DIRECTORS' REPORT 2018

NORTH

SERVICE, STRENGTH, QUALITY

DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2018

PB Shirke ■ ◆	Chairman
JM de Groot ▲ ■ *	Vice-Chairman
A Engelsman ▲ ■ ◆	
NJA Fairfax *	
NJO Fell	
TF Hart ■ ◆	
PA Jennings ■	Chief Executive Officer
PM Johnson ▲ *	
AM Lynch ▲ *	
P Moorhouse ▲ *	Resigned 6 November 2017
SY Michael *	Resigned 12 May 2017
JA Tyrrell *	
JF Reith	Appointed 1 September 2017
NR Taylor	Appointed 1 September2017
J Procopiou	Appointed 1 January 2018
AA Wilson ■	Executive Director

Bankers

Nordea Bank AB
8th Floor, City Place House
55 Basinghall Street
London
EC2V 5NB

Auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Company Registered Office

100 The Quayside
Newcastle upon Tyne
NE1 3DU

Company Registration Number 505456

▲ Member of the Group Audit Committee
■ Member of the Nominations Committee
◆ Member of the Remuneration Committee
* Member of the Risk Committee

REPORT OF THE DIRECTORS

The North of England Protecting and Indemnity Association Limited
20 February 2018

The Directors have pleasure in presenting their report together with the financial statements of the Group and Company for the year ended 20 February 2018.

The Group comprises The North of England Protecting and Indemnity Association Limited ("North") and its subsidiaries, including Sunderland Marine Insurance Company Limited ("SMI"), NEPIA Trust Company Limited, North Insurance Management Limited ("NIML"), and the segregated cell within Hydra Insurance Company Limited ("Hydra").

Membership

At 20 February 2018 the owned gross tonnage entered in North totalled 142.2 million (2017 – 142.0 million) and there were 4,409 (2017 – 4,315) owned ships.

Corporate governance

The Directors are collectively responsible for the long-term success of the Group, setting the strategic aims and ensuring that obligations to Members and others are understood and met.

The Board of Directors are responsible for directing the affairs of the Group in compliance with statutory and regulatory requirements. The Board consists of seven to nine Member Directors, two Executive Directors and up to five Independent Directors. The Directors have a Nominations Committee, which evaluates the performance of the Directors and proposes new Directors.

The Members Board provides a forum for Members to play an enhanced role in the governance of the Group. It has separate committees to consider matters relating to the P&I Class and FD&D Class and an Elections Committee which considers appointments to the Members Board.

The Members Board has the power to nominate Directors. Any Director so appointed may serve until the next annual general meeting, when they must retire and may offer themselves for reappointment by the Members.

Directors

The Directors of North are shown on page 1.

North maintains insurance policies on behalf of all the Directors against liability arising from negligence, breach of duty and breach of trust in relation to North.

Statement of disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- he or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and parent company financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Directors' responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

North's business activities are set out in the Strategic Report. The financial position of North, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, Note 3 to the consolidated financial statements includes North's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

North has considerable financial resources. Furthermore, North is a mutual organisation and has the facility to raise additional capital via additional calls from its Members for open policy years should they be required. As a consequence, the Directors believe that North is well placed to manage its business risks successfully. After making enquiries, the Directors have formed a judgment at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Committees

The following committees have been established by resolution of the Board of Directors:

Group Risk Committee

The Group Risk Committee consists of a minimum of three North Directors appointed by the Board from candidates recommended by the Group Nominations Committee. The majority of Committee members shall be non-executive directors. The Committee meets regularly, and its principal duties are to:

- oversee the integration and operation of risk management, compliance and actuarial functions across the Group;
- review and approve the Group's risk management, compliance and actuarial functions framework documentation and related policies and procedures;
- review the risk appetite of the Group as determined from time to time by the North Directors and make recommendations to the North Directors in relation to the Group's risk appetite;
- oversee the production and maintenance of a consolidated Group Risk Register incorporating the individual risk profiles of all companies in the Group, as set out in their respective individual risk registers;
- review the risk profiles for North, Sunderland Marine and the Group, as set out in their respective Risk Registers, against their respective risk appetites;
- review the Group's risk management framework including the Group Risk Register and the controls contained therein to ensure their adequacy and effectiveness in managing the risk profile of the Group;
- monitor Group risk reporting and set appropriate risk reporting triggers;
- review risk reporting exceptions where reporting triggers have been exceeded and the mitigating actions proposed by management to address those reporting exceptions to ensure their adequacy and effectiveness;
- review the assessment of the Group's regulatory capital requirements, including the methodologies and assumptions used;
- review the outputs of the Group's regulatory capital assessment processes to satisfy itself that the regulatory capital assessments are appropriate;
- review the stress tests and reverse stress tests of the Group, assess the adequacy and effectiveness of the tests in benchmarking the capital assessment of the Group and determine any actions which need to be taken in light of the results;
- assess the appropriateness of Group risk management controls;
- monitor the alignment of the Group risk management framework with the strategic objectives of the Group;
- monitor UK investment risk of the Group;

Committees (continued)

Group Risk Committee (continued)

- with specific reference to investment risk monitor the Group's compliance with;
  - all Group approved statements of risk appetite, risk registers and risk limits
  - each Group entity's solvency and regulatory capital requirements
  - all applicable regulatory requirements (including but not limited to counterparty/concentration risk requirements);
  - the Group's strategic objectives, including but not limited to those related to the credit ratings of any Group entity; and
  - any applicable regulatory requirements concerning the credit ratings of investment counterparties as well as the Group's appointed bankers.
- ensure that in implementing an investment decision consideration is given to the impact on:
  - each Group risk register valuation and in doing so have regard to any risk limits set in respect of such risk register valuation;
  - the credit ratings of the Group and individual Group companies and in doing so have regard to the Group's strategic objectives in respect thereof; and
  - the regulatory capital requirements in respect of the Group and individual Group companies.
- consult with and receive reports, information and recommendations from other boards and committees within the Group as required to enable the Committee to perform its duties in relation to the Group;
- monitor the Group's relationship and standing with its regulators;
- review the outcomes of regulatory assessments and the response of the Group;
- review Group regulatory breaches and consider what amended or additional controls are required to mitigate the risk of such breaches recurring; and
- review and assess on an annual basis the adequacy and effectiveness of the Group's policies, procedures and controls in respect of illegal acts including whistleblowing, fraud, money laundering and bribery.

Group Audit Committee

The Group Audit Committee consists of a minimum of three North Directors. All Committee members must be non-executive Directors and the majority must be independent non-executive Directors. Meetings are also attended by representatives of North's Management and staff when appropriate. Its principal duties are:

External audit

- oversee the operation of external audit activities across the Group;
- consider the appointment of Group external auditors, their audit fee and any questions of their resignation or dismissal;
- review and monitor the external auditor independence and objectivity and the effectiveness of the Group audit process;
- discuss with the Group external auditor before the Group audit commences the nature and scope of the audit;
- review North's annual report and consolidated financial statements before submission to the North Directors, focusing on:
  - any changes in accounting policies and practices;
  - major judgmental areas;
  - significant adjustments resulting from the audit;
  - the going concern assumption;
  - compliance with accounting standards;
  - compliance with legal requirements;
- report to the North Directors on the approval of all Subsidiary financial statements by the Directors of the relevant Subsidiary and all relevant matters relating to these financial statements; and
- discuss problems and reservations arising from all Group interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary or at least annually).

The North of England Protecting and Indemnity Association Limited
20 February 2018

Committees (continued)

Internal audit

- oversee the integration and operation of internal audit functions across the Group;
- consider the appointment of the Group Internal Auditor, their fee and any questions of their resignation or dismissal and review their effectiveness;
- consider the Group Internal Audit plan and approve the same on an annual basis;
- consider the work of the Group Internal Auditor against its plan; and
- consider reports from the Group Internal Auditor and management's responses.

General

- independently monitor the effectiveness of the Group's internal controls, risk management systems and internal audit regarding the financial reporting of the Group;
- review and recommend for approval to the Directors any regulatory report or public disclosure (including the UK's Solvency and Financial Condition Report and Regular Supervisory Report);
- consider other topics relating to the Group, as defined by the North Directors from time to time;
- consult with and receive reports, information and recommendations from the boards and committees of other Group companies as required to enable the Committee to perform its duties in relation to the Group;
- review the Group's accounting policies and ensure that they comply with all applicable laws and accounting standards;
- monitor Group critical value estimates and the going concern assumption;
- review the financial content of management accounts and reports to the North Directors and their reconciliation with the final statutory accounts of the Group and/or any subsidiary;
- review the Group's arrangements for non-audit services provided by the external auditor; and
- report to the North Directors, identifying any relevant matters in respect of which the Committee considers that action or improvement is needed, and making recommendations as to the steps to be taken.

Nominations Committee

The Nominations Committee consists of a minimum of three North Directors. The majority of the Committee shall be non-executive Directors. Meetings are held not less than three times per year and its principal duties are to:

- consider, keep under review and make recommendations to the North Board in relation to a formal, rigorous and transparent procedure for appointments to the board of Directors and the Directors' committees of both North and SMI with a view to ensuring all appointments are made on merit, against objective criteria and with due regard for the benefits of diversity;
- consider and regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board of Directors of both North and SMI compared to their current position and make recommendations, as appropriate, to the Directors of North and/or SMI with regard to any changes which may be required to ensure the respective boards of Directors of North and SMI have the appropriate balance of skills and experience to promote the success of each company in the long term;
- give full consideration to and make recommendations to the North Board on succession planning for Directors of both North and SMI, taking into account the challenges and opportunities facing North, SMI and the Group and the skills and expertise required;
- identify and recommend suitable candidates for approval for potential appointment as Directors of North and/or SMI in order to fill any vacancies on such relevant board or committee and, in particular, identify and recommend suitable candidates for potential appointment to the following positions:
  - the Chairmen and the Vice-Chairmen of North and SMI;
  - the Directors of North and SMI;
  - the Chairmen and members of the Nominations, Group Risk, Group Audit and Remuneration Committees;
- Establish and maintain the following in respect of each director of North and SMI:
  - a skills and experience matrix;
  - a training and development plan; and
  - a succession plan;

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2018

Committees (continued)

Nominations Committee (continued)

- keep under review the leadership needs of North, SMI and the Group, both executive and non-executive, with a view to ensuring their continued ability to compete effectively in the market place;
- consider and if appropriate agree recommendations from North's Executive Directors with regard to senior management appointments within North and SMI;
- undertake annually a formal and rigorous evaluation of the collective and individual performance of the Directors of North and SMI (including attendance at meetings) against objective criteria and report to the North Directors upon its findings;
- determine and agree a policy and procedures for assessing the fitness and propriety of Group employees, directors, officers, senior insurance management function holders and key function holders (and holders of equivalent regulated roles and functions in overseas jurisdictions) which comply with and give effect to all applicable laws and regulations;
- review and (where appropriate) update the Group Fit and Proper Policy and Procedures on an annual basis and also upon the occurrence of any events specified in the policy as giving rise to a review of its terms; and
- within the terms of the Group Fit and Proper Policy and Procedures assess both prior to appointment and on an ongoing basis the fitness and propriety of all North and SMI Directors in accordance with all applicable legal and regulatory requirements in force from time to time and ensure that all necessary and appropriate actions are taken in respect of any matters or circumstances that bring in to question the fitness and propriety of any North or SMI Director (including, without limitation, reporting the same to any regulatory authorities).

Remuneration Committee

The Remuneration Committee consists of a minimum of three North Directors. The majority of the Committee shall be non-executive directors. It meets not less than once a year and its principal duties are to:

- determine and agree a Group Remuneration Policy which complies with and gives effect to all applicable laws and regulations and includes the broad policy of the Group for the remuneration (including pension arrangements) of:
  - the Chairmen and Vice-Chairmen of North and SMI;
  - Executive Directors of North and SMI;
  - Non-executive Directors of North and SMI;
  - senior managers and employees of North and SMI;
- review and (where appropriate) update the Group Remuneration Policy on an annual basis and also upon the occurrence of any events specified in the policy as giving rise to a review of its terms;
- within the terms of the Group Remuneration Policy, make recommendations to the North Directors regarding the remuneration of:
  - the Chairmen and Vice-Chairmen of North and SMI; and
  - the Non-executive Directors of North and SMI;
- within the terms of the Group Remuneration Policy, determine the remuneration of:
  - the Executive Directors and senior managers of North and SMI;
  - the Global Director (Underwriting); and
  - the Global Director (Claims);
- within the terms of the Group Remuneration Policy, determine the scope of the pension arrangements for the Executive Directors and employees of North and SMI;
- monitor the funding position of the Defined Benefit Pension Schemes of North and SMI and, if considered appropriate, make recommendations to the Directors in respect thereof;
- ensure that contractual terms relating to termination of the appointment of an Executive Director of North and/or SMI (as the case may be), and any payments made (whether contractual or otherwise) in the event of such termination, are appropriate having regard to, amongst other things, fairness to the individual and to North and/or SMI (as the case may be);
- ensure that the relevant statutory and regulatory provisions regarding remuneration (including but not limited to disclosure of remuneration and pensions requirements) are fulfilled;
- be exclusively responsible for establishing the selection criteria and selecting, appointing and setting terms of reference for any remuneration consultants who advise the Committee; and
- undertake such other tasks as may be delegated to it by the North Directors from time to time.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
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Disabled employees

North gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is North's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

North operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the Group has been continued through the newsletters 'Quayside Update', 'Headway' and '360 Degrees North'. Regular presentations are made by management which allow a free flow of information and ideas.

Donations

North made no political donations (2017 – nil).

Open policy years

Additional calls can be made on any open policy year. Usually a policy year will remain open for three consecutive years after its inception although this is at the discretion of the Directors and depends on the anticipated result of the policy year in question.

The Directors agreed on 16 November 2017 that the 2014/2015 policy year should be closed and amalgamated with the previous closed years for all P&I, FD&D and War Risk classes. No additional calls are anticipated for open policy years for any class of business. It was agreed that there would be no increase to Members' rates for the 2018/2019 mutual premium for P&I or FD&D.

Likely future developments in the business of the company and its subsidiary undertakings

Aside from business as usual activities, the management will be focussed on the successful establishment of an EU domiciled insurance subsidiary and the continued integration of the SMI business and SMI capital reserves into North.

The Group's response to the UK's decision to leave the EU and the consequential risk of the potential loss of the UK's passporting rights is to progress with the establishment of a subsidiary insurance company in Ireland. This will enable the Group to continue to write business in other EU states without the need for separate licenses. There is a dedicated Brexit Working Group formed of senior management who are progressing this course of action.

The restructure of the SMI business acquired by the Group in 2014 continues with a view to transferring the business to North in due course. As part of this strategy, during the year the SMI defined benefit pension scheme was transferred to North on the successful completion of a Flexible Apportionment Arrangement. Shortly after the year end, the sale of SMI's subsidiary Knighthood Corporate Assurance Services Limited was completed.

No other significant developments in North's business are expected in the medium term.

REPORT OF THE DIRECTORS (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2018

Meetings

The Directors met on four occasions during the year and matters considered and reviewed included the following:

- Reinsurance
- Renewal and market reports
- Membership reports
- Group Audit and Group Risk Committee reports
- Nominations and Remuneration Committee reports
- Directors' Report and financial statements
- FCA and PRA compliance requirements, ORSA and Solvency II
- Policy year closures and Release calls
- Management projects, Quaychange and IT update
- Errors & Omissions and Directors' & Officers' insurance
- Credit control
- Claims and Non P&I guarantees
- International Group Pooling Agreement, Claims and General Activity
- US Terrorism Risk Insurance Act (TRIA)
- Employees' incentive scheme
- Defined benefit pension scheme
- Stress testing
- Standard and Poor's rating
- Strategy
- Management and organisational structure
- Rule amendments
- Integration of SMI and SMI Capital Reserves
- Investment strategy review
- The Group's response to the UK's decision to leave the EU
- The sale of Knighthood

On behalf of the Board of Directors

AA Wilson
Executive Director
17 May 2018

STRATEGIC REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2018

The Directors present their strategic report for the year ended 20 February 2018. All figures are US$ millions unless otherwise stated.

Principal activities

The North of England Protecting and Indemnity Association Limited (North) is a non-profit making mutual organisation. North is a Company limited by guarantee, has no share capital and is registered in the United Kingdom under the Companies Act 2006. No one Member controls North. The address of the registered office is given on the first page.

North is one of the 13 members of the International Group of P&I Clubs which, between them, provide liability insurance for over 90% of the world's deep-sea ship owners. North's primary business is the provision on a mutual basis of third-party liability or 'protection and indemnity' ("P&I") insurance to ship owners. 'Protection' generally means cover for people and ships whereas 'indemnity' means cover for cargo. The cover provided is as set out in the Rules of the Class and provides insurance for a Member against loss, damage, liability or expense incurred by them which arises:

(a) in respect of the Member's interest in an Entered Ship,

(b) out of events occurring during the period of entry of the Ship in North, and

(c) in connection with the operation of the Ship.

Approximately 50% of the ships entered in North for P&I insurance are also covered for otherwise uninsured legal costs, known as 'freight, demurrage and defence' ("FD&D") insurance. The cover provided is as set out in the Rules of the Class and provides insurance for a Member against costs, expenses or liabilities for costs or expenses incurred by them which arise:

(a) in respect of the Member's interest in an Entered Ship;

(b) in relation to any dispute or matter arising during the period of Entry of the Ship, and;

(c) in connection with the operation, ownership, management or chartering of the Ship.

The FD&D Class is run on a mutual basis similar to the P&I Class, with premiums being pooled and invested to pay claims directly and to buy reinsurance.

A copy of the Rules of the Class for both P&I and FD&D are available on the company's website.

North also operates a separate War Risks Class to provide cover for war and terrorism losses which are generally excluded from normal P&I and hull and machinery policies. The War Risks cover includes both physical loss and damage to ships as well as third party liability caused by war perils. It also includes compensation for being blocked or trapped in an area due to conflict. The War Risks Class also operates on a mutual basis.

The principal activities of the Group are the insurance and reinsurance of marine Protecting & Indemnity, Freight, Demurrage & Defence and War Risks on behalf of Members. North principally operates from its head office in Newcastle upon Tyne but also has branch offices in Hong Kong, China, Greece, Singapore and Japan.

In 2014 North acquired control of Sunderland Marine Insurance Company Limited ("SMI"). SMI underwrites marine insurance for hull and machinery, protecting and indemnity, personal accident and war risks as well as aquaculture insurance. The principal activities of the company's subsidiaries are marine insurance and insurance broking.

SMI also primarily operates from its head office in Newcastle upon Tyne but also has a number of branch offices and subsidiaries in locations worldwide including Australia, Canada, the Netherlands, New Zealand, South Africa, and regionally in the UK.

Strategy

Our purpose – 'We enable our Members to trade with confidence'.

North's mission statement is to be "A world leading marine insurance group, providing the highest quality of cost-effective service". The Directors have developed a series of strategic objectives which are expected to deliver the desired mission outcome. The objectives are as follows:

- To maintain the Group's financial strength, stability and standing in the International Group, and enhance as market conditions allow
- To provide the highest level of personable, professional and cost effective service to all North Group Members and Clients
- To grow market share in a controlled manner
- To explore M&A and JV opportunities
- To realise the benefits of the successful integration of Sunderland Marine

Key Performance Indicators ("KPI's") have been identified against which the management report to the Board on a regular basis to monitor the achievement of these strategic objectives.

The North of England Protecting and Indemnity Association Limited
20 February 2018

Performance in the year

Objective – To maintain the Group's financial strength, stability and standing in the International Group, and enhance as market conditions allow

The relevant KPI's are:

- To maintain an S&P A rating – S&P reaffirmed North's A rating for the 14th consecutive year in February 2018
- Not to levy unbudgeted additional calls – no unbudgeted additional calls have been levied

Written premium decreased from US$420.0 million in 2017 to US$368.0 million in 2018.

Premium written, excluding intergroup transactions, by business segment is as follows:

	2018	2017
North – P&I	287.6	296.0
North – FD&D	19.3	20.5
North – War	0.1	0.1
SMI	61.0	103.4
	368.0	**420.0**

A nil general increase declared for the 2017 policy year together with the effects of churn and a reduction in IG reinsurance costs passed onto Members has resulted in a reduction of premium in North of US$9.6 million, despite a growth in tonnage at renewal.

The reduction in SMI premium is a result of pursuing a strategy to focus on core business and the transition of non-core business to alternative security providers.

Claims incurred benefitted from Member claims falling slightly compared to the prior year, although this was offset to some extent by increased experience of claims on the International Group ("IG") Pool for the year. Movements in the exchange rate resulted in foreign exchange losses although these were offset by improvements in the USD value of expenses which are predominantly incurred in GBP.

The combined ratio has increased to 76.3% compared to the 2017 value of 71.7% largely due to the impact of the 5% rebate of mutual premium in the prior year. The combined ratio is used to measure performance by comparing expenses and incurred losses to earned premium.

The Group's investment assets contributed income of US$4.6 million in the year and there was a gain of US$6.8 million on the Group's derivative hedging arrangements. The derivative contracts in place provide certainty for the Group where the majority of income is in US Dollars but a large proportion of administrative expenses, including staff costs, are incurred in Sterling.

Overall, the Group's surplus after tax decreased slightly from US$20.6 million in 2017 to US$19.1 million in 2018.

The total accumulated surplus attributable to members increased from US$213.9 million at 20 February 2017 to US$239.7 million at 20 February 2018. The increase is driven by the surplus recorded above along with favourable exchange differences recorded in other comprehensive income.

Objective – To provide the highest level of personable, professional and cost effective service to all North Group Members and Clients

Relevant KPIs have been set by the Board to measure this objective including Member and client retention, Member satisfaction, and Member and client complaints. Member satisfaction is assessed through independent research at least every three years, and the most recent results showed an increase in overall satisfaction.

Objective – To grow market share in a controlled manner

Objective – To explore M&A and JV opportunities

The strategy, KPIs and metrics associated with these objectives are commercially sensitive and are therefore not disclosed in the financial statements.

STRATEGIC REPORT (CONTINUED)

The North of England Protecting and Indemnity Association Limited
20 February 2018

Performance in the year (continued)

Objective – To realise the benefits of the successful integration of Sunderland Marine

As can be seen from the premium analysis on page 10, the work to re-focus Sunderland Marine underwriting on core business has resulted in a reduction in premiums. This element of the Sunderland restructuring is largely complete with the focus now turning to the transfer of Sunderland business to North to realise operating efficiencies.

Risks to achieving our strategic objectives

Insurance and financial risks as set out in note 3 to the financial statements could materialise and prevent the Group from achieving its strategic objectives. Other uncertainties exist in respect of the business environment for our Members and the UK's decision to leave the EU.

Business environment

North underwrites primarily P&I insurance for commercial Ocean going shipping. During the course of the year, a number of the long-standing economic challenges facing the global shipping market abated to some extent and freight rates showed some signs of improvement across a number of areas. Combined with oil price stabilisation, and further economic strengthening in China and the United States, these changes provided a welcome economic boost for a number of shipping sectors. Nevertheless, we are yet to see conclusive evidence that this improvement is permanent, or that it will lead to a shipping market that can provide a stable foundation for sustainable growth and profitability.

In these uncertain trading conditions for global shipping, it is more important than ever that our Members can confidently rely on our support. This was clearly demonstrated in our renewal strategy announcement in November 2017, when, for the second consecutive year, we decided to charge no general increase.

SMI underwrites a variety of marine and aquaculture risks, the insurance environment for both sectors is highly competitive with no indication of generalised upwards pressure on premium rating in the short term.

Brexit

The Group's response to the UK's decision to leave the EU and the consequential risk of the potential loss of the UK's passporting rights is to progress with the establishment of a subsidiary insurance company in Ireland. This will enable the Group to continue to write business in other EU states without the need for separate licenses. There is a dedicated Brexit Working Group formed of senior management who are progressing this course of action.

On behalf of the Board of Directors

AA Wilson
Executive Director
17 May 2018

INDEPENDENT AUDITOR'S REPORT

The North of England Protecting and Indemnity Association Limited
20 February 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION

1. Our opinion is unmodified

We have audited the financial statements of North of England Protecting & Indemnity Association Limited ("the Company") for the year ended 20 February 2018 which comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 20 February 2018 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 12 November 2015. The period of total uninterrupted engagement is for the 3 financial years ended 20 February 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of claims outstanding technical provision

($826 million; 2017: $865.6 million)

Risk vs 2017: <>

Refer to page 30–31 (accounting policy) and pages 43–47 (financial disclosures).

The risk

Subjective valuation

The valuation of the claims outstanding technical provision is highly judgemental as it requires management to adopt a number of assumptions, which are inherently subjective. There is a risk that the assumptions adopted, including loss ratios and estimates of the frequency and severity of claims, are inappropriate which could lead to a material misstatement in valuation.

Completeness and accuracy of data

The valuation of the claims outstanding technical provision depends on complete and accurate data about the volume, amount and pattern of current and historic claims as these are used to form expectations about future claims. There is a risk that if incomplete or inaccurate data could have a material impact on the financial statements.

The North of England Protecting and Indemnity Association Limited
20 February 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION (continued)

Our response

Our procedures included:

- **Our actuarial expertise:** Using our own actuarial specialists to assist us in assessing the methodologies and key assumptions used in the reserving process;
- **Benchmarking assumptions:** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Group's historic experience, current trends and benchmarking to our own industry knowledge;
- **Sensitivity Analysis:** Performing sensitivity analysis over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation;
- **Control design and observation:** Assessing the design of the reserving process adopted by management and reviewing the controls in place for maintenance and updating of the claims reserves files;

Assessing transparency: We assessed whether the Group's disclosures surrounding the claims outstanding technical provision and insurance risk appropriately reflected the inherent uncertainties of the balance.

Data Integrity: We assessed the completeness and accuracy of the data used by the actuaries in calculating the reserves by agreeing claims development data to supporting documentation on a sample basis.

Our results

We found the estimated valuation of the claims outstanding technical provision to be acceptable (2017: Acceptable).

Accuracy and valuation of reinsurers' share of claims outstanding technical provision

($730 million; 2017: $767.1 million)

Risk vs 2017: <>

Refer to page 30–31 (accounting policy) and pages 43–47 (financial disclosures).

Accuracy of reinsurance commission

($75 million; 2017: $81 million)

Risk vs 2017: <>

Refer to page 30–31 (accounting policy) and pages 43–47 (financial disclosures).

The risk

Judgemental calculation

The reinsurance commission recognised on a number of the reinsurance contracts is adjustable depending on the performance of the contract over time. Management are required to exercise judgement as to whether the performance based commission is receivable. There is a risk that the commission is recognised incorrectly in the financial statements.

Subjective estimate

Reinsurance recoveries depend on the ability of the reinsurers to make good their obligations under the reinsurance contracts. Some of these contracts may have been entered into a number of years ago and there is a risk that the credit rating of the reinsurer may have since deteriorated and not reflected in the financial statements

Our response

Our procedures included:

- **Methodology implementation:** Challenging management's methodology for measuring and recognising adjustable features in the reinsurance arrangements.
- **Counterparty verification:** Verifying the credit rating of the reinsurance counterparties and challenge their creditworthiness with reference to the balance owed to the Group;
- **Re-performance:** recalculating the reinsurance recoveries outstanding at the year-end based on the reinsurance contracts in place and the claims outstanding technical provisions to which they relate.

Our results

We found the estimated valuation of reinsurer's share of technical provisions and the accuracy of reinsurance commission to be acceptable (2017: Acceptable).

The North of England Protecting and Indemnity Association Limited
20 February 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION (continued)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $3.5 million (2017: $5.0), determined with reference to a benchmark of Gross Earned Premiums, of which it represents 1% (2017: 1.2%). We consider Gross Earned Premium to be the most appropriate benchmark as it provides a more stable measure year on year than the Group surplus before tax.

Materiality for the parent company financial statements as a whole was set at $3.0 million (2017: $4.0 million), determined with reference to a benchmark of company Gross Earned Premium, of which it represented 0.9% (2017: 1.1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $175k (2017: $200k) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 (2017: 9) reporting components, we subjected 2 (2017: 2) to full scope audits for group purposes and 1 (2017: 1) to specified risk-focused audit procedures. We conducted reviews of financial information (including enquiry) at a further 6 (2017: 6) non-significant components as they were financially insignificant. Component audits were undertaken by the Group audit team, including the audit of the parent Company.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

The North of England Protecting and Indemnity Association Limited
20 February 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION (continued)

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 2 and 3, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital recognising the financial and regulated nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
17 May 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	2018	2017
Assets			
Intangible assets	5	15,529	17,104
Property, plant and equipment	6	19,519	23,837
Reinsurers' share of technical provision			
Provision for unearned premium		14,721	28,631
Claims outstanding	10	729,779	767,158
Assets held for sale	27	1,821	–
Financial assets			
Equity securities – at fair value through profit or loss	7	50	50
Debt securities – at fair value through profit or loss	7	213,920	208,823
Derivatives – at fair value through profit or loss	7	1	322
Loans and receivables including insurance and reinsurance receivables	8	66,509	102,570
Deferred acquisition costs		3,519	6,292
Corporation tax debtor		634	547
Deferred tax asset		310	277
Cash and cash equivalents	9	137,048	121,033
Total assets		**1,203,360**	**1,276,644**
Accumulated surplus			
Income and expenditure account	20	219,502	194,861
Contingency funds	20	15,572	11,552
Revaluation reserve	20	4,611	7,483
Total accumulated surplus attributable to members		**239,685**	**213,896**
Non-controlling interest		361	315
Total accumulated surplus		**240,046**	**214,211**
Liabilities			
Technical provision			
Provision for unearned premium		32,787	50,948
Claims outstanding	10	826,053	865,610
Derivative financial instruments	7	39	7,178
Reinsurance payables		18,848	28,915
Trade and other payables	11	30,007	52,586
Current tax liability		–	102
Deferred tax liability		–	111
Retirement benefit liabilities	26	55,580	56,983
Total liabilities		**963,314**	**1,062,433**
Total accumulated surplus and liabilities		**1,203,360**	**1,276,644**

These financial statements were approved by the Board on 17 May 2018.

AA Wilson
Executive Director
Company number: 505456

CONSOLIDATED INCOME STATEMENT

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	2018	2017
Gross insurance premium revenue		367,976	420,040
Gross insurance premium ceded to reinsurers		(294,079)	(326,701)
Net insurance premium revenue		73,897	93,339
Change in provision for unearned premium		19,618	8,308
Reinsurers' share of change in unearned premium		(14,310)	(8,461)
Change in the net provision for unearned premium		5,308	(153)
Earned premiums net of reinsurance		79,205	93,186
Investment income	12	1,274	942
Net fair value gains / (losses) at fair value through profit or loss	13	10,166	(3,342)
Other gains	4	4,748	4,690
Net income		95,393	95,476
Claims and loss adjustment expenses	14	(211,488)	(287,572)
Insurance claims and loss adjustment expenses recovered from reinsurers	14	152,802	211,050
Net insurance claims		(58,686)	(76,522)
Expenses for the acquisition of insurance and investment contracts		(35,581)	(43,356)
Expenses for marketing and administration		(43,597)	(36,072)
Expenses for asset management services rendered		(594)	(569)
Operating expenses	15	(79,772)	(79,997)
Reinsurance commission		75,001	80,987
Total expenses		(63,457)	(75,532)
Results of operating activities		31,936	19,944
Finance (expense) / income	18	(11,866)	2,259
Surplus before tax		20,070	22,203
Tax expense	19	(926)	(1,621)
Surplus for the year		**19,144**	**20,582**
Attributable to:			
Owners		19,019	20,444
Non-controlling interest		125	138
Surplus for the year		**19,144**	**20,582**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	2018	2017
Surplus for the year		19,144	20,582
Other comprehensive income			
OCI to be reclassified to profit or loss in subsequent periods			
Exchange differences		7,494	(4,944)
Revaluation of land and buildings		–	602
Net other comprehensive income to be reclassified to profit or loss		7,494	(4,342)
OCI not to be reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings		(2,872)	–
Remeasurement gains / (losses) on defined benefit plans	26	2,148	(30,241)
Net other comprehensive income not to be reclassified to profit or loss		(724)	(30,241)
Other comprehensive income for the year, net of tax		6,770	(34,583)
Total comprehensive income for the year, net of tax		**25,914**	**(14,001)**
Attributable to:			
Owners		25,789	(14,139)
Non-controlling interest		125	138
Total comprehensive income for the year, net of tax		25,914	(14,001)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	I&E Account	Contingency Fund	Revaluation Reserve	Total Attributable to Members	NCI	Accumulated Surplus
At 20 February 2017		194,861	11,552	7,483	213,896	315	214,211
Total comprehensive income for the year	20	28,661	–	(2,872)	25,789	125	25,914
Dividend paid to non-controlling interest		–	–	–	–	(79)	(79)
Transfer to contingency fund	20	(4,020)	4,020	–	–	–	–
At 20 February 2018		**219,502**	**15,572**	**4,611**	**239,685**	**361**	**240,046**
At 20 February 2016		213,779	7,375	6,881	228,035	317	228,352
Total comprehensive income for the year	20	(14,741)	–	602	(14,139)	138	(14,001)
Exchange rate adjustment		–	–	–	–	(140)	(140)
Dividend paid to non-controlling interest		–	–	–	–	–	–
Transfer to contingency fund	20	(4,177)	4,177	–	–	–	–
At 20 February 2017		**194,861**	**11,552**	**7,483**	**213,896**	**315**	**214,211**

CONSOLIDATED STATEMENT OF CASH FLOWS

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	2018	2017
Operating activities			
Cash generated from / (absorbed by) operating activities	25	11,908	(59,266)
Tax paid		(1,145)	(2,025)
Net cash from operating activities		**10,763**	**(61,291)**
Cash flows (used in) / from investing activities			
Purchases of property, plant and equipment	6	(488)	(610)
Purchases of intangibles	5	(28)	(3,840)
Proceeds from sale of property, plant and equipment		700	4,013
Net cash used in investing activities		**184**	**(437)**
Cash flows used in financing activities			
Dividends paid to non-controlling interest ("NCI")		(79)	(140)
Net cash used in financing activities		**(79)**	**(140)**
Net increase / (decrease) in cash and cash equivalents		10,868	(61,868)
Foreign exchange		5,147	(4,260)
Cash and bank overdrafts at beginning of year		121,033	187,161
Cash and cash equivalents at end of year	9	**137,048**	**121,033**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

	Note	2018	2017
Assets			
Intangible assets	5	15,529	15,841
Property, plant and equipment	6	16,470	20,054
Investment in Group undertakings	21	44,692	44,692
Reinsurers' share of technical provision			
Provision for unearned premium		6,682	7,842
Claims outstanding	10	763,799	737,890
Financial assets			
Equity securities – at fair value through profit or loss	7	50	50
Debt securities – at fair value through profit or loss	7	99,552	90,211
Derivatives – at fair value though profit or loss	7	–	321
Loans and receivables including insurance and reinsurance receivables	8	42,600	147,276
Current tax asset		134	–
Cash and cash equivalents	9	63,310	24,135
Total assets		**1,052,818**	**1,088,312**
Accumulated surplus			
Income and expenditure account	20	178,255	159,413
Contingency funds	20	15,572	11,552
Revaluation reserve	20	4,009	6,881
Total accumulated surplus attributable to members		**197,836**	**177,846**
Liabilities			
Technical provision			
Provision for unearned premium		9,900	11,617
Insurance contracts	10	757,092	790,642
Derivative financial instruments	7	39	7,178
Reinsurance payables		13,493	11,020
Trade and other payables	11	18,878	37,358
Current tax liability		–	34
Retirement benefit liability	26	55,580	52,617
Total liabilities		**854,982**	**910,466**
Total accumulated surplus and liabilities		**1,052,818**	**1,088,312**

These financial statements were approved by the Board on 17 May 2018.

AA Wilson
Executive Director

Company number: 505456

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

		Attributable to Members			
	Note	I&E Account	Contingency Fund	Revaluation Reserve	Accumulated Surplus
At 20 February 2017		**159,413**	**11,552**	**6,881**	**177,846**
Total comprehensive income for the year	20	22,862	–	(2,872)	19,990
Transfer to contingency fund	20	(4,020)	4,020	–	–
At 20 February 2018		**178,255**	**15,572**	**4,009**	**197,836**
At 20 February 2016		**165,309**	**7,375**	**6,881**	**179,565**
Total comprehensive income for the year	20	(1,719)	–	–	(1,719)
Transfer to contingency fund	20	(4,177)	4,177	–	–
At 20 February 2017		**159,413**	**11,552**	**6,881**	**177,846**

PARENT COMPANY STATEMENT OF CASH FLOWS

	Note	2018	2017
Operating activities			
Cash generated from / (absorbed by) operating activities	25	40,775	(65,528)
Tax paid		(1,145)	(417)
Net cash from operating activities		**39,630**	**(65,945)**
Cash flows used in investing activities			
Purchases of property, plant and equipment	6	(427)	(502)
Purchases of intangibles	5	(28)	(3,840)
Proceeds from sale of property, plant and equipment		–	68
Net cash (used in) / from investing activities		**(455)**	**(4,274)**
Cash flows used in financing activities			
Capital transferred to subsidiary		–	(25,000)
Net cash used in financing activities		**–**	**(25,000)**
Net increase in cash and cash equivalents		39,175	(95,219)
Cash and bank overdrafts at beginning of year		24,135	119,354
Cash and cash equivalents at end of year	**9**	**63,310**	**24,135**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated and Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

These consolidated and Company financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The standard definitions of profit and loss have been replaced by the terms surplus and deficit (except where the terminology is required specifically in relation to accounting standards e.g. assets and liabilities held at fair value through profit and loss in accordance with IAS 39) because, as a mutual, the Directors believe this is more relevant terminology.

All companies within the Group prepare financial information in accordance with IFRS with the exception of the following companies which prepare individual accounts in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), including FRS 101.

(a) North Insurance Management Limited ("NIML")

NIML is dormant and conversion to IFRS is not deemed to be required.

(b) Hydra Insurance Company Limited ("Hydra")

Hydra prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom. A conversion to IFRS has not been performed as the relevant North Cell figures are considered as being appropriate for inclusion in the Group IFRS financial statements.

(c) Knighthood Corporate Assurance Services Plc ("Knighthood")

Knighthood, a subsidiary of Sunderland Marine Insurance Company Limited ("SMI"), prepares its financial statements in accordance with generally accepted accounting principles in the United Kingdom. On 19 March 2018 Knighthood was sold to a third party and will not be included in the consolidated results going forward.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The consolidated financial statements are presented in US Dollars (US$) rounded to the nearest thousand, unless otherwise stated.

In accordance with section 408 of The Companies Act 2006, the parent Company income statement and related notes have not been presented separately. The surplus dealt with in the income statement of the parent Company was US$22.2 million (2017 – US$23.9 million).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

1.2 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined in note 1.3 below.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree: less
- the net fair value of the identifiable assets acquired and liabilities assumed.

Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the underlying net assets of the subsidiaries and associated undertakings at the time of acquisition. Negative goodwill arising on business combinations is written off to the income statement in the year of acquisition. After initial recognition, positive goodwill is measured at cost less any accumulated impairment losses.

The North of England Protecting and Indemnity Association Limited
(All amounts expressed in US Dollar thousands unless otherwise stated)
20 February 2018

1.Summary of significant accounting policies (continued)

1.2 Business combinations (continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships.

Transaction costs that the Group incurs in connection with business combinations are expensed as incurred.

1.3 Consolidation

The consolidated financial statements incorporate the assets, liabilities, results and cash flows of North and its subsidiaries made up to 20 February each year. The results of subsidiaries acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by North. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1.4 Foreign currency translation

North's consolidated financial statements are presented in US Dollars which is also North's functional currency.

A Group entity whose functional currency is not US Dollars is a foreign operation. The income and expenses of foreign operations are translated into US Dollars at the exchange rate ruling at the date of the transactions where practical, otherwise an average rate for the year is used. The assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in other comprehensive income.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the income statement.

Translation differences on monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated using the foreign exchange rate ruling at the date of transactions.

1.5 Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets not yet bought into use are assessed for impairment on an annual basis. Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the statement of financial position and amortised over the expected life of the software of up to 10 years. Amortisation is charged once the asset is available for use.

Other intangibles represent customer relationships such as access to distribution networks and customer lists, the valuation of which reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to North. The Directors have assessed these assets to have a life of 3 years.

1.6 Property, plant and equipment

Land and buildings comprise the offices occupied by North and SMI. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to North and the cost of the item can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement during the financial period in which it is incurred.

Increases in the carrying amount arising on revaluation of land and buildings are recorded in Other Comprehensive Income and credited to the revaluation reserve. Decreases are recognised in the income statement except to the extent that they offset an existing surplus on the same asset recognised in the revaluation reserve.

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1.Summary of significant accounting policies (continued)

1.6 Property, plant and equipment (continued)

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

Land	No depreciation charged.
Freehold buildings	2% per annum reducing balance method or 2% per annum straight line.
Short leasehold buildings	7% straight line (the life of the lease).
Computer Equipment	20% – 33.3% per annum straight line method.
Motor Vehicles	20% – 33.3% per annum reducing balance method.
Office Equipment and Fittings	10% – 33.3% per annum straight line method.

Residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying amount of an asset is written down immediately through the income statement to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1.7 Investments

Financial assets at fair value through profit and loss

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. North classifies its investments as financial assets at fair value through profit or loss because they are managed on a fair value basis. Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which North commits to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and North has also transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency exposure and to support the investment return. Derivatives are categorised as held for trading and are classified as financial assets or financial liabilities at fair value through income. Derivative financial instruments are measured at initial recognition, and subsequently, at fair value and changes in fair value are recognised in the income statement. Transaction costs incurred in buying and selling derivative financial instruments are recognised in the income statement when incurred. The fair value of a derivative financial instrument is determined by reference to published price quotations in an active market.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that North intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Investments in Group undertakings

In the Company's financial statements, financial investments in Group undertakings are stated at cost and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

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1.Summary of significant accounting policies (continued)

1.7 Investments (continued)

Determination of fair value and fair value hierarchy

The following table shows an analysis of assets and liabilities by level of the fair value hierarchy:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
At 20 February 2018								
Equity securities	–	–	–	–	50	50	50	50
Debt securities	100,957	–	112,963	99,552	–	–	213,920	99,552
Land and buildings	–	–	–	–	17,366	14,479	17,366	14,479
Derivative assets	–	–	1	–	–	–	1	–
Derivative liabilities	–	–	(39)	(39)	–	–	(39)	(39)
	100,957	**–**	**112,925**	**99,513**	**17,416**	**14,529**	**231,298**	**114,042**

The opening position is shown in the table below:

	Level 1		Level 2		Level 3		Total Fair Value	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
At 20 February 2017								
Equity securities	–	–	–	–	50	50	50	50
Debt securities	112,628	90,211	96,195	–	–	–	208,823	90,211
Land and buildings	–	–	–	–	21,263	17,705	21,263	17,705
Derivative assets	–	–	322	321	–	–	322	321
Derivative liabilities	–	–	(7,178)	(7,178)	–	–	(7,178)	(7,178)
	112,628	**90,211**	**89,339**	**(6,857)**	**21,313**	**17,755**	**223,280**	**101,109**

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 and liabilities are similar to Level 1 but the pricing of those assets and liabilities 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 movement in assets measured at fair value based on level 3 principally relates to disposals, revaluation, and depreciation in relation to land and buildings. Further details are included in note 6.

The Directors do not consider that changing one or more of the inputs to reasonably priced alternative assumptions would change the fair value of the land and buildings significantly.

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1.Summary of significant accounting policies (continued)

1.8 Impairment of assets

North assesses at each reporting date whether there is any objective evidence that a financial asset or non-financial asset is impaired. Intangible assets not yet available for use are assessed for impairment each year whether or not there is any objective evidence of impairment. An asset is deemed to be impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of North about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount from an asset or group of assets since the initial recognition of those assets.

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 (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

1.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.10 Government grants

Government grants relating to assets are accounted for by deducting the grant from the asset's carrying amount. If a grant becomes repayable, the repayment is accounted for as an increase to the carrying amount of the asset. The cumulative depreciation which would have been charged had the grant not been received will be charged as an expense.

1.11 Provisions and contingent liabilities

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reliably estimated.

1.12 Revenue and expense recognition

All elements of revenue arising from insurance contracts and other related services offered by North are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. North's policy year runs from noon GMT on any 20 February to noon GMT on the next following 20 February. North's financial year is coterminous with its policy year but this is not the case for some of North's subsidiaries and adjustments are made for unearned premium. The significant categories of revenue arising from insurance contracts are as follows:

Mutual premium

The estimated total premium payable to North in relation to an Entered Ship and in respect of any policy year is calculated in accordance with Rules 12 and 13 of North and with the terms of insurance agreed from time to time with the Member. The Directors may at any time or times during or after the end of each Policy Year (but not after such Policy Year has been closed in accordance with Rule 42(5)) direct that an Additional Call shall be paid by each Member in respect of Ships entered for such Policy Year of such amount as the Directors in their sole discretion think fit. All Additional Calls so made shall be calculated pro rata to the Mutual Premium (less any returns) in the relevant Policy Year. Additional calls are accounted for, where appropriate, on an accrual basis when the Additional Call has been approved by the Directors of North.

If the Directors at any time determine that funds are or may in future be required to pay part of an Overspill Claim (whether incurred by North or by any other party to the International Group Pooling Agreement), and the Directors have made a declaration under Rule 42(1) or 42(3) that a Policy Year shall remain open for the purpose of levying an Overspill Call or Calls in respect of that Overspill Claim, the Directors in their discretion, at any time or times after such declaration has been made, may levy one or more Overspill Calls in respect of that Overspill Claim in accordance with Rule 13(4).

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1.Summary of significant accounting policies (continued)

1.12 Revenue and expense recognition (continued)

Laid up returns

When a Ship shall have been laid up in any safe port approved by the Managers for a period of thirty or more consecutive days after finally mooring there, the Member may be entitled to an allowance at a rate fixed by the Managers. Provision is made for notifications made post statement of financial position date which refers to laid up periods before the statement of financial position date.

Fixed premium

The Managers may accept the entry of a Ship on terms that the Member is liable to pay a Fixed Premium.

Time charter premium

A Member may be insured against liabilities, together with costs and expenses incidental thereto, which may be incurred by reason of his interest as charterer. Some charterer business is declared for cover on a bordereau basis. Provision is made for the estimated receivable in respect of business not declared at the statement of financial position date.

Unearned premiums

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.

Reinsurance premiums and recoveries

Reinsurance premiums, less returns, are charged to the income statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies. Recoveries under policies purchased by North are accrued so as to match the relevant gross claims and associated provisions and reserves upon which North is entitled to make recoveries.

Related commissions and profit commissions are accounted for in the same accounting period as the premiums for the related direct insurance or inward reinsurance business. No claims bonuses and profit commissions are recognised when there is sufficient certainty that they will be received.

Unearned reinsurance premiums and related commissions

Unearned reinsurance premiums, related commissions and profit commissions are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums and commissions are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for loss occurring contracts.

Claims and related expenses

Claims paid are defined as those claims transactions settled up to the statement of financial position date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the statement of financial position date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the statement of financial position date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. This uncertainty is discussed further in note 2.

Interest

Interest comprises interest on cash deposits and interest bearing securities and is recognised on an accrual basis.

Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial year in which they are awarded.

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1.Summary of significant accounting policies (continued)

1.12 Revenue and expense recognition (continued)

Retirement benefit scheme

North operates two pension schemes providing benefits based upon final pensionable salary, known as defined benefit schemes. The assets of the schemes are held separately from those of North, being invested with professional managers.

The North defined benefit scheme was closed to new members on 31 March 2006. On 1 January 2014 additional changes were made enabling members to remain in the scheme if contributions increased or with a capped pensionable salary. As an alternative members were able to defer their benefits and at that point became eligible to join the Company's defined contribution scheme. On 31 January 2018 the defined benefit scheme was closed to future accrual.

The SMI defined benefit scheme was closed to new members on 1 July 2008. It was closed to future accrual on 31 January 2018.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method with actuarial valuations being carried out at each statement of financial position date. Remeasurements including actuarial gains and losses but excluding net interest are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to income in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense or income plus service costs are recognised in the income statement as incurred.

Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Leases

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.

Taxation

UK corporation tax is provided on relevant income.

Where the different treatment of certain items for taxation and accounting purposes results in an obligation to pay more or a right to pay less tax in the future deferred tax is recognised in respect of such temporary differences that have originated but not reversed at the statement of financial position date with certain limited exceptions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

1.13 Non-current assets held for sale and discontinued operations

Where the carrying amount of a non-current asset or disposal group will be recovered principally through a sale transaction rather than through continuing use, then that non-current asset or disposal group is classified as held for sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of their pre-classification carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position.

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1.Summary of significant accounting policies (continued)

1.14 Changes in accounting standards

The following standards and amendments required initial application in the year ended 20 February 2018:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12
- Annual improvements to IFRS – 2014-2016 cycle

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

- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15
- IFRS 9 Financial Instruments
- IFRS 16 Leases
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The impact of these changes has been assessed and is not considered to be material for the year ended 20 February 2018 or any future year. IFRS 15 does not apply to insurance contracts and revenues other than from insurance contracts are not material. IFRS 9 will not be adopted until the Group adopts IFRS 17 Insurance Contracts which has an effective date of 1 January 2021 but is not yet endorsed by the EU. The Group does not have significant leasing arrangements and the effects of IFRS 16 will not be material.

2.Critical accounting estimates and judgements in applying accounting policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical information and experience, actuarial analyses, financial modelling and other analytical techniques.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Claims reserves – members and policyholders

The estimation of the ultimate liability arising from claims made under insurance contracts is North's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that North will ultimately pay for such claims, such as the extent to which claims have occurred but not been reported to North, the length of time it takes to finalise a claims award, the extent to which fees will be incurred in the management of a case and the potential outcomes that can arise from being involved in litigation. The extent to which the accumulated surplus may be sensitive to these sources of uncertainty is disclosed in note 10.

Each individual claim reserve is set at an appropriate level by an experienced claims adjuster, based upon their judgement and experience, who is responsible for the 'hands on' management of the case. The case reserves are monitored and agreed by members of the Claims department management team and Members are encouraged to scrutinise and comment upon the reserves held by North. Internal file audits are performed on a continuous basis in order to maintain the high standards of claims management and reserving.

The ultimate cost of claims is only known at their conclusion. Provision is made for claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER") based upon Management's estimate of the ultimate likely cost of individual claims following advice from an external actuarial consultant.

Claims reserves – pool

The reserves maintained in the books and records of North in respect of claims arising from North's participation in the Pooling Agreement (see note 3.1) are initially based upon North's share of claims reserves established by the notifying Club. Based upon historical evidence and statistical analysis, North makes additional provisions for claims incurred but not reported ("IBNR") and claims incurred but not enough reserved ("IBNER"), based upon management's own assessment of the likely ultimate outcome of the Pool.

The additional provision covers the likelihood that:

- there are claims that have been incurred but have not been reported to the respective Clubs and hence not notified to the Pool;
- there are claims reserved at a level which does not require notification to the Pool but subsequently that reserve is increased becoming a Pool claim; and
- there is uncertainty surrounding the Pool contribution proportion subject to the finalisation of the confirmation of contribution levels based upon tonnage, premium and record, as set out in the Pooling Agreement.

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2.Critical accounting estimates and judgements in applying accounting policies (continued)

Claims reserves – asbestosis

North has limited exposure to cases presented as a result of exposure to asbestos. The cases presented primarily relate to exposure to the substance during the 1960's and 1970's. As with all claims presented to North a reserve is set at an appropriate level by an experienced claims adjuster on each claim. North also provides for IBNR in respect of asbestosis claims based upon actuarial analysis and advice.

Claims reserves – future in house claims handling costs for previous policy years

North is required to provide for the future in house claims handling costs for previous policy years. The future claims handling costs which would be incurred in managing previous policy years is uncertain. A review is performed annually by management of expected run off costs and a provision made accordingly. The basis for the provision is a judgemental assessment based upon the experience of management.

Reinsurance recoveries

Reinsurance recoveries are accrued against gross claims reserves, as noted above, including estimates and provisions where North has an entitlement to make such recoveries in line with the terms of reinsurance contracts. Consideration is given to the external credit ratings of reinsurers in assessing the need to make any provision for non-recovery.

Pensions and other post-retirement benefits

North operates two defined benefit pension schemes. The key assumptions used for the actuarial valuation are based on the Directors' best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 26.

3. Management of insurance risk and financial risk

3.1 Insurance risk

North issues contracts that transfer insurance risk. The risks under any one insurance contract are the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that North faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

North and SMI model their claims development using primarily internal chain ladder models. For North, the outputs from the internal models are compared to the results derived from an external stochastically based model which is updated and processed annually and actuarially certified.

The objective of North's management of insurance risk is to achieve a breakeven technical result and to ensure that the carrying amounts of the insurance liabilities are not exceeded by the actual experience of claims development. North manages insurance risk through its underwriting strategy, proactive claims handling and adequate reinsurance arrangements.

The limit of cover under the P&I Class, unless specifically limited under the member's terms of entry, is the overspill limit (US$ equivalent of the Convention on Limitation of Liability for Maritime Claims (LLMC), 1976, SDR figure) in excess of the International Group excess of loss reinsurance programme, estimated to be in the order of US$7.75 billion. Oil pollution is limited to US$1 billion. FD&D cover is in theory unlimited, albeit subject to the discretion of the Directors, however, disputes arising in relation to ship building, purchase, sale, negligent repair, alteration or conversion are limited to US$250,000, unless a higher amount is otherwise agreed between Members and Managers. War risks cover is limited to the hull and machinery value of the entered ship.

The underwriting strategy attempts to ensure that the underwritten risks are of appropriate quality, correctly rated and well diversified in terms of type and amount of risk, industry and geography.

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3. Management of insurance risk and financial risk (continued)

3.1 Insurance risk (continued)

North has a specialised claims department dealing with the mitigation of risks surrounding known claims. Claims are reviewed individually at least bi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors.

North is one of the 13 members of the International Group of P&I Clubs which, between them, provide liability insurance for over 90% of the world's deep-sea ship owners. All International Group Clubs operate on a mutual, not-for-profit basis with premiums being pooled and invested to pay claims directly and to buy various levels of reinsurance. For the policy year commencing 20 February 2017, North is reinsured for P&I claims up to US$3.1 billion through a combination of the International Group of P&I Clubs' pooling and excess loss programme and the North's own retention reinsurance.

All claims up to US$100.0 million are shared by the 13 International Group members and each Club carries US$10.0 million retention. The International Group buys Excess Loss reinsurance cover at Lloyd's for claims between US$100.0 million and US$3.1 billion, after which costs fall back on the pool, known as 'Overspill'.

Exposure under the Pooling Agreement for claims falling to the layer US$70.0 million in excess of US$30.0 million, as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US$600.0 million, is reinsured by the Hydra North Cell.

North also has a 'quota share' reinsurance contract with NEMIA, a company wholly owned by Members, which reinsures 90% of North's retained risks.

SMI issues contracts that transfer insurance risk, the principal risk being that actual claims payments, or the timing thereof, differ from expectations. This risk is influenced by the frequency and severity of claims and the subsequent development of long-tail claims. SMI's objective is to ensure that sufficient technical provisions are available to cover these liabilities. This risk exposure is mitigated by the careful selection and implementation of underwriting strategy guidelines, diversification across a large portfolio of insurance contracts and geographical areas, the use of strict claim review processes and the use of reinsurance to reduce its exposure to losses and protect capital resources.

Closing of policy years for overspill calls

If at the expiry date of the period of 36 months no Overspill Notice has been sent, the relevant policy year shall be closed automatically for the purpose of levying Overspill Calls.

Closing of policy years for other purposes

For all purposes other than levying Overspill Calls the Directors shall with effect from such date after the end of each policy year as they think fit declare that such policy year will be closed.

3.2 Financial risk

North is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. North's Group Risk Committee reports to the board and its remit is to consider all aspects of high level risk which may impact on the business and ensure that appropriate controls and procedures are in place to mitigate the effect of such risk. Risk Policies have been created across a number of areas and these include Capital Management and Investment.

Capital management

North operates a capital management plan that relates to both global operations and all branches and offices to ensure that regulatory capital minima, supervisory targets and the Group's own internal target are met at all times. Capital is monitored by management, the board and the Group risk committee looking closely at actual and projected coverage across a number of jurisdictions. In the UK this includes meeting the capital requirements of the Prudential Regulation Authority (PRA). The Group's capital comprises the accumulated surplus attributable to members of US$239.7 million shown in the statement of financial position. In addition, the Group has approval from the PRA to recognise Ancillary Own Funds arising from the ability to make an additional call on Members.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed by maintaining adequate reserves and banking facilities and ensuring that the spread of investments across short, medium and long term funds will enable any short term funding requirements to be met. The liquidity is continuously monitored by review of actual and forecast cash flows.

Investment risk

The most important components of investment risk are market risk (including interest rate risk), currency risk and credit risk.

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3. Management of insurance risk and financial risk (continued)

3.2 Financial risk (continued)

Market risk

Market risk is the risk that as a result of market movements a firm may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices. It is important to note that none of these sources of risk is independent of the others. Market risk is managed through diversification of allocation to asset classes and restricting the concentration of investment into any one asset.

Sensitivity to market risk has been assessed as shown:

Increase / decrease in US Federal funds rate by 1%	–6,940 / +7,863

Currency risk

North operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and UK Sterling but also Euro and other global currencies. The asset allocation policy within the Board's Statement of Investment Principles contains provisions for the matching of assets and liabilities by currency type. The enforcement of that policy is through the specific investment guidelines under which the investment managers operate.

Asset / liability currency management is executed in the active global bond fund with assets held to match liabilities in the required individual currency proportions. At present the currency position for the bond fund is:

	North	SMI
US$	87%	44%
£STG	8%	14%
EUR €	4%	–
Other	1%	42%

The bond managers who manage discretionary portfolios are allowed to deviate from the neutral position but only to a maximum as allowed by specific investment guidelines and amended from time to time.

Sunderland Marine operates in a number of overseas markets where there is foreign currency exposure. Premiums are invoiced in local currency and the majority of expenses, including claims, are received / paid in local currency which offers a natural hedge. The North Group has exposure for any non-local currency costs and any surplus or deficit arising in each market, but this is not considered material and so any risk is accepted by the Group on this basis.

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3. Management of insurance risk and financial risk (continued)

3.2 Financial risk (continued)

Credit risk

North has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Investment related counterparty risk is managed in discretionary portfolios through the investment guidelines issued to the fixed income managers.

The following table provides information regarding the aggregate credit risk exposure, for financial assets with external credit ratings, of the Group.

	AAA / AA	A	BBB	Speculative Grade	Not Rated	Value $000s
At 20 February 2018						
Debt securities	54.31%	15.78%	22.83%	6.32%	0.76%	213,920
Derivatives	0.00%	0.00%	0.00%	0.00%	100.00%	1
Reinsurance assets	4.61%	93.91%	1.14%	0.34%	0.00%	729,779
Other receivable	3.61%	5.89%	0.12%	0.00%	90.41%	66,509

	AAA / AA	A	BBB	Speculative Grade	Not Rated	Value $000s
At 20 February 2017						
Debt securities	56.55%	13.41%	21.32%	8.28%	0.44%	208,823
Derivatives	0.00%	0.00%	0.00%	0.00%	100.00%	322
Reinsurance assets	6.65%	90.39%	2.47%	0.00%	0.49%	767,158
Other receivable	10.56%	19.68%	0.20%	0.01%	69.55%	102,570

Investment risk management

North manages its investment funds in accordance with an investment framework set out in the Statement of Investment Principles which is approved by the Directors. The framework determines investment policy and the management of investment risk and is reviewed on a regular basis. The detailed consideration of investment strategy is the responsibility of the Group Risk Committee. Investment management is outsourced to professional investment managers.

Should a new investment manager appointment be appropriate or otherwise required, prospective investment managers are interviewed and, if suitable, proposed by the Group Risk Committee and approved for appointment by the Directors. The performance of the investment managers against their respective benchmark is monitored on a monthly basis.

The asset class allocation policy is aligned so as to match the liabilities faced by North. The current asset allocation is 100% in fixed income and cash assets. The known claims liabilities facing North are matched against fixed income assets, representing secure and highly liquid assets known to preserve capital and which, if called upon, could be realised very quickly to settle liabilities.

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3. Management of insurance risk and financial risk (continued)

3.2 Financial risk (continued)

Other areas where North is exposed to credit risk are:

Reinsurer's share of insurance liabilities

Reinsurance is used to manage insurance risk as explained on page 34. This does not, however, discharge North's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, North remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract. North's policy requires that no more than 2% of reinsurance is rated lower than 'A' with S&P or equivalent at inception and, for existing reinsurance, credit ratings should be no worse than 80% A rated, 18% B rated and 2% other.

Amounts due from Members

A Member shall cease to be insured by North in respect of any and all ships entered by him or on his behalf (or in a fleet entry in which any one or all of his ships are entered) if having failed to pay when due and demanded by management any sum due from him to North. If, having failed to pay any sum due to North a Member has ceased to be insured by North, North is not liable for any claims under the Rules whether the incident giving rise to such claim occurred before or after the cessation of insurance. Under the rules, North shall be entitled to, and the Member grants, a lien on the entered ship in respect of any amount whatsoever owed by the Member to North.

Amounts due from insurance intermediaries

As agents for the Members the rules applying above in respect of amounts due from Members apply to amounts due from insurance intermediaries. With regard to amounts due under contracts of reinsurance ceded, North employs insurance intermediaries that are subject to the regulation of and approved by the Financial Conduct Authority in the UK. As such, insurance intermediaries are required to operate client trust accounts to ring-fence the amounts held on their clients' behalf.

4. Other gains and losses

	2018	2017
Fees for security charge	15	60
Other operating income	4,720	4,621
Other miscellaneous	13	9
Other gains and losses	**4,748**	**4,690**

Other operating income relates to brokerage income generated by SMI's subsidiaries from placing insurance policies with insurers other than SMI.

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5. Intangible assets

The Group	Computer Software	Other Intangibles	Total
Year ended 20 February 2018			
Opening net book amount	15,849	1,255	17,104
Additions	28	–	28
Net exchange differences	–	353	353
Amortisation charge	(348)	(1,608)	(1,956)
Closing net book amount	**15,529**	**–**	**15,529**
At 20 February 2018			
Cost or valuation	27,217	3,764	30,981
Accumulated amortisation	(11,688)	(3,764)	(15,452)
Net book amount	**15,529**	**–**	**15,529**
Year ended 20 February 2017			
Opening net book amount	14,053	2,509	16,562
Additions	3,840	–	3,840
Written off during the year	(1,680)	–	(1,680)
Net exchange differences	(343)	1	(342)
Amortisation charge	(21)	(1,255)	(1,276)
Closing net book amount	**15,849**	**1,255**	**17,104**
At 20 February 2017			
Cost or valuation	27,189	3,764	30,953
Accumulated amortisation	(11,340)	(2,509)	(13,849)
Net book amount	**15,849**	**1,255**	**17,104**

Intangible assets include capitalised software costs relating to new commercial software which is not yet available for use. A review was carried out at the year end and no impairment is deemed to be necessary. This review involved comparing the carrying amount of the asset with its recoverable amount based on its value in use. As the intangible asset will not generate separate cash flows, it is considered a corporate asset and the recoverable amount has been calculated based on the company as a whole. The value in use calculation is based on the financial projections approved by the Directors for the next five years and key assumptions such as the growth rate and the discount rate. The recoverable amount was in excess of the carrying amount, and remained so after adjusting for reasonably possible changes in key assumptions. Once the system is available for use the Directors expect the software to be amortised over a useful life of 10 years.

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5. Intangible assets (continued)

Other intangible assets represent contractual relationships such as access to distribution networks and customer lists recognised on the date of the merger with SMI. The valuation of these reflected market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets would flow to North. The Directors assessed those assets and expected them to have a useful life of 3 years. These have been fully amortised in the current year.

Amortisation expense of US$1,956,000 (2017 – US$1,276,000) has been charged in expenses for marketing and administration.

The Company	Computer Software
Year ended 20 February 2018	
Opening net book amount	15,841
Additions	28
Written off during the year	–
Amortisation charge	(340)
Closing net book amount	**15,529**
At 20 February 2018	
Cost or valuation	27,129
Accumulated amortisation	(11,600)
Net book amount	**15,529**
Year ended 20 February 2017	
Opening net book amount	14,018
Additions	3,840
Written off during the year	(1,680)
Amortisation charge	(337)
Closing net book amount	**15,841**
At 20 February 2017	
Cost or valuation	27,101
Accumulated amortisation	(11,260)
Net book amount	**15,841**

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6. Property, plant and equipment

The Group	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2018					
Opening net book amount	21,263	1,134	151	1,289	23,837
Additions	–	446	–	42	488
Revaluation of land and buildings	(2,872)	–	–	–	(2,872)
Disposals	(709)	–	(17)	(1)	(727)
Reclassified as held for sale	–	(53)	–	(6)	(59)
Net exchange differences	78	4	9	1	92
Depreciation charge	(394)	(474)	(36)	(336)	(1,240)
Closing net book amount	**17,366**	**1,057**	**107**	**989**	**19,519**
At 20 February 2018					
Cost or valuation	18,501	10,249	425	5,908	35,083
Accumulated depreciation	(1,135)	(9,192)	(318)	(4,919)	(15,564)
Net book amount	**17,366**	**1,057**	**107**	**989**	**19,519**
Year ended 20 February 2017					
Opening net book amount	25,163	1,158	354	1,433	28,108
Additions	–	422	13	175	610
Revaluation of land and buildings	602	–	–	–	602
Disposals	(3,876)	–	(170)	(17)	(4,063)
Net exchange differences	(210)	5	2	–	(203)
Depreciation charge	(416)	(451)	(48)	(302)	(1,217)
Closing net book amount	**21,263**	**1,134**	**151**	**1,289**	**23,837**
At 20 February 2017					
Cost or valuation	22,100	10,236	451	6,475	39,262
Accumulated depreciation	(837)	(9,102)	(300)	(5,186)	(15,425)
Net book amount	**21,263**	**1,134**	**151**	**1,289**	**23,837**

The fair value of the building occupied by North has been assessed by the Directors, taking into account a valuation by Naylors, an independent Chartered Surveyor on 20 December 2017. The valuation has been completed in accordance with the Professional Standards contained within the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 (the "Red Book") and incorporates the International Valuation Standards (IVS) 2017. There have been two recent investment sales of single let large office buildings in close proximity to the building which has assisted with establishing the market value of the building.

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6. Property, plant and equipment (continued)

Sensitivity analysis applied to the valuation of the UK head office based in Newcastle upon Tyne of US$14.5 million gives the variations detailed below. The difference between the valuation of US$14.5 million and the carrying value of the property at year end relates to overseas properties which are not considered to be material for sensitivity analysis.

Valuation Basis	Used in Valuation	Variation %	Impact on Valuation
Price per square foot	$19.00	5% increase / decrease	+675 / -810
Price per car parking space	$1,000	5% increase / decrease	+15 / -15
Investment yield rate	6.5%	0.5% increase / decrease	-1,226 / +1,283
Rent free period	1 year	increase by 1 year	-752

Inputs for the valuation model are not based on observable market data and are therefore classified as level 3 in the fair value hierarchy.

The fair value of overseas freehold property has been assessed by the Directors, taking into account valuations by Sutherland Farrelly, Australia in November 2016 and Duke & Cooke, New Zealand in January 2016.

The property in the United States of America was sold during the year for US$700,000, recognising a loss on disposal of US$9,000.

Depreciation expense of US$1,240,000 (2017 – US$1,217,000) has been charged in expenses for marketing and administration.

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	2018	2017
At 20 February		
Cost	19,759	19,759
Accumulated depreciation	(4,357)	(4,103)
Net book amount	**15,402**	**15,656**

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6. Property, plant and equipment (continued)

The Company	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Year ended 20 February 2018					
Opening net book amount	17,705	1,045	50	1,254	20,054
Additions	–	389	–	38	427
Disposals	–	–	(9)	–	(9)
Depreciation charge	(354)	(445)	(7)	(324)	(1,130)
Revaluation	(2,872)	–	–	–	(2,872)
Closing net book amount	**14,479**	**989**	**34**	**968**	**16,470**
At 20 February 2018					
Cost or valuation	15,563	9,817	221	5,494	31,095
Accumulated depreciation	(1,084)	(8,828)	(187)	(4,526)	(14,625)
Net book amount	**14,479**	**989**	**34**	**968**	**16,470**
Year ended 20 February 2017					
Opening net book amount	18,066	1,093	180	1,383	20,722
Additions	–	354	–	148	502
Disposals	–	–	(118)	–	(118)
Depreciation charge	(361)	(402)	(12)	(277)	(1,052)
Closing net book amount	**17,705**	**1,045**	**50**	**1,254**	**20,054**
At 20 February 2017					
Cost or valuation	18,435	9,428	230	5,456	33,549
Accumulated depreciation	(730)	(8,383)	(180)	(4,202)	(13,495)
Net book amount	**17,705**	**1,045**	**50**	**1,254**	**20,054**

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7. Financial assets and liabilities

Financial assets are summarised by measurement category in the table below.

	Group 2018	Company 2018	Group 2017	Company 2017
Fair value through profit or loss	213,971	99,602	209,195	90,582
Loans and receivables including insurance and reinsurance receivables (note 8)	60,426	37,811	102,570	147,276
Total financial assets	**274,397**	**137,413**	**311,765**	**237,858**
Financial assets at fair value through profit or loss				
Equity securities – unlisted	50	50	50	50
Debt securities	213,920	99,552	208,823	90,211
Derivatives	1	–	322	321
Total	**213,971**	**99,602**	**209,195**	**90,582**
Maturity dates of the fixed interest debt securities are as follows:				
In up to two years	90,894	5,142	90,975	12,017
In more than two years but not more than three years	35,111	7,113	43,525	5,573
In more than three years but not more than four years	9,781	9,679	9,929	8,289
In more than four years but not more than five years	12,344	11,828	53,534	53,485
In more than five years	65,790	65,790	10,860	10,847
	213,920	**99,552**	**208,823**	**90,211**
Opening balance at 20 February	209,195	90,582	227,069	104,111
Additions	128,890	2,167	293,549	183,780
Disposals (sale and redemptions)	(131,776)	(502)	(308,855)	(195,563)
Fair value net (losses) / gains (excluding net realised gains)	6,791	7,676	(2,697)	(2,066)
Exchange	871	(321)	129	320
Closing balance at 20 February	**213,971**	**99,602**	**209,195**	**90,582**

Financial liabilities are summarised by measurement category in the table below.

Financial liabilities at fair value through profit or loss

	Group 2018	Company 2018	Group 2017	Company 2017
Derivatives	39	39	7,178	7,178
Total	**39**	**39**	**7,178**	**7,178**

Financial assets and liabilities are designated at FVTPL because they are managed on a fair value basis.

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8. Loans and receivables

	Group 2018	Company 2018	Group 2017	Company 2017
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	38,245	24,918	53,694	30,804
– due from reinsurers	12,457	8,784	30,837	108,136
Other loans and receivables:				
– prepayments and accrued interest	6,083	4,789	7,330	5,722
– accrued interest and rent	691	1	500	97
– other debtors	9,033	4,108	10,209	2,517
	66,509	**42,600**	**102,570**	**147,276**

Included in other debtors in both the Group and the Company are US$ NIL (2017 – US$ NIL) that are due more than twelve months after the reporting date.

9. Cash and cash equivalents

	Group 2018	Company 2018	Group 2017	Company 2017
Cash at bank and in hand	42,601	28,820	51,533	15,301
Short-term bank deposits	94,097	34,140	68,846	8,180
Money market funds	350	350	654	654
	137,048	**63,310**	**121,033**	**24,135**

At 20 February 2018, the Group has an unused bank overdraft facility of US$1.6 million (2017 – US$1.7 million unused).

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10. Insurance liabilities and reinsurance assets

	Group 2018	Company 2018	Group 2017	Company 2017
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	724,413	669,151	761,638	708,948
– claims incurred but not reported and claims handling reserve	101,640	87,941	103,972	81,694
Total insurance liabilities, gross	**826,053**	**757,092**	**865,610**	**790,642**
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	647,903	685,508	688,626	665,265
– claims incurred but not reported and claims handling reserve	81,876	78,291	78,532	72,625
Total reinsurers' share of insurance liabilities	**729,779**	**763,799**	**767,158**	**737,890**
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	76,510	(16,357)	73,012	43,683
– claims incurred but not reported and claims handling reserve	19,764	9,650	25,440	9,069
Total insurance liability	**96,274**	**(6,707)**	**98,452**	**52,752**

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10. Insurance liabilities and reinsurance assets (continued)

Movements in insurance liabilities and reinsurance assets

The Group	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
Outstanding claims at the beginning of the year	865,610	(767,158)	98,452	869,420	(774,217)	95,203
Cash (paid) / recovered for claims settled in the year	(221,115)	184,970	(36,145)	(260,891)	218,790	(42,101)
Increase / (decrease) in liabilities						
– arising from current year claims	249,370	(218,082)	31,288	247,779	(218,852)	28,927
– exchange movements	5,931	(2,000)	3,931	(2,161)	426	(1,735)
– arising from prior year claims	(73,743)	72,491	(1,252)	11,463	6,695	18,158
Outstanding claims at end of year	**826,053**	**(729,779)**	**96,274**	**865,610**	**(767,158)**	**98,452**

The Company	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
Outstanding claims at the beginning of the year	790,642	(737,890)	52,752	800,798	(746,455)	54,343
Cash (paid) / recovered for claims settled in the year	(147,367)	135,478	(11,889)	(180,678)	166,375	(14,303)
Increase / (decrease) in liabilities						
– arising from current year claims	200,876	(212,580)	(11,704)	204,148	(192,561)	11,587
– arising from prior year claims	(87,059)	51,193	(35,866)	(33,626)	34,751	1,125
Outstanding claims at end of year	**757,092**	**(763,799)**	**(6,707)**	**790,642**	**(737,890)**	**52,752**

The Directors have re-evaluated the claims reserves in respect of prior policy year claims.

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10. Insurance liabilities and reinsurance assets (continued)

Policy year analysis (all classes)

	Closed Years	2015	2016	2017	Claims Handling Reserve	Total
At 20 February 2018						
Gross outstanding claims	319,751	98,632	129,954	255,457	22,259	826,053
Reinsurance amount	(286,470)	(88,019)	(113,624)	(222,141)	(19,525)	(729,779)
Net outstanding claims	**33,281**	**10,613**	**16,330**	**33,316**	**2,734**	**96,274**
At 20 February 2017						
Gross outstanding claims	436,750	144,514	264,778		19,568	865,610
Reinsurance amount	(392,351)	(127,622)	(230,319)		(16,866)	(767,158)
Net outstanding claims	**44,399**	**16,892**	**34,459**		**2,702**	**98,452**

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10. Insurance liabilities and reinsurance assets (continued)

Sensitivity analysis

The uncertainty surrounding the valuation, timing and cash flows of claims liabilities, the process of claims reserve estimation and the process and assumptions regarding the determination of other claims liability based reserves are set out in note 2.

There are a significant number of variables which lead to the uncertainty surrounding the valuation, timing and cash flows of claims liabilities although management are of the opinion that the accumulated surplus is not materially sensitive to any one variable. The extent to which the accumulated surplus may be sensitive to any individual variable or any groups of variables is best demonstrated by the development of claims liabilities. The development of claims liabilities by policy year is as follows:

Insurance claims development – Gross (US$M)

Policy Year	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Estimate of ultimate claims cost										
At end of policy year	298.4	291.8	273.8	372.0	378.5	323.7	356.0	212.1	338.9	255.7
One year later		258.2	293.9	409.8	500.2	310.4	324.6	203.3	261.3	256.3
Two years later			286.4	417.6	463.6	408.9	332.9	195.2	247.1	205.7
Three years later				411.7	461.8	387.1	388.3	200.9	247.8	187.1
Four years later					437.7	357.8	366.4	263.0	248.2	181.3
Five years later						357.2	383.6	267.2	323.7	181.7
Six years later							375.3	263.1	320.2	262.3
Seven years later								258.9	312.2	257.7
Eight years later									311.4	255.1
Nine years later										253.0
Current estimate of cumulative claims	298.4	258.2	286.4	411.7	437.7	375.2	375.3	258.9	311.4	253.0
Cumulative payments to date	62.8	123.7	186.4	310.2	410.4	322.4	351.6	243.1	277.4	242.4
Liability recognised in statement of financial position	235.6	134.5	100.0	101.5	27.3	52.8	23.7	15.8	34.0	10.6
Total of ten years										735.8
Liability in respect of prior policy years										68.0
Claims handling reserve										22.3
Total liability included in statement of financial position										**826.1**

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10. Insurance liabilities and reinsurance assets (continued)

Insurance claims development – Net (US$M)

Policy Year	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Estimate of ultimate claims cost										
At end of policy year	36.7	33.5	40.0	58.5	23.5	27.5	18.7	21.8	19.3	19.1
One year later		38.8	53.6	62.6	60.5	25.0	17.2	19.2	16.7	16.6
Two years later			52.1	63.5	59.6	60.3	26.3	20.3	15.9	14.9
Three years later				62.7	60.6	58.7	70.7	16.6	16.2	14.6
Four years later					55.8	55.5	66.5	58.1	17.6	15.1
Five years later						58.5	70.5	60.6	78.9	16.1
Six years later							71.0	60.2	78.8	86.2
Seven years later								60.4	78.4	85.6
Eight years later									78.4	85.1
Nine years later										84.7
Current estimate of cumulative claims	36.7	38.8	52.1	62.7	55.8	58.5	71.0	60.4	78.4	84.7
Cumulative payments to date	10.8	21.5	38.0	52.8	53.9	53.8	66.7	56.4	76.1	84.6
Liability recognised in statement of financial position	25.9	17.3	14.1	9.9	1.9	4.7	4.3	4.0	2.3	0.1
Total of ten years										84.5
Liability in respect of prior policy years										9.1
Claims handling reserve										2.7
Total liability included in statement of financial position										**96.3**

11. Trade and other payables

	Group 2018	Company 2018	Group 2017	Company 2017
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	18,628	17,151	35,678	34,121
– provision for unearned reinsurance commission	1,224	–	3,879	–
Other payables				
– employee payables	527	579	479	479
– accruals	3,528	257	3,528	–
– other	6,100	891	9,022	2,758
Trade payables and accrued expenses	**30,007**	**18,878**	**52,586**	**37,358**

All the above amounts were due within twelve months of the reporting date.

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12. Investment income

The Group	2018	2017
Interest on bank deposits	1,274	942
Investment Income	**1,274**	**942**

13. Net fair value gains / (losses) on assets and at fair value through profit or loss

The Group	2018	2017
Net fair value gains on financial assets through profit or loss:		
– fair value gains / (losses)	3,348	(73)
– derivative hedging	6,818	(3,269)
	10,166	**(3,342)**
Net fair value gains / (losses) on debt securities are as follows:		
Bond interest	3,435	2,647
Net realised losses	(603)	(292)
Net movement on unrealised gains / (losses)	516	(2,428)
	3,348	**(73)**

14. Insurance claims

The Group	Gross	Reinsurance	2018 Net
Current year claims and loss adjustment expenses	312,414	(252,770)	59,644
Change in cost for prior year claims and loss adjustment expenses	(103,617)	102,626	(991)
Movement in claims handling reserve	2,691	(2,658)	33
Total claims and loss adjustment expenses	**211,488**	**(152,802)**	**58,686**

	Gross	Reinsurance	2017 Net
Current year claims and loss adjustment expenses	315,924	(257,235)	58,689
Change in cost for prior year claims and loss adjustment expenses	(24,787)	43,268	18,481
Movement in claims handling reserve	(3,565)	2,917	(648)
Total claims and loss adjustment expenses	**287,572**	**(211,050)**	**76,522**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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15. Operating expenses by nature

The Group	Note	2018	2017
Depreciation and amortisation charges		3,196	4,044
Loss on disposal of fixed assets		27	50
Staff costs	16	44,202	46,832
Allocation of staff costs to claims handling expenses		(26,233)	(27,867)
Brokerage		28,641	35,724
Purchase of goods and services		29,939	21,214
Total operating expenses		**79,772**	**79,997**

Auditor's Remuneration	2018	2017
Amounts payable to KPMG LLP:		
Audit of these financial statements	225	185
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	414	447
Audit related assurance services	103	128
Other assurance services	168	203
All other services	–	–

Amounts receivable by the company's auditor and its associates in respect of the audit of financial statements of associated pension schemes is US$21,985 (2017: US$7,500). Other assurance services are for the audit of the Group's Solvency II returns.

16. Staff costs

The average monthly number of employees (including executive Directors) was:

The Group	2018 Number	2017 Number
P&I claims	90	75
Underwriting	36	28
FD&D	40	33
Loss prevention	14	14
SMI underwriting and claims	22	33
SMI brokerages	23	59
Other	138	136
	363	**378**

	2018	2017
Their aggregate remuneration comprised:		
Wages and salaries	37,395	38,107
Social security costs	2,792	2,747
Retirement benefit obligations – defined benefit plans	(460)	2,619
Other post-employment benefits	4,475	3,359
	44,202	**46,832**

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17. Directors' remuneration

The remuneration of the Directors was as follows:

The Group	2018	2017
Short-term employee benefits	3,631	3,455

The above amounts for remuneration include the following in respect of the highest paid director:

Highest Paid Director	2018	2017
Emoluments	1,257	1,247

No Directors were members of the Company's defined benefit pension scheme during the year or in the prior year. The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 20 February 2018 was US$ nil (2017 – US$ nil).

18. Finance (expense) / income

The Group	2018	2017
(Losses) / gains on exchange – technical	(18,142)	3,959
Gains / (losses) on exchange – investments	6,276	(1,680)
Interest on corporation tax	–	(20)
	(11,866)	**2,259**

19. Tax expense

The Group	2018	2017
Current tax	1,057	1,287
Deferred tax	(131)	334
	926	**1,621**

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19. Tax expense (continued)

The difference between the total tax charge shown on page 50 and the amount calculated by applying the standard rate of UK corporation tax to trading and investment income is as follows:

	2018	2017
Trading loss	(3,486)	(2,919)
Investment income	1,181	913
Net fair value gains / (losses) on financial assets	9,653	(428)
Expenses for asset management services rendered	(454)	(390)
Investment return	**10,380**	**95**
Taxable surplus / (deficit)	**6,894**	**(2,824)**
Tax on the above at standard UK corporation tax rate of 19.1% (2017 – 20%)	1,317	(567)
Effect of different rates of tax	176	(247)
Deferred tax losses not recognised	871	1,999
Tax losses utilised	(816)	–
Write off deferred tax on losses previously recognised	–	193
Adjustment in respect of previous years	(622)	243
Current tax	**926**	**1,621**

The above reconciliation does not start with the surplus for the year as North is only taxed on investment income.

The provision for deferred tax assets has been made at the rate of tax relevant in each overseas jurisdiction as follows:

The Group	2018	2017
At 20 February	166	497
Exchange rate adjustments	13	3
Movement in the year	131	(334)
At 20 February	**310**	**166**
Differences between the accumulated depreciation and taxation allowances		
on fixed assets	(231)	(101)
other timing differences	541	267
	310	**166**

No deferred tax on accumulated tax losses has been recognised. Unrecognised deferred tax on accumulated tax losses amounts to US$5.7 million (2017 US$3.7 million).

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20. Reserves

	Group 2018	Company 2018	Group 2017	Company 2017
Income and expenditure reserve	219,502	178,255	194,861	159,413
Contingency funds	15,572	15,572	11,552	11,552
Revaluation reserve	4,611	4,009	7,483	6,881
	239,685	**197,836**	**213,896**	**177,846**

(a) Income and expenditure reserve

	Group 2018	Company 2018	Group 2017	Company 2017
Opening balance	194,861	159,413	213,779	165,309
Total comprehensive income for the year	28,661	22,862	(14,741)	(1,719)
Transfer to contingency fund	(4,020)	(4,020)	(4,177)	(4,177)
Closing balance	**219,502**	**178,255**	**194,861**	**159,413**

(b) Contingency funds

	2018	2018	2017	2017
The Group and Company				
Opening balance		11,552		7,375
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	1,380		593	
Surplus transferred from closed policy years	2,640		3,584	
		4,020		4,177
Closing balance		**15,572**		**11,552**
Protecting & Indemnity Class				
Opening balance		7,544		3,715
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	1,159		833	
Surplus transferred from closed policy years	1,981		2,996	
		3,140		3,829
Closing balance		**10,684**		**7,544**
Freight, Demurrage & Defence Class				
Opening balance		4,008		3,660
The transfer from the income and expenditure reserve comprises:				
Allocation of realised investment gains / losses and income	221		(240)	
Surplus transferred from closed policy years	659		588	
		880		348
Closing balance		**4,888**		**4,008**

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20. Reserves (continued)

The following contingency funds were established by the Directors in order to maintain call stability:

- Protecting & Indemnity (established 12 October 1983)
- Freight, Demurrage & Defence (23 September 1994)

The operation of the Contingency Funds is described in the Rules which are available on North's website.

(c) Revaluation reserve

The Group	2018	2017
Opening balance	7,483	6,881
Revaluation of property	(2,872)	602
Closing balance	**4,611**	**7,483**

The Company	2018	2017
Opening balance	6,881	6,881
Revaluation of property	(2,872)	–
Closing balance	**4,009**	**6,881**

The revaluation reserve is used to record unrealised valuation gains, and losses to the extent that they are not considered permanent or reverse a previous gain, on the Group's land and buildings. As the reserve relates to unrealised gains, it is not distributable.

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21. Subsidiary undertakings

The direct subsidiary undertakings, all wholly owned, are:

Company Name	Nature of Business	Incorporated	Holding % at 20 Feb 2018	2017
Hydra Insurance Company Limited (North Cell only) Registered address: Victoria Hall, Victoria Street, P.O. Box HM 1826, Hamilton HMHX, Bermuda.	Reinsurance captive	Bermuda	100	100
Sunderland Marine Insurance Company Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Marine insurance	U.K.	100	100
North of England Marine Consultants (Shanghai) Registered address: Room 11D, Phase B, Shinmei Union Building, 506 Shangcheng Road, Pudong, 200120, Shanghai	Claims consultancy	China	100	100
NEPIA Trust Company Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Corporate trustee	U.K.	100	100
North Insurance Management Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, management services	U.K.	100	100
British Shipowners Association Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100
North Law Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100
North Legal Limited Registered address: 100 The Quayside, Newcastle upon Tyne, NE1 3DU	Dormant, brand protection	U.K.	100	100

NEPIA Trust Company Limited was incorporated to act solely as Trustee of an employee benefits trust. It has not carried on any business whatsoever throughout the year.

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21. Subsidiary undertakings (continued)

The segregated cell within Hydra Insurance Company Limited, which reinsures North for its liability under the upper layer of the pool and its share of the first layer of the International Group excess loss reinsurance contract, has also been consolidated. It is possible that in certain circumstances preferred shareholders, including North, can be required to provide further funding to their segregated cell in order to maintain its capital and solvency requirements in Bermuda.

Sunderland Marine Insurance Company Limited insures against marine and war risks as well as risks incidental to marine insurance including protection and indemnity and aquaculture. The subsidiaries of SMI which are wholly owned, with the exception of Van Olst de Graff & Co BV, and included in the consolidation are:

			Holding % at 20 Feb	
Company Name	**Nature of Business**	**Incorporated**	**2018**	**2017**
Sunderland Marine (Africa) Limited Registered address: Suite 6, Steenberg House, Silverwood Close, Tokai, Cape Town 7945, South Africa	Marine insurance	South Africa	100	100
Salvus Bain Management (USA) LLC Registered address: 2284 West Commodore Way, Suite 200, Seattle, WA 98199	Brokerage	U.S.A	100	100
Harlock Murray Underwriting Limited Registered address: 701 – 890 West Pender Street, Vancouver, BC V6C 1J9	Brokerage	Canada	100	100
Knighthood Corporate Assurance Services Plc Registered address: Knighthood House, Imberhorne Lane, East Grinstead, West Sussex RH19 1LB	Insurance broker	U.K.	100	100
Van Olst de Graff & Co BV Registered address: Dirk van der Kooijweg 54, Rotterdam, The Netherlands	Brokerage	Netherlands	82	82
Marine Insurance Australia Limited Registered address: Shop 11, 37 Main Street, Samford, Queensland 4520, Australia	Dormant	Australia	100	100
Windward Insurance PCC Limited (SMIG cell) Registered address: Level 5 Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ	Dormant, business defence	Guernsey	100	100
Aquaculture Risk (Management) Limited Registered address: 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA	Dormant, brand protection	U.K.	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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21. Subsidiary undertakings (continued)

The value of the subsidiary undertakings is as follows:

The Company	2018	2017
Balance brought forward	44,692	19,692
Funds advanced to SMI	–	25,000
Balance carried forward	**44,692**	**44,692**

In line with North's accounting policies, the Directors consider that no impairment of the investments in group companies is required at either the 20 February 2018 or 20 February 2017.

Subsequent to the year end, SMI disposed of its entire investment in Knighthood Corporate Assurance Services Plc (see note 27).

22. Operating leases

At the year end the Group had commitments under non-cancellable operating leases as set out below:

	Group 2018		Group 2017	
	Land and Buildings	Other	Land and Buildings	Other
Within one year	421	145	435	140
Within two to five years	345	176	198	169
	766	**321**	**633**	**309**

23. Guarantees

In the normal course of business, North has provided letters of credit and guarantees on behalf of its Members. These are secured by investments lodged with North amounting to US$5.5 million (2017 – US$8.2 million).

North has also provided a parent company guarantee to SMI which provides protection to the policy holders of SMI as North will stand as guarantor on all policies written by the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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24. Related party transactions

Key management compensation

The remuneration of the Directors was as follows:

	2018	2017
Short term employee benefits	**3,631**	**3,455**

Short term employee benefits include salaries, cash allowances and benefits in kind such as amounts in respect of company cars and medical insurance.

Other related parties

Hydra, the International Group's Bermuda based captive, is a segregated accounts company and North is an Account Owner. Exposure under the International Group Pooling Agreement for claims falling to the layer US$70.0 million in excess of US$30.0 million as well as a 30% quota share retention under the first layer of the Excess Loss contract, up to US$600.0 million, is reinsured by Hydra.

Transactions with related parties have been entered into as follows:

The Company	2018 SMI	2018 Shanghai	2018 Hydra	2017 SMI	2017 Shanghai	2017 Hydra
Income statement						
Insurance premium	18,478	–	(8,967)	32,641	–	(4,452)
Insurance claims and loss adjustment expenses	(28,597)	–	–	(34,192)	–	–
Unearned premium	1,717	–	–	2,131	–	–
Insurance claims and loss adjustment expenses recovered	–	–	28,425	–	–	23,179
Management fee recovered	–	(819)	–	–	–	–
Expenses Recharged	1,794	–	–	2,336	(75)	–
Statement of financial position						
Technical provisions – insurance contracts	45,257	–	–	46,871	–	–
Reinsurers' share of technical provisions	–	–	75,760	–	–	56,804
Unearned premium	9,900	–	–	11,617	–	–
Receivables arising from insurance and reinsurance contracts	9,327	–	(1,311)	11,547	–	14,662
Other debtors	3,265	219	–	–	250	–
Capital introduced	–	–	–	–	175	–

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25. Cash generated from / (absorbed by) operating activities

	Group 2018	Company 2018	Group 2017	Company 2017
Surplus for the year	19,144	22,199	20,582	23,863
Adjustments for:				
Depreciation and amortisation	3,196	1,470	2,493	1,387
Write down of other intangible assets	–	–	1,680	1,680
Investment income	(5,184)	(7,676)	2,697	2,066
Tax expense	926	977	1,621	188
Loss on sale of property, plant and equipment	27	9	50	50
(Decrease) / increase in insurance contracts net of reinsurance recoverable	(2,178)	(59,459)	3,249	(1,591)
(Decrease) / increase in unearned premium reserve net of reinsurers' share	(4,251)	(557)	(2,637)	38
Decrease / (increase) in loans and receivables	36,061	104,676	(22,764)	(94,962)
(Decrease) / increase in reinsurance payables	(10,067)	2,473	(71,716)	(1,326)
(Decrease) / increase in derivative financial instruments	(6,818)	(6,818)	3,252	3,230
Decrease in trade and other payables	(22,579)	(18,480)	(7,183)	(7,196)
Defined benefit contributions less than / (in excess of) charge for the year	745	3,626	(5,896)	(4,738)
Purchase of bonds at fair value through profit or loss	(128,890)	(2,167)	(293,549)	(183,780)
Sale of bonds at fair value through profit or loss	131,776	502	308,855	195,563
Cash generated from / (absorbed by) operating activities	**11,908**	**40,775**	**(59,266)**	**(65,528)**

26. Retirement benefit schemes

The Group operates two defined benefit schemes in the United Kingdom which are operated under the Pensions Acts 1995 and 2004. A triennial actuarial valuation for the North Scheme was carried out as at 31 August 2016 and for the SMI Scheme as at 31 December 2014 by a qualified independent actuary.

The schemes are governed by Trust Deeds and Rules and are managed by Trustees some of whom are appointed by the employer and some by the scheme members. In accordance with the Trust Deeds the power of appointing and dismissing Trustees is granted to the employer in respect of the employer appointed trustees and to the members in respect of the member appointed trustees. The employer is ultimately responsible for the funding of the schemes. As a result, the operation of the schemes exposes the group to the risk that the assets held by the schemes are insufficient to meet the schemes' obligations as they fall due for payment.

Both schemes were previously closed to new members and on 31 January 2018 both schemes were closed to the future accrual of benefits. On 2 February 2018 North assumed control of the SMI pension scheme via a Flexible Apportionment Arrangement. SMI is therefore discharged from all its obligations to and under the pension scheme and from its liabilities in relation to the scheme as of this date with North assuming charge of these obligations and liabilities.

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26. Retirement benefit scheme (continued)

Actuarial assumptions for IAS19 – valuing the scheme liabilities

IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the statement of financial position date. The selection of the inflation assumption is also critical as this is relevant for the salary and the pre-retirement revaluation assumptions. These assumptions are based on market yields at the statement of financial position date, and may not be borne out in practice due to the long-term expected duration of the Scheme. Within the prescribed conditions however assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities. A summary of relevant considerations is set out below.

Assumption for valuing pension liabilities	Comments on prescribed conditions
Discount rate (pre and post retirement)	Based on yields on AA corporate bonds of appropriate duration and currency, or a suitable proxy.
Price inflation	Based on the yield differential between index-linked corporate bonds and fixed-interest corporate bonds of similar credit standing (for example, using appropriate UK Government conventional and index-linked stocks).
Pension increases	Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on past practice.
Demographic assumptions (for example, rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows.
Administration expenses	As advised by the Company based on realistic forecasts.

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26. Retirement benefit scheme (continued)

Mortality

For the purposes of both the 2017 and 2018 calculations the base mortality rates have been taken from the S2PA Light tables published by the Actuarial Profession's Continuous Mortality Investigation (CMI). An allowance for future improvements in longevity was included in the 2017 calculations in accordance with the CMI 2015 projections with a long-term rate of improvements of 1% per annum. For the purposes of the 2018 calculations the allowance for future improvements in longevity has been updated to the CMI 2016 projections again with long-term rate of improvements of 1.00% per annum.

The key rates assumed are:

	North 2018	SMI 2018	North 2017	SMI 2017
Discount rate	2.90%	2.90%	3.00%	3.00%
Expected rate of salary increases	n/a	n/a	4.40%	3.00%
Inflation rate	2.55%	2.55%	2.65%	2.65%

The pension schemes, their assets and liabilities, assumptions and projections are based in sterling. The assets and liabilities of the schemes are converted into US Dollars, the North's functional and presentational currency as described in note 1.4.

The major categories of plan assets of the fair value of the total plan assets are as follows:

	North 2018	SMI 2018	North 2017	SMI 2017
Equities	30,258	18,037	23,734	20,507
Bonds	27,170	20,982	23,893	14,727
Other	20,939	10,289	18,212	–
Cash	2,281	248	419	10,222
	80,648	**49,556**	**66,258**	**45,456**

The actual return on plan assets for 2018 amounted to US$4,044,000 (2017 – US$6,441,000) for North and US$2,035,000 (2017 – US$8,597,000) for SMI.

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26. Retirement benefit scheme (continued)

Defined benefit plans

Changes in the defined benefit obligation and fair value of plan assets

Group	Defined Benefit Obligation	Fair Value of Plan Assets	Benefit Liability
21 February 2016	**146,232**	**113,595**	**32,637**
Service Cost	2,619	–	2,619
Contributions by members	737	737	–
Net interest	5,113	4,026	1,087
Sub-total included in income	**8,469**	**4,763**	**3,706**
Benefits paid	(7,377)	(7,377)	–
Annual / Lifetime allowance payments	(218)	(218)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	11,012	(11,012)
Actuarial changes			
– arising from changes in financial assumptions	43,198	–	43,198
Experience adjustments	(1,945)	–	(1,945)
Sub-total included in OCI	**33,658**	**3,417**	**30,241**
Contributions by employer	–	5,447	(5,447)
Exchange	(19,662)	(15,508)	(4,154)
20 February 2017	**168,697**	**111,714**	**56,983**
Current service cost	3,382	–	3,382
Past service cost	217	–	217
Effect of making the scheme paid up	(4,059)	–	(4,059)
Contributions by members	(67)	(67)	–
Expenses paid	(1)	(1)	–
Net interest	5,589	3,739	1,850
Sub-total included in income	**5,061**	**3,671**	**1,390**
Benefits paid	(9,178)	(9,178)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	2,340	(2,340)
Actuarial changes			
– arising from changes in demographic assumptions	(3,045)	–	(3,045)
– arising from changes in financial assumptions	5,020	–	5,020
Experience adjustments	(1,783)	–	(1,783)
Sub-total included in OCI	**(8,986)**	**(6,838)**	**(2,148)**
Contributions by employer	–	6,994	(6,994)
Exchange	21,012	14,663	6,349
20 February 2018	**185,784**	**130,204**	**55,580**

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26. Retirement benefit scheme (continued)

Defined benefit plans

Changes in the defined benefit obligation and fair value of plan assets

Parent	Defined Benefit Obligation	Fair Value of Plan Assets	Benefit Liability
20 February 2015	**103,834**	**72,060**	**31,774**
Service Cost	1,748	–	1,748
Contributions by members	522	522	–
Net interest	3,528	2,454	1,074
Sub-total included in income	**5,798**	**2,976**	**2,822**
Benefits paid	(6,892)	(6,892)	–
Annual / lifetime allowance payments	(218)	(218)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	3,987	(3,987)
Actuarial changes			
– arising from changes in financial assumptions	30,651	–	30,651
Experience adjustments	(1,082)	–	(1,082)
Sub-total included in OCI	**22,459**	**(3,123)**	**25,582**
Contributions by employer	–	4,022	(4,022)
Exchange	(13,216)	(9,677)	(3,539)
20 February 2017	**118,875**	**66,258**	**52,617**
Current service cost	2,592	–	2,592
Past service cost	217	–	217
Effect of making the scheme paid up	(2,873)	–	(2,873)
Contributions by members	(224)	(224)	–
Expenses paid	(1)	(1)	–
Net interest	4,069	2,343	1,726
Sub-total included in income	**3,780**	**2,118**	**1,662**
Benefits paid	(4,124)	(4,124)	–
Return on plan assets			
– excluding amounts included in net interest expense	–	495	(495)
Actuarial changes			
– arising from changes in demographic assumptions	(2,323)	–	(2,323)
– arising from changes in financial assumptions	2,275	–	2,275
Experience adjustments	(120)	–	(120)
Sub-total included in OCI	**(4,292)**	**(3,629)**	**(663)**
Contributions by employer	–	5,589	(5,589)
Exchange	14,992	8,884	6,108
Transfer to North from SMI	52,429	50,984	1,445
20 February 2018	**185,784**	**130,204**	**55,580**

The transfer of the SMI pension scheme from SMI to North was carried out based on the IAS 19 valuation of the SMI scheme on the date of transfer, which is considered to be representative of fair value.

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26. Retirement benefit scheme (continued)

Sensitivity of key assumptions

A quantitative sensitivity analysis for significant assumptions as at 20 February 2018 is shown below.

	Impact on Retirement Benefit Liability
North Scheme	
Increase / reduce discount rate by 0.25%	(8,091) / 8,777
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	3,994 / (3,043)
Increase / reduce life expectancy by one year	5,093 / (5,005)
SMI Scheme	
Increase / reduce discount rate by 0.25%	(2,606) / 2,813
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	1,850 / (2,127)
Increase / reduce life expectancy by one year	1,577 / (1,563)

The sensitivities above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The amount expected to be contributed into the plans by the Group in 2018/19 is US$5.3 million for North and US$ nil for SMI subject to the finalisation of the actuarial report.

The average duration of the defined benefit plan obligation at the end of the reporting period is 24 years (2017: 25 years) for North scheme and 21 years (2017: 22 years) for SMI scheme..

Defined contribution plans

The Group also operates a number of defined contribution pension schemes. The total pension cost charge for the year represents contributions payable to the schemes and amounted to US$4,416,000 (2017: US$3,359,000). There were no outstanding or prepaid contributions at the beginning or end of the financial year.

27. Assets held for sale and post balance sheet event

The assets and liabilities of Knighthood Corporate Assurance Services Plc were classified as held for sale at the year-end as their value was expected to be realised through a sales transaction and the other criteria for recognition in IFRS 5 were met. The amounts classified as held for sale are as follows:

	$'000
Loans and receivables including insurance and reinsurance receivables	1,447
Cash and cash equivalents	2,124
Property, plant and equipment	59
Trade and other payables	(1,836)
Other	27
	1,821

The disposal of Knighthood was completed on 16 March 2018 for an amount in excess of the carrying value.

NORTH

SERVICE, STRENGTH, QUALITY