THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

20TH FEBRUARY 2021

Independent Auditor's Report

To the members 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 New Zealand branch (the 'branch') on pages 2 to 20.

i. present fairly in all material respects the branch's financial position as at 20 February 2021 and its financial performance and cash flows for the year ended on that date; and

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 2021;

— the statement of comprehensive income, statement of 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the , the financial reporting systems, processes and controls, and the industry in which it operates.

The context for our audit is set by the major activities in the financial year ended 20 February 2021. The branch had a continued focus on the provision of insurance services to the shipping industry and aquaculture businesses.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $400,000 determined with reference to a benchmark of branch total assets. We chose the benchmark because, in our view, this is a key measure of the branch's performance.

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 members 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 Report. 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: We evaluated the competence, capabilities and objectivity of the Company's internal actuaries and external actuaries used by the Company based on discussions, our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, and by providing challenge to their analysis through the procedures described below; — 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;

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 members as a body. Our audit work has been undertaken so that we might state to the members 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 members 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-1/

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

The engagement partner on the audit resulting in this independent auditor's report is Jessica Katsouris

For and on behalf of

Jessica S.S. Katsouris

KPMG LLP
Newcastle upon Tyne

18 June 2021

ANNUAL REPORT

The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year ended 20th February 2021 and the auditor's report thereon.

In the Directors' opinion, the financial statements and notes set out on pages 2 to 20:

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 2021 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 18 June, 2021 for and on behalf of the Board of Directors:

P A Jennings	Edward Davies
Director	Director
18 June, 2021	18 June, 2021

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 20 Feb 21 $NZ	Year ended 20 Feb 20 $NZ
Revenue			
Gross premium written		11,344,572	10,693,353
Gross premium ceded to reinsurers		(10,317,171)	(10,049,472)
Net premium revenue		1,027,401	643,881
Change in provision for unearned premium		(422,999)	(414,607)
Reinsurers' share of change in unearned premium		482,272	247,961
Change in the net provision for unearned premium		59,273	(166,646)
		1,086,674	477,235
+			
Reinsurance commission		2,053,904	2,027,072
Investment income	4(b)	7,219	9,190
Total operating revenue		3,147,797	2,513,497
Expenses			
Claims	4(a),6	(224,188)	(556,240)
Underwriting expenses	4(a)	(503,934)	(609,049)
Administration expenses	4(c)	(1,517,507)	(1,546,977)
Net finance income/(expense)	4(d)	1,534,808	(600,278)
Total expenses		(710,821)	(3,312,544)
Operating profit/(loss) before tax		2,436,976	(799,047)
Income tax (expense)/refund	9	(515,336)	9,897
Profit/(loss) from operating activities after tax		1,921,640	(789,150)
Total comprehensive income/(loss)		**1,921,640**	**(789,150)**

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 20.

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

	Note	Year ended 20 Feb 21 $NZ	Year ended 20 Feb 20 $NZ
HEAD OFFICE ACCOUNT			
Head office account at the beginning of the period		9,028,028	9,092,509
Total comprehensive income/(loss)		1,921,640	(789,150)
Transaction with owners:			
Transfer from head office		1,215,752	724,669
Head office account at the end of the period		12,165,420	9,028,028

Movements in the head office account in the period reflect a combination of the results of the branch for the year and head office funding. 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 20.

STATEMENT OF FINANCIAL POSITION

	Note	As at 20 Feb 21 $NZ	As at 20 Feb 20 $NZ
Non-current assets			
Fixed assets	8	79,715	94,628
Total non-current assets		79,715	94,628
Current assets			
Provision for unearned reinsurance premium		5,576,638	5,094,366
Recoveries outstanding		1,366,356	1,947,000
Deferred acquisition costs		268,462	259,892
Debtors due from policyholders		2,383,864	2,417,842
Debtors due from reinsurers		7,122,998	5,790,069
Other debtors		13,324,985	13,536,104
Short term bank deposits		1,750,493	1,749,864
Cash on hand		13,676,469	7,857,035
Total current assets		45,470,265	38,652,172
Total assets		**45,549,980**	**38,746,800**
Current liabilities			
Provision for unearned premium		6,344,757	5,921,759
Claims outstanding	10	1,570,864	2,236,000
Provision for unearned reinsurance commission		1,283,660	1,024,983
Reinsurance payables		15,277,623	11,961,728
Current tax payable	9	426,529	622,181
Trade and other payables		8,481,127	7,952,121
Total current liabilities		33,384,560	29,718,772
Total liabilities		33,384,560	29,718,772
Head office account		12,165,420	9,028,028
Total liabilities and head office account		**45,549,980**	**38,746,800**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 20.

STATEMENT OF CASHFLOWS

	Year ended 20 Feb 21 $NZ	Year ended 20 Feb 20 $NZ
Cash flows provided by operating activities:		
Operating profit/(loss) before taxation	2,436,976	(799,047)
Tax paid	(709,211)	-
Changes in non-cash operating accounts:		
Provision for unearned reinsurance premium	(482,272)	(247,961)
Recoveries outstanding	580,644	230,000
Deferred acquisition costs	(8,570)	(15,025)
Debtors due from policyholders	33,978	121,103
Debtors due from reinsurers	(1,332,929)	(4,981,084)
Other debtors	211,119	(296,949)
Provision for unearned premium	422,998	414,607
Claims outstanding	(665,136)	(275,000)
Provision for unearned reinsurance commission	258,677	65,836
Reinsurance payables	3,315,895	8,346,657
Adoption of IFRS16	-	(93,210)
Depreciation expense	14,913	-
Trade and other payables	527,229	2,231,627
	4,604,311	**4,701,554**
Cash flow from in investing activities:		
Purchase of fixed assets	-	(1,418)
Cash flows provided by financing activities:		
From Head Office	1,215,752	724,669
Increase in cash and cash equivalents	5,820,063	5,424,805
Cash and cash equivalents, beginning of the period	9,606,899	4,182,094
Cash and cash equivalents arising on transfer of business (note 17)		
Cash and cash equivalents, end of the period	15,426,962	9,606,899
Cash and cash equivalents consist of:		
Short term bank deposits	1,750,493	1,749,864
Cash on hand	13,676,469	7,857,035
Total Cash and cash equivalents	**15,426,962**	**9,606,899**

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 20.

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 18 June 2021.

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 include 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

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

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 and recoveries and related commissions

Premiums ceded to reinsurers and related commissions are recognised as an expense in accordance with the pattern of reinsurance service received. Amounts recoverable under reinsurance agreements purchased by North are accrued to match the relevant gross claims and associated provisions and reserves upon which North is entitled to make recoveries.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Summary of significant estimates and assumptions (continued)

reported (IBNER) and estimate 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 2021 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

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 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9,IAS 39,IFRS 7, IFRS 4 and IFRS 16
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

IFRS 17 Insurance Contracts has an effective date of 1 January 2023, following the deferral announced in March 2020. The adoption of IFRS 17 is expected to result in a number of significant changes to the financial statements of the branch, not least presentational. At Group level a transitional plan for the adoption of this new standard is being worked through.

IFRS 9 will be applied when IFRS 17 is adopted as the activities of the branch are predominantly connected with insurance. The adoption of IFRS 9 is not expected to have a significant impact on the financial statements of the Group.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year ended 20 Feb 21 $NZ	Year ended 20 Feb 20 $NZ
4) Operating results		
a) Underwriting result		
Revenue		
Gross premium written	11,344,573	10,693,353
(Increase) in unearned premium	(422,999)	(414,607)
Gross premium earned	10,921,574	10,278,745
Reinsurance premium incurred	(9,834,899)	(9,801,510)
Reinsurance commission	2,053,904	2,027,072
Net premium	3,140,579	2,504,307
Claims expense		
Claims paid	(3,269,113)	(3,298,758)
Claims settlement expenses	(84,658)	(126,429)
Decrease in claims outstanding	382,642	204,725
Reinsurance recoveries	2,746,941	2,664,222
Total claims expense	**(224,188)**	**(556,240)**
Underwriting expenses		
Agency costs	(525,501)	(535,644)
Other acquisition costs	21,567	(73,405)
Total underwriting expenses	**(503,934)**	**(609,049)**
Underwriting result	2,434,457	1,339,018
b) Investment income		
Interest	7,219	9,190
c) Administration costs		
Marketing and administration expenses	(1,517,509)	(1,840,975)
Total Administration costs	**(1,517,509)**	**(1,840,975)**

d) Net finance income/(expense)

This relates entirely to foreign exchange. The functional and presentational currency of the branch is New Zealand Dollars. The assets and liabilities of the branch are recorded in the currency of the contract and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) Auditor's remuneration	**Year ended 20 Feb 21 $NZ**	**Year ended 20 Feb 20 $NZ**
Audit fees	(17,591)	(18,252)
Total Auditor's remuneration	**(17,591)**	**(18,252)**

6) a) Net claims expense

Current		
Gross claims incurred	(2,886,471)	(3,094,033)
Reinsurance and other recoveries	2,768,941	2,664,222
Claims expenses	(117,530)	(429,811)
Claims settlement expenses	(84,658)	(126,429)
Net claims expense	(202,188)	(556,240)

b) Net claims expense

Net claims expense	**Current Year $NZ**	**Prior Years $NZ**	**20 Feb 21 $NZ**	**20 Feb 20 $NZ**
Gross claims incurred and related expenses - undiscounted	(3,588,591)	613,462	(2,975,129)	(3,234,462)
Reinsurance and other recoveries - undiscounted	3,273,109	(501,168)	2,771,941	2,677,222
Net claims incurred - undiscounted	(315,482)	112,294	(203,188)	(557,240)
Discount and discount movement				
gross claims incurred	4,000	-	4,000	14,000
reinsurance recoveries	(3,000)	-	(3,000)	(13,000)
Net discount movement	1,000	-	1,000	1,000
	(314,482)	**112,294**	**(202,188)**	**(556,240)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial Assets

a) Fair value hierarchy

Fair value hierarchy	Level 1	Level 2	Level 3	Fair Value
At 20 February 2021				
Cash & deposits	15,426,962	-	-	15,426,962
	15,426,962	**-**	**-**	**15,426,962**
At 20 February 2020				
Cash & deposits	9,609,666	-	-	9,609,666
	9,609,666	**-**	**-**	**9,609,666**

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.

8) Fixed Assets

	Land and Buildings 20 Feb 21 $NZ	Land and Buildings 20 Feb20 $NZ
Cost and Net Book value		
At beginning of period	94,628	-
Additions	-	1,418
Additions on adoption of IFRS16	-	108,124
Deprecation charge	(14,913)	(14,914)
At 20 February 2021	79,715	94,628

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9) Income tax

	Year ended 20 Feb 21 $NZ	Year ended 20 Feb 20 $NZ
a) Income tax expense		
Income tax on taxable profit for the year	515,336	-
Adjustments in respect of prior periods	-	(9,897)
Total current taxes	515,336	(9,897)
Income tax expense/(credit)	515,336	(9,897)
b)		
Profit/(Loss) from operating activities before income tax	2,436,976	(816,797)
Prima facie income tax receivable (28%)	682,353	-
Tax effects of: -		
Non-taxable income	(582)	-
Non-deductible expenses	30,306	-
Tax losses b/fwd	(218,893)	-
Prior year adjustment	22,152	(9,897)
Current income tax expense/(credit)	515,336	(9,897)
C) Income tax payable		
Opening balance	622,181	632,078
Tax charge current year	515,336	-
Refund from business transfer	-	(9,897)
Paid	(709,211)	-
Closing balance	428,306	622,181

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10) Outstanding Claims

a) Outstanding claims liability

	20 Feb 21 $NZ	20 Feb 20 $NZ
Outstanding claims (gross)	(1,278,864)	(1,811,000)
Claims handling cost	(40,000)	(50,000)
Risk margin	(252,000)	(375,000)
Total outstanding claims liability - discounted	**(1,570,864)**	**(2,236,000)**

Outstanding claims	Current $NZ	Non-current $NZ	20 Feb 21 $NZ	20 Feb 20 $NZ
Claims outstanding	(1,348,647)	(222,217)	(1,570,864)	(2,236,000)
Recoveries outstanding	1,173,069	193,287	1,366,356	1,947,000
Net claims outstanding	(175,578)	(28,930)	(204,508)	(289,000)

b) Risk margins

Incurred but not reported claims are initially calculated on a best estimate basis, and a risk margin of 20.7% for hull, 20.5% for P&I and 17.3% 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 2020/21's actuarial report. Similar risk margins were applied in the previous period.

c) Liability adequacy test

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

	20 Feb 21 $NZ	20 Feb 20 $NZ
Central estimate of the present value of expected future cash flows	(1,783,318)	(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11) Contingencies

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

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

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 are 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.

	Land and Buildings 20 Feb 21 $NZ	**Land and Buildings 20 Feb 20 $NZ**
Balance at 21 February 2020	93,210	108,124
Depreciation charge for year	(14,913)	(14,914)
Closing balance	**78,297**	**93,210**

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 the 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 2021, up until the financial statements were available to be issued, which occurred on **20 J**une 2021 and there have been no events subsequent to the balance sheet date that materially impact the carrying value of assets and liabilities reported in these financial statements.

14) Related party transactions

At 20 February 2021, 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 21 $NZ	Year ended 20 Feb 20 $NZ
a) Statement of comprehensive income		
Transactions with SMI:		
Reinsurance ceded	242,994	2,690,334
Reinsurance recoveries	153	(34,933)
Administration expenses (Recharges)	-	(725,084)
Transactions with North:		
Reinsurance ceded	2,459,978	-
Reinsurance recoveries	201	-
Administration expenses (Recharges)	(670,955)	-
b) Statement of financial position		
Balances with SMI:		
Unearned reinsurance premium	-	1,415,135
Recoveries outstanding	-	125,763
Provision for unearned reinsurance commission	-	(250,224)
Reinsurance receivables	-	101,353
Reinsurance payables	-	(5,333)
Other debtors	-	1,021,678
Other payables	-	(6,879,238)
Balances with North:		
Unearned reinsurance premium	1,628,034	-
Recoveries outstanding	110,406	-
Provision for unearned reinsurance commission	314,867	-
Reinsurance receivables	42,378	-
Reinsurance payables	(2,686)	-
Other debtors	13,260,596	12,503,094
Other payables	(8,249,009)	-

The High Court of England and Wales approved a Part VII transfer following an application by the North Group to transfer the insurance business of SMI, a wholly owned subsidiary into North, the transfer was effected 30 June 2020, at the date of the transfer all assets and liabilities of the New Zealand branch with SMI were transferred to North at book value.

15) Credit rating

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

a) Risk management framework

i) Governance framework

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

ii) Regulatory framework

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

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

iii) Asset or liability management framework

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

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

b) Insurance risk

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

i) Underwriting risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

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.

b) Insurance risk

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

ii) Concentration risk

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

iii) Reinsurance risk

The branch 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

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.

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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

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.

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 2021 is:

	Year ended 2021 $NZm	**Year ended 2020 $NZm**
Actual Solvency Capital	396.3	411.0
Minimum Solvency Capital	156.1	187.3
Solvency Margin	240.2	223.7
Solvency ratio	**254%**	**219%**