level 3 in the hierarchy prior to their disposal in the prior year.

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 $53,660,000 (2019: $54,666,000) shown in the statement of financial position. This core tier one capital at 20 February 2020 includes $225,000 held in local currency to support local solvency requirements in Canada. At 20 February 2019 the company held $514,000 in local currency to support local solvency requirements in Canada.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) Property, plant and equipment	**Land and Buildings**	**Computer Equipment**	**Motor Vehicles**	**Office equipment and fittings**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Year ended 20 February 2020					
Opening net book amount	-	-	7	-	7
Additions	-	-	31	-	31
Additions on adoption of IFRS 16 Leases	-	-	7	-	7
Disposals	-	-	(5)	-	(5)
Depreciation charge	-	-	(6)	-	(6)
Closing net book amount	**-**	-	**34**	-	**34**
At 20 February 2020					
Cost or valuation	-	103	38	189	330
Accumulated depreciation	-	(103)	(4)	(189)	(296)
Net book amount	-	-	**34**	-	**34**
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**

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 2020	**At February 2019**
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				
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
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				

The value of the subsidiary undertakings is as follows:

	Note	**Year ended 20 February 2020 $'000**	**Year ended 20 February 2019 $'000**
Opening balance		5,735	6,161
Exchange rate adjustment		(154)	(426)
Write-down of investment through income statement	14	(119)	-
Closing balance		**5,462**	**5,735**

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.

Marine Insurance Australia Limited was de-registered during the year on 15th April 2019.

Adhering to company policy a review was undertaken at the reporting date as to whether there was a need to impair any investments held. The result of that review was that the investments held in Sunderland Marine (Africa) Limited, Salvus Bain Management (USA) LLC and Aquaculture Risk Management (ARM) were written down to net asset value (Note 14).

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 2020 $'000	**At 20 February 2019 $'000**
Fair value through profit or loss - designated at initial recognition:		
Collective investment vehicles	15,829	-
Debt securities	18,780	38,275
Loans and receivables including insurance and reinsurance receivables	36,375	38,640
Total financial assets	**70,984**	**76,915**
Financial liabilities at amortised cost	8,871	12,335
Total financial liabilities	**8,871**	**12,335**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial assets and liabilities (Continued)	**At 20 February 2020 $'000**	**At 20 February 2019 $'000**
Financial liabilities at amortised cost		
Reinsurance payables	8,454	9,922
Trade and other payables	417	2,413
Total financial liabilities at amortised cost	**8,871**	**12,335**
Financial assets at fair value through profit or loss	34,609	38,275
Financial liabilities at fair value through profit or loss	-	-
	34,609	**38,275**

Assets at fair value through profit or loss

	Year ended 20 February 2020 $'000	**Year ended 20 February 2019 $'000**
Opening balance	38,275	32,287
Exchange rate adjustment	(394)	(1,212)
Additions	92,027	71,253
Disposals (sales and redemptions)	(95,340)	(64,130)
Realised gains	51	-
Unrealised (losses)/gains	(10)	77
Closing balance	**34,609**	**38,275**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8) Loans and receivables

	At 20 February 2020 $'000	At 20 February 2019 $'000
Receivables arising from insurance and reinsurance contracts:		
• due from policyholders	10,498	13,376
• due from reinsurers	5,042	6,071
Other loans and receivables:		
• prepayments	41	81
• accrued interest and rent	41	223
• other receivables	20,794	18,970
	36,416	**38,721**

Receivables due from related parties are disclosed in note 23.

9) Cash and cash equivalents

	At 20 February 2020 $'000	At 20 February 2019 $'000
Cash at bank and in hand	6,891	6,362
Short-term bank deposits	12	926
	6,903	**7,288**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets	**At 20 February 2020 $'000**	**At 20 February 2019 $'000**
Gross		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	52,928	44,180
• claims incurred but not reported and claims handling reserve	11,425	12,877
Total insurance liabilities, gross	**64,353**	**57,057**
Recoverable from reinsurers		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	42,483	31,663
• claims incurred but not reported and claims handling reserve	6,660	7,890
Total reinsurers' share of insurance liabilities	**49,143**	**39,553**
Net		
Short term insurance contracts:		
• claims reported and loss adjustment expenses	10,445	12,517
• claims incurred but not reported and claims handling reserve	4,765	4,987
Total insurance liabilities, net	**15,210**	**17,504**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (continued)

Movements in outstanding claims and recoveries

	At 20 February 2020			At 20 February 2019		
	Gross $'000	**Reins $'000**	**Net $'000**	**Gross $'000**	**Reins $'000**	**Net $'000**
Opening balance	57,057	(39,553)	17,504	113,794	(79,424)	34,370
Adjustment due to exchange rate movement	(928)	216	(712)	(3,626)	1,064	(2,562)
Insurance claims and loss adjustment expenses/ recoveries	38,107	(30,789)	7,318	22,928	(13,521)	9,407
Claim payments/ recoveries received	(29,883)	20,983	(8,900)	(41,872)	28,922	(12,950)
Business transfer (note 27)	-	-	-	(34,167)	23,406	(10,761)
Closing balance	**64,353**	**(49,143)**	**15,210**	**57,057**	**(39,553)**	**17,504**

Movements in unearned premium and unearned reinsurance premium

	Year ended 20 February 2020			Year ended 20 February 2019		
	Unearned Premium $'000	**Unearned Reins Premium $'000**	**Net $'000**	**Unearned Premium $'000**	**Unearned Reins Premium $'000**	**Net $'000**
Opening balance	15,806	(10,567)	5,239	32,784	(20,811)	11,973
Adjustment due to exchange rate movement	(377)	8	(369)	(1,698)	532	(1,166)
Movement during the year	(3,082)	2,566	(516)	(5,113)	3,973	(1,140)
Business transfer (note 27)	-	-	-	(10,167)	5,739	(4,428)
Closing balance	**12,347**	**(7,993)**	**4,354**	**15,806**	**(10,567)**	**5,239**

Movements in unearned reinsurance commission and deferred acquisition costs

	Year ended 20 February 2020			Year ended 20 February 2019		
	Deferred acquis'n Costs $'000	**Unearned Reins comm'n $'000**	**Net $'000**	**Deferred acquis'n Costs $'000**	**Unearned Reins comm'n $'000**	**Net $'000**
Opening balance	1,592	(2,047)	(455)	3,645	(4,073)	(428)
Adjustment due to exchange rate movement	(27)	12	(15)	(206)	116	(90)
Movement during the year	(625)	415	(210)	(1,111)	837	(274)
Business transfer (note 27)	-	-	-	(736)	1,073	337
Closing balance	**940**	**(1,620)**	**(680)**	**1,592**	**(2,047)**	**(455)**

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 (continued)

Policy year analysis (all classes)	**Other Years**	**2016**	**Policy years 2017**	**2018**	**2019**	**Business Transfer**	**Claims Handling Reserve**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 20 February 2020								
Gross outstanding claims	17,622	1,650	11,731	3,887	29,103	-	360	64,353
Reinsurance amount	(10,951)	(1,016)	(9,609)	(2,392)	(25,175)	-	-	(49,143)
Net outstanding claims	**6,671**	**634**	**2,122**	**1,495**	**3,928**	**-**	**360**	**15,210**
At 20 February 2019								
Gross outstanding claims	42,094	14,841	20,996	13,048	-	(34,167)	245	57,057
Reinsurance amount	(28,731)	(9,383)	(16,187)	(8,658)	-	23,406	-	(39,553)
Net outstanding claims	**13,363**	**5,458**	**4,809**	**4,390**	**-**	**(10,761)**	**245**	**17,504**

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 2020 $'000	**Year ended 20 February 2019 $'000**
Releases from claims provisions	2,400	3,364

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	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At end of policy year	42,183	22,199	59,552	47,465	58,878	83,750	55,448	54,441
One year later	-	22,467	62,531	59,775	87,674	128,611	105,891	93,934
Two years later	-	-	61,630	61,214	83,149	126,197	105,709	91,832
Three years later	-	-	-	58,675	83,463	128,355	110,609	90,114
Four years later	-	-	-	-	82,859	127,163	109,983	89,806
Five years later	-	-	-	-	-	127,034	110,832	89,647
Six years later	-	-	-	-	-	-	111,287	89,619
Seven years later	-	-	-	-	-	-	-	89,259
Current estimate of cumulative claims	42,183	22,467	61,630	58,675	82,859	127,034	111,287	89,259
Cumulative payments and transfers to date	(13,080)	(18,580)	(49,899)	(57,025)	(80,818)	(124,245)	(108,283)	(87,758)
Liability recognised in statement of financial position	29,103	3,887	11,731	1,650	2,041	2,789	3,004	1,501
Total of eight years								55,706
Liability in respect of other policy years								8,287
Claims handling reserve								360
Total liability included in statement of financial position								**64,353**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Insurance liabilities and reinsurance assets (continued)

Insurance claims development - net

Policy year	**2019 $'000**	**2018 $'000**	**2017 $'000**	**2016 $'000**	**2015 $'000**	**2014 $'000**	**2013 $'000**	**2012 $'000**
At end of policy year	8,198	8,169	15,492	16,274	21,590	27,631	20,751	21,597
One year later	-	8,478	18,124	20,490	33,333	36,538	35,572	34,623
Two years later	-	-	18,037	21,154	32,044	36,511	36,179	34,345
Three years later	-	-	-	20,526	32,141	35,879	37,071	33,991
Four years later	-	-	-	-	31,633	35,551	36,027	34,318
Five years later	-	-	-	-	-	35,558	36,258	33,334
Six years later	-	-	-	-	-	-	36,282	33,287
Seven years later	-	-	-	-	-	-	-	33,280
Current estimate of cumulative claims	8,198	8,478	18,037	20,526	31,633	35,558	36,282	33,280
Cumulative payments and transfers to date	(4,270)	(6,983)	(15,915)	(19,892)	(30,763)	(35,177)	(36,008)	(33,224)
Liability recognised in statement of financial position	3,928	1,495	2,122	634	870	381	274	56

Total of eight years	9,760
Liability in respect of other policy years	5,090
Claims handling reserve	360
Total liability included in statement of financial position	**15,210**

11) Trade and other payables

	Year ended 20 February 2020 $'000	**Year ended 20 February 2019 $'000**
Amounts arising out of direct insurance operations	417	563
Other creditors	-	329
Accruals and deferred income	820	1,521
Trade payables and accrued expenses	**1,237**	**2,413**

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 2020 $'000**	**Year ended 20 February 2019 $'000**
Interest receivable	70	1,088
Investment income - unlisted	551	596
	621	**1,684**

The amount of interest income relating to financial instruments which are not at fair value through profit or loss is $70,000 (2019: $1,088,000). *Unlisted investment income includes dividends received from subsidiary* undertakings of $551,000 (2019: $579,000).

13) Net fair value gains / (losses) on assets at fair value through profit or loss	**Year ended 20 February 2020 $'000**	**Year ended 20 February 2019 $'000**
Net fair value gains / (losses)on financial assets through profit or loss:		
• fair value gains	835	743
• fair value losses	-	(36)
	835	**707**
Net fair value gains on collective investment vehicles & debt securities are as follows:		
Bond interest	516	640
Net realised gains / (losses)	278	(36)
Net movement on unrealised gains	41	103
	835	**707**

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

	Note	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Write-down of subsidiary undertakings	6	119	-
		119	-

The investments in Sunderland Marine (Africa) Limited, Salvus Bain Management (USA) LLC and Aquaculture Risk Management (ARM) were written down in aggregate by $119,000 to net asset value.

15) Operating expenses by nature

	Note	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Acquisition costs		2,520	5,217
Depreciation		6	31
Gain on disposal of fixed assets		(1)	(7)
Staff costs	16	35	3,716
Operating lease payments		-	66
Claims handling expenses transferred to loss adjustment expenses		(708)	(868)
Other gains and losses	14	119	-
Purchase of goods and services		4,998	5,395
Expenses for asset services rendered		20	94
Reinsurance commission		(3,597)	(6,332)
Total operating expenses		**3,392**	**7,312**

	2020 $000	2019 $000
Audit of these financial statements	129	206

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 2020 $'000 Number	**Year ended 20 February 2019 $'000 Number**
The average monthly number of employees (including Directors) was:		
Underwriting and entries	-	9
Claims	-	2
Risk	-	2
Other	2	12
	2	**25**
Their aggregate remuneration comprised:		
Wages and salaries	35	2,491
Social security costs	-	192
Retirement benefit obligations - defined contribution plans	-	487
Redundancy costs	-	546
	35	**3,716**

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

17) Directors' remuneration

	Year ended 20 February 2020 $'000	**Year ended 20 February 2019 $'000**
The remuneration of the directors was as follows:		
Short-term employee benefits	35	239
Compensation for loss of office	-	303
	35	**542**

Highest paid director

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

	Year ended 20 February 2020 $'000	**Year ended 20 February 2019 $'000**
Short-term employee benefits	20	179
Compensation for loss of office	-	303

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18) Net finance income

	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Gains on exchange	819	2,283
	819	**2,283**

19) Tax expense

	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Income tax expense		
Current tax		
Adjustment for previous years	-	(7)
	-	(7)
Deferred tax		
Origination and reversal of temporary differences	-	(49)
Total tax expense	-	**(56)**

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:

(Deficit)/surplus before tax	(181)	8,339
Tax on the above at standard UK corporation tax rate of 19.0%	34	(1,584)
Non-taxable income	236	823
Non-deductible expenses	(20)	(171)
Tax on loss not recognised	(250)	-
Tax losses utilised	-	883
Adjustment in respect of previous years	-	(7)
Total tax	-	**(56)**

The company has available trade tax losses of £3,435,461 and capital tax losses of £6,002,405.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20) Reserves

	Year ended 20 February 2020 $'000	Year ended 20 February 2019 $'000
Income and expenditure reserve	8,393	8,574
Translation reserve	(4,830)	(4,005)
Reserve fund	50,097	50,097
	53,660	**54,666**

a) Income and expenditure reserve

Opening balance	8,574	291
Surplus /(deficit) for the year	(181)	8,283
Closing balance	**8,393**	**8,574**

b) Translation reserve

Opening balance	(4,005)	(51)
Exchange rate adjustment	(825)	(5,579)
Business transfer (note 27)	-	1,625
Closing balance	**(4,830)**	**(4,005)**

c) Revaluation reserve

Opening balance	-	766
Business transfer (note 27)	-	(766)
Closing balance	-	-

d) Reserve fund

Opening balance	50,097	77,147
Capital from parent company	-	10,633
Capital to parent company	-	(15,000)
Business transfer (note 27)	-	(22,683)
Closing balance	**50,097**	**50,097**

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) Leases

The Company is entered into a lease agreement for a motor vehicle for use by a surveyor.

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

i. Right-of-use assets

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

	Year ended 20 February 2020	
	Motor Vehicles $'000	**Total $'000**
Balance at 21 February 2019	**7**	**7**
Depreciation charge for year	**(5)**	**(5)**
Balance at 20 February 2020	**2**	**2**

ii. Amounts to be recognised in profit or loss

Previously, these leases were classified as operating leases under IAS 17. The amount recognised as a lease expense in the year ending 20 February 2019 under IAS 17 was $66K.

	2020 $'000
Interest on lease liabilities	-
Expenses relating to short term and low value leases	-
Depreciation charge for year	5
Balance at 20 February 2020	**5**

iii. Amounts recognised in statement of cash flows

	2020 $'000
Total cash outflow for leases	**5**

22) Guarantees

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23) Related party transactions

Key management consists of the directors and other senior managers.

Key management compensation	**Year ended 20 February 2020 $'000**	**Year ended 20 February 2019 $'000**
The remuneration of key management was as follows:		
Wages and salaries	35	450
Social security costs	-	91
Pension costs	-	17
Other benefits	-	18
Compensation for loss of office	-	303
	35	**879**

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	Van Olst de Graaff	HMU	HMU Pool	NGS	SMA
	$'000	$'000	$'000	$'000	$'000	$'000
	Year ended 20 February 2020					
Income statement						
Insurance premium earned	-	235	-	(1)	-	-
Acquisition costs	-	5	-	-	-	-
Reinsurance premium ceded	(9,254)	-	-	1	-	(1)
Reinsurance commission	2,082	-	-	-	-	3
Insurance claims and loss adjustment expenses	-	-	-	1,343	-	-
Insurance claims and loss adjustment expenses recovered	(2,677)	-	-	153	-	120
Expenses for marketing and administration	-	-	(77)	-	(2,878)	-
Dividends received	-	551	-	-	-	-
	At 20 February 2020					
Statement of financial position						
Reinsurers' share of technical provisions						
• Provision for unearned premium	5,034	-	-	-	-	-
• Claims outstanding	17,929	-	-	310	-	-
Technical provision						
• Claims outstanding	-	-	-	(372)	-	-
Provision for unearned reinsurance commission	(1,122)	-	-	-	-	-
Reinsurance payables	-	-	-	(229)	-	52
Trade and other payables	(1,764)	-	187	(713)	-	(172)
Loans and receivables	-	4	-	-	1,355	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23) Related party transactions (continued)

	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	-	-

During the prior year, North contributed $10,633,000 to the company 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 completed in the prior year (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 prior 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 2020 $'000**	**Year ended 20 February 2019 $'000**
(Deficit) / surplus after taxation	(181)	8,283
Adjustments for:		
Tax expense / (income)	-	56
Dividends received from subsidiary undertakings	(551)	(579)
Depreciation	6	31
Write-down of investment in subsidiary	119	-
Profit on sale of property, plant and equipment	(1)	(7)
Profit on sale of subsidiary	-	(3,579)
Unrealised gains on assets at fair value through profit or loss	(41)	(77)
Decrease in insurance contracts net of reinsurance recoverable	(2,294)	(12,451)
Decrease in unearned premium reserve net of reinsurers' share	(885)	(2,306)
Decrease / (increase) in loans and receivables	2,305	(15,802)
Decrease in deferred acquisition costs	652	1,317
(Decrease) / increase in derivative financial instruments	-	(120)
Decrease in unearned reinsurance commission	(427)	(953)
Decrease in reinsurance payables	(1,468)	(4,397)
(Decrease) / increase in trade and other payables	(1,178)	15,144
Purchase of collective investment vehicles and debt securities at fair value through profit or loss	(92,027)	(71,253)
Sale of collective investment vehicles and debt securities at fair value through profit or loss	95,340	64,130
Cash absorbed by operating activities	**(631)**	**(22,563)**

25) Defined contribution pension schemes

The company no longer operates a number of defined contribution pension schemes, these schemes were transferred to North Group Services Limited, another Group company, on 1st October 2018. As a result the total pension cost charge for the year to 20th February 2020 amounted to $nil (2019: $487,000) and there were no outstanding or prepaid contributions at either the beginning or the end of the year.

26) Disposal of subsidiary

The company disposed of its 100% shareholding in Knighthood Corporate Assurance Services Limited on 16 March 2018, recognising a profit on disposal of $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**

28) Post Balance sheet event

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