
**THE NORTH OF ENGLAND MUTUAL INSURANCE
ASSOCIATION (BERMUDA) LIMITED**

Financial Statements
(With Auditor's Report Thereon)

February 20, 2020

Independent auditor's report to The North of England Mutual Insurance Association (Bermuda) Limited

We have audited the non-statutory accounts of The North of England Mutual Insurance Association (Bermuda) Limited for the year ended 20 February 2020 set out on pages 4 to 11. The non-statutory accounts have been prepared for the reasons described in note 1 and on the basis of the accounting policies set out in note 2 to the non-statutory accounts.

Our report has been prepared for the Company solely in connection with the circumstances described in note 1. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the non-statutory accounts in accordance with the basis of preparation as set out in note 2 to the non-statutory accounts. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 30 March 2016 and having regard to International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors. In view of the purpose for which these non-statutory accounts have been prepared, however, we did not assess the overall presentation of the non-statutory accounts which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

In addition we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited non-statutory accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory accounts

In our opinion the non-statutory accounts of the entity for the year ended 20 February 2020 have been properly prepared, in all material respects, in accordance with the basis of preparation and the accounting policies set out in note 2 to the non-statutory accounts.

KPMG LLP

Chartered Accountants

Newcastle Upon Tyne, UK

May 2020

DIRECTORS REPORT

Statement of directors' responsibilities

The directors of The North of England Mutual Insurance Association (Bermuda)Limited ('the directors') have accepted responsibility for the preparation of these non-statutory accounts for the year ended 20 February 2020 which are intended by them to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

In preparing these non-statutory accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed; subject to any material departures being disclosed and explained in the non-statutory accounts; and
- prepared the non-statutory accounts on the going concern basis as they believe that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Going concern

The directors believe that the Company has adequate resources, reinsurance arrangements and support from its Members to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
(BERMUDA) LIMITED**
(Incorporated in Bermuda)

Balance Sheet

February 20, 2020

(Expressed in Thousands of United States Dollars)

	<u>2020</u>			<u>2019</u>
	<u>P & I</u>	<u>FD & D</u>	<u>Total</u>	<u>Total</u>
	US\$000	US\$000	US\$000	US\$000
Assets				
Cash at bank and in hand	12,402	9	12,411	4,407
Investment income receivable and prepaids	14	-	14	3,737
Marketable securities - at market value (Note 4)	695,405	53,851	749,256	762,710
Inter-class receivable	3,779	-	3,779	3,779
Due from The North of England P&I Association Limited (Note 6)	<u>-</u>	<u>18,997</u>	<u>18,997</u>	<u>13,351</u>
	711,600	72,857	784,457	787,984
Liabilities				
Reserve for outstanding claims (Note 7)	518,288	25,878	544,166	532,872
Unearned premiums	11,507	-	11,507	4,500
Accounts payable	238	8	246	450
Inter-class payable	-	3,779	3,779	3,779
Due to The North of England P&I Association Limited (Note 6)	30,127	-	30,127	31,584
Derivative liability	<u>-</u>	<u>-</u>	<u>-</u>	<u>43</u>
	560,160	29,665	589,825	573,228
Net Assets	<u>151,440</u>	<u>43,192</u>	<u>194,632</u>	<u>214,756</u>
Represented by:				
Members' contributions (Note 8)	250	-	250	250
Contingency reserve (Note 9)	474,435	34,138	508,573	508,573
Balance from income and expenditure account	<u>(323,245)</u>	<u>9,054</u>	<u>(314,191)</u>	<u>(294,067)</u>
	151,440	43,192	194,632	214,756

See accompanying notes to the financial statements

These financial statements were approved by the Board on May 15, 2020.

Signed on behalf of the Board on May 15, 2020

_____ Director

_____ Director

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
(BERMUDA) LIMITED**
(Incorporated in Bermuda)

Income and Expenditure Account

Year Ended February 20, 2020
(Expressed in Thousands of United States Dollars)

	2020			2019
	<u>P & I</u> US\$000	<u>FD & D</u> US\$000	<u>Total</u> US\$000	<u>Total</u> US\$000
Reinsurance operations				
Premium calls	128,063	10,744	138,807	146,652
Claims Passed	(197,399)	(5,011)	(202,410)	(179,507)
Net change in unearned premiums	<u>2,394</u>	<u>-</u>	<u>2,394</u>	<u>2,182</u>
	(66,942)	5,733	(61,209)	(30,673)
Investment results				
Investment income	13,693	538	14,231	13,355
Dividend income	2	-	2	165
Realised (losses) / gains on sale	84,354	635	84,989	(5,098)
Change in unrealised appreciation of marketable securities	(44,566)	(508)	(45,074)	18,159
Interest on cash and time deposits	79	1	80	68
Foreign currency translation adjustment	(1,767)	2,432	665	(3,615)
Investment advisors' fees	<u>(1,811)</u>	<u>(109)</u>	<u>(1,920)</u>	<u>(2,062)</u>
	<u>49,984</u>	<u>2,989</u>	<u>52,973</u>	<u>20,972</u>
General and administrative expenses	<u>(594)</u>	<u>-</u>	<u>(594)</u>	<u>(586)</u>
(Deficit) / Surplus from operations for the year before change in estimated outstanding claims	(17,552)	8,722	(8,830)	(10,287)
(Increase) / Decrease in estimated outstanding claims	<u>(7,610)</u>	<u>(3,684)</u>	<u>(11,294)</u>	<u>14,267</u>
Surplus / (Deficit) for the year	(25,162)	5,038	(20,124)	3,980
Transfer to contingency Reserve	-	-	-	(91,946)
(Deficit) / Surplus, beginning of year	<u>(298,083)</u>	<u>4,016</u>	<u>(294,067)</u>	<u>(206,101)</u>
(Deficit) / Surplus, end of year	<u>(323,245)</u>	<u>9,054</u>	<u>(314,191)</u>	<u>(294,067)</u>

The Company has no recognised gains or losses other than those included above. All items relate to continuing operations.

See accompanying notes to financial statements

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
(BERMUDA) LIMITED**
(Incorporated in Bermuda)

Cash Flow Statement

Year Ended February 20, 2020
(Expressed in Thousands of United States Dollars)

	<u>2020</u> US\$000	<u>2019</u> US\$000
Net cash outflow from operating activities	<u>8,004</u>	<u>(569)</u>
Cash flows were invested as follows:		
Capital expenditure and financial investment		
Payments to acquire investments	740,727	787,439
Receipts from sales of investments	<u>(765,119)</u>	<u>(707,867)</u>
	(24,392)	79,572
Decrease in cash and other financial investments	<u>32,396</u>	<u>(80,141)</u>
Net investment of cash flows	<u>8,004</u>	<u>(569)</u>
Movement in opening and closing cash and portfolio investments		
Net investment of cash flows	8,004	(569)
Changes in market value and exchange rate effects	<u>(13,454)</u>	<u>1,792</u>
Total movement in portfolio investments	(5,450)	1,223
Portfolio investment and cash at beginning of year	<u>767,117</u>	<u>765,894</u>
Portfolio investment and cash at end of year	<u>761,667</u>	<u>767,117</u>
Analysis of cash and portfolio investments:		
Cash at bank and in hand	12,411	4,407
Marketable securities	<u>749,256</u>	<u>762,710</u>
	761,667	767,117
Reconciliation of net profit for the year to net cash inflow from operating activities:		
Net surplus / (deficit) for the year	(20,124)	3,980
Change in market value and foreign exchange	13,454	(1,792)
Increase in investment income receivable and prepaids	3,723	(1,075)
Increase in inter-class receivable	-	-
Increase in derivative liability	(43)	43
Increase / (Decrease) in accounts payable	(204)	91
(Decrease) / Increase in reserve for outstanding claims	11,294	(14,266)
Increase / (Decrease) in amount due to/from The North of England P & I Association Limited, net	(7,103)	14,632
Increase in inter-class payable	-	-
Increase / (Decrease) in due to/from broker, net	-	-
Increase / (Decrease) in unearned premium	<u>7,007</u>	<u>(2,182)</u>
Net cash outflow from operating activities	<u>8,004</u>	<u>(569)</u>

See accompanying notes to financial statements

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
(BERMUDA) LIMITED**
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Notes to Financial Statements

February 20, 2020

1. **General**

The North of England Mutual Insurance Association (Bermuda) Limited, (the “Company”) with a registered office at Clarendon House, 2 Church Street, Hamilton, was incorporated under the laws of Bermuda with registration no. 22688 on December 9, 1996 and holds a Class 2 licence under The Insurance Act 1978. The Company is also subject to the Segregated Account Companies Act 2000 (“The Act”). The Act provides for the creation of legally segregated cells for the conduct of insurance business, and ensures that creditors of a segregated cell have no access to the assets of other segregated cells. Only one cell, The North Cell was created. The Company’s secretary is Conyers Corporate Services (Bermuda) Limited.

Effective February 20, 1997, the Company assumed, via a Deed of Accession and Notice of Transfer, the Protection and Indemnity (“P&I”) and Freight Demurrage and Defence (“FD&D”) risks previously reinsured by The North of England P&I Association (Bermuda) Limited (“NOE-B”). The Company agreed to assume the assets and liabilities of NOE-B at that date, as set out in the Deed of Accession and Notice of Transfer, for all policy years up to February 20, 1997. It also agreed, with effect from February 20, 1997, to reinsure 90% of the P&I and FD&D risks of The North of England P&I Association Limited (“NOE”), less a discount. The discount was 25% (2019: 25%) for P&I and 35% (2019: 35%) for FD&D.

Effective October 23, 2018, the Company agreed, via a Deed of Amendment and Restatement, to reinsure 60% of the P&I and FD&D risks of the Australian business and 90% of the P&I and FD&D risks of New Zealand business that was transferred to NOE via a Transfer Agreement from its wholly-owned subsidiary, Sunderland Marine Insurance Company Limited (“SMI”), effective November 16, 2018.

NOE is a United Kingdom incorporated association whose members mutually insure each other, and on whom premium calls are made as required to meet anticipated and known claims. Its members are shipowners who have entered ships for insurance by NOE. The Company has the same members as NOE.

All the business written is derived from the United Kingdom, New Zealand, Australia, Europe and the USA as the Company’s current business is limited to the reinsurance of NOE.

These non-statutory financial statements have been prepared on request of the members of the company.

2. **Basis of financial statements and significant accounting policies**

The following accounting policies have been adopted by the Company:

a) *Reinsurance premiums and calls*

Recorded premium income represents the Company’s share of calls for the current year, and adjustments for previous years. The concept of call is where the Company make good a deficiency in respect of any policy year. Premiums written are credited to the Income Statement on an accrual basis and included in income on pro-rated basis over the term of the contract. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily prorated basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The policy years run from noon GMT on any 20 February to noon GMT on the following 20 February. The Company’s financial years are coterminous with their policy years.

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Notes to Financial Statements

February 20, 2020

2. **Basis of financial statements and significant accounting policies** (continued)

b) Claims and related expenses

Claims and related expenses represent the Company's share for the current year of all claims paid by NOE, and include NOE's share of other clubs' pool claims, which are charged to the income and expenditure account on an incurred basis. The share that the Company reinsures is currently at 90% of all UK, New Zealand, EU and US claims paid and 60% of all Australian claims paid.

Full provision is made for outstanding claims which are based upon the NOE's best estimate of the ultimate likely cost of individual claims notified but not paid at the balance sheet date. Provision is also made for claims incurred but not reported (IBNRs) based on statistical methods. Both the individual estimates and the IBNR methodology are reviewed on a regular basis. Although the amounts recorded are based on information currently available, the ultimate liability of the claims provisions may, as a result of subsequent information and events, prove to be less than or in excess of the amounts currently provided. Such changes in estimates are reported in the period in which they are determined. Provision for the cost of claims handling is included within the provision for claims IBNR.

c) Foreign currency translation

Assets and liabilities in foreign currencies are translated into United States dollars at rates of exchange prevailing at the balance sheet date. Foreign currency income and expenditures including reinsurance transactions are translated at the rate prevailing at the transaction date.

The foreign currency translation adjustment represents the realised and unrealised gains and losses on forward foreign exchange contracts, unrealised adjustments arising from translation of foreign currency assets and liabilities, and realised foreign exchange gains and losses on disposal of foreign currency denominated marketable securities.

d) Marketable securities

Marketable securities are carried at market value with changes in unrealized gains and losses recorded in the income and expenditure account. Investments in mutual funds are recorded at net asset value as reported by the funds' administrator, which approximate their market value. Gains and losses on disposal of investments are reflected in income when realised.

Future contracts are marked to market with changes in unrealized gains and losses recorded in the income and expenditure account.

f) Cash at bank and in hand

The Company considers cash in hand and deposits repayable on demand as equivalent to cash.

g) Other financial investments

Other financial investments comprise deposits with credit institutions. These investments are carried at market value.

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
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Notes to Financial Statements

February 20, 2020

2. Basis of financial statements and significant accounting policies (continued)

h) International Financial Reporting Standards (“IFRS”)

The Company has considered the adoption of IFRS for its financial presentation but has elected not to do so for this financial year. The effects of IFRS have been reviewed and it should be noted that the following differences would have arisen had IFRS been adopted:-

1. Cash at bank and in hand would be re-categorized as Cash and cash equivalents
2. Short term investments of \$Nil (2019: \$Nil) in Marketable securities would be re-categorized as Cash and cash equivalents

3. Commitment

In accordance with the terms of its reinsurance agreement the Company has agreed to pay on demand any monies owing to NOE and has secured this commitment by a floating charge on all its assets.

4. Marketable securities

(i) The cost and market value of marketable securities are as follows:

	P&I			
	February 20, 2020		February 20, 2019	
	<u>Cost</u> <u>US \$000</u>	<u>Market</u> <u>Value</u> <u>US \$000</u>	<u>Cost</u> <u>US \$000</u>	<u>Market</u> <u>Value</u> <u>US \$000</u>
Fixed interest securities	573,603	577,150	594,524	596,405
Equity securities	113,330	118,255	64,603	115,756
	<u>686,933</u>	<u>695,405</u>	<u>659,127</u>	<u>712,161</u>

	FD&D			
	February 20, 2020		February 20, 2019	
	<u>Cost</u> <u>US \$000</u>	<u>Market</u> <u>Value</u> <u>US \$000</u>	<u>Cost</u> <u>US \$000</u>	<u>Market</u> <u>Value</u> <u>US \$000</u>
Fixed interest securities	41,836	42,070	49,260	50,549
Equity securities	11,234	11,781	49,260	50,549
	<u>53,070</u>	<u>53,851</u>	<u>49,260</u>	<u>50,549</u>
Total	<u>740,003</u>	<u>749,256</u>	<u>708,387</u>	<u>762,710</u>

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Notes to Financial Statements

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4. **Marketable securities** (continued)

(ii) Fixed interest securities - maturities

The market value amounts for fixed interest securities held at February 20, 2020 are shown below by contractual maturity. Actual maturity dates may differ from contractual maturity dates because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2020 <u>US \$000</u>	2019 <u>US \$000</u>
Within one year	29,219	22,209
More than one year to five years	513,966	519,551
More than five years to ten years	76,035	105,194
After more than ten years	<u>-</u>	<u>-</u>
Members' funds at end of year	<u>619,220</u>	<u>646,954</u>

(iii) All investments in fixed interest securities have a credit rating in the range of AAA to BBB-.

(iv) Foreign exchange contracts outstanding at the year-end were \$Nil (2019: \$42,919).

The Company is exposed to credit loss in the event of non-performance by the other parties to contracts that are in an unrealised gain position. The Company does not anticipate any non-performance.

5. **Segmental reporting**

All of the company's operations are based in Bermuda.

	<u>2020</u>		<u>2019</u>	
	<u>Net assets</u> <u>US \$000</u>	<u>Net Loss</u> <u>US \$000</u>	<u>Net assets</u> <u>US \$000</u>	<u>Net Income</u> <u>US \$000</u>
P&I	151,440	(25,162)	176,602	2,767
FD&D	43,192	5,038	38,154	1,213
	<u>194,634</u>	<u>(20,124)</u>	<u>214,756</u>	<u>3,980</u>

**THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION
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6. **Ceding company debtor/creditor**

In accordance with the terms of the reinsurance agreement with the ceding company, any amounts receivable/payable are due on demand.

7. **Estimated outstanding claims**

Claims are subject to prolonged delay, both as to notification and settlement. Quantification of outstanding claims is based on experience and judgement; however the ultimate cost thereof cannot be ascertained with certainty at the date of the balance sheet. Accordingly, the amount provided for estimated outstanding claims in the financial statements may differ materially from the Company's ultimate liability for claims. Any differences between these estimates and the actual settlement will be recorded in the period in which they become known.

8. **Members' contributions**

The amount of \$ 250,000 represents the payment of the members' initial contribution.

9. **Contingency reserve**

The contingency reserve has been established in order to maintain call stability and represents the balance on closed policy years. The transfers made to the contingency reserve during the year including adjustments from previous years amounted to \$Nil (2019: \$91,946,100).

Policy years are kept open for no longer than four years. Any surplus or deficit at the closure of a policy year is transferred to or from the contingency reserve.

10. **Taxation**

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At the present time no such taxes are levied in Bermuda.