

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

SUNDERLAND MARINE INSURANCE COMPANY LIMITED

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

20TH FEBRUARY 2019



Independent auditor's report

To the shareholder of Sunderland Marine Insurance Company Limited - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Sunderland Marine Insurance Company Limited - New Zealand Branch (the "Branch") on pages 2 to 21:

- i. present fairly in all material respects the Branch's financial position as at 20 February 2019 and its financial performance and cash flows for the ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 20 February 2019;
- the statements of comprehensive income, changes in head office account and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interest in, the Branch.



Emphasis of matter – Going concern

We draw attention to the Basis of preparation note to the financial statements which describes that the going concern basis of preparing the financial statements has not been used because the Branch is expected to be dissolved within the next twelve months. Our opinion is not modified in respect of this matter.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter

How the matter was addressed in our audit

Transfer of business to The North of England Protecting and Indemnity Association Limited – New Zealand Branch

Refer to Note 17 to the financial statements.

Sunderland Marine Insurance Company Limited was acquired by The North of England Protecting and Indemnity Association Limited during the 2014 financial year, with a view to transfer the business of the Branch at a later date.

On 31 October 2018, the assets and liabilities of the Branch were transferred to The North of England Protecting and Indemnity Association Limited – New Zealand Branch (the "North Branch").

This transfer had a significant impact on the current year results of the Branch. The assets and liabilities transferred by the Branch were disposed at their book values, as part of a 'common control' transaction, where both the Branch and the North Branch are under common control of their ultimate parent company The North of England Protecting and Indemnity Association Limited.

Our audit procedures included:

- Assessing the accounting and disclosure of the transfer of assets and liabilities in accordance with the requirements of IFRS 3 *Business Combinations*.
- Testing a sample of claims payments to check the accuracy of the claims information.
- Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts.
- Checking the accuracy of transfer values of assets and liabilities, against counterparty transactions and balances.



Other information

The directors, on behalf of the Branch, are responsible for the other information included in the Branch's annual report. Other information includes the directors' report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

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



Responsibilities of the directors for the financial statements

The directors, on behalf of the Branch, are responsible 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Jamie Munro.

For and on behalf of



KPMG
Auckland

20 June 2019

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

DIRECTORS REPORT

The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year ended 20th February 2019 and the auditor's report thereon.

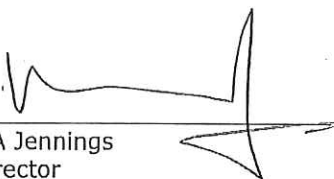
In the Directors' opinion, the financial statements and notes set out on pages 6 to 21:

- 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 2019 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 records 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 creditors or claims as and when they are due.

North of England Protecting and Indemnity Association Limited (North) acquired the parent company of the branch, Sunderland Marine Insurance company Limited, in 2014 with a view to transfer the business to North in due course. As part of this strategy the New Zealand branch of SMI was transferred to North on 31.10.2018. All assets and liabilities at 31.10.2018 including the rights and obligations associated with the insurance contracts underwritten by the branch, were transferred to North. The Directors intend to wind up the Sunderland Marine New Zealand branch and it is therefore not considered to be a going concern.

Signed in Newcastle upon Tyne on 20 June, 2019 for and on behalf of the Board of Directors:


P A Jennings
Director

20 June, 2019


P M Johnson
Director

20 June, 2019

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
Revenue			
Gross premium written		7,584,122	9,309,016
Gross premium ceded to reinsurers		(5,013,166)	(6,321,279)
Net premium revenue		2,570,956	2,987,737
Change in provision for unearned premium		(878,229)	199,628
Reinsurers' share of change in unearned premium		391,672	(255,147)
Change in the net provision for unearned premium		(486,557)	(55,519)
Earned premiums net of reinsurance		2,084,399	2,932,218
Reinsurance commission		800,495	1,460,539
Investment income	4(b)	165,954	122,044
Total operating revenue		3,050,848	4,514,801
Expenses			
Claims	4(a),6	(1,279,476)	(1,569,839)
Underwriting expenses	4(a)	(345,539)	(499,863)
Administration expenses	4(c)	(1,647,229)	(1,727,565)
Total expenses		(3,272,244)	(3,797,267)
Operating (loss) / profit before tax		(221,396)	717,534
Income tax	9	(87,413)	(111,035)
(Loss) / profit from operating activities after tax		(308,809)	606,499
Other comprehensive income		-	-
Total comprehensive (loss) / profit		(308,809)	606,499

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 6 to 21.

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

	Note	Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
HEAD OFFICE ACCOUNT			
Head office account at the beginning of the year		6,162,173	4,841,347
Total comprehensive (loss)/income		(308,809)	606,499
Transaction with owners:			
Transfer from head office		990,159	714,327
Business Transfer	333 333	(6,843,523)	333
Head office account at the end of the year		-	6,162,173

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 6 to 21.

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

STATEMENT OF FINANCIAL POSITION

	Note	As at 20 Feb 19 \$NZ	As at 20 Feb 18 \$NZ
Non-current assets			
Land and buildings	7	-	867,800
Fixed assets	7	-	11,440
Total non-current assets		-	879,240
Current assets			
Provision for unearned reinsurance premium		-	3,429,710
Recoveries outstanding		-	2,969,000
Deferred acquisition costs		-	231,410
Deferred tax asset	9	-	52,232
Debtors due from policyholders		-	2,246,762
Debtors due from reinsurers		-	2,182
Other debtors		-	915,469
Short term bank deposits		-	9,733,992
Cash on hand		-	991,930
Total current assets		-	20,572,687
Total assets		-	21,451,927
Current liabilities			
Provision for unearned premium		-	5,025,443
Claims outstanding	10	-	4,866,000
Provision for unearned reinsurance commission		-	670,325
Reinsurance payables		-	1,486,402
Current tax payable	9	-	36,332
Trade and other payables		-	3,205,252
Total current liabilities		-	15,289,754
Total liabilities		-	15,289,754
Head office account		-	6,162,173
Total liabilities and head office account		-	21,451,927

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 21.

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

STATEMENT OF CASHFLOWS

	Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
Cash flows provided by operating activities:		
Operating (loss) / profit before taxation	(221,396)	717,534
Tax (paid) / received	(71,514)	373,880
Non-cash items		
Fixed assets depreciation	848	4,303
Property depreciation	4,067	6,100
Changes in non-cash operating accounts:		
Provision for unearned reinsurance premium	(391,672)	255,148
Recoveries outstanding	652,750	500,659
Deferred acquisition costs	(24,614)	(2,078)
Debtors due from policyholders	(2,024,467)	147,161
Debtors due from reinsurers	(1,850,030)	402,993
Other debtors	(97,311)	(659,577)
Provision for unearned premium	878,229	(199,628)
Claims outstanding	(1,029,707)	(865,506)
Provision for unearned reinsurance commission	12,056	(39,315)
Reinsurance payables	2,580,113	(349,789)
Trade and other payables	2,444,498	2,710,495
	861,850	3,002,380
Cash flows provided by financing activities:		
From Head Office	990,159	714,327
(Decrease)/increase in cash and cash equivalents	1,852,009	3,716,707
Cash and cash equivalents, beginning of the period	10,725,922	7,009,215
Cash flow on business transfer (note 17)	(12,577,931)	-
Cash and cash equivalents, end of the period	-	10,725,922
Cash and cash equivalents consist of:		
Short term bank deposits	-	9,733,992
Cash on hand	-	991,930
Total Cash and cash equivalents	-	10,725,922

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 21.

NOTES TO THE FINANCIAL STATEMENTS

1) Summary of significant accounting policies

Sunderland Marine Insurance Company Limited - New Zealand branch ("the branch") was registered to carry on inward insurance business in New Zealand for a foreign company up until 31 October 2018. The branch's principal activity was general insurance up to 31 October 2018, after which the branch has not entered into any transactions.

The financial statements were authorised for issue by the directors on 20 June 2019.

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 company is registered under the Financial Markets Conduct Act 2013 and the financial statements comply with this Act.

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 6 to 21 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.

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 Financial 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.

During the year, the branch transferred all of its assets and liabilities, including those rights and obligations associated with insurance contracts underwritten by the branch, to the North of England Protection and Indemnity Association Limited's New Zealand branch. It is the intention of the directors to wind down the branch following this transfer. The accounts have not been prepared on a going concern basis as a result. No changes were necessary to the reported numbers as a consequence of this decision.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

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
Computer equipment	33.3% straight line
Motor vehicles	25% reducing balance
Office equipment and fittings	20% straight line

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

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) Foreign currency

The functional and presentational currency of the branch is New Zealand Dollars.

The income and expenses of the branch are translated into New Zealand Dollars at the exchange rate ruling at the date of the transactions when practical or at an average rate for the period in which the transaction arose. The assets and liabilities of the branch are translated into New Zealand Dollars at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in the income statement.

n) 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.

o) 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.

p) Reinsurance

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Summary of significant estimates and assumptions

The significant estimates and assumptions that were required up to the date of the business transfer are set out below.

a) Actuarial methods

Provision is made at the end of each period for the estimated gross cost of claims incurred but not settled at balance date, together with anticipated reinsurance recoveries thereon. The resulting net 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.

The gross and net 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 or a change to the reinsurance programme, and the effect of recent or pending litigation on future claims settlements.

The comparative reserves as at 20 February 2018 were valued by Daniel Smith FIAA who was satisfied as to the nature, sufficiency and accuracy of the data provided.

There are no reserves at 20 February 2019 following the business transfer.

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 7.

3) Newly adopted standards, and standards issued but not yet effective

During the period the branch has adopted NZ IFRS 9 Financial Instruments. The effect of adopting the standard was not material to the financial statements, as no changes were required to the classification, measurement or valuation of financial assets or financial liabilities on adoption.

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

- NZ IFRS 16 Leases (effective for periods commencing on or after 1st January 2019)
- NZ IFRS 17 has been issued but is not yet effective. Management are yet to assess the impact of the new standard

The directors believe that there will be no material impact on the financial statements following the implementation of these standards.

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
4) Operating results		
a) Underwriting result		
Revenue		
Gross premium written	7,584,122	9,309,016
(Increase)/decrease in unearned premium	(878,229)	199,628
Gross premium earned	6,705,893	9,508,644
Reinsurance premium ceded	(4,621,494)	(6,576,426)
Reinsurance commission	800,495	1,460,539
Net premium	2,884,894	4,392,757
Claims expense		
Claims paid	(2,573,566)	(4,930,055)
Claims settlement expenses	(57,645)	(151,159)
Decrease in claims outstanding	142,695	832,787
Reinsurance recoveries	1,209,040	2,678,588
Total claims expense	(1,279,476)	(1,569,839)
Underwriting expenses		
Agency costs	(326,197)	(467,345)
Other acquisition costs	(19,342)	(32,518)
Total underwriting expenses	(345,539)	(499,863)
Underwriting result	1,259,879	2,323,005
b) Investment income		
Interest	165,954	122,044
Total investment income	165,954	122,044
c) Administration costs		
Marketing and administration expenses	(1,647,229)	(1,727,565)
Total Administration costs	(1,647,229)	(1,727,565)

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5)	Auditor's remuneration			Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
	Audit fees			(12,898)	(19,005)
	Total Auditor's remuneration			(12,898)	(19,005)
6)	a) Net claims expense				
	Current				
	Gross claims incurred			(2,430,871)	(4,097,268)
	Reinsurance and other recoveries			1,209,040	2,678,588
	Claims expenses			(1,221,831)	(1,418,680)
	Claims settlement expenses			(57,645)	(151,159)
	Net claims expense			(1,279,476)	(1,569,839)
	b) Net claims expense	Current Year \$NZ	Prior Years \$NZ	20 Feb 19 \$NZ	20 Feb 18 \$NZ
	Gross claims incurred and related expenses - undiscounted	(2,315,007)	(115,864)	(2,430,871)	(4,097,268)
	Reinsurance and other recoveries - undiscounted	1,290,293	(81,253)	1,209,040	2,678,588
	Net claims incurred - undiscounted	(1,024,714)	(197,117)	(1,221,831)	(1,418,680)
	Discount and discount movement - gross claims incurred	-	-	-	-
	Net discount movement	-	-	-	-
		(1,024,714)	(197,117)	(1,221,831)	(1,418,680)

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Non-current assets

		Fixed Assets			
	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equip. and Fittings	Total
Year ended 20 February 2019					
Opening net book amount	867,800	-	10,653	787	879,240
Depreciation charge	(4,067)	-	(695)	(153)	(4,915)
Business transfer (note 17)	(863,733)	-	(9,958)	(634)	(874,325)
Closing net book amount	-	-	-	-	-
At 20 February 2019					
Cost or valuation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Net book amount	-	-	-	-	-
Year ended 20 February 2018					
Opening net book amount	873,900	-	14,204	1,539	889,643
Depreciation charge	(6,100)	-	(3,551)	(752)	(10,403)
Closing net book amount	867,800	-	10,653	787	879,240
At 20 February 2018					
Cost or valuation	880,000	32,620	41,130	40,615	994,365
Accumulated depreciation	(12,200)	(32,620)	(30,480)	(39,828)	(115,125)
Net book amount	867,800	-	10,653	787	879,240

At 20.02.2019 all assets have been transferred as part of the business transfer.

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

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 was 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
For the year ended 20th February 2019

8) **Financial Assets**

a) Fair value hierarchy	Level 1	Level 2	Level 3	Fair Value
At 20 February 2019				
Cash & deposits	-	-	-	-
	-	-	-	-
At 20 February 2018				
Cash & deposits	10,725,922	-	-	10,725,922
	10,725,922	-	-	10,725,922

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.

Sunderland Marine Insurance Company Limited
New Zealand Branch
For the year ended 20th February 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9) Income tax	Year ended 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
a) Income tax expense		
Income tax on taxable (loss) / profit for the year	-	69,362
Adjustments in respect of prior periods	-	-
Total current taxes	-	69,362
Deferred taxes		
Origination of timing differences	-	41,673
Adjustments in respect of prior periods	87,413	-
Total deferred taxes	87,413	41,673
Income tax expense	87,413	111,035
b) Reconciliation of prima facie tax payable to total income tax expense		
(Loss) / profit from operating activities before income tax	(308,809)	717,534
Prima facie income tax receivable (28%)	(86,467)	200,910
Tax effects of:-		
Non-taxable income	-	(17,578)
Deferred tax on losses not recognised	86,467	-
Deferred tax written off	87,413	-
Tax losses utilised not previously recognised	-	(72,297)
Income tax expense	87,413	111,035
c) Income tax receivable/(payable)		
Opening balance	(36,332)	406,910
Additional provisions recognised	(35,182)	(69,362)
Paid / (received)	71,514	(373,880)
Closing balance	-	(36,332)
d) Deferred tax provision		
Opening balance	52,232	93,905
Movement during the period	(52,232)	(41,673)
Closing balance	-	52,232
Excess of taxation allowances over depreciation on fixed assets	-	-
Tax losses	-	-
Other timing differences	-	52,232
	-	52,232

Sunderland Marine Insurance Company Limited
New Zealand Branch
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Outstanding Claims	Period end 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
a) Outstanding claims liability		
Outstanding claims (gross)	-	(3,832,000)
Claims handling cost	-	(188,000)
Risk margin	-	(846,000)
Total outstanding claims liability - undiscounted	-	(4,866,000)
Current	-	(4,866,000)
Total	-	(4,866,000)

b) Risk margins

At February 2019 there are no risk margins as all liabilities were part of the business transfer to North of England on 31st October 2018.

At February 2018 Incurred but not reported claims are initially calculated on a best estimate basis, and a risk margin of 21.24% for hull, 22.41% for P&I and 17.78% 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 2017/18's actuarial report.

11) Contingencies

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 20th February 2019, up until the financial statements were available to be issued, which occurred on 20 June 2019.

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

14) Related party transactions

At 20th February 2019, the ultimate controlling party of the branch was The North of England Protecting and Indemnity Association Limited (North).

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 programme 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
For the year ended 20th February 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14) Related party transactions (continued)

Transactions with related parties during the year are as follows:

	Period end 20 Feb 19 \$NZ	Year ended 20 Feb 18 \$NZ
a) Statement of comprehensive income		
Reinsurance ceded (net)	(3,521,182)	(4,668,559)
Reinsurance recoveries	1,209,040	2,676,588
Administration expenses (service charge)	(1,007,137)	(1,277,647)
	(3,319,279)	(3,267,618)
b) Statement of financial position		
Provision for unearned reinsurance premium	-	3,152,136
Other debtors	-	268,242
Recoveries outstanding	-	2,968,300
Provision for unearned reinsurance commission	-	(646,556)
Reinsurance payables	-	(1,450,760)
	-	4,291,362

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 had exposure to the following risks from its use of financial instruments and its insurance contracts up to the date of the business transfer:

- 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 up to the date of the business transfer.

There are no significant risks to which the branch is exposed following the date of the business transfer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 profile 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Insurance risk (continued)

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 reinsures a portion of the risks it writes in order to control its exposure to losses (including catastrophic losses) and protect capital resources. The branch buys a combination of proportional and non-proportional reinsurance to reduce the net exposure of the branch 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 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 branch'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.

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

Cash and short term deposits are held with Westpac New Zealand Limited which holds an AA- (stable) rating with Standard & Poor's and Fitch Ratings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2018 and 20 February 2017 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.

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.

In previous years all of the branch's transactions and all balances were held in New Zealand Dollars. During the current year the branch began to transact and hold balances in currencies other than New Zealand Dollars, including US Dollars and GB Pounds. The branch participates in SMI's global reinsurance programme which is denominated in US Dollars and GB Pounds. The branch now pays its proportion of the costs and receives any recoveries from the global reinsurance programme in these currencies. The branch is therefore exposed to currency risk on these transactions and balances.

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 it has no exposure to debt securities or equities.

Sunderland Marine Insurance Company Limited
New Zealand Branch
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17) Business Transfer

On 1 November 2018 all conditions required for the transfer of the company's business to its ultimate parent company, North of England Protection and Indemnity Association Limited 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. All assets and liabilities as shown in the balance sheet below were transferred at book value on the date of transfer.

Value of business transferred

\$NZ

Assets

Fixed assets	874,325
Provision for unearned reinsurance premium	3,821,382
Recoveries outstanding	2,316,250
Deferred acquisition costs	256,024
Debtors due from policyholders	4,271,229
Debtors due from reinsurers	1,852,212
Other debtors	1,012,780
Short term bank deposits	12,001,942
Cash on hand	575,989

Total assets	26,982,133
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Liabilities

Provision for unearned premium	5,903,672
Claims outstanding	3,836,293
Provision for unearned reinsurance commission	682,381
Reinsurance payables	4,066,515
Trade and other payables	5,649,749

Total current liabilities	20,138,610
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Head office account	6,843,523
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Total liabilities and head office account	26,982,133
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