

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

20TH FEBRUARY 2020



Independent Auditor's Report

To the shareholder of The North of England Protecting & Indemnity Association - New Zealand Branch - the New Zealand branch

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of The North of England Protecting & Indemnity Association - New Zealand Branch (the 'branch') on pages 2 to 22:

- i. present fairly in all material respects the branch's financial position as at 20 February 2020 and its financial performance and cash flows for the year 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 2020;
- 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 ('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 interests in, the branch.



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

Valuation of claims incurred but not reported

Refer to Note 10 to the Financial Statements.

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

Our audit procedures included:

- **Our actuarial expertise:** Used our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
 - **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the branch's actuary in assessing management's reliance upon their expert valuation services.
 - **Independent re-performance:** Independently re-projected the reserve for those classes of business we consider to be higher risk;
 - **Assessing transparency:** Assessed the Company's disclosures surrounding the claims incurred but not reported and claims handling reserve and insurance risk appropriately reflect the inherent uncertainties of the balance.
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Other information

The Directors, on behalf of the branch, are responsible for the other information included in the Branch's Annual 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 as a body 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-4/>

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



KPMG
Newcastle upon Tyne
19 June 2020

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

ANNUAL REPORT

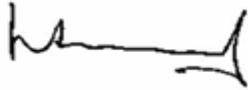
The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year ended 20th February 2020 and the auditor's report thereon.

In the Directors' opinion, the financial statements and notes set out on pages 2 to 22:

- 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 2020 and the results of operations of the period ended 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 19 June, 2020 for and on behalf of the Board of Directors:



P A Jennings
Director

19 June, 2020



Edward Davies
Director

19 June, 2020

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
Revenue			
Gross premium written		10,693,353	2,567,850
Gross premium ceded to reinsurers		(10,049,472)	(2,794,509)
		<hr/>	<hr/>
Net premium revenue		643,881	(226,659)
		<hr/>	<hr/>
Change in provision for unearned premium		(414,607)	396,520
Reinsurers' share of change in unearned premium		247,961	1,025,022
		<hr/>	<hr/>
Change in the net provision for unearned premium		(166,646)	1,421,542
		<hr/>	<hr/>
Earned premiums net of reinsurance		477,235	1,194,883
Reinsurance commission		2,027,072	313,123
Investment income	4(b)	9,190	33,537
		<hr/>	<hr/>
Total operating revenue		2,513,497	1,541,543
Expenses			
Claims	4(a),6	(556,240)	1,181,901
Underwriting expenses	4(a)	(609,049)	(157,939)
Administration expenses	4(c)	(2,147,255)	(326,459)
		<hr/>	<hr/>
Total expenses		(3,312,544)	697,503
		<hr/>	<hr/>
Operating (loss)/profit before tax		(799,047)	2,239,046
Income tax (refund)/expense	9	9,897	(632,078)
		<hr/>	<hr/>
(Loss)/profit from operating activities after tax		(789,150)	1,606,968
		<hr/>	<hr/>
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive (loss)/income		(789,150)	1,606,968
		<hr/>	<hr/>

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 22.

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

	Note	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
HEAD OFFICE ACCOUNT			
Head office account at the beginning of the period		9,092,509	-
Transfers in	17	-	6,843,523
Total comprehensive (loss)/income		(789,150)	1,606,968
Transaction with owners:			
Transfer from head office		<u>724,669</u>	<u>642,018</u>
Head office account at the end of the period		<u><u>9,028,028</u></u>	<u><u>9,092,509</u></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 6 to 22.

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

STATEMENT OF FINANCIAL POSITION

	Note	As at 20 Feb 20 \$NZ	As at 20 Feb 19 \$NZ
Non-current assets			
Fixed assets	8	94,628	-
Total non-current assets		<u>94,628</u>	<u>-</u>
Current assets			
Provision for unearned reinsurance premium		5,094,366	4,846,405
Recoveries outstanding		1,947,000	2,177,000
Deferred acquisition costs		259,892	244,867
Debtors due from policyholders		2,417,842	2,538,945
Debtors due from reinsurers		5,790,069	808,985
Other debtors		13,536,104	13,239,155
Short term bank deposits		1,749,864	1,801,044
Cash on hand		7,857,035	2,381,050
Total current assets		<u>38,652,172</u>	<u>28,037,451</u>
Total assets		<u>38,746,800</u>	<u>28,037,451</u>
Current liabilities			
Provision for unearned premium		5,921,759	5,507,152
Claims outstanding	10	2,236,000	2,511,000
Provision for unearned reinsurance commission		1,024,983	959,147
Reinsurance payables		11,961,728	3,615,071
Current tax payable	9	622,181	632,078
Trade and other payables		7,952,121	5,720,494
Total current liabilities		<u>29,718,772</u>	<u>18,944,942</u>
Total liabilities		<u>29,718,772</u>	<u>18,944,942</u>
Head office account		<u>9,028,028</u>	<u>9,092,509</u>
Total liabilities and head office account		<u>38,746,800</u>	<u>28,037,451</u>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 22.

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

STATEMENT OF CASHFLOWS

	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
Cash flows provided by operating activities:		
Operating (loss)/profit before taxation	(799,047)	2,239,046
Tax paid	-	(9,389)
Non-cash items		
Gain on disposal of property	-	(33,782)
Changes in non-cash operating accounts:		
Provision for unearned reinsurance premium	(247,961)	(1,025,023)
Recoveries outstanding	230,000	139,250
Deferred acquisition costs	(15,025)	11,157
Debtors due from policyholders	121,103	1,732,284
Debtors due from reinsurers	(4,981,084)	1,043,227
Other debtors	(296,949)	(12,205,906)
Provision for unearned premium	414,607	(396,520)
Claims outstanding	(275,000)	(1,325,293)
Provision for unearned reinsurance commission	65,836	276,766
Reinsurance payables	8,346,657	(451,444)
Adoption of IFRS16	(93,210)	-
Trade and other payables	2,231,627	70,257
	4,701,554	(9,935,370)
Cash flow from in investing activities:		
Proceeds from Sale of fixed assets	-	897,515
Purchase of fixed assets	(1,418)	
Cash flows provided by financing activities:		
From Head Office	724,669	642,018
Increase/(decrease) in cash and cash equivalents	5,424,805	(8,395,837)
Cash and cash equivalents, beginning of the period	4,182,094	-
Cash and cash equivalents arising on transfer of business (note 17)		12,577,931
Cash and cash equivalents, end of the period	9,606,899	4,182,094
Cash and cash equivalents consist of:		
Short term bank deposits	1,749,864	1,801,044
Cash on hand	7,857,035	2,381,050
Total Cash and cash equivalents	9,606,899	4,182,094

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 22.

NOTES TO THE FINANCIAL STATEMENTS

1) Summary of significant accounting policies

The North of England Protecting and Indemnity Association 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 19 June 2020.

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 22 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

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) 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.

h) 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 at bank and short term deposits.

i) Leases

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

Policy applicable prior to 20 February 2019

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

Policy applicable subsequent to 20 February 2019

The branch assesses whether contracts entered into constitute a lease. A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company used the definition of a lease in IFRS16

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

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

Impact on transition to IFRS16

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

	2020 \$NZ
Right-of-use assets	108,124
Lease liabilities	(108,124)

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

j) 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.

k) 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.

l) 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 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.

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 claims 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Summary of significant estimates and assumptions

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 development 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 reserves as at 20 February 2020 were valued by Daniel Smith FIAA who was satisfied as to the nature, sufficiency and accuracy of the data provided.

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

During the period the branch has adopted NZ IFRS 16 Leases. The effect of adopting the standard was not material to the financial statements, as the company does not have any significant leasing arrangements

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 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.

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
4) Operating results		
a) Underwriting result		
Revenue		
Gross premium written	10,693,353	2,567,850
(Increase)/decrease in unearned premium	(414,607)	396,520
	10,278,745	2,964,370
Gross premium earned		
Reinsurance premium incurred	(9,801,510)	(1,769,487)
Reinsurance commission	2,027,072	313,123
	2,504,307	1,508,006
Net premium		
Claims expense		
Claims paid	(3,298,758)	(777,290)
Claims settlement expenses	(126,429)	(27,788)
Decrease in claims outstanding	204,725	1,284,072
Reinsurance recoveries	2,664,222	702,907
	(556,240)	1,181,901
Total claims expense		
Underwriting expenses		
Agency costs	(535,644)	(155,310)
Other acquisition costs	(73,405)	(2,629)
	(609,049)	(157,939)
Total underwriting expenses		
Underwriting result	1,339,018	2,531,968
b) Investment income		
Interest	9,190	33,537
c) Administration costs		
Marketing and administration expenses	(1,840,975)	(326,459)
Total Administration costs	(1,840,975)	(326,459)

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) Auditor's remuneration	Year ended	4 months ended		
	20 Feb 20	20 Feb 19		
	\$NZ	\$NZ		
Audit fees	(18,252)	(13,798)		
Total Auditor's remuneration	(18,252)	(13,798)		
6) a) Net claims expense				
Current				
Gross claims incurred	(3,094,033)	506,782		
Reinsurance and other recoveries	2,664,222	702,907		
Claims expenses	(429,811)	1,209,689		
Claims settlement expenses	(126,429)	(27,788)		
Net claims expense	(556,240)	1,181,901		
b) Net claims expense	Current Year	Prior Years	20 Feb 20	20 Feb 19
	\$NZ	\$NZ	\$NZ	\$NZ
Gross claims incurred and related expenses - undiscounted	(4,182,233)	947,771	(3,234,462)	478,995
Reinsurance and other recoveries - undiscounted	3,567,705	(890,483)	2,677,222	702,906
Net claims incurred - undiscounted	(614,528)	57,288	(557,240)	1,181,901
Discount and discount movement				
gross claims incurred	14,000	-	14,000	-
reinsurance recoveries	(13,000)	-	(13,000)	-
Net discount movement	1,000	-	1,000	-
	(613,528)	57,288	(556,240)	1,181,901

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial Assets

a) Fair value hierarchy	Level 1	Level 2	Level 3	Fair Value
At 20 February 2020	9,609,666	-	-	9,609,666
Cash & deposits	<u>9,609,666</u>	<u>-</u>	<u>-</u>	<u>9,609,666</u>
 At 20 February 2019				
Cash & deposits	4,182,094	-	-	4,182,094
	<u>4,182,094</u>	<u>-</u>	<u>-</u>	<u>4,182,094</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.

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8) Fixed Assets	Land and Buildings 20 Feb 20 \$NZ	Land and Buildings 20 Feb19 \$NZ
Cost and Net Book value		
At beginning of period	-	-
Additions	1,418	863,733
Additions on adoption of IFRS16	108,124	-
Deprecation charge	(14,914)	-
Disposals- note 17	-	(863,733)
	<hr/>	<hr/>
At 20 February 2020	94,628	-
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The business property transferred to the business on 1 November 2018 was subsequently sold for \$897,515 generating a profit on disposal of \$33,782.

9) Income tax	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
a) Income tax expense		
Income tax on taxable profit for the year	-	632,078
Adjustments in respect of prior periods	(9,897)	-
	<hr/>	<hr/>
Total current taxes	(9,897)	632,078
	<hr/>	<hr/>
Deferred taxes		
Origination of timing differences	-	-
	<hr/>	<hr/>
Total deferred taxes	-	-
	<hr/>	<hr/>
Income tax (credit)/expense	(9,897)	632,078
	<hr/>	<hr/>

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9) Income tax (continued)

	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
b)		
(Loss)/profit from operating activities before income tax	(816,797)	2,239,046
Prima facie income tax receivable (28%)	-	626,933
Tax effects of:-		
Non-taxable income	-	(16,165)
Non-deductible expenses	-	31,332
Interest resident withholding tax	-	(10,022)
Prior year adjustment	(9,897)	-
	<u>(9,897)</u>	<u>632,078</u>
Current income tax (credit)/expense	<u>(9,897)</u>	<u>632,078</u>
c) Income tax receivable/(payable)		
Opening balance	632,078	-
Additional provisions recognised	-	641,467
Refund from business transfer	(9,897)	-
Paid	-	(9,389)
	<u>622,181</u>	<u>632,078</u>
Closing balance	<u>622,181</u>	<u>632,078</u>
d) Deferred tax provision		
Opening balance	-	-
Adjustments in respect of previous years	-	-
	<u>-</u>	<u>-</u>
Adjusted opening balance	-	-
Movement during the period	-	-
	<u>-</u>	<u>-</u>
Closing balance	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Outstanding Claims

		20 Feb 20	20 Feb 19
		\$NZ	\$NZ
a) Outstanding claims liability			
Outstanding claims (gross)		(1,811,000)	(2,027,000)
Claims handling cost		(50,000)	(70,000)
Risk margin		(375,000)	(414,000)
		<u>(2,236,000)</u>	<u>(2,511,000)</u>
Total outstanding claims liability - discounted		<u>(2,236,000)</u>	<u>(2,511,000)</u>

	Current	Non-current	20 Feb 20	20 Feb 19
	\$NZ	\$NZ	\$NZ	\$NZ
Outstanding claims				
Claims outstanding	(1,892,000)	(344,000)	(2,236,000)	(2,511,000)
Recoveries outstanding	<u>1,649,000</u>	<u>298,000</u>	<u>1,947,000</u>	<u>2,177,000</u>
Net claims outstanding	<u>(243,000)</u>	<u>(46,000)</u>	<u>(289,000)</u>	<u>(334,000)</u>

b) Risk margins

Incurred but not reported claims are initially calculated on a best estimate basis, and a risk margin of 20.3% for hull, 21.4% for P&I and 17% 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 2019/20'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.

Central estimate of the present value of expected future cash flows (1,592,484)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12) Commitments

a) Capital commitments

There have been no capital commitments contracted for at the 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 that have not been recognised as a liability.

The branch is entered into a lease agreement for the office.

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

i) Right-of-use assets

Right-of-use-assets related to leased assets are presented within fixed assets.

	20 Feb 20 \$NZ
Balance at 21 February 2019	108,124
Depreciation charge for year	<u>(14,914)</u>
Balance at 20 February 2020	<u>93,210</u>

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 2020, up until the financial statements were available to be issued, which occurred on 20 June 2020. Subsequent to the year end, the World Health Organization has declared the Covid-19 disease outbreak a pandemic. There have been no material impacts of the pandemic on the carrying value of assets and liabilities reported in these financial statements subsequent to the balance sheet date.

14) Related party transactions

At 20 February 2020, 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 period include the branch's participation in global reinsurance programmes together with North and subsidiaries within the Group that North controls, including Sunderland Marine Insurance Company Limited (SMI). The cost of participating in such programmes is re-charged to the branch. Service charges are also made by other companies within the North Group for services performed on behalf of the branch. The service charge is a distribution across branches for the running costs of the Head Office, which is allocated on an earned premium basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14) Related party transactions (continued)

Transactions with related parties during the year are as follows:

	Year ended 20 Feb 20 \$NZ	4 months ended 20 Feb 19 \$NZ
a) Statement of comprehensive income		
Transactions with SMI:		
Reinsurance ceded	2,690,334	1,856,345
Reinsurance recoveries	(34,933)	(2,161,433)
Administration expenses (Recharges)	(725,084)	(524,085)
b) Statement of financial position		
Balances with SMI:		
Unearned reinsurance premium	1,415,135	1,327,244
Recoveries outstanding	125,763	131,669
Provision for unearned reinsurance commission	(250,224)	(215,911)
Reinsurance receivables	101,353	-
Reinsurance payables	(5,333)	(862,856)
Other debtors	1,021,678	-
Other payables	(6,879,238)	(4,860,373)
Transactions with North:		
Other debtors	12,503,094	12,000,000

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.

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 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 2019 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.

The branch transacts and holds balances in currencies other than New Zealand Dollars, including US Dollars and GB Pounds. The branch participates in North Group's global reinsurance programmes which are predominantly denominated in US Dollars and GB Pounds. The branch 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17) Business Transfer

On 1 November 2018 all conditions required for the transfer of the New Zealand Business of Sunderland Marine Insurance Company Limited (New Zealand Branch) to North were met. On this date the effective date of transfer, all assets and liabilities of the Sunderland Marine Insurance Company Limited (New Zealand Branch) were transferred to the North of England Protecting and Indemnity Association Limited (New Zealand Branch).

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

The transfer is part of the parent company North's broader restructuring project to transfer all of the business of SMI into North.

Value of business transferred

	\$NZ
Assets	
Fixed assets	863,733
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	1,023,372
Short term bank deposits	12,001,942
Cash on hand	575,989
	26,982,133
Liabilities	
Provision for unearned premium	5,903,672
Claims outstanding	3,836,293
Provision for unearned reinsurance commission	682,380
Reinsurance payables	4,066,515
Trade and other payables	5,649,750
	20,138,610
Total current liabilities	20,138,610
Head office account	6,843,523
Total liabilities and head office account	26,982,133

The North of England Protecting and Indemnity Association Limited
New Zealand Branch
For the period ended 20th February 2020

The following information is required to be disclosed in the financial statements, but it is not subject to audit.

Capital management

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

The 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 solvency calculation for North of England Protecting and Indemnity Association Limited at 20 February 2020 is:

	Year ended 2020 \$NZm	Year ended 2019 \$NZm
Actual Solvency Capital	411.0	415.2
Minimum Solvency Capital	187.3	228.8
Solvency Margin	223.7	186.4
Solvency ratio	219%	182%