

## **North of England Protecting and Indemnity Association Limited (North)**

### **FAQ – Amendments to Articles of Association**

#### **About SMI**

Sunderland Marine Insurance Company Limited (SMI) is a fixed premium insurer of hull and P&I risks for commercial fishing vessels and small craft. It also provides fixed premium insurance for aquaculture risks.

A merger between North and SMI was originally completed in 2014 when SMI demutualised and became a wholly owned subsidiary of North. Since then North and SMI have continued to operate through separate legal entities within the same group. Both businesses share a head office in Newcastle and have integrated their corporate governance arrangements, key systems of governance (risk, compliance, actuarial and internal audit), financial and operational reporting arrangements at Group level.

North and its mutual members also provide support to SMI via a parent company guarantee. As a result of the guarantee, any shortfall in the funding of SMI's liabilities would ultimately be met from the surplus assets of North and, in highly exceptional circumstances where North's surplus assets are also insufficient, by way of an additional call to North's mutual members.

#### **Why are North's Articles of Association being amended?**

North's Articles of Association are being amended in preparation for an internal Group reorganisation which, subject to appropriate regulatory and Court approvals being obtained, will result in the consolidation of North and SMI's businesses within a single legal entity.

The Boards of North and SMI believe that the Group reorganisation will achieve a more efficient use of capital within the Group as well as considerable cost savings in relation to corporate governance, auditing, compliance, management and other costs which are currently duplicated within North and SMI as separate legal entities.

The proposed changes to the Articles of Association are therefore mainly designed to ensure that North' constitutional documentation is compatible with the arrangements that will exist after the reorganisation is complete. However, a number of miscellaneous changes have also been proposed to align the documentation with existing practices and procedures. Full details of the proposed changes are provided at Appendix A of the Notice of the Meeting.

#### **How will the Group reorganisation be achieved?**

The Group reorganisation will involve a number of processes in the UK and overseas jurisdictions where SMI has branch offices.

Firstly, North will apply for additional regulatory licensing permissions in the UK, Australia and New Zealand to address the gaps that currently exist between North and SMI's existing permissions.

Secondly, SMI's insurance portfolio will be transferred to North. The main process for achieving this is an insurance business transfer in the UK pursuant to Part VII of the Financial Services and Markets

Act 2000 (**Part VII Transfer**). This process requires UK High Court approval and normally takes around 12 to 18 months to complete. At the same time as the Part VII Transfer, parallel transfers will be undertaken in respect of SMI's business in Australia and New Zealand in accordance with local requirements.

Members and policyholders of North and SMI will be notified in accordance with applicable legal and regulatory requirements as these reorganisation activities progress.

**What impact will the Article changes and reorganisation activities have on the financial exposure of North and its mutual Members to SMI's liabilities?**

Due to the existing parent company guarantee between North and SMI, the Article changes and reorganisation activities will have little practical impact on the financial exposure of North, and its mutual members, to SMI's liabilities.

Both before and after the reorganisation, any shortfall in the funding of SMI's liabilities would ultimately be met from the surplus assets of North and, in highly exceptional circumstances where North's surplus assets are also insufficient, by way of an additional call to North's mutual members.

**What impact will Brexit have on the proposed Group reorganisation?**

Brexit may require further changes to North's Group structure in addition to those detailed in this note. North's Brexit contingency planning is currently ongoing and a separate announcement will be made in respect of any planned changes in due course.

**How will the Article changes be implemented?**

The proposed changes to the Articles will be implemented by a Special Resolution of the Members of North at the Annual General Meeting on Thursday 9 November 2017.

In order for this resolution to be passed, it must be approved by a majority of at least 75% of the votes cast by Members present and entitled to vote at the meeting.

**When will the Article changes take effect?**

It is proposed that the changes will take effect immediately upon passing of the Special Resolution.

**Who should I contact for further information?**

Please contact Chris Owen, North's Group General Counsel and Company Secretary for further information. Tel: 0191 2325221 Email: [chris.owen@nepia.com](mailto:chris.owen@nepia.com)