

***SUNDERLAND MARINE INSURANCE COMPANY LIMITED***

***NEW ZEALAND BRANCH***

***FINANCIAL STATEMENTS***

***20<sup>TH</sup> FEBRUARY 2016***



## Independent auditor's report

### **To the shareholders of Sunderland Marine Insurance Company Limited - New Zealand branch**

We have audited the accompanying financial statements of Sunderland Marine Insurance Company Limited - New Zealand branch ("the branch") on pages 4 to 26. The financial statements comprise the statement of financial position as at 20 February 2016, the statements of comprehensive income, changes in head office account and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the branch's shareholders those matters we are required to state to them in the 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 branch's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

#### *Directors' responsibility for the financial statements*

The directors are responsible on behalf of the branch for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Our firm has also provided other services to the branch in relation to general accounting services. Subject to certain restrictions, partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditor of the branch. The firm has no other relationship with, or interest in, the branch.

*Opinion*

In our opinion, the financial statements on pages 4 to 26 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Sunderland Marine Insurance Company Limited – New Zealand branch as at 20 February 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

16 June 2016  
Auckland

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Annual Report

#### For the year ended 20<sup>th</sup> February 2016

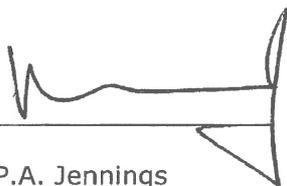
The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year 21<sup>st</sup> February 2015 to 20<sup>th</sup> February 2016 and the auditor's report thereon.

In the Directors' opinion, the financial statements and notes set out on pages 4 - 26:

- a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the branch as at 20 February 2016 and the results of operations of the year ending on that date.
- b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting reports have been kept which enable, with reasonable accuracy, the determination of the financial position of the branch and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Companies Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the branch will be able to pay all debtors or claims as and when they are due.

Signed in Newcastle Upon Tyne on 15 June, 2016 for and on behalf of the Board of Directors:



P.A. Jennings  
Director

15 June, 2016



A.A. Wilson  
Director

15 June, 2016

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Statement of comprehensive income

For the year ended 20<sup>th</sup> February 2016

	Note	Year ended 20 Feb 16 \$NZ	14 month period ended 20 Feb 15 \$NZ
<b>Revenue</b>			
Premium	3(a)	3,969,921	5,553,323
Investment income	3(b)	<u>143,314</u>	<u>140,953</u>
<b>Total operating revenue</b>		<u>4,113,235</u>	<u>5,694,276</u>
<b>Expenses</b>			
Claims	3(a)	(2,588,678)	(2,997,546)
Underwriting expenses	3(a)	(492,882)	(495,228)
Administration expenses	3(c)	<u>(1,272,450)</u>	<u>(1,251,738)</u>
<b>Total expenses</b>		<u>(4,354,010)</u>	<u>(4,744,512)</u>
Operating (loss)/profit before tax		(240,775)	949,764
Income tax	9	40,175	(268,201)
<b>(Loss)/profit from operating activities after tax</b>		<u>(200,600)</u>	<u>681,563</u>
<b>Other comprehensive income Items that will not be reclassified to profit &amp; loss</b>			
Revaluation of land and buildings		102,478	-
<b>Total comprehensive (loss)/income</b>		<u><u>(98,122)</u></u>	<u><u>681,563</u></u>

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 26.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Statement of Changes in Head Office Account

#### For the year ended 20<sup>th</sup> February 2016

	Note	Year ended 20 Feb 16	14 month period ended 20 Feb 15
<b>HEAD OFFICE ACCOUNT</b>		\$NZ	\$NZ
Head office account at the beginning of the period		3,353,027	1,899,504
Total comprehensive (loss)/income		(98,122)	681,563
Transaction with owners			
Transfer from HO on settlement of HO account		2,346,974	771,960
		<hr/>	<hr/>
Head office account at the end of the period		<u>5,601,879</u>	<u>3,353,027</u>

The Statement of Changes in Head Office Account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 26.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Statement of Financial Position

As at 20 February 2016

		As at 20 Feb 16 \$NZ	As at 20 Feb 15 \$NZ
<b>Non current assets</b>			
Land and buildings	6	880,000	780,916
Fixed assets	6	<u>21,616</u>	<u>26,729</u>
<b>Total non-current assets</b>		<u>901,616</u>	<u>807,645</u>
<b>Current assets</b>			
Cash on hand		80,299	148,341
Short term bank deposits		5,293,390	4,439,823
Financial assets	7	-	501,833
Debtors		5,382,929	4,749,602
Reinsurance receivable	8	1,008,140	1,040,882
Direct tax receivable	9	173,897	-
Deferred tax asset	9	<u>97,636</u>	<u>30,219</u>
<b>Total current assets</b>		<u>12,036,291</u>	<u>10,910,700</u>
<b>Total assets</b>		<u>12,937,907</u>	<u>11,718,345</u>
<b>Current liabilities</b>			
Payables		219,002	352,634
Unearned premium		4,632,784	4,640,098
Provision for outstanding claims	10	<u>2,484,242</u>	<u>3,372,586</u>
<b>Total current liabilities</b>		<u>7,336,028</u>	<u>8,365,318</u>
<b>Total liabilities</b>		<u>7,336,028</u>	<u>8,365,318</u>
<b>Head office account</b>		<u>5,601,879</u>	<u>3,353,027</u>
<b>Total liabilities and head office account</b>		<u>12,937,907</u>	<u>11,718,345</u>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 26.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Statement of Cashflows

	Year ended 20 Feb 16	14 month period ended 20 Feb 15
	NZ\$	NZ\$
<b>Cash flows provided by operating activities:</b>		
Operating (loss)/profit before taxation	(240,775)	949,764
Tax paid	(217,736)	(512,624)
<b>Changes in non-cash operating accounts:</b>		
Receivables arising out of direct insurance operations	842	227,976
Deferred policy acquisition costs	10,376	(444)
Outstanding claims, net of reinsurers' share	(652,845)	802,050
Unearned premiums, net of reinsurers' share	(632,144)	(159,936)
Unearned reinsurance commissions	(614,716)	659,811
Unrealised (gain)/loss on investments	(48,028)	15,409
Realised loss on investments	49,861	-
Fixed assets depreciation	5,113	10,196
Property depreciation	3,394	5,280
Other, net	275,209	(389,973)
	(2,061,449)	1,607,509
<b>Cash flow provided by investing activities:</b>		
Maturity of debt security	500,000	-
<b>Cash flows provided by financing activities:</b>		
From Head Office	2,346,974	771,960
<hr/>		
Increase in cash and cash equivalents	785,525	2,379,469
Cash and cash equivalents, beginning of the period	4,588,164	2,208,695
Cash and cash equivalents, end of the period	5,373,689	4,588,164
<hr/>		

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 26.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### **1 Summary of Significant Accounting Policies**

Sunderland Marine Insurance Company Limited - New Zealand branch ("the branch") is registered to carry on inward insurance business in New Zealand for a foreign company. The branch's principal activity is general insurance.

The financial statements were authorised for issue by the directors on 15 June 2016

##### **a) Reporting entity**

The branch is a company registered under the Companies Act 1993. These are the financial statements of the branch. The financial statements of the branch have been prepared in accordance with NZ IFRS.

The financial statements comprise the following: Statement of Comprehensive Income, Statement of Changes in Head Office Account, Statement of Financial Position and Statement of Cash Flows as well as the notes to the financial statements contained on pages 8 to 23 of this annual report. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and on the basis of historical cost.

These statements cover the accounting period from 21 February 2015 to 20 February 2016. The prior period information is therefore not directly comparable.

Sunderland Marine Insurance Company Limited (the "Company") changed its accounting date to 20 February to align with North of England Protecting and Indemnity Association who the Company merged with on 28 February 2014. The branch changed its reporting date to align with the Company.

##### **b) Statement of compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit generating entities. The branch is a profit oriented entity. The branch is a reporting entity for the purposes of the Financial Reporting Act 2013 ("the Act") and its financial statements comply with that Act. They also comply with International Reporting Standards (IFRS).

##### **c) Basis of preparation**

The accounts of the branch have been prepared in accordance with applicable New Zealand accounting standards and are expressed in New Zealand Dollars.

The financial statements have been prepared under the historical cost convention unless otherwise stated below.

The accounting policies set out below have been applied consistently by the branch to all periods presented in the financial statements.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

#### 1 Summary of Significant Accounting Policies (continued)

##### d) Premium revenue

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.

##### e) Accounts receivable

Accounts receivable are stated at their estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off in the period in which they are identified.

##### f) Financial assets backing insurance contract liabilities

The branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Financial assets are recognised on the date when they are originated. The branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it ceases to have rights to receive contractual cash flows. Unrealised profits and losses on subsequent measurement to fair value are recognised in profit or loss.

##### g) Land & buildings

Land and buildings comprise the office owned by the company. Land and buildings are measured at cost and subsequently at fair value with any change therein recognised in other comprehensive income. Fair value is based on periodic valuations by external independent appraisers.

Freehold land is not depreciated.

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

Freehold buildings	2% straight line
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##### h) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### **1 Summary of Significant Accounting Policies (continued)**

Any impairment losses are included within the Statement of Comprehensive Income. 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, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Statement of Comprehensive Income.

##### **i) 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. For the purposes of reporting cash flows, cash and cash equivalents includes cash on bank and short term bank deposits.

##### **j) Leases**

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are included in the determination of operating surplus in equal instalments over the lease term.

##### **k) Income tax**

The income tax expense charged to the Statement of Comprehensive Income includes both the current year's provision and the income tax effects of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

##### **l) Goods and services tax**

Revenues and expenses are stated net of goods and services tax (GST). Trade receivables and trade payables are stated inclusive of GST to the extent that GST is recoverable or payable.

##### **m) Claims**

Claims expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported and outstanding, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNR's and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using internal management models and no actuarial valuation is explicitly performed on the branch.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### **1 Summary of Significant Accounting Policies (continued)**

###### **n) Acquisition costs**

A portion of acquisition costs relating to unearned premium revenue is recognised as an asset in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

###### **o) Reinsurance**

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

##### **2 Summary of Significant Estimates and Assumptions**

###### **a) Actuarial methods**

Provision is made at the end of each period for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, claims that have been incurred but not reported (IBNR), claims that have been incurred but not enough reported (IBNER) and estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims provision is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine the outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and thus selecting a single point estimate. These methods may include, but are not necessarily limited to; extrapolations of historical reported and paid loss data, application of industry loss developments patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial results include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts, and the effect of recent or pending litigation on future claims settlements.

The reserves as at 20 February 2016 were valued by Daniel Smith FIAA who was satisfied as to the nature, sufficiency and accuracy of the data provided.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

#### **2 Summary of Significant Estimates and Assumptions (continued)**

##### **b) Measurement of Land and Buildings**

Land and buildings are measured at cost and subsequently at fair value which is based upon periodic valuations by external independent appraisers.

Details of the methodology and assumptions used in measuring the land and buildings at fair value are disclosed in Note 6.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>3 Operating Results</b>		
<b>(a) Underwriting result</b>		
<b>Revenue</b>		
Gross premium income	9,224,968	9,705,275
Increase/(decrease) in unearned premium	12,392	270,776
Reinsurance ceded (net)	<u>(5,267,439)</u>	<u>(4,422,729)</u>
<b>Net premium</b>	<u>3,969,921</u>	<u>5,553,323</u>
<b>Claims expense</b>		
Claims paid	(7,288,991)	(4,150,954)
Claims settlement expenses	(173,445)	(242,226)
Decrease/(increase) in outstanding claims provision	876,826	(1,021,360)
Reinsurance recoveries	<u>3,996,932</u>	<u>2,416,994</u>
<b>Total claims expense</b>	<u>(2,588,678)</u>	<u>(2,997,546)</u>
<b>Underwriting expenses</b>		
Net commissions	(421,265)	(456,552)
Other income deductions	<u>(71,617)</u>	<u>(38,675)</u>
<b>Total underwriting expenses</b>	<u>(492,882)</u>	<u>(495,228)</u>
<b>Underwriting result</b>	<u>888,361</u>	<u>2,060,549</u>
<b>(b) Investment income</b>		
Interest	<u>143,314</u>	<u>140,953</u>
<b>Total investment income</b>	<u>143,314</u>	<u>140,953</u>
<b>(c) Administration costs</b>		
Marketing and administration expenses	<u>(1,272,450)</u>	<u>(1,251,738)</u>
	<u>(1,272,450)</u>	<u>(1,251,738)</u>

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

#### 4 Auditor's Remuneration

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
Audit fees	(10,873)	(7,000)
Other services*	<u>(3,325)</u>	<u>(4,550)</u>
	<u>(14,198)</u>	<u>(11,550)</u>

\* Other services relate to payroll services performed by KPMG, Wellington which discontinued in December 2015.

#### 5 (a) Net Claims Expense

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>Current</b>		
Gross claims incurred	(6,412,165)	(5,172,314)
Reinsurance and other recoveries	<u>3,996,932</u>	<u>2,416,994</u>
	(2,415,233)	(2,755,320)
Claims settlement expenses	<u>(173,445)</u>	<u>(242,226)</u>
Net claims expense	<u>(2,588,678)</u>	<u>(2,997,546)</u>

#### (b) Net Claims Expense

	Current Year NZ\$	Prior Years NZ\$	20 Feb 16 NZ\$	20 Feb 15 NZ\$
Gross claims incurred and related expenses - undiscounted	(5,743,351)	(842,259)	(6,585,610)	(5,414,540)
Reinsurance and other recoveries - undiscounted	<u>3,567,792</u>	<u>429,140</u>	<u>3,996,932</u>	<u>2,416,994</u>
Net claims incurred - undiscounted	(2,175,559)	(413,119)	(2,588,678)	(2,997,546)
Discount and discount movement - gross claims incurred	-	-	-	-
Net discount movement	-	-	-	-
	<u>(2,175,559)</u>	<u>(413,119)</u>	<u>(2,588,678)</u>	<u>(2,997,546)</u>

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

##### 6 Non Current Assets

	Fixed Assets				Total
	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equip. and Fittings	
<b>Year ended 20 February 2016</b>					
Opening net book amount	780,916	-	25,251	1,479	807,646
Write-up of land and buildings	102,478	-	-	-	102,478
Depreciation charge	(3,394)	-	(4,940)	(174)	(8,508)
Closing net book amount	880,000	-	20,311	1,305	901,616
<b>At 20 February 2016</b>					
Cost or valuation	880,000	32,620	41,130	40,847	994,597
Accumulated depreciation	-	(32,620)	(20,819)	(39,542)	(92,981)
Net book amount	880,000	-	20,311	1,305	901,616
<b>Period ended 20 February 2015</b>					
Opening net book amount	786,196	47	35,132	1,747	823,122
Depreciation charge	(5,280)	(47)	(9,881)	(268)	(15,476)
Closing net book amount	780,916	-	25,251	1,479	807,646
<b>At 20 February 2015</b>					
Cost or valuation	800,000	32,620	41,130	40,847	914,597
Accumulated depreciation	(19,084)	(32,620)	(15,879)	(39,368)	(106,951)
Net book amount	780,916	-	25,251	1,479	807,646

The fair value of the New Zealand freehold property has been assessed by the Directors, taking into account a valuation by Duke & Cooke Limited, Valuers & Property Specialists, during January 2016. The value of the property was increased by \$102,478 and was recognised in other comprehensive income.

There are no quantitative unobservable inputs that are individually significant to the fair value measurement.

The highest and best use of the property is for residential purposes. The asset is being used for commercial purposes as the branch has no use for a residential property.

In establishing the market value of the property, the following recognised market based valuation approaches were used: direct sales comparison and net rate analysis.

The direct sales comparison approach includes comparing and contrasting the comparable sales and ranking them as inferior, superior or comparable to the subject property. Taken into account are factors such as the date of sale, size, contour, location, zoning and all other relevant aspects of the property, and the quality, age, size and layout of the improvements.

Net rate analysis involves the deduction of chattels, land value and other improvements from a comparable sales price. The residual sum is then pro-rated over the floor area of the dwelling. This method derives a square metre rate for the dwelling in dollar terms. From this analysis a range of net rates are derived which the subject property can be compared and valued.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

##### 7 Financial Assets

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>(a) Financial assets - fair value through profit or loss</b>		
Debt securities - unsecured	-	501,833
Total financial assets - fair value through profit and loss	-	501,833

##### (b) Fair value hierarchy

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<b>At 20 February 2016</b>				
Cash & deposits	5,373,688	-	-	5,373,688
Land and buildings	-	-	880,000	880,000
	<u>5,373,688</u>	-	<u>880,000</u>	<u>6,253,688</u>
<b>At 20 February 2015</b>				
Debt securities	501,833	-	-	501,833
Cash & deposits	4,588,164	-	-	4,588,164
Land and buildings	-	-	780,916	780,916
	<u>5,089,997</u>	-	<u>780,916</u>	<u>5,870,913</u>

##### (c) Reconciliation of movements in level 3 assets during the year

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
Opening balance	780,916	786,196
Revaluations	102,478	-
Depreciation	(3,394)	(5,280)
Closing balance	<u>880,000</u>	<u>780,916</u>

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.

Land and buildings are included in level 3 in the hierarchy. The method for valuing the land and buildings is explained in more detail in note 6.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

##### 8 Reinsurance & Other Recoveries Receivable

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
Reinsurance premium payable (net)	(336,148)	(538,905)
Reinsurance recoveries receivable	<u>1,344,288</u>	<u>1,579,787</u>
	<u>1,008,140</u>	<u>1,040,882</u>

Reinsurance has been offset on the basis of the branch's participation in SMI's global reinsurance arrangements whereby reinsurance premiums and recoveries are settled on a net basis monthly.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>9 Income Tax</b>		
<b>(a) Income tax expense</b>		
Income tax on taxable surplus for the year	27,242	271,224
Adjustments in respect of prior periods	-	2,278
	<u>27,242</u>	<u>273,502</u>
Total current taxes	27,242	273,502
Deferred taxes		
Origination of timing differences	(67,417)	(5,301)
	<u>(67,417)</u>	<u>(5,301)</u>
Total deferred taxes	(67,417)	(5,301)
Income tax expense	<u>(40,175)</u>	<u>268,201</u>
<b>b) Reconciliation of prima facie tax payable to total current income tax expense</b>		
(Loss)/profit from operating activities before income tax	(240,775)	949,764
Prima facie income tax payable (28%)	(67,417)	265,934
Tax effects of :-		
Non taxable income	-	(643)
Non deductible expenses	27,242	632
Prior year adjustments	-	2,278
	<u>(40,175)</u>	<u>268,201</u>
Income Tax Expense	<u>(40,175)</u>	<u>268,201</u>
<b>c) Income tax receivable/(payable)</b>		
Opening balance	(16,597)	(255,719)
Additional provisions recognised	(27,242)	(271,224)
Liabilities paid	217,736	512,624
Prior years recognised	-	(2,278)
	<u>173,897</u>	<u>(16,597)</u>
Closing balance	<u>173,897</u>	<u>(16,597)</u>
<b>d) Deferred tax provision</b>		
Opening balance	30,219	24,918
Movement during the period	67,417	5,301
	<u>97,636</u>	<u>30,219</u>
Closing balance	<u>97,636</u>	<u>30,219</u>
Excess of taxation allowances over depreciation on fixed assets	4,616	4,616
Tax losses	67,417	-
Other timing differences	25,603	25,603
	<u>97,636</u>	<u>30,219</u>

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the ended 20<sup>th</sup> February 2016

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>10 Outstanding Claims</b>		
<b>(a) Outstanding claims liability</b>		
Outstanding claims (gross)	(2,203,147)	(2,958,660)
Claims handling cost	(66,108)	(77,626)
Risk margin	<u>(214,987)</u>	<u>(336,300)</u>
Total outstanding claims liability - undiscounted	<u>(2,484,242)</u>	<u>(3,372,586)</u>
Current	<u>(2,484,242)</u>	<u>(3,372,586)</u>
Total	<u>(2,484,242)</u>	<u>(3,372,586)</u>

#### (b) Risk margins

Incurred but not reported claims are initially calculated on a best estimate basis, and a risk margin of 23.32% for hull, 24.60% for P&I and 19.52% for aquaculture is applied in order to achieve the probability of adequacy at a minimum confidence level of 75%. These risk margins are based on 2014/15's actuarial report. Similar risk margins were applied in the previous period.

#### (c) Liability adequacy test

The liability adequacy test has been conducted using the central estimate of present value of expected future cash flows and has identified a surplus.

	20 Feb 16 NZ\$	20 Feb 15 NZ\$
Central estimate of the present value of expected future cash flows	(1,708,753)	(2,945,222)
Risk margin	<u>-</u>	<u>-</u>
	<u>(1,708,753)</u>	<u>(2,945,222)</u>

Liability adequacy has been reviewed at a branch level and failure in liability adequacy is not envisaged.

The principal risk the branch faces under insurance contracts is that actual claims payments, or the timing thereof, differ from expectations. This is influenced by the frequency and severity of claims and the subsequent development of long-tailed claims. The objective of the branch is to ensure that sufficient technical provisions are available to cover these liabilities.

This risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

## 11 Contingencies

The branch has no known contingent liabilities or contingent assets at the reporting date or the previous reporting date.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20 February 2016**

##### **12 Commitments**

###### **a) Capital commitments**

There have been no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

###### **b) Lease commitments**

There have been no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

##### **13 Events Occurring after the Statement of Financial Position Date**

Subsequent Events are events or transactions that occur after the Statement of Financial Position date but before financial statements were issued that provide additional evidence about conditions that existed at the date of the Statement of Financial Position. In preparing the financial statements, the branch has evaluated events that occurred after 20 February 2016, up until the financial statements were available to be issued, which occurred on 15 June 2016.

No significant events have occurred subsequent to the Statement of Financial Position date.

##### **14 Related Party Transactions**

At 20 February 2016, the ultimate controlling party of the branch was The North of England Protecting and Indemnity Association Limited (North). On 28 February 2014 North acquired Sunderland Marine Mutual Insurance Company Limited, being the previous ultimate controlling party of the branch, by becoming the sole member limited by guarantee.

###### **Transactions with related parties**

Transactions with related parties during the year include the branch's participation in Sunderland Marine Insurance Company Limited's (SMI) global reinsurance program and service charges charged from SMI. The service charge is a distribution across SMI's branches for the running costs of the Head Office, which is allocated on an earned premium basis.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

Transactions with related parties during the year are as follows:

	Year ended 20 Feb 16 NZ\$	14 month period ended 20 Feb 15 NZ\$
<b>(a) Statement of comprehensive income</b>		
Reinsurance ceded (net)	(4,722,470)	(3,860,203)
Reinsurance recoveries	3,846,794	1,793,126
Administration expenses (service charge)	<u>(1,003,867)</u>	<u>(998,890)</u>
	<u>(1,879,543)</u>	<u>(3,065,968)</u>
<b>(b) Statement of financial position</b>		
Debtors	(2,653,584)	(1,387,339)
Reinsurance receivable	<u>(995,040)</u>	<u>(1,100,379)</u>
	<u>(3,648,624)</u>	<u>(2,487,718)</u>

#### 15 Credit Rating

Standard and Poor's have assigned an 'A' rating to the North group as a whole.

#### 16. Risk Management

The branch's management of insurance risk and financial risk is a critical aspect of the business. The branch has exposure to the following risks from its use of financial instruments and its insurance contracts:

- Insurance risk
- Credit risk
- Liquidity risk
- Market risk

This note presents information about the branch's exposure to each of the above risks, the objectives and policies and processes for measuring and managing risk.

# Sunderland Marine Insurance Company Limited

## New Zealand Branch

### Notes to the Financial Statements

#### For the year ended 20<sup>th</sup> February 2016

##### (a) Risk management framework

###### (i) Governance framework

The primary objective of the risk management framework is to protect the policyholders from events that hinder the achievement of financial performance objectives. A policy framework, put in place at the Company level, sets out the risk profiled for the branch and the Board regularly approves the Company's risk management policies.

###### (ii) 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 its 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 branch are also subject to regulatory requirements. Such regulations not only prescribe approval and monitoring activities but also impose certain requirements, such as capital adequacy, to minimize the risk of default and insolvency.

###### (iii) Asset or liability management framework

The branch has limited exposure to risks arising from movements in interest rates and other prices which are exposed to general and specific market movements. The principal technique used by the branch is to ensure that there is sufficient cash flow available to meet liabilities as they fall due.

Specific risks that the branch is exposed to, and how they are managed, are explained below.

##### (b) Insurance risk

The branch issues contracts that transfer significant insurance risk. This section outlines the specific insurance related risks the branch is exposed to and how these are managed.

###### (i) Underwriting risk

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed the premiums received. This can arise as a result of numerous factors, including pricing risk, reserving risk and catastrophe risk.

Pricing risk arises because actual claims experience can differ adversely from the assumptions included in pricing calculations. Reserving risk arises because actual claims can differ adversely from the assumptions included in setting reserves. Catastrophe risk is the risk that a single event or series of events, of major magnitude leads to a significant deviation in actual claims from the total expected claims.

Underwriting risk will be influenced by the frequency of claims, severity of claims, and subsequent development of long-tail claims. The objective of the branch is to ensure that sufficient insurance contract provisions are available to cover these liabilities.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

Strict claim review handling policies to assess all new and on-going claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the insurance risk exposure of the branch.

The branch further enforces a policy of actively managing claims in order to reduce its exposure to unpredictable future developments that can adversely impact the branch.

#### *(ii) Concentration risk*

This risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. This serves to reduce the exposure to concentration risk, the risk of exposure to increased losses associated with inadequately diversified portfolios or assets and/or obligations.

#### *(iii) Reinsurance risk*

The branch participates in the Company's global reinsurance arrangements where a portion of the risks it writes are reinsured in order to control its exposure to losses (including catastrophic losses) and protect capital resources. The Company buys a combination of proportional and non-proportional reinsurance to reduce the net exposure on any one risk. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for unpaid claims and are in accordance with the reinsurance contracts.

Although the Company (and, therefore, the branch) has reinsurance arrangements, it is not relieved of its direct obligation to its policyholders and thus a credit risk 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.

#### **(c) Credit Risk**

Credit risk is the risk of financial loss to the branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from reinsurance receivables, direct insurance receivables, and investments. The following policies and procedures are in place to mitigate the branch's exposure to credit risk.

#### *(i) Reinsurance receivables*

Reinsurance is only placed with counterparties that have a good credit rating. The Company's security committee ensures that all the branch's reinsurers' are rated as 'A' or above by Standard & Poor's.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### *(ii) Direct insurance receivables*

The branch's exposure to credit risk from receivables arising out of direct insurance operations is influenced by the individual characteristics of each policyholder and their payment of premiums. Each policyholder is required to pay the premiums in the period specified in their respective policy agreement.

The branch manages the impact of credit risk by cancelling policies with balances outstanding after the relevant payment period has expired, subject to the terms of the individual policy agreement. If a policy is cancelled, the policyholder has ceased to be insured by the branch and the branch will no longer be liable for any claims occurring before or after the cancellation of insurance. This is in accordance with the branch's general conditions.

##### *(iii) Investments*

The branch now holds no debt securities. Cash and short term deposits are held with Westpac New Zealand Limited which holds an AA- (stable) rating with Standard & Poors and Fitch Ratings.

##### **(d) Liquidity Risk**

Liquidity risk is the risk that the branch will encounter difficulty in meeting its financial obligations as they fall due.

The branch's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity in meeting its liabilities when due. The branch monitors its forecast liquidity position by estimating cash outflows from its insurance contracts and placing cash on deposit with similar durations to meet those obligations. All financial liabilities at 20 February 2016 and 20 February 2015 are due on demand.

##### **(e) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

All of the branch's transactions and all balances are held in New Zealand Dollars. The branch participates in SMI's global reinsurance program. SMI's reinsurance program is denominated in GB Pounds and US Dollars and is managed by SMI's head office in the UK. The branch pays its proportion of the costs of the reinsurance program in New Zealand Dollars and also receives any recoveries from the program in New Zealand Dollars. SMI in the UK is exposed to currency risk on the reinsurance program rather than the branch.

##### *Interest rate risk*

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The branch's exposure to changes in market interest rates is concentrated in its investment portfolio. However, excess cash is held on deposit so the risk is minimal.

The branch manages its investment portfolio in accordance with an investment framework. The framework is used to determine both the investment policy and to establish the investment risk appetite. In this context, the overall risk is reviewed on a regular basis and the asset allocation is adjusted as necessary.

##### *Other price risk*

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The branch is exposed to minimal other price risk as its investment portfolio is principally in debt securities guaranteed by the New Zealand Government or issued by New Zealand Provinces and has no exposure to equity investments or commodities prices.

# **Sunderland Marine Insurance Company Limited**

## **New Zealand Branch**

### **Notes to the Financial Statements**

#### **For the year ended 20<sup>th</sup> February 2016**

##### **(f) Capital Management**

The required capital for Sunderland Marine Insurance Company Limited, as measured by the UK Prudential Regulatory Authority's (PRA's) Required Minimum Margin (RMM), is determined by the application of a formula that contains variables for premium and claims, expenses and reserves. The company also submits to its domiciliary regulator an annual Enhanced Capital Requirement (ECR) calculation and an Individual Capital Assessment (ICA) as required. There have been no reported breaches of the RMM, ECR and ICA throughout the period.

The branch is exempted from compliance with the Solvency Standard for Non-life Insurance Business 2014 issued under section 55 of the Insurance (Prudential Supervision) Act 2010 (the Act).