# THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED

## North Group Solvency and Financial Condition Report 2018

Registered in the U.K. : Limited by Guarantee

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**Approval by the Board of Directors**

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report ("SFCR") in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

On behalf of the Board of Directors

PA Jennings
Chief Executive Officer

Date: 26 June 2018

**Report of the external independent auditor to the Directors of The North of England Protecting and Indemnity Association Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms**

**Report on the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report**

**Opinion**

Except as stated below, we have audited the following documents prepared by The North of England Protecting and Indemnity Association Limited as at 20th February 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of The North of England Protecting and Indemnity Association Limited as at 20th February 2018, ('**the Narrative Disclosures subject to audit**'); and

- Group templates S02.01.02, S23.01.22, S25.01.22, S32.01.22 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Group Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Group Solvency and Financial Condition Report;

- Group templates S05.01.02, S05.02.01;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the Relevant Elements of the Group Solvency and Financial Condition Report of North of England Protecting & Indemnity Association Limited as at 20 February 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities

in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter – special purpose basis of accounting**

We draw attention to the 'Valuation for solvency purposes' and 'Capital sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or

- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

**Other information**

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Group Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Group Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Group Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Directors for the Group Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report**

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities

**Report on Other Legal and Regulatory Requirements**

**Sectoral Information**

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

**Other Information**

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the **sectoral information** has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

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

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) 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 through its governing body, for our audit, for this report, or for the opinions we have formed.

Jessica S.S. Katsouris

**Jessica Katsouris (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP**
Quayside House, 110 Quayside
Newcastle upon Tyne
NE1 3DX

Date: 26 June 2018

- The maintenance and integrity of The North of England Protecting and Indemnity Association Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

**Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit**

**Group standard formula**

The Relevant Elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional measures on technical provisions

- The following elements of Group template S.23.01.22
  - Rows R0410 to R0440 – Own funds of other financial sectors

- The following elements of Group template S.25.01.22
  - Rows R0500 to R0530 – Capital requirement for other financial sectors (Non-insurance capital requirements)

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

**Executive Summary**

This Directors present the Solvency Financial Condition Report ("SFCR") for the Group headed by North of England Protecting & Indemnity Association Ltd ("North" or "the company"), based on the financial position of the Group as at 20 February 2018.

Regulatory Requirement

The Group's headquarters are in the United Kingdom. Within the United Kingdom, the company is authorised by the Prudential Regulation Authority (PRA) and dual regulated by the PRA and the Financial Conduct Authority (FCA). Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks. The PRA's general objective is to promote the safety and soundness of the firms it regulates and is the company's lead regulator. The FCA is the company's conduct regulator.

North is required to produce a Solvency & Financial Condition Report (SFCR) on a Group basis by the PRA Rulebook, SII Firms/Reporting/Parts 3 to 6.

Contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pra

www.fca.org.uk

The Group's external auditor is

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

Policy

The Group is required by Part 6.1 of the Reporting Rules to have appropriate systems and structures in place to fulfil the requirements for the SFCR and a written policy in place to ensure the appropriateness of the information enclosed.

The Group maintains a Group Reporting and Public Disclosure Policy which captures the SFCR. This is reviewed annually and was last approved in March 2018.

Review of 2017/18

2017 was another positive year for the Group which concluded in a successful renewal with an increased membership, underpinned by strong financial performance. The surplus after tax was US$19.1 million. Combined with other comprehensive income items, primarily exchange gains, there was a surplus of total comprehensive income of US$25.9 million.

A nil general increase declared for the 2017 policy year together with the effects of churn and a reduction in International Group ("IG") reinsurance costs passed onto Members has resulted in a reduction of premium despite a growth in tonnage at renewal.

Claims experience benefitted from Member claims falling compared to the prior year, although this was offset to some extent by increased experience on the IG pool for the year. Whilst not at the elevated levels seen in some years, by either value or frequency, the claims declared by other clubs to the pool at the 12 month development point are substantially greater than the benign experience of 2016.

A reduction in loss ratios for the business underwritten by the subsidiary company, Sunderland Marine Insurance Company Limited ("SMI"), was the main driver for an improvement in performance of that business. The reduction in the net loss ratio follows reduced exposure to markets where SMI could not achieve sustainable pricing and which are no longer underwritten.

The North of England Mutual Insurance Association (Bermuda) Limited ("NEMIA")

This SFCR has been prepared in accordance with Solvency II requirements and as a result NEMIA, of which the members of North are also members, is included as a reinsurer in the information provided in this document. This document provides information about the results and the financial position on a group basis rather than the combined basis with which Members will be familiar.

## A Business and Performance (Unaudited)

### A.1 Business

#### Principal Activities

The principal activities of the group are the insurance and reinsurance of marine Protecting & Indemnity ("P&I"), Freight, Demurrage & Defence ("FD&D") and War Risks on behalf of Members. Through the subsidiary company SMI the group also underwrites marine insurance for hull and machinery risks and aquaculture insurance.

The Group operates from its head office in Newcastle upon Tyne but also has offices in Greece, Hong Kong, Japan, Singapore, China, Australia and New Zealand.

The principal activities of the Group's subsidiaries are marine insurance and insurance broking.

#### Strategy

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 IG, 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 SMI

Key Performance Indicators ("KPI's") have been identified against which the management report to the Board on a regular basis. The primary KPI's are:

- To maintain an S&P A rating
- Operate with a satisfactory combined ratio
- Operate fixed premium business profitably
- Maintain capital available of at least 120% of the Solvency capital requirement (North Solo) and 130% (SMI Solo)
- No members or clients lost as a result of service levels
- Not to levy unbudgeted additional calls

Business Performance

The Group's key financial and other performance indicators were as follows:

| | 2018 | 2017 |
|---|---|---|
| | US$M | US$M |
| Gross written premiums | 368.0 | 420.0 |
| Surplus after tax | 19.1 | 20.6 |
| Free reserves (total accumulated surplus) | 239.7 | 213.9 |

A.2 Underwriting performance

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.

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

Premium written by business segment is as follows:

| | 2018 | 2017 |
|---|---|---|
| | US$M | US$M |
| P & I | 287.6 | 296.0 |
| FD & D | 19.3 | 20.5 |
| War | 0.1 | 0.1 |
| SMI | 61.0 | 103.4 |
| | 368.0 | 420.0 |

The reduction in gross premiums is a reflection of the reduction in premium rates for North and a reduction in underwriting volumes in SMI. The nil general increased declared for North's own business resulted in premium reductions at renewal, and SMI's strategy to withdraw from non-profitable geographic locations is reflected in reduced premium for the subsidiary company.

Claims experience benefitted from Member claims falling compared to the prior year, although this was offset to some extent by increased experience on the IG pool for the year. Whilst not at the elevated levels seen in some years, by either value or frequency, the claims declared by other clubs to the pool at the 12 month development point are substantially greater than the benign experience of 2016.

A reduction in loss ratios for the business underwritten by SMI follows the reduced exposure to non-profitable geographic locations.

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

A.3 Investment performance

The group's investment assets contributed income of US$1.3 million and fair value gains of US$3.3 million in the year before gains from derivative hedging of US$6.8 million are taken into account. 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 GB Pounds.

A.4 Performance of other activities

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 arises predominantly from the surplus after tax for the year (US$19.1 million).

A.5 Any other information

None.

## B System of governance (Unaudited)

### B.1 General information on the system of 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 is responsible for directing the affairs of the Group in compliance with statutory and regulatory requirements. The Board consists of seven to nine Member Directors, up to 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. There is also a Remuneration Committee, which determines the Group Remuneration Policy including the policy for remuneration of the Executive and Non-Executive 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.

The system of governance adopted is considered appropriate for the nature, scale and complexity of the risk inherent in the business.

### B.2 Fit and proper requirements

The group has a policy which is owned by the Group Nominations Committee, and is reviewed annually. The policy requires that prior to approving the appointment of any candidate as a Responsible Person, the Board of Directors must take appropriate steps to ensure that the candidate is fit and proper to perform the relevant role or function. This assessment includes, but is not limited to, confirmation that the candidate:

- Has the appropriate personal characteristics;
- Possesses the required level of competence, knowledge and experience;
- Has the relevant qualifications; and
- Has undergone or is undergoing all training required to perform the role or function effectively and in accordance with all relevant requirements.

The policy also sets out that the Board of Directors must review and confirm annually whether the Responsible Persons meet, and continue to meet, the applicable requirements.

The goals pursued by this policy are to:

- Ensure that Group undertakings comply with all applicable laws, regulations and prudential standards ("Requirements") relating to the fitness and propriety of persons who effectively run and/or perform a key or designated function for that undertaking ("Responsible Persons");

- Clearly describe the procedure for assessing the fitness and propriety of Responsible Persons, both when being considered for the specific position and on an on-going basis;

- Clearly describe the situations that give rise to a re-assessment of applicable Requirements:

- Clearly describe the Group's procedure and internal standards for assessing the skills, knowledge, expertise and personal integrity of other relevant personnel not subject to Requirements, both when being considered for the specific position and on an on-going basis.

The Head of Group Compliance is responsible for monitoring all Requirements on an on-going basis in order to identify any matters which necessitate the Requirements to be reassessed and updates the North Company Secretary as appropriate. The Requirements shall be reassessed in the event of the following:

- any change or proposed change to the relevant laws, regulations and prudential standards in any jurisdiction where any Group undertaking conducts business;

- a Group undertaking commencing or proposing to conduct business in any jurisdiction where it does not currently do so.

This policy is reviewed on an annual basis by the North Company Secretary and upon notification of any change or proposed change noted above.

Approved Persons

North Group maintains a governance map (Appendix 1), setting out details of all approved persons. This map includes the regulatory structure of the group and identifies the reporting lines applicable to all approved persons.

B.3 Risk management system including the own risk and solvency assessment (ORSA)

Risk culture

The Group's aim is to embed a strong culture of risk management at all levels within the organisation, so that all members of staff understand their role and its relationship to risk management. The Risk and Compliance department engages throughout the business to ensure that the risk management and ORSA framework are understood at all levels.

Board oversight of risk management

The Board is responsible for setting strategy – including target capital coverage – and for establishing risk appetite which is expressed in the Board's risk appetite statement. The Board is also responsible for putting in place systems of governance around risk management and has ownership of the ORSA framework and documentation.

Group Risk Committee

The Board has established a Group Risk Committee ("GRC") to which it has delegated key responsibilities within the ORSA framework. The scope of the GRC's responsibilities is group-wide and includes the following key areas:

**Governance:** Oversee the integration of risk management across the Group and ensure the framework is aligned with its strategic objectives. Review the risk management framework including its documentation and related policies and procedures.

**Regulatory:** Review the Group's regulatory position, the outcome from regulatory assessments, regulatory breaches and mitigating actions or responses.

**Risk appetite:** Review and make recommendations in respect of risk appetite.

**Risk policies:** Review the Group's risk policies and policies in respect of illegal acts.

**Risk identification, measurement, control and reporting:** Oversee the production and maintenance of Risk Registers and assess the appropriateness of risk management controls including controls over illegal acts. Set appropriate risk triggers, monitor and review risk reporting against triggers and review mitigating actions for reporting exceptions. Review risk profiles against the Board's risk appetite.

**Investment risk:** Oversight of investment risk including compliance with the Board's agreed appetite for investment risk and ensuring that investment management and decisions are within the framework agreed by the Board for managing investment risk including market and counterparty risks.

**Capital management plan:** Review the method of assessment of capital requirements and the outputs of those processes.

**Stress tests and reverse stress tests:** Review stress tests and reverse stress tests and assess their adequacy and effectiveness in testing the robustness of the Group's business model.

**ORSA assessment:** Review ORSA documentation, assess its adequacy and effectiveness in capturing the ORSA system and its outputs and assess its compliance with regulatory requirements.

Enterprise Risk Management Committee

In order to ensure that sound risk management principles and practices are embedded within the business, management have formed an Enterprise Risk Management committee ("ERM committee"). This committee meets at least four times each year and its responsibilities broadly follow those of the GRC but at a more granular management level. This committee is chaired by the Director (Risk and Compliance) ("DRC").

Risk management framework

The risk management framework has been developed over several years and is summarised below. The process operates as a feedback loop and reflects the requirement to reconsider strategy and risk appetite in view of risk assessment, results and capital requirements. Each step in the cycle may be iterative and may be revisited as a result of the outputs of subsequent steps.

The core elements of the steps above are as follows:

| Core element | Description |
|---|---|
| Board sets strategy and risk appetite | Quantitative parameters set for each primary category of risk – underwriting, market and operational.<br><br>Overall internal risk limit set as an absolute amount at a 1 in 20 year probability.<br><br>Target capital coverage established as a range by reference to the overall risk limit. |

| | |
|---|---|
| Risk policies cascade risk appetite to operations | Set out the operational response to the Board's risk appetite for risk within underwriting, reinsurance, investment, operations and capital management.<br><br>Establish documentary link between risk appetite and operational processes and procedures.<br><br>Separate policies to support other areas of internal governance covering internal audit, valuation of assets and liabilities, remuneration and outsourcing. |
| Risk identification, measurement, control and reporting | **Risk register**<br>Central repositories for all risks identified by the Group. Constructed on the basis of "key" risks comprising of sub-risks and risk components. Risk owners assigned responsibility for each key risk.<br><br>Key controls identified for all risks with the accepted risk treatment (prevent, mitigate or accept).<br><br>**Emerging risk protocol**<br>Process for risk identification by anybody within the organisation.<br><br>Assessment of potential impact, mitigation in place or required and changes required to the risk register.<br><br>**Risk tolerance and reporting triggers**<br>Each risk and sub-components separately assigned a reporting trigger, agreed with risk owners and reported on quarterly by owners to the ERM Committee.<br><br>**Risk profile**<br>Calculation performed independently of risk owners to provide segregation in the process. Variety of actuarial (statistical or mathematical) and practical techniques employed.<br><br>Correlation applied between risks and risk categories to reach overall assessment.<br><br>Assessment at a 1 in 20 year probability represents the position against the Board's stated risk appetite. |
| Stress testing and reverse stress testing of business model | Use a blend of scenarios identified by the Risk function, the Board or the GRC and those set by regulators.<br><br>Stress tests assess the impact of adverse scenarios on the Group's business model. Reverse stress tests ascertain the circumstance which could cause the business model of the Group to fail. |

| | |
|---|---|
| Capital management plan update | Performed for each separate business unit on a commercial basis and for each relevant jurisdiction on a regulatory basis.<br><br>Outputs are forecast free reserves, regulatory capital (own funds or local equivalents), minimum and solvency capital requirements (or local equivalents) and rating agency capital calculations. |
| Assess and document the ORSA framework and outputs | Brings together all of the features above and documents status of current risk position and flow through strategy, risk appetite and risk management framework. |

ORSA

The Group has in place an ORSA policy. The purpose of this policy is to set out the processes and methodologies for carrying out the ORSA.

Each ORSA process takes place as part of the group's annual strategic and capital management cycle. Initial responsibility for oversight of the process rests with the DRC. Final review, approval and sign-off is undertaken by the ERM committee, the GRC and the Board itself.

The numeric element of the ORSA process begins its cycle following the Board's approval of the updated business plan in November, with an updated ORSA report due to the January meeting.

The timeframe over which any ORSA specifically applies is for the following 12 months, plus the period covered by the business plan.

B.4 Internal control system

The group has a robust system of internal controls which is designed to provide reasonable assurance that its financial reporting is reliable, it is compliant with applicable laws and regulations and its operations are effectively controlled. The directors are ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. In practice the oversight and management of these systems necessarily involves Board committees, members of senior management and the risk, finance and compliance teams.

Internal controls are documented in the group's policies and procedure manuals, covering all areas required by Solvency II and all core areas of operation. They are also summarised in the risk register, which ensures they are appropriate for use in managing the risks faced by the group to within the documented risk appetite.

The key elements of the group's internal control framework are:

**Corporate governance** – sets out how people and committees are organised and managed to support strategic and operational objectives.

**Planning and budget process** – supports the implementation and monitoring of corporate strategy.

**Risk management** – facilitates identification, assessment, mitigation and reporting of risk.

**Compliance –** monitors compliance with legal and regulatory requirements, identifies and monitors the control of legal and regulatory risks.

**Control policies and processes –** govern the management, control and oversight of key risks.

**Information and communication –** used to assess whether the components of control are present and functioning, identifies control deficiencies to those responsible for taking corrective action.

**Assurance –** reporting on the effectiveness of internal controls.

Risk and Compliance functions

The DRC leads the Risk and Compliance functions and formally reports to the GRC at least four times each year. The DRC has a direct and independent line of contact to the GRC at any time.

Key activities undertaken by the Group's Risk and Compliance functions are summarised as follows:

| | |
|---|---|
| Identifying & assessing | • Assess relevant risks and controls<br>• Determine applicable requirements<br>• Make initial assessment of risk valuation and identify risk limits |
| Monitoring & testing | • Monitor policies and procedures and compliance with them<br>• Liaising with other internal control functions to ensure co-ordinated approach<br>• Monitoring of risk valuations and risk triggers compared to set limits<br>• Stress testing and risk scenario analysis |
| Advising (including regulatory) | • Provision of relevant advice and training<br>• Interaction with worldwide regulators<br>• Proposals for risk appetite and tolerance limits |
| Reporting | • Reporting on activities to relevant Board committees and, ultimately, the Board. |

B.5 Internal Audit Function (Outsourced)

The Group outsources its Internal Audit function to PricewaterhouseCoopers. The relationship is governed by a detailed engagement letter and scope of work. The scope of work of the internal audit programme is to determine whether the group's risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently and adequately protected;
- Programs, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the Group's control process;
- Significant legislative or regulatory issues impacting the Group are recognised and addressed properly; and
- Consistency of standards and approach across the various elements and companies within the Group.

In addition the Internal Audit function can be asked by the business, the second line of defence or the Board to carry out specific one-off tasks where its knowledge and expertise can be utilised without compromising its independence. All internal audit work results, including one-off tasks, are reported to the Group Audit Committee.

Independence and objectivity from the activities that Internal Audit reviews is achieved by ensuring that:

- There is a direct line of reporting to the Group Audit Committee;
- All internal audit activities are free of influence from anyone in the organisation, including matters of audit selection, scope, procedures, frequency, timing or report content;
- Members of the Internal Audit function are able to meet with the Group Audit Committee on request of the Board or Group Audit Committee;
- The function has the necessary skills and resources required to deliver the internal audit plan;
- Internal Audit has the authority to audit all parts of the business; and
- Internal Audit has full and complete access to all information, records, facilities and personnel relevant to the performance of an audit.

B.6 Actuarial Function (Outsourced)

The Actuarial Function is outsourced to ensure appropriate levels of technical resource and expertise are available to the Group at all times. Following a tender process in the year, the outsourcing provider is currently in the process of moving from Willis Towers Watson to Lane Clark & Peacock.

The outsourcing provider provides a Chief Actuary, as defined by PRA rules. This appointment is approved by the Board and subject to review, on an on-going basis, in accordance with the Group's policy and procedures concerning the fitness and propriety of regulated function holders.

The Actuarial Function is independent of other functions and, because it is outsourced, is constituted by persons who have a sufficient level of independence from the Group's senior management team. The Actuarial Function is appointed by, and reports to, the GRC.

The key areas of responsibility for the Actuarial Function include:

**Technical provisions:** Co-ordinating the calculation, ensuring the appropriateness of methods, assumptions, data and models used, and informing the Board of the reliability and adequacy of the calculation.

**Expressing an opinion on the overall underwriting policy:** This includes an assessment of the sufficiency of premiums, underwriting policies and processes, profitability and volatility within underwriting and pricing models.

**Expressing an opinion on the adequacy of reinsurance arrangements:** This includes an assessment of the reinsurance programme and security, evaluation of alternative reinsurance programmes, calculation of reinsurance recoveries in technical provisions and the ORSA and reinsurance policies.

**Contribution to risk management:** in particular with respect to the risk modelling underlying the calculation of the capital requirements and the ORSA. The two key areas of Actuarial Function activity are in relation to the Standard Formula SCR and MCR, and the ORSA.

The Actuarial Function is required to report on its findings in each of the four areas above as a minimum, on an annual basis. The component reports are produced for each of these areas at the time that the analysis is completed. These component reports are then combined into an annual aggregate report which includes comments on the Actuarial Function's contribution to the Group's risk management system.

## B.7 Outsourcing

The Group has chosen to outsource some of its operational functions and activities in order to take advantage of economies of scale and external expertise. The activities primarily affected by this arrangement are the Actuarial and Internal Audit functions as described above.

The Group has adopted an Outsourcing Policy which establishes a prudent risk management framework in relation to the management of outsourced arrangements and ensures compliance with relevant regulatory requirements. The Policy covers the entire outsourcing lifecycle, from identifying the need for outsourcing through relationship management and oversight and provides processes to effectively manage the risks associated with outsourcing relationships.

## B.8 Any other information

None.

## C Risk Profile (Unaudited)

Overview

The Group operates a low risk business model that is supported by a robust risk management framework which ensures risks are well understood and controlled. Policies and procedures are in place to ensure risks are managed within the Board's risk appetite.

A breakdown of the valuation of risks within the SCR is included within section E2.

Risk profile drivers and measures

An overview of the principal risks associated with the group's business including an outline of how each is managed follows. The risks that comprise the risk register have been allocated to risk categories which are aligned to the statement of board risk appetite. For internal risk valuation purposes, each of the risks is valued across a range of probabilities by combining both actuarial and practical techniques. This calculation is performed independently of risk owners to provide segregation within the process, although meetings with risk owners take place to discuss the valuation of their risks.

The valuation technique for a number of risk types conforms to Solvency II valuation methods so that the risk profile requirement is aligned with the regulatory solvency requirement. In order to arrive at valuations across a range of likelihoods, the methodology is to agree a known or expected valuation at a specific likelihood point and then apply a statistical distribution to arrive at other likelihoods.

This is not the case for premium and reserving risk, which utilise internally developed models that accurately reflect the claims characteristics and reinsurance structure of the business. These models use the Group's own claims history to set volatility assumptions and apply the Group's reinsurance programmes explicitly to the gross claims modelling to capture net claims volatility. Similarly, the modelling of reserving risk is based on the group's own claims history and takes into account the specific reinsurance programmes in place.

Some risks facing the Group are not quantifiable using statistical or mathematical techniques. Consideration has been given to these risks to ensure that, as far as possible, they are identified and an estimate made of their valuation at different likelihoods.

At each selected probability point (e.g. a likelihood of one in twenty years), the relevant individual risks within each risk category (underwriting, market and operational) have been correlated to provide values against the risk appetite statements. These figures are further correlated between risk categories to provide an overall value to compare to the risk limit shown in the statement of Board risk appetite.

There have been no material changes to the measures used to assess risks during the year.

Stress and scenario testing

The stress and scenario framework is an important part of the Group's risk management framework and is applied to a range of business processes to assist management and the Board in understanding the potential vulnerabilities within the business model and financial plans. This approach is overseen by the ERM committee and is designed to provide qualitative and quantitative information on what risks look like under stressed conditions, including any mitigating actions available.

There are three main elements to the stress and scenario framework:

**Stress testing** involves looking at the impact on the Group's business model of changing a single factor.

**Scenario testing** involves changing a number of factors at once to reflect an economic or business scenario.

**Reverse stress testing** involves consideration of scenarios which could render the Group's current business model unviable.

C.1 Underwriting risk

The Group includes companies that issue contracts that transfer insurance risk.

The principal risk the Group faces under insurance contracts is that actual claims payments or the timing thereof, differ from expectations. This risk is influenced by the frequency of claims, severity of claims and the subsequent development of long-tail claims.

In addition, the Group faces the risk of a catastrophic loss event, where the likelihood of the claim occurring is classified as extremely remote. This equates to a claim with a 1 in 200 chance of occurring.

The Group's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability in outcomes. In particular business is spread across geographical regions and vessel types and sizes. Underwriters calculate premiums for each risk written on a range of criteria, including (but not limited to) financial exposure, loss record, risk characteristics, limits and deductibles. The Group also recognises that insurance events are random by nature and that the actual number and size of events may vary from those estimated using established statistical techniques.

The objective is to ensure that risks are mitigated to a level within the statement of risk appetite approved by the Board. In order to achieve this, the controls operated include:

- Comprehensive reinsurance programme covering both vertical risk (one claim of a very high individual value) and horizontal risk (where many claims accumulate to a high value);
- Experienced underwriters operating to detailed procedural guidance, established authority limits and appropriate management review;
- Regular review of claims reserves, both for individual claims and in the aggregate;
- Monitoring of the claims environment to ensure that changes which could influence the future valuation of claims are recorded and accounted for; and
- Setting of overall technical provisions at a prudent percentile of confidence in accordance with the reserving policy approved by the Group Audit Committee and the Board.

Each of these mitigation techniques is monitored regularly to ensure that there have been no changes within the book of business or the insurance market which would render them ineffective or significantly less effective. In addition, regular monitoring of compliance with internal controls takes place to ensure their continuous effectiveness.

Given the wide spread of business there are no material underwriting risk concentrations for the Group.

C.2 Market risk

Market risk is the risk that the value of the group's assets, liabilities or income from its assets may fluctuate as a result of market movements. Sources of general market risk include movements in interest rates (interest rate risk), exchange rates (currency risk) and asset prices (price risk) – all are further detailed below. It is important to note that none of these sources of risk is independent of the others.

The guiding principle for the Group's investment risk management, including market risk, credit risk and liquidity risk, is the Prudent Person Principle (Article 132 of the Solvency II EU Directive). In particular:

- Investment risks have been confirmed as 'ancillary' to those associated with the writing of insurance business, and defined as such within the Board's risk appetite;
- Some investment activities are outsourced to expert managers and advisers, although the Group Risk Committee remains responsible for the investment risk undertaken by the Group;
- Investment parameters specify detailed quantitative restrictions for all mandates; and
- The use of derivatives is strictly controlled and monitored.

Market risk is managed by adjusting the allocation to asset classes to reflect the investment risk appetite approved by the directors. The concentration of investments into any one asset is also restricted. The asset class allocation matches assets against technical provisions by currency and maturity. In addition, the Group ensures minimal risk is taken with the committed regulatory capital.

Monitoring of the risk position compared to risk appetite takes place regularly using information from investment managers and custodians and also specific value at risk models. Risk concentrations are captured using the 'look through' facilities within these models.

Currency risk

Currency risk is the risk that the fair value of future cash flows of assets and liabilities will fluctuate because of changes in foreign exchange rates. The Group 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 applied to the investment portfolio contains provisions for matching of assets and liabilities by currency to mitigate the exposure.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to price risk on its holdings in debt securities.

The Group manages its exposure to price risk by setting constraints on its investments and by limiting its investments in each country, sector and market. Market valuations are obtained both from investment managers and custodians on a regular basis.

C.3 Credit risk

Credit risk is the risk that a counterparty will cause a financial loss by failing to discharge an obligation to a Group company. This risk arises principally on the group's financial assets, including investments, reinsurance recoveries and premium receivables.

Investment related credit risk is managed through the board-approved investment guidelines issued to the investment managers. The guidelines impose strict diversification limits by credit rating, maturity and per issuer.

Non-investment related credit risk is managed through monitoring of overdue receivables from policyholders on a regular basis, and by the requirement for all reinsurers providing security on the Group's reinsurance programmes to comply with a minimum rating requirement.

The most significant concentration of credit risk lies within the reinsurance recoveries, in particular those from one reinsurer (NEMIA) which has been established by the members of North but does not form part of the group. NEMIA is rated 'A' by Standard and Poor's and the risk to the Group is viewed as negligible in all but the most extreme circumstances.

C.4 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.

Liquidity is continuously monitored by review of actual and forecast cash flows and the Group has negligible liquidity risk in normal business circumstances. Premiums are received well in advance of liabilities and most assets are traded in extremely liquid markets so that funds are available from the sale of these without material discount in all but the most extreme cases.

The liquidity position is monitored under stressed scenarios which include major claim events and reductions in market liquidity. A detailed analysis of the maturity profile of financial instruments at the reporting date is included within the financial statements.

## C.5 Operational Risk

The Group is exposed to operational risk, defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the risk of business disruption, of compliance or regulatory breaches, or of poor service delivery, any of which could result in damage to the Group's reputation and reduce its ability to meet its stated objectives.

Primary responsibility for the development and implementation of controls to address operational risks rests with senior management. The main operational risks identified relate to compliance with legal and regulatory requirements and those related to business continuity and provision of IT services, including information security. These risks are separately identified on the risk register. There is no specific concentration of risk in this category.

Operational risk controls are many and varied given the wide range of possible causes, including controls in the following areas:

- Regular review of service delivery standards and prompt investigation of potential shortfalls in service delivery;
- Dedicated compliance department with access to appropriate professional advice;
- Detailed business continuity planning and regular testing of recovery plans;
- Information security assessments, detailed gap analysis, and roll out of updated procedures and policies;
- A Brexit Working Group focussing on alternative arrangements to write business in EU states in the event that passporting rights are removed;
- Dedicated human resources department ensuring appropriate monitoring of recruitment and performance of staff members;
- Monitoring of monthly financial results and comparison of results to budget and forecast; and
- Regular monitoring of and interaction with all branches and subsidiaries.

## C.6 Other material risks

### Pension risk

The group operates two defined benefit pension schemes and is accordingly exposed to changes in the valuation of scheme assets and liabilities. Full details of the schemes and their valuation at the balance sheet date can be found in the financial statements.

Whilst the management of the schemes' assets and the risks of the schemes are the responsibility of the trustees, the risk to the Group is managed through the regular monitoring of the asset valuation and the key economic indicators which influence the valuation of the obligations. In addition, the assets and liabilities of the schemes are considered and modelled alongside those of the Group.

## C.7 Any other information

None.

## D Valuation for Solvency purposes (Audited)

Basis of preparation of the Group Solvency II return

The Group applies the accounting consolidation-based method for preparing the Group solvency return. Unlike the IFRS financial statements however, not all of the Group entities as shown in Appendix 2 are included in the Solvency II consolidation. Full consolidation is applied only to insurance and reinsurance subsidiaries (SMI and SMA).

In the prior year, full consolidation was also applied to the investment in Hydra Insurance Company Limited (North Cell) ("Hydra Cell"). Following consultation with the PRA in the current year this is now treated as an investment. In both years, the investment in the Hydra Cell is considered to be a ring-fenced fund and hence any value attributable to the investment in excess of the contribution of the investment to the Group SCR is deducted in the calculation of Solvency II resources. The change therefore results in presentational differences as explained in the following sections but the overall effect on solvency coverage is not material.

The other entities in the Group remain on the Solvency II balance sheet as investments in participations.

D.1 Assets

Assets are recognised and measured for Solvency II purposes consistently with the IFRS financial statements. Solvency II asset valuations also follow the IFRS financial statements where those financial statements provide a market consistent valuation. The main areas where the financial statements do not provide a market consistent valuation are:

- Investments – related undertakings including participations;
- Reinsurance recoverables;
- Deferred acquisition costs (included in Other assets in the below table); and
- Intangible assets.

The following table sets out the value of the Group's assets at 20th February 2018 and 20th February 2017:

| | 20 February 2018 | | 20 February 2017 | |
|---|---|---|---|---|
| | IFRS assets US$M | Solvency II assets US$M | IFRS assets US$M | Solvency II assets US$M |
| Intangible assets | 15.5 | - | 17.1 | - |
| Property, plant and equipment | 19.4 | 19.4 | 23.8 | 23.8 |
| Investments – related undertakings including participations | - | 9.9 | - | 9.8 |
| Investments - other | 214.0 | 157.8 | 209.2 | 208.5 |
| Reinsurance recoverables | 744.5 | 539.8 | 795.8 | 493.5 |
| Receivables | 67.5 | 8.6 | 103.4 | 7.9 |
| Deposits, Cash and cash equivalents | 137.0 | 129.8 | 121.0 | 114.2 |
| Deferred acquisition costs | 3.6 | - | 6.3 | - |
| Other assets | 1.8 | - | - | - |
| **Total assets** | **1,203.3** | **865.3** | **1,276.6** | **857.7** |

The group's assets are recognised and valued using the following principles:

Intangible assets

The intangible assets held by the group (US$15.5 million; 2017: US$17.1 million) do not meet the criteria to be included as an asset for Solvency II purposes and therefore no value is attributable to them.

Property, plant and equipment

Property, plant and equipment is valued for Solvency II purposes on the same basis as the financial statements as those statements are considered to provide a market consistent valuation.

Included in property, plant and equipment is land and buildings of US$17.4 million (2017: US$21.3 million). The fair value of the land and buildings occupied by the Group has been assessed by the Directors based on valuations obtained from professional external surveyors as detailed in the financial statements. The method used is an investment method approach, which involves an assessment of the likely annual rental value of the property which is then translated to a freehold capital value by applying an appropriate investment yield. For the Group's head office building, 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.

Investments – related undertakings including participations

All of the Group's undertakings are consolidated in the IFRS balance sheet and hence are not included as investments. Insurance undertakings (SMI and SMA) remain consolidated on a Solvency II basis, and so the value of the investments in participations on the Solvency II balance sheet relates to the investment in the brokerage subsidiaries of SMI.

The investments in the brokerage subsidiaries VODG, Knighthood, HMU and SBM USA are valued based on their cost for IFRS purposes but must be replaced by a market consistent valuation for Solvency II purposes. The investments are valued on an IFRS equity method, which adjusts the cost of the investments for subsequent movements in reserves. Any goodwill or intangible assets on the subsidiaries' own balance sheets are then deducted in arriving at the final Solvency II valuation.

Note that at 20 February 2018 on the IFRS balance sheet, the assets and liabilities of Knighthood are classified as held for sale (US$1.8 million included in other assets in the above table). These assets and liabilities are not consolidated on the IFRS balance sheet and instead the investment in Knighthood is included behind investments in participations on the Solvency II balance sheet, and valued as described above.

Investments - other

This includes the group's financial investments and in the current year the investment in the Hydra North Cell.

All of the group's financial investments are traded on mainstream exchanges and included in the financial statements at fair value, which is consistent with Solvency II valuation requirements. Fair

value is determined based on published quotes in an active market. A market is regarded as active if quoted prices are readily available from a broker, dealer, exchange, pricing service, industry group or regulatory agency.

The investment in the Hydra North Cell is part of the mechanism through which North participates in the International Group pooling agreement, with the Cell reinsuring part of North's claims incurred from that participation. In the prior year, the Cell was consolidated on the Solvency II balance sheet and therefore did not appear as an investment. The investment is valued using a current replacement cost approach which is an alternative valuation method as set out in the Solvency II regulations. This approach assumes that the service capacity of the asset can be measured as the amount of capital required to establish an alternative asset that could provide an equivalent amount of reinsurance security as the Cell currently provides to North. The valuation is therefore based on the excess of the assets of the Cell over its liabilities, both measured on a Solvency II basis. Note that as the investment in the Cell is considered to be a restricted asset (see section E.1 Own Funds), the solvency coverage of the company is not sensitive to changes in the valuation of the investment.

The difference between the IFRS and Solvency II amount arises mainly from the fact that the Cell, which contains US$80.8 million (2017: US$93.4 million) of financial investments, is not consolidated in the Solvency II balance sheet. This is partially offset by the inclusion of the investment in the Cell itself (US$25.6 million). This is also the driver for the reduction in the Solvency II amount compared to the prior year.

Reinsurance recoverables

In the Solvency II balance sheet, the reinsurance recoverables are valued as part of net technical provisions (see D.2 Technical Provisions). Reinsurance recoverables represent amounts receivable from external reinsurers under the Group's reinsurance programme. The programme consists of both excess of loss, stop loss and quota share reinsurance arrangements. In addition, the parent company, North, participates in the International Group pooling arrangement, including market reinsurance bought by the pool.

Receivables

Insurance and reinsurance receivables of US$7.2 million (2017: US$2.6 million) on the IFRS balance sheet are held by the Cell and the brokerage subsidiaries which aren't consolidated on the Solvency II balance sheet. In addition, there are insurance and reinsurance receivables of US$47.7 million (2017: 85.0 million) that are included in the future cash flow forecasts for the purposes of calculating Solvency II technical provisions. Adjustments are also made to remove US$4.0 million (2017: US$7.3 million) of prepayments from the Solvency II balance sheet.

Deposits, Cash and cash equivalents

Cash and deposits are included in both the IFRS financial statements and for Solvency II purposes at their fair value. The difference between the IFRS and Solvency II balance sheets is cash held by entities not consolidated on the Solvency II balance sheet. Deposit amounts are disclosed separately from cash and cash equivalents in the quantitative reporting templates.

Deferred acquisition costs

Deferred acquisition costs are considered as part of the future cash flow projections used to value the Solvency II technical provisions and are valued at US$nil on the Solvency II balance sheet.

Other assets

Other assets on the IFRS balance sheet are assets held for sale which are included in investments in participations for the Solvency II balance sheet.

D.2 Technical provisions

The following table sets out the value of the Group's net technical provisions at 20th February 2018 and 20th February 2017:

| | 20 February 2018 | | 20 February 2017 | |
|---|---|---|---|---|
| | IFRS TPs US$M | Solvency II TPs US$M | IFRS TPs US$M | Solvency II TPs US$M |
| Gross Technical provisions | 858.8 | 556.2 | 916.6 | 572.2 |
| Reinsurance recoverables | (744.5) | (539.8) | (795.8) | (493.5) |
| Risk margin | N/a | 15.8 | N/a | 16.5 |
| **Net Technical Provisions** | **114.3** | **32.2** | **120.8** | **95.2** |

The Group's technical provisions are in relation to business written under two lines of business. Marine, Aviation and Transport in relation to P&I, FD&D and War risks underwritten by North and the P&I and Hull and Machinery risks underwritten by SMI, and Fire and other damage to property in respect of the Aquaculture risks underwritten by SMI. The Group values TPs using the methodology prescribed by the Solvency II Directive and the Regulations made under that Directive. The TPs are made up of a best estimate of the claims, premiums and expense cash flows, which are then discounted to arrive at the necessary provisions. A specific risk margin is then added.

Similarly to the IFRS financial statements, there are a number of uncertainties inherent in the calculation of Solvency II technical provisions. The cash flows ultimately required to settle the net technical provisions are sensitive to a number of factors that can only be known for certain at the conclusion of a claim.

*Claims*

Gross and net claims are projected to their ultimate cost using actuarial techniques including chain ladder and stochastic modelling. Claims cash flows are calculated on a best estimate basis which involves removing the allowance for prudency allowed for in the IFRS financial statements.

*Premiums*

Future premiums receivable and reinsurance premiums payable in respect of incepted business are taken from the IFRS balance sheet. They are then split between premiums on earned business which is included in the claims provision, and premiums on unearned business which is included in the premiums provision.

*Expenses*

Allowance is made for the expenses that will be incurred in managing the run-off of the technical provisions at the balance sheet date. Provision is made based on expenses as a proportion of earned business on the assumption that the same proportion will apply to the unearned business. Claims handling, policy administration, depreciation, investment management and an element of overhead expenses are included in the provision. Some of these expenses are additional to those included in the calculation of the claims handling reserve in the IFRS financial statements.

*Bound but not incepted (BBNI) business*

The majority of North's insurance business is underwritten with an inception date of 20 February, meaning that at the year-end valuation date there is a significant amount of BBNI business. Provision is made for the future cash flows in relation to this business taking into account premiums, expected claims, and associated expenses expected to be incurred in the management of that business. This BBNI business is not included in the IFRS valuation of technical provisions.

*Events not in data (ENID)*

Events not in data are modelled based on the estimated development of latent claims for an as yet unknown industrial disease, based in part on the development of asbestosis claims historically. This modelling results in a percentage loading which is then added to both earned and unearned business to allow for ENIDs. No such provision is made in the IFRS valuation of technical provisions.

*Reinsurer bad debt*

The technical provisions include an allowance for reinsurer bad debt.

*Projected cash flows*

Projected cash flows are estimated by applying historical payment patterns to the estimates of ultimate claims, premiums and expenses.

*Discounting*

Projected cash flows are discounted using the EIOPA prescribed risk-free interest rate term structure applicable to each currency for which technical provisions are calculated. IFRS technical provisions are not discounted.

*Risk margin*

The risk margin represents the estimated cost of capital for an insurer taking on the technical provisions of the Group at the valuation date and running the provisions off to zero. The risk margin is calculated as the sum of the risk margins for each insurance and reinsurance undertaking consolidated in the Solvency II balance sheet. The risk margin for each insurance and reinsurance undertaking is recalculated at the valuation date and one year later on a run-off basis and is then projected forward on the assumption that the SCR runs-off in proportion to the best estimate technical provisions. A cost of capital of 6% is then applied to the SCR at each future date, with the corresponding costs discounted back to the valuation date to reflect the time value of money.

D.3 Other liabilities

The following table sets out the value of the group's other liabilities at 20th February 2018 and 20th February 2017:

| | 20 February 2018 | | 20 February 2017 | |
|---|---|---|---|---|
| | IFRS Liabilities US$M | Solvency II Liabilities US$M | IFRS Liabilities US$M | Solvency II Liabilities US$M |
| Payables | 48.9 | 6.0 | 81.6 | 19.5 |
| Pension benefit obligations | 55.6 | 55.6 | 57.0 | 57.0 |
| Derivative financial instruments | - | 0.4 | 7.2 | 7.2 |
| **Total other liabilities** | **104.5** | **62.0** | **145.8** | **83.7** |

The Group's other liabilities are recognised and valued for Solvency II purposes on the same basis as the IFRS financial statements.

Payables on the IFRS balance sheet include US$8.9 million (2017: US$2.3 million) of liabilities held by the Cell and the brokerage subsidiaries which aren't consolidated on the Solvency II balance sheet. In addition, insurance and reinsurance payables of US$34.0 million (2017: US$56.0 million) are included in the future cash flow projections used to value technical provisions for Solvency II purposes.

The IAS 19 valuations of the defined benefit pension schemes included in the IFRS financial statements are considered to be an economic valuation of the net liability of the group associated with the operation of the schemes. Further information on the valuation of the net obligations is included in the financial statements of the group. The schemes require the group to fund future payments to members of the schemes and as such exposes the group to the risk that the assets held by the schemes are insufficient to meet the scheme obligations as they fall due for payment. The following table sets out the value and nature of the pension scheme's assets at 20 February 2018 and 20 February 2017:

| | 20 February 2018 US$M | 20 February 2017 US$M |
|---|---|---|
| Equities | 62.9 | 44.3 |
| Bonds | 55.8 | 38.6 |
| Other | 1.0 | 27.5 |
| Cash | 10.3 | 1.4 |
| **Total** | **130.0** | **111.8** |

D.4 Alternative valuation methods

Alternative valuation methods as prescribed by the Solvency II regulations are used to value the investment in the Cell and the land and buildings held by the company – details are provided in section D.1 Assets.

D.5 Any other information

None.

## E Capital Management (Audited)

### E.1 Own Funds

The group has a simple capital structure. IFRS balance sheet reserves comprise only tier 1 items derived from past underwriting and investment surpluses.

In addition to basic own funds, North have received PRA approval for a maximum of 50% of the SCR to be met using ancillary own funds ("AOFs"). These are included as tier 2 own funds. AOFs represent an allowance reflecting North's ability to make additional premium calls on its members in the event of a shortfall. The amount that can be included is calculated as a percentage of member's P&I premium making an appropriate allowance for default risk, or, if lower, an amount equal to 50% of the SCR. The current approval for AOFs was granted on 16 February 2017 and expires on 20 February 2020. In the event of an additional call, the additional own funds raised would form part of the Group's surplus and be included in tier one capital.

The group's objective with respect to the management of own funds is to ensure that sufficient resources are available to cover 120% of the SCR at any point in time. The group uses a five year planning horizon when managing own funds to ensure this level is maintained at all times.

Solvency II Own Funds at 20 February 2018 and 20 February 2017 are shown in the table below:

| | **20 Feb 2018 US$M** | **20 Feb 2017 US$M** |
|---|---|---|
| Income & expenditure account | 219.5 | 194.9 |
| Contingency funds | 15.6 | 11.5 |
| Revaluation reserve | 4.6 | 7.5 |
| Non-controlling interest | 0.4 | 0.3 |
| Total IFRS resources | 240.1 | 214.2 |
| Solvency II adjustments (including differing basis of consolidation) | (8.8) | (28.8) |
| Solvency II excess of assets over liabilities | 231.3 | 185.4 |
| Ancillary own funds | 73.2 | 74.9 |
| Ring fenced funds | (3.3) | (33.4) |
| Total Solvency II resources | 301.2 | 226.9 |

The reconciliation reserve consists of the Solvency II excess of assets over liabilities (US$231.3 million; 2017: US$185.4 million) less the adjustment for restricted own fund items in respect of ring fenced funds (US$(3.3) million; 2017: US$(33.4) million).

### Solvency II adjustments

All differences included as Solvency II adjustments relate to the differing basis of consolidation and the valuation differences for assets and liabilities relative to the financial statements as set out in Section D Valuation for Solvency purposes.

Capital transferability

The capital represented by the investment in Hydra Insurance Company Limited (North Cell) is not available to the group to fully absorb losses on a going-concern basis. An adjustment has been made to Solvency II resources for this ring-fenced capital. The excess of assets over liabilities for the ring fenced fund is US$25.6 million, the adjustment of US$3.3 million represents this excess less the contribution of the ring fenced fund to the SCR of US$23.3 million.

All of the other assets of the group are available to meet liabilities as and when they fall due, and therefore the group has no other restrictions with regard to capital transferability.

E.2 Solvency Capital Requirement and Minimum Consolidated Group SCR

The following table shows an analysis of the group's SCR split by risk modules at 20 February 2018 and 20 February 2017:

| | **20 Feb 2018 US$M** | **20 Feb 2017 US$M** |
|---|---|---|
| Market risk | 92.5 | 54.4 |
| Counterparty default risk | 28.3 | 37.8 |
| Underwriting risk | 32.5 | 55.8 |
| Diversification | (31.8) | (37.7) |
| **Basic SCR** | **121.5** | **110.3** |
| Operational risk | 16.7 | 17.1 |
| **SCR excluding capital add-on** | **138.2** | **127.4** |
| Agreed capital add-on (defined benefit pension schemes) | 22.5 | 22.5 |
| **Solvency Capital Requirement** | **160.7** | **149.9** |

An annual assessment of the appropriateness of the standard formula SCR to the Group is carried out. The last review, completed in January 2018, confirmed that the SCR was appropriate for all risks except those in respect of the defined benefit pension schemes, which was consistent with prior reviews. As previously agreed with the PRA a voluntary capital add-on of US$22.5 million has been added in respect of the defined benefit pension schemes as managements consider that this is appropriate to capture the risks associated with the schemes. The final amount of the SCR, including the capital add-on, is subject to supervisory assessment.

Minimum Consolidated Group SCR

The Minimum Consolidated Group SCR is the sum of the MCRs of the insurance and reinsurance undertakings included in the Solvency II consolidation. This is US$49.6 million as at 20 February 2018.

Coverage of the SCR and Minimum Consolidated Group SCR

The following tables show the Group's coverage of the SCR and Minimum Consolidated Group SCR.

| **Coverage of SCR** | |
|---|---|
| Own funds | US$301.2M |
| SCR | US$160.7M |
| Coverage | US$140.5M |
| % Coverage | 187% |
| | |
| **Coverage of Minimum Consolidated Group SCR** | |
| Own funds | US$228.0M |
| Minimum Consolidated Group SCR | US$49.6M |
| Coverage | US$178.4M |
| % Coverage | 460% |

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The Group does not use the duration-based equity risk sub-module for the calculation of its SCR.

E.4 Differences between the standard formula and any internal model used

The Group does not use an internal model to calculate any part of its SCR.

E.5 Confirmation of compliance with the SCR & Minimum Consolidated Group SCR

The Group has complied with the SCR and Minimum Consolidated Group SCR throughout the year.

E.6 Any other information

None.

## Appendix 1 – Governance Map

## Senior Insurance Management Functions & Key Functions – Responsible Individuals and Reporting Lines

**Key**

**Reporting Lines**

- Reporting line to Board of Directors
- Primary operational reporting line
- Secondary operational reporting line
- Independent reporting line to Committee

**PRA Senior Insurance Management Functions (SIMF)**

SIMF 1 – Chief Executive Function

SIMF 2 – Chief Finance Function

SIMF 4 – Chief Risk Function

SIMF 5 – Head of Internal Audit Function

SIMF 7 – Group Entity Senior Insurance Manager Function

SIMF 9 – Chairman

SIMF 10 – Chair of Risk Committee

SIMF 11 – Chair of Audit Committee

SIMF 12 – Chair of Remuneration Committee

SIMF 20 – Chief Actuary Function

SIMF 22 – Chief Underwriting Officer Function

**FCA Controlled Functions**

CF2a – Chair of Nominations Committee

**Appendix 2**
**Group structure**

**NORTH GROUP – SOLVENCY II GOVERNANCE MAP**

**Group Structure**

The chart below provides a high level summary of the companies in the North Group*.

Active

Dormant

* Excludes North's bermuda based parallel mutual company North of England Mutual Insurance Association Limited

## Appendix 3

## Glossary of terms

Basic SCR – The SCR before operational risk and capital add-ons

BBNI – Bound but not incepted. Refers to insurance contracts which the business is obliged to enter into where the inception date is after the valuation date

Combined ratio – claims incurred and expenses as a proportion of premiums

DRC – Director (Risk and Compliance)

EIOPA – European Insurance and Occupational Pensions Authority

ENID – Events not in data. Refers to possible future insured events which have not previously occurred

ERM Committee – Enterprise Risk Management Committee

Expense ratio – an expression of expenses as a proportion of premiums

GRC – Group Risk Committee

IAS 19 – The international financial reporting standards for employee benefits, including defined benefit pension schemes

IFRS – International Financial Reporting Standards

IG – International Group of Protection & Indemnity Clubs, of which North is a member

IG Pool – A mechanism for members of the IG to pool their large claims

Loss ratio – an expression of claims incurred as a proportion of premiums

MCR – Minimum Capital Requirement

Minimum Consolidated Group SCR – The Group equivalent of the MCR, being the sum of the MCRs of the individual entities making up the Group.

ORSA – Own Risk and Solvency Assessment

Own Funds – the capital resources available to the Group

QRTs – Quantitative Reporting Templates

Reconciliation reserve – a component of own funds

SCR – Solvency Capital Requirement

SFCR - Solvency Financial Condition Report

SIMF – Senior Insurance Management Function

Standard Formula – the approach applied by the Group to calculate its SCR

## Appendix 4

## SFCR Quantitative Templates

| | |
|---|---|
| S.02.01.02 | Balance Sheet |
| S.05.01.02 | Premium, claims & expenses by line of business |
| S.05.02.01 | Premium, claims & expenses by country |
| S.23.01.22 | Own funds |
| S.25.01.22 | Solvency Capital Requirement – for undertakings on Standard Formula |
| S.32.01.22 | Undertakings in the scope of the group |

# North of England Protecting & Indemnity Association Ltd

## Solvency and Financial Condition Report

## Disclosures

20 February

2018

(Monetary amounts in USD thousands)

## General information

| | |
|---|---|
| Participating undertaking name | North of England Protecting & Indemnity Association Ltd |
| Group identification code | XJCO61LLUWTBTNWIXO53 |
| Type of code of group | LEI |
| Country of the group supervisor | GB |
| Language of reporting | en |
| Reporting reference date | 20 February 2018 |
| Currency used for reporting | USD |
| Accounting standards | IFRS |
| Method of Calculation of the group SCR | Standard formula |
| Method of group solvency calculation | Method 1 is used exclusively |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

## List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.23.01.22 - Own Funds

S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula

S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 19,358 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 266,391 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 9,885 |
| R0100 | *Equities* | 25,625 |
| R0110 | *Equities - listed* | |
| R0120 | *Equities - unlisted* | 25,625 |
| R0130 | *Bonds* | 32,220 |
| R0140 | *Government Bonds* | 24,874 |
| R0150 | *Corporate Bonds* | 7,345 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 99,614 |
| R0190 | *Derivatives* | 369 |
| R0200 | *Deposits other than cash equivalents* | 98,678 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 0 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | |
| R0270 | Reinsurance recoverables from: | 539,814 |
| R0280 | *Non-life and health similar to non-life* | 539,814 |
| R0290 | *Non-life excluding health* | 539,814 |
| R0300 | *Health similar to non-life* | |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | 8,576 |
| R0390 | Own shares (held directly) | 0 |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 31,124 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | **Total assets** | 865,263 |

S.02.01.02

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 571,969 |
| R0520 | *Technical provisions - non-life (excluding health)* | 571,969 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | 556,204 |
| R0550 | *Risk margin* | 15,765 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 0 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 0 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | |
| R0680 | *Risk margin* | |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | 55,580 |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | |
| R0790 | Derivatives | 407 |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 5,989 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | |
| R0900 | **Total liabilities** | 633,945 |
| | | |
| R1000 | **Excess of assets over liabilities** | 231,319 |

S.05.01.02

## Premiums, claims and expenses by line of business

### Non-life

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | | | 359,169 | 9,265 | | | | | | | | | | 368,434 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | 61 | 0 | | | | | | | | | | 61 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | | | 292,489 | 7,892 | | | | | | | | | | 300,381 |
| R0200 | Net | | | | | | 66,741 | 1,374 | | | | | | | | | | 68,114 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | | | 366,112 | 21,468 | | | | | | | | | | 387,580 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | 61 | 0 | | | | | | | | | | 61 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | | | 294,612 | 19,351 | | | | | | | | | | 313,963 |
| R0300 | Net | | | | | | 71,560 | 2,117 | | | | | | | | | | 73,677 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | | | 171,725 | 13,167 | | | | | | | | | | 184,892 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | -2,414 | 0 | | | | | | | | | | -2,414 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | | | 164,986 | 11,707 | | | | | | | | | | 176,693 |
| R0400 | Net | | | | | | 4,325 | 1,460 | | | | | | | | | | 5,785 |
| | **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| R0410 | Gross - Direct Business | | | | | | | | | | | | | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0440 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0500 | Net | | | | | | 0 | 0 | | | | | | | | | | 0 |
| R0550 | **Expenses incurred** | | | | | | 8,634 | -1,498 | | | | | | | | | | 7,135 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | 19,700 |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 26,835 |

S.05.02.01

## Premiums, claims and expenses by country

### Non-life

| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
|---|---|---|---|---|---|---|---|---|
| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | Top 5 countries (by amount of gross premiums written) - non-life obligations | | Total Top 5 and home country |
| R0010 | | | | | | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 350,238 | 12,359 | 5,727 | 134 | -25 | | 368,434 |
| R0120 | Gross - Proportional reinsurance accepted | 61 | 0 | 0 | 0 | 0 | | 61 |
| R0130 | Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | | 0 |
| R0140 | Reinsurers' share | 289,698 | 6,852 | 3,745 | 101 | -15 | | 300,381 |
| R0200 | Net | 60,600 | 5,508 | 1,982 | 34 | -10 | 0 | 68,114 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 363,651 | 12,078 | 5,761 | 4,478 | 1,612 | | 387,580 |
| R0220 | Gross - Proportional reinsurance accepted | 61 | 0 | 0 | 0 | 0 | | 61 |
| R0230 | Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | | 0 |
| R0240 | Reinsurers' share | 299,556 | 6,816 | 3,768 | 2,924 | 899 | | 313,963 |
| R0300 | Net | 64,156 | 5,262 | 1,993 | 1,554 | 713 | 0 | 73,677 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 168,594 | 9,646 | 2,758 | 3,411 | 483 | | 184,892 |
| R0320 | Gross - Proportional reinsurance accepted | -2,414 | 0 | 0 | 0 | 0 | | -2,414 |
| R0330 | Gross - Non-proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | | 0 |
| R0340 | Reinsurers' share | 165,446 | 6,045 | 1,751 | 2,679 | 772 | | 176,693 |
| R0400 | Net | 734 | 3,600 | 1,007 | 732 | -289 | 0 | 5,785 |
| | **Changes in other technical provisions** | | | | | | | |
| R0410 | Gross - Direct Business | | | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | 0 |
| R0440 | Reinsurers' share | | | | | | | 0 |
| R0500 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0550 | **Expenses incurred** | 4,105 | 898 | -68 | 1,693 | 839 | | 7,467 |
| R1200 | **Other expenses** | | | | | | | 19,700 |
| R1300 | **Total expenses** | | | | | | | 27,167 |

S.23.01.22

## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Basic own funds before deduction for participations in other financial sector** | | | | | |
| R0010 | Ordinary share capital (gross of own shares) | 0 | 0 | | 0 | |
| R0020 | *Non-available called but not paid in ordinary share capital at group level* | 0 | | | | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0060 | *Non-available subordinated mutual member accounts at group level* | 0 | | | | |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0080 | *Non-available surplus funds at group level* | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0100 | *Non-available preference shares at group level* | 0 | | | | |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0120 | *Non-available share premium account related to preference shares at group level* | 0 | | | | |
| R0130 | Reconciliation reserve | 227,997 | 227,997 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0150 | *Non-available subordinated liabilities at group level* | 0 | | | | |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0170 | *The amount equal to the value of net deferred tax assets not available at the group level* | 0 | | | | 0 |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests (if not reported as part of a specific own fund item) | 0 | | | | |
| R0210 | *Non-available minority interests at group level* | 0 | | | | |
| R0220 | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| R0230 | **Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities** | 0 | | | | |
| R0240 | *whereof deducted according to art 228 of the Directive 2009/138/EC* | 0 | | | | |
| R0250 | Deductions for participations where there is non-availability of information (Article 229) | 0 | | | | |
| R0260 | Deduction for participations included by using D&A when a combination of methods is used | 0 | | | | |
| R0270 | **Total of non-available own fund items** | 0 | 0 | 0 | 0 | 0 |
| R0280 | **Total deductions** | 0 | 0 | 0 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 227,997 | 227,997 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 73,200 | | | 73,200 | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0380 | Non available ancillary own funds at group level | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 73,200 | | | 73,200 | 0 |
| | **Own funds of other financial sectors** | | | | | |
| R0410 | Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies | 0 | | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| R0430 | Non regulated entities carrying out financial activities | 0 | | | | |
| R0440 | **Total own funds of other financial sectors** | 0 | 0 | 0 | 0 | 0 |

S.23.01.22

## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Basic own funds before deduction for participations in other financial sector** | | | | | |
| | **Own funds when using the D&A, exclusively or in combination of method 1** | | | | | |
| R0450 | Own funds aggregated when using the D&A and combination of method | 0 | | | | |
| R0460 | Own funds aggregated when using the D&A and combination of method net of IGT | 0 | | | | |
| R0520 | Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 301,197 | 227,997 | 0 | 73,200 | 0 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 227,997 | 227,997 | 0 | 0 | |
| R0560 | Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 301,197 | 227,997 | 0 | 73,200 | 0 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 227,997 | 227,997 | 0 | 0 | |
| R0610 | **Minimum consolidated Group SCR** | 49,565 | | | | |
| R0650 | **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | 459.99% | | | | |
| R0660 | **Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )** | 301,197 | 227,997 | 0 | 73,200 | 0 |
| R0680 | **Group SCR** | 160,626 | | | | |
| R0690 | **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A** | 187.51% | | | | |

| | | C0060 |
|---|---|---|
| | **Reconcilliation reserve** | |
| R0700 | Excess of assets over liabilities | 231,319 |
| R0710 | Own shares (held directly and indirectly) | |
| R0720 | Forseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 0 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 3,322 |
| R0750 | Other non available own funds | |
| R0760 | **Reconciliation reserve** | 227,997 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

S.25.01.22

## Solvency Capital Requirement - for groups on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 92,502 | | |
| R0020 | Counterparty default risk | 28,256 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 32,470 | | |
| R0060 | Diversification | -34,336 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 118,893 | | |

| | | C0100 |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | |
| R0130 | Operational risk | 16,686 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | 0 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency Capital Requirement excluding capital add-on** | 135,579 |
| R0210 | Capital add-ons already set | 22,500 |
| R0220 | **Solvency capital requirement for undertakings under consolidated method** | 158,079 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 115,873 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |
| R0470 | Minimum consolidated group solvency capital requirement | 49,565 |
| | **Information on other entities** | |
| R0500 | Capital requirement for other financial sectors (Non-insurance capital requirements) | 0 |
| R0510 | *Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies* | 0 |
| R0520 | *Institutions for occupational retirement provisions* | 0 |
| R0530 | *Capital requirement for non- regulated entities carrying out financial activities* | 0 |
| R0540 | Capital requirement for non-controlled participation requirements | 0 |
| R0550 | Capital requirement for residual undertakings | 0 |
| | **Overall SCR** | |
| R0560 | SCR for undertakings included via D&A | 0 |
| R0570 | **Solvency capital requirement** | 160,626 |

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## Undertakings in the scope of the group

| Row | Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal Name of the undertaking | Type of undertaking | Legal form | Category (mutual/non mutual) | Supervisory Authority |
|---|---|---|---|---|---|---|---|---|
| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 |
| 1 | GB | XJCO61LLUWTBTN | LEI | North of England Protecting & Indemnity Associati | Non life insurance undertaking | Company Limited by Guarantee | Mutual | Prudential Regulation Authority |
| 2 | GB | 549300MOM633ONI | LEI | Sunderland Marine Insurance Co Ltd | Non life insurance undertaking | Company Limited by Guarantee | Non-mutual | Prudential Regulation Authority |
| 3 | SA | SMA | Specific code | Sunderland Marine (Africa) Limited | Non life insurance undertaking | Company | Non-mutual | Financial Services Board |
| 4 | CN | North Shanghai | Specific code | North of England Marine Consultant (Shanghai) Ltd | Other | Company | Non-mutual | |
| 5 | GB | NEPIA Trust | Specific code | NEPIA Trust Company Limited | Other | Company | Non-mutual | |
| 6 | GB | BSA | Specific code | British Shipowners Association | Other | Company | Non-mutual | |
| 7 | GB | North Law | Specific code | North Law Limited | Other | Company | Non-mutual | |
| 8 | GB | North Legal | Specific code | North Legal Limited | Other | Company | Non-mutual | |
| 9 | GB | NIML | Specific code | North Insurance Management Limited | Other | Company | Non-mutual | |
| 10 | AU | MIA | Specific code | Marine Insurance Australia Limited | Other | Company | Non-mutual | |
| 11 | NL | VODG | Specific code | Van Oist de Graaf & Co BV | Other | Company | Non-mutual | |
| 12 | GB | Knighthood | Specific code | Knighthood Corporate Assurance Services plc | Other | Company | Non-mutual | |
| 13 | CA | HMU | Specific code | Harlock Murray Underwriting Limited | Other | Company | Non-mutual | |
| 14 | US | SBM USA | Specific code | Salvus Bain Management (USA) LLC | Other | Company | Non-mutual | |
| 15 | GG | SMIG Cell | Specific code | Windward Insurance PCC Limited | Other | Company | Non-mutual | |
| 16 | US | HMU USA | Specific code | Harlock Murray Underwriting LLC | Other | Company | Non-mutual | |
| 17 | GB | ARM | Specific code | Aquaculture Risk (Management) Limited | Other | Company | Non-mutual | |

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## Undertakings in the scope of the grou

| | | | | Criteria of influence | | | | | | Inclusion in the scope of Group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Country | Identification code of the undertaking | Type of code of the ID of the undertaking | % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | YES/NO | Date of decision if art. 214 is applied | Method used and under method 1, treatment of the undertaking |
| Row | C0010 | C0020 | C0030 | C0180 | C0190 | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 |
| 1 | GB | XJC061LLUWTBTN | LEI | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 2 | GB | 549300MOM633ONI | LEI | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 3 | SA | SMA | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 4 | CN | North Shanghai | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 5 | GB | NEPIA Trust | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 6 | GB | BSA | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 7 | GB | North Law | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 8 | GB | North Legal | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 9 | GB | NIML | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 10 | AU | MIA | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 11 | NL | VODG | Specific code | 82.00% | 82.00% | 82.00% | | Dominant | 82.00% | Included in the scope | | Method 1: Adjusted equity method |
| 12 | GB | Knighthood | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 13 | CA | HMU | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 14 | US | SBM USA | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 15 | GG | SMIG Cell | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 16 | US | HMU USA | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 17 | GB | ARM | Specific code | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |