UKP&I

2019 Financial Statements

Directors' Report & Financial Statements for the year ended 20th February 2019

UK P&I CLUB IS MANAGED BY **THOMAS MILLER**

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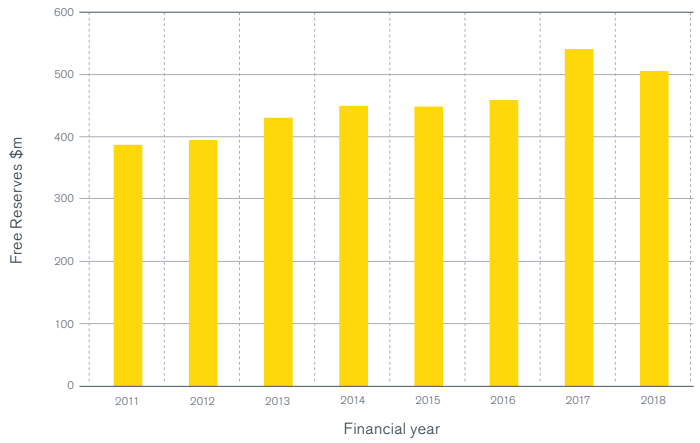
Financial Highlights

Free Reserves

Free reserves for financial years 2011-2018

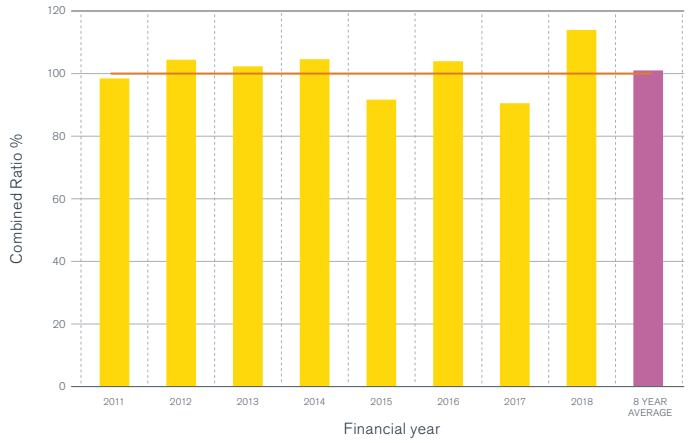
- 2017/18 saw a particularly large investment return which bolstered the Club's free reserves.
- Lower investment return in 2018/19, combined with adverse experience on a number of large claims means the free reserves have fallen to $505 million.



Combined Ratio

Combined ratio for financial years 2011-2018 (excluding Mutual Premium Discounts)

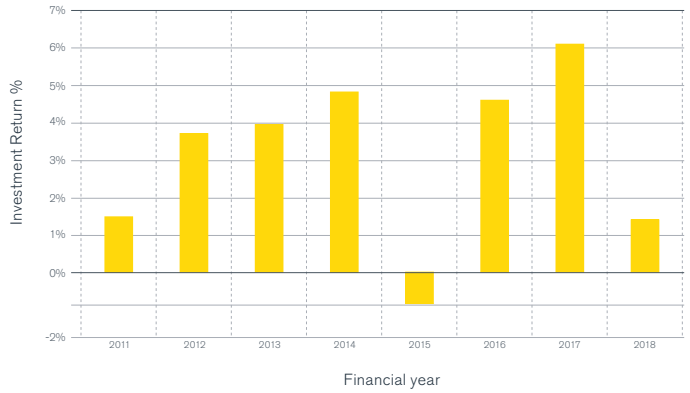
- The combined ratio of 114% for the financial year is outside the Club's acceptable range.
- A small number of large claims in 2018/19 in addition to reduced premium income have led to the increase in the combined ratio.
- Over the last 8 years Members have benefitted from significant premium reductions. Premium rates are at historically low levels.



Investment Return

Investment return for financial years 2011-2018

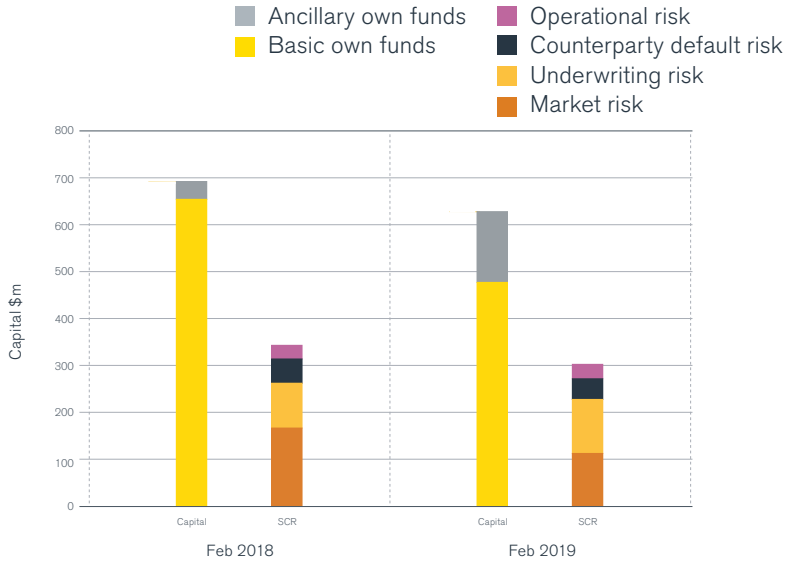
- The investment return of 1.4% was substantially less than last year. Excluding the loss on currency movements, the underlying return was 2.8%.
- Equities have driven the investment gains in recent years. However, they were broadly flat over 2018/19, which negatively impacted the overall return on the portfolio.



Regulatory Capital

Group regulatory capital

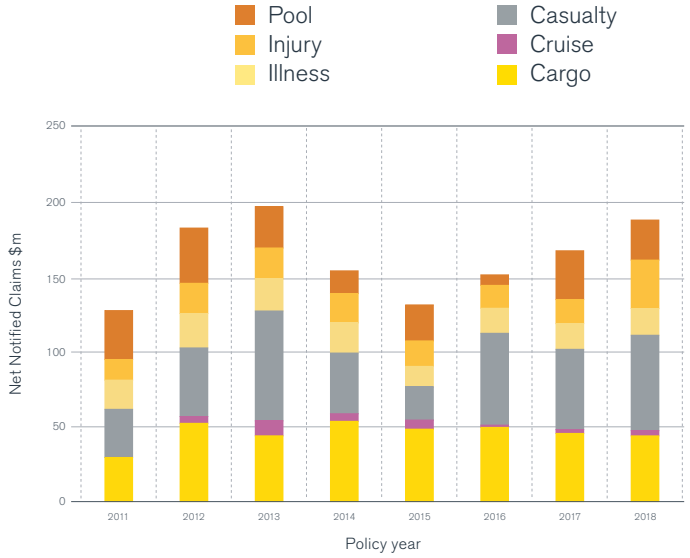
- The Club meets all of its regulatory capital requirements and holds an A (Stable) rating with Standard & Poor's.
- The Club's capital adequacy ratio increased from 202% to 208% as at February 2019 following the inversion of the Club's group structure which enabled the Club to recognise more of its available Ancillary Own Funds.
- The movement in the Basic Own Funds reflects the repayment of hybrid capital.



Claims

Total net notified claims for policy years 2011-2018 at 12 months by claims category

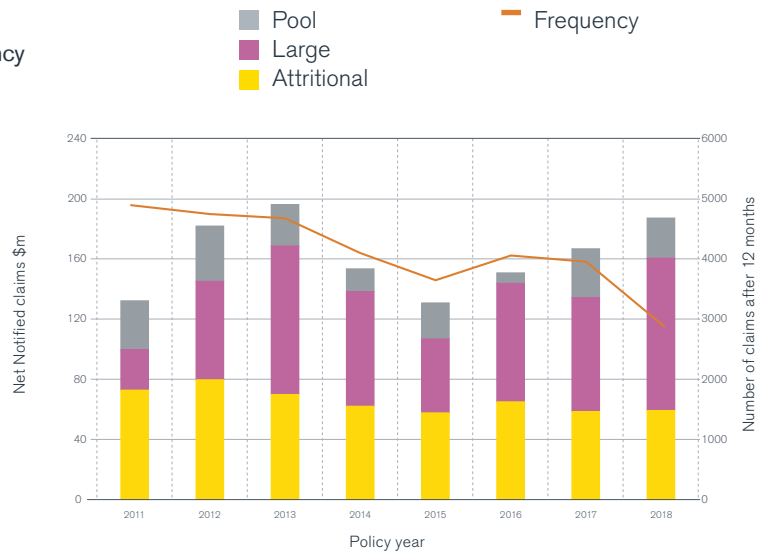
- Typically, casualty claims are the most variable of any category. While these remain relatively high in 2018, the Club has also experienced a few large personal injury claims.
- The Pool has had its most active year since 2013 with over 20 claims notified in the 2018 policy year. Only one of these claims relates to the Club and its Pool credit still stands at over $100 million. This credit reduces the Club's exposure to this volatile category of claim.



Size and Frequency

Total net notified claims by size and claims frequency for policy years 2011-2018 at 12 months

- Total number of claims notified to the Club during the 2018 policy year has fallen significantly compared to recent years. However, the total cost of attritional claims (those with a cost below $0.5m) is similar to last year. The reduction in frequency has been offset by continued claims inflation of approximately 4%.
- The cost of large claims has increased significantly over the last few years.



Chairman's Statement

This is my first statement as Chairman having taken over from Alan Olivier in October 2018. I would like to begin by expressing thanks to Alan, on behalf of the Board of the Club, for his leadership and contribution over the last 5 years. During his time as Chairman, the Club's entered tonnage grew from 120 million to over 140 million gross tonnes and the free reserves were strengthened from just under $400 million in February 2013 to over $500 million today. The strong financial position of the Club is a fitting testament to his time as Chairman.

150 years of the UK Club

I am privileged that my first year as Chairman coincides with the Club's 150th Anniversary. It is an outstanding achievement for the Club to reach this landmark and demonstrates the importance of the mutual model to the shipping world. The provision of superior service to Members, delivered at cost, remains as central to the ethos of the Club today as it has for the last 150 years.

As part of the celebrations, the Club organised a competition, "Investing in a safer tomorrow" which challenged a new generation of shipping professionals to identify fresh safety initiatives. Over 200 entries were received and the winner will be announced at the Club's forthcoming gala anniversary dinner in July.

Promoting safety among our Members, and the industry more widely, remains one of the key pillars of the Club's Corporate Plan. This year the Club launched a series of videos tracking events in the build up to an incident leading to a claim. These videos supplement the existing "lesson learnt" publications and are available to all on the Club's website.

Underwriting Discipline

One of the Club's most important objectives has been to maintain underwriting discipline in order to deliver a predictable and consistent financial result for our Members.

Over the past eight years this focus on stability of underwriting result has produced an average combined ratio of approximately 100%. This has been achieved despite changes in the claims profile.

In recent years, generally favourable claims experience and rising capital levels have depressed premium rates across the market, exposing the underwriting result to increases in claims activity. In the past that exposure would have come from the generality of all claims but, over the past ten years, the shape of the Club's claims profile has changed. The attritional claims (those with a cost below $0.5m) have dropped dramatically in number and in cost and now represent a third of the total cost of claims as opposed to half ten years ago. This change in the claims profile means that the Club is now much more exposed to even a moderate increase in the number of large claims. 2018 has seen just such an increase in both the Club's own claims and the cost of the Pool.

Twelve claims, each with a cost over $3 million, have been notified to the Club during the 2018 policy year compared to an average of six over the previous ten policy years. The cost associated with the six additional claims above the average was nearly $40 million or 15% on the combined ratio.

This additional cost increased the combined ratio for the financial year to 114%. This is above the Club's acceptable range and, although the cost of large claims may be exceptional, it highlights the need for future action on premium rates.

Strong capital position

The underwriting result for the year demonstrates the importance of scale and strong capital. The Club remains financially strong with free reserves of $505 million even after allowing for the cost of the 2018 year and repayment of the hybrid capital in August 2018. The Club has retained its S&P rating of A (Stable).

Renewal

The service and strength of the Club continues to attract new Members. At 20th February 2019, mutual owned net tonnage grew to 144 million gross tonnes, a net increase of over 5 million gross tonnes over the course of the year.

The Club remains financially strong with Free Reserves of $505 million even after allowing for the cost of the 2018 year.

Governance

This report marks the first with UK (Europe) as the parent company of the Group following a restructure last year to optimise the Club's capital position. The Group includes an additional subsidiary, UK P&I NV which has been established to ensure a smooth transition through Brexit irrespective of the shape of the final trade agreement between the UK and the EU member states. UK P&I NV, based in Rotterdam, has received the necessary licenses to insure all European risks entering the Club.

People

I am very grateful to my deputy Chairmen; Mr R. Chen of Wan Hai Lines, Mr N. Schües of Reederei F. Laeisz and Mr P. Wogan of GasLog for their continuing support on all Club matters.

I am pleased to welcome to the Members' Committee: Mr U. Schawohl of Hapag Lloyd AG, Hamburg, Mr N. Smedegaard of DFDS A/S, Copenhagen and Mr S. N. Vlassopoulos of Ionic Shipping (Management) Inc, Athens.

I would like to thank N. Tsakos of Tsakos Energy Navigation group and T. Al-Junaidi of Oman Ship Management who both left the Members' Committee in the past year.

Looking ahead

As the Club enters its second 150 years, it continues to aim for market leadership by attracting high quality Members through the delivery of market leading service, including loss prevention and safety initiatives, and excellent financial security. This central ethos will continue to guide the Club as it evolves to meet the changing needs of its Members. New opportunities and challenges will arise as the global trade moves increasingly towards a digital age and the Club is well positioned to meet these changes over the coming years.

Nicholas Inglessis
Chairman

Strategic Report

The UK P&I Club has been protecting its Members from third party liabilities and expenses in the form of Protection and Indemnity insurance and other marine covers for the last 150 years. It will continue to offer excellent cover, value for money and financial security.

The Club operates from nine offices worldwide and, when combined with its extensive correspondent network, is able to offer on-the-spot help and local knowledge in over 350 ports. The Club's expertise in solving Members' problems around the world is critical to its first-class service offering.

The Club places significant importance on its loss prevention and safety initiatives which are not only beneficial to its Members' operations but also work to protect the lives of thousands of seafarers and passengers worldwide.

Underwriting

The Club aims to maintain breakeven underwriting over the medium term, which is vital to its future financial health. This year, a handful of large claims has resulted in an increased combined ratio of 114%, although the 8-year average remains at approximately 100%.

The Club's philosophy is to accept Members from a wide variety of trades and geographical locations, assuming entry criteria are met and appropriate rates for the risk can be agreed. This spread of risk protects the Club from a decline in loss records within certain trades and provides the necessary flexibility to work with Members whose records have deteriorated.

The Club will not pursue new business at the expense of financial discipline, and it has declined to quote for more than 7 million gt of potential new business over the last year. Nevertheless, the Club's excellent service, its strong financial position and its fair rating policy has enabled the Club to grow at a controlled rate at the recent renewal.

It is important that premiums reflect the risk of claims bought by a Member and not just their recent loss experience. This is particularly important as large claims form an increasing part of the Club's claims costs.

Case Study: loss prevention lessons learnt

The UK Club is proud of the steps taken to assist Members to reduce their exposure to claims through our extensive loss prevention programme. The latest safety initiative from the team is the Lessons Learnt project launched in 2018.

The UK P&I Club Lessons Learnt project comprises a series of freely available reports and complementary reflective learning videos dealing with real life incidents sourced from the Club's claims database. They are presented in concise, plain language so as to be easily accessible to multi-national seafarers and shore personnel. The short animated videos are designed to provide an interactive training experience with a focus on common marine accidents and how to prevent them, with each video inviting the seafarer to reflect upon lessons learnt arising from the incident and how they could apply to their own shipboard practices and systems. A tangible measure of the programme's success is the number of positive testimonials from ship owners and managers who have include the videos as part of in-house crew training programmes. The videos have been downloaded over 15,000 times since being launched.

In addition, the Club continues to support Members though its programme of risk assessments. The programme started in 2011, and has helped to ensure a common approach between the Club and its members towards quality and safety issue.

Risk Management

The Club has a comprehensive risk management framework and it continues to develop its analytical capabilities to assist with risk selection, assessment and management. Key elements of the Club's risk management framework are its approved internal model and comprehensive reinsurance programme.

As a member of the International Group ("IG"), the Club also participates in the IG's pooling arrangement and its reinsurance programme. These provide cover for claims costs in excess of $10 million. Details of the programme are available on the IG's website. While the structure is slightly different to last year, the impact on the Club's risk profile is minimal.

Claims

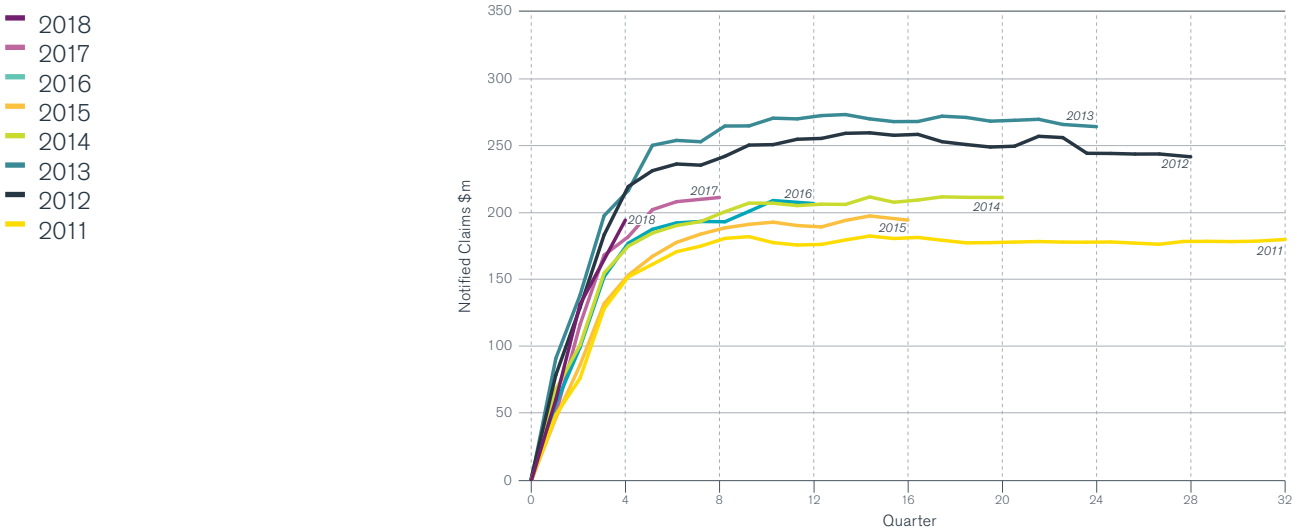
Claims development on prior policy years has continued to be favourable. However a handful of large claims have materially increased the cost of the 2018 policy year compared to recent years. In particular, claims in excess of $3 million have doubled in terms of frequency and cost, adding nearly 15% to the Club's combined ratio for the year.

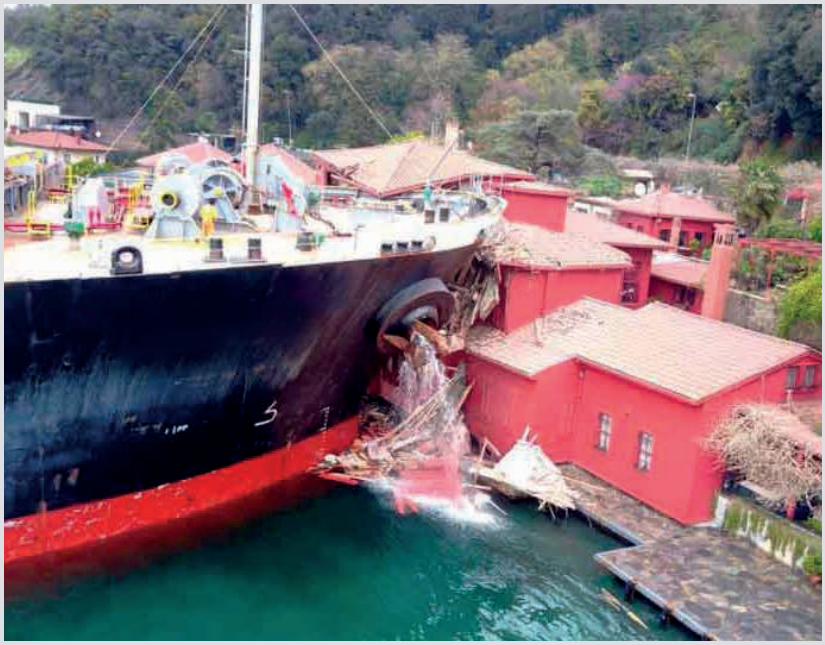
Typically large claims arise from casualty related incidents, but the Club has also suffered a few large personal injury claims in 2018. Such large claims can affect any Member despite the quality of their operations. The loss prevention team works with Members to minimise the chances of such events occurring. However, should they occur the Club is well placed to assist Members in such unfortunate circumstances, both in terms of insurance cover and service that is vital for a smooth restoration of operations.

The Club generally classifies large claims as those in excess of $0.5 million. Only 10 years ago, these claims used to constitute approximately half of notified claims costs. However, in 2018, that has increased to two thirds. As large claims form a greater part of the Club's claims costs, they will also need to form a greater part of Members' premium requirements and this will naturally influence the Club's approach to underwriting.

Attritional claims frequency (i.e. claims below $0.5 million) continues to demonstrate a downward trend, driven by the Club's approach to risk selection, Members' deductibles, loss prevention efforts and the general economic environment. This reduction has helped to offset underlying inflationary pressures.

Total net notified claims development (For policy years 2011-2018, $m)





Case Study
The volatility of the large claims continues and in April 2018 the UK Club's large claims team were faced with an unusual major casualty when a bulk carrier loaded with about 63,000 tonnes of barley, experienced a brief engine failure while transiting the Bosporus Strait. As a result of the engine problem the vessel lost directional stability and struck an historic and iconic waterfront mansion on the eastern side of the strait close to the Fatih Sultan Mehmet Bridge in Istanbul.

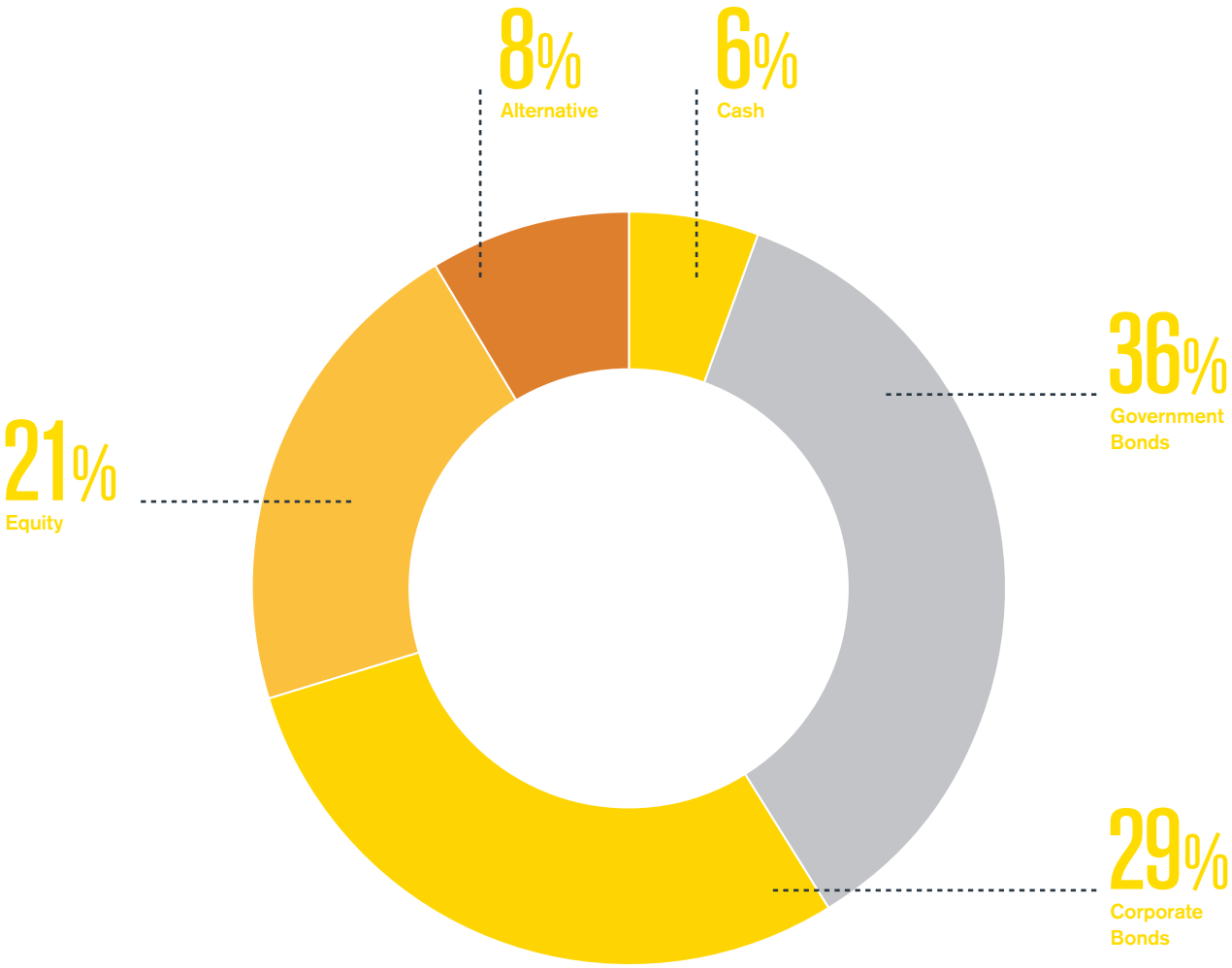
The vessel was quickly stabilised and brought to anchor. Fortunately, there was no loss of life or personal injury. However, as a result of the contact, the 200 year old waterfront mansion suffered very significant damage and partial collapse. The owners of the mansion promptly arrested the vessel requesting security for $50 million. Immediately upon notification of the incident, the Club mobilised the local correspondent, surveyors and local lawyers to attend and investigate the incident. It was also necessary to provide support to the master and crew during local formal investigations in what had understandably become a very high profile case with extensive media coverage. Significantly, the case presented a highly visible portrayal of the potential dangers of navigation in the very busy Bosporus Strait.

The local team was supplemented by investigators, specialist consultants and a Club representative flown from the UK. A prime objective was to establish contact with the owners of the mansion and their representatives and to explain and reassure them of the Club's involvement in restoring the mansion. The Club is of course very familiar with dock damage claims but damage to an historic mansion brings new challenges. Working alongside the mansion owners, a team of specialist local architects, historians and structural civil engineers was established to ensure that the mansion is restored in line with the requirements of the Istanbul Heritage Council that oversees works to such buildings. Work is ongoing with regular meetings between the Club representatives and the mansion owners and local contractors to monitor progress and ensure that the mansion is restored to its former status.

Investments

Following the very strong investment performance last year, 2018 proved to be less favourable as equities dragged the performance down to a 1.4% return for the year. Currency movements for the year reduced returns from 2.8%, but the Club faces liabilities in non-US Dollar currencies that will have reduced too.

The Club's investment strategy remains unchanged, focussing on a diversified portfolio which matches assets against liabilities and aims to maximise returns over the medium term. It should be noted that with the current uncertain economic environment, investment returns over the near future might be more muted than in recent years.



Capital and Risk Management

The Club aims to hold sufficient capital to provide Members with first class security without holding excessive capital. As such, the Club's key objectives are to maintain an 'A' rating and retain sufficient capital to meet its regulatory requirements in all jurisdictions.

The Club's credit rating of 'A (stable)' was most recently confirmed by S&P in December 2018.

The Club's key regulatory capital requirement is Solvency II's Solvency Capital Requirement (or "SCR"). Rather than use the "Standard Formula" to calculate the Club's SCR, the Club uses its sophisticated "Internal Model" instead, which better reflects the Club's risks and avoids having to hold unnecessary levels of Members capital. The model is also an important risk management tool which helps the Club to manage its risks and capital over the medium term.

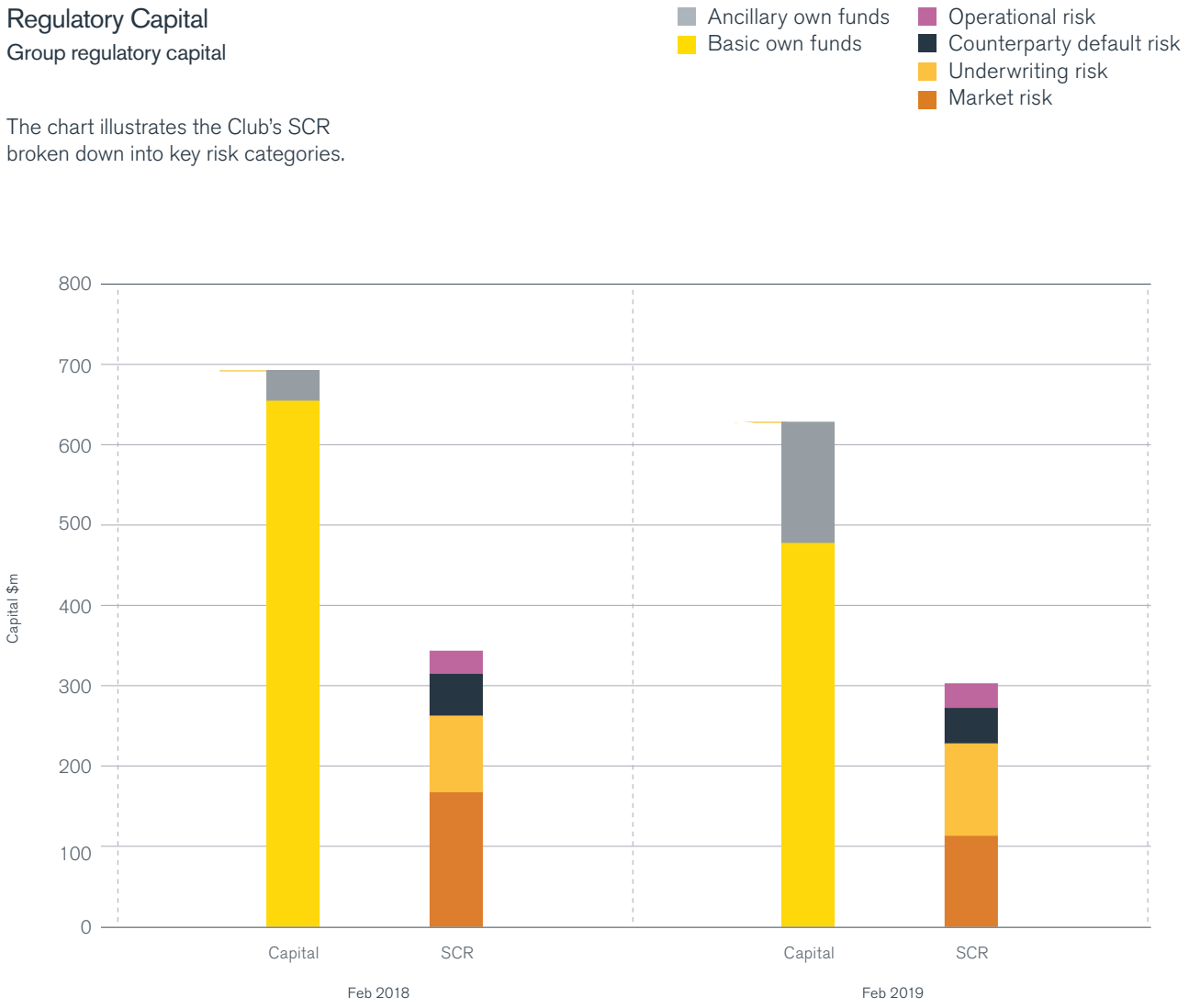
During the year, the Club repaid its $100 million of Hybrid debt. This was taken out in 2008 as an efficient way of rebuilding the Club's capital strength without making a call on the Members.

At $505 million, the Club's capital remains very strong and its regulatory capital coverage is shown in the following chart and further information is available in the Club's Solvency and Financial Condition Report ("SFCR").

Regulatory Capital

Group regulatory capital

The chart illustrates the Club's SCR broken down into key risk categories.



Industry Issues

Fast moving industry issues are addressed in website advice and Updates. Throughout the year these issues have included: Piracy and the new BMP, MLC security for wages of captured seafarers, Air emissions and concerns regarding burdens to be assumed by owners under 2020 regulations, the consistent interpretation of the 1992 Conventions (IOPCF and CLC), and Sanctions. As usual, the common theme was the consideration of liability risk and the extent to which it can be mitigated or insured.

It was a particularly busy year for addressing Sanctions risks, with the May 2018 announcement of the US withdrawal from the JCPOA agreement resulting in owners winding down Iranian trade, while the EU sought to keep the JCPOA alive by expanding the EU Blocking Regulation, leaving a narrow compliance path to be trod for EU based Clubs reliant upon the US financial system. Iran was not the only relevant target, with sanctions affecting shipping in relation to Syria, Russia, Ukraine, Libya, North Korea, Venezuela and Cuba.

Meanwhile agencies with responsibility for enforcing sanctions, both at UN and at national level, have shown an increasing expectation that marine insurers will avoid giving inadvertent support to sanctions breaking, by using technology to spot suspicious behaviour. A particular concern is the switching off of AIS systems which, save where done for safety or security reasons, breaches SOLAS and thereby jeopardises insurance cover. Owners should therefore exercise caution in ensuring their contracts contain up to date sanctions exceptions, and in case of doubt should obtain suitable legal advice before agreeing trades involving targeted areas.

The Club is committed to helping Members navigate through industry issues when they arise and Members are encouraged to contact the Club should they need advice on any industry issues.

Future Plans

The Club has evolved over its 150 years and it will continue to do so in line with its Members' needs.

At present, the general outlook for future investment returns appears more limited than the Club has seen in recent years. Combined with the change in claims profile this places additional emphasis on a disciplined approach to underwriting to protect the Club's financial security over the medium term. The Club continues to develop its risk management and pricing tools to assist in this increasingly volatile environment.

Technology develops at a fast pace and will affect shipping and insurance, from the types of ships covered (e.g. autonomous ships), to the way we interact with our Members or the ways in which we operate and organise ourselves. The Club will continue to invest in technology and processes to improve its service and increase efficiencies.

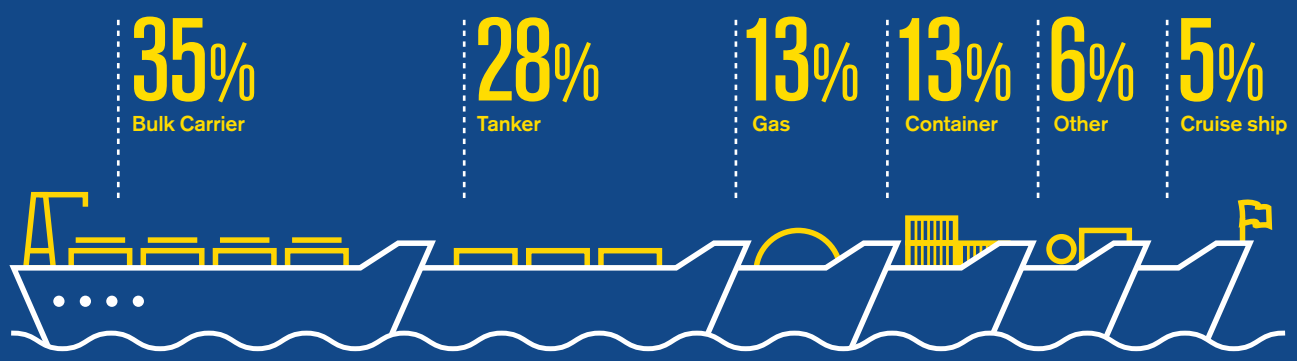
One key area where technology is improving our service is our work with Members to prevent or mitigate the impact of losses. Improving safety at sea, early warning systems and crisis response is of vital importance to our Members and all those working or travelling on board ships.

Finally, the core of the Club's service offering is in its people. So the Club will continue to invest in its people ensuring that they are of the highest calibre committed to the success of both the Club and its Members.

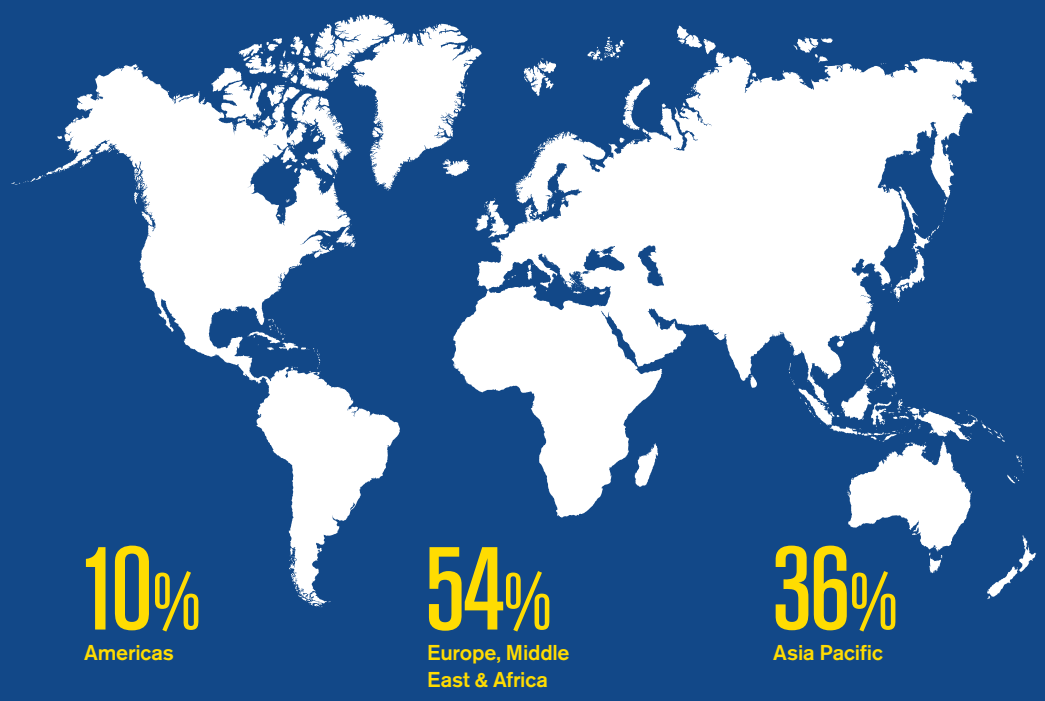
Fleet Profile

Owned fleet – figures as at 20 February 2019

Sector by share of total gt (ships above 1,500 gt)



Geographic regions



The Complete Journey

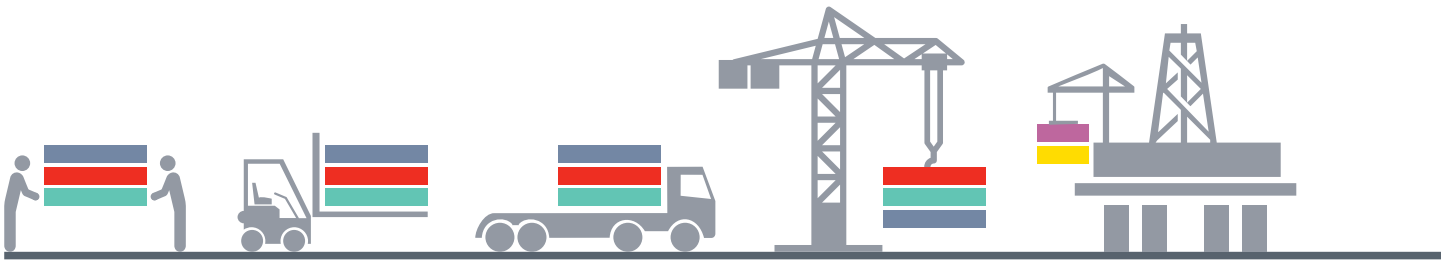
Whatever your transport insurance needs, a Thomas Miller managed business will provide a market-leading solution.

$700M

Managed transport businesses annual premium income exceeds $700m.

Key

- UK P&I Club
- UK Defence Club
- UK War Risks
- TTClub
- Hellenic War Risks
- ITIC
- Thomas Miller Speciality
- Thomas Miller Claims
- Thomas Miller Law



SHIPPER | LOGISTICS HUB WAREHOUSE | MULTIMODAL | PORTS & TERMINALS | OFFSHORE

UKP&I

ukpandi.com
One of the world's leading mutual insurer of third party liabilities for ocean-going merchant ships.

UKDC UK DEFENCE CLUB

ukdefence.com
The leading provider of Freight, Demurrage and Defence (legal costs) insurance to the maritime industry.

UK WAR RISKS

ukwarrisks.com
The largest British war risks club, insuring a UK and international membership.

TT CLUB

ttclub.com
The leading provider of insurance and risk management services to the transport and logistics industry.

HELLENIC WAR RISKS

hellenicwarrisks.com
The war risks insurer for over 70% of all Greek-owned ships.

ITIC SPECIALIST PROFESSIONAL INDEMNITY INSURANCE

itic-insure.com
The world's leading professional indemnity insurer of service providers in the transport and energy industries.

THOMAS MILLER SPECIALTY

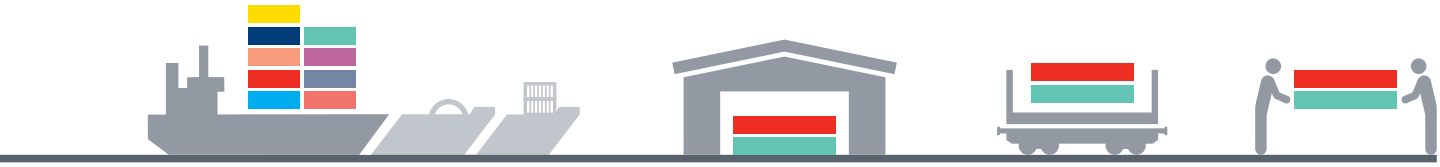
thomasmillerspeciality.com
Provides leading global insurance and related risk management services across a number of sectors including marine, offshore, aerospace, cyber, kidnap and ransom.

THOMAS MILLER CLAIMS MANAGEMENT

thomasmillerclaims.com
Professional claims handling of uninsured or below-deductible claims through to complete claims outsourcing.

THOMAS MILLER LAW

tmlawltd.com
A fresh alternative to large, traditional firms in the marine legal sector, offering the full range of English marine law services.



SHIP OPERATOR | LOGISTICS HUB WAREHOUSE | MULTIMODAL | RECIPIENT

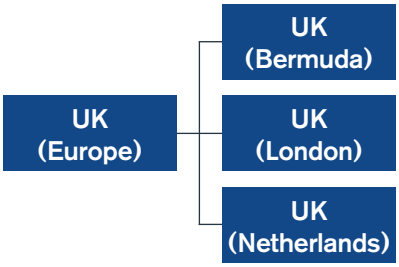
Global network

On-the-spot help and local expertise is always available to Members.

Report of the Directors

The Directors have pleasure in presenting their Review of the Year and Financial Statements of the Club for the year ended 20th February 2019.

Structure
(key entities only are shown)



The principal activity of the Club during the year was the insurance and reinsurance of marine protecting and indemnity risks on behalf of its Members. The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("UKE"), which writes all of the Club's direct business, became the parent company of the group at the start of the financial year on 20 February 2018. The group also includes the following key entities:

- The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("UKB") (the previous parent company) which reinsures 90% of UKE's business.
- The United Kingdom Mutual Steam Ship Assurance Association (London) Limited ("UKL") which is in run-off and reinsures 100% of its liabilities to UKE.
- **The United Kingdom Mutual Steam Ship Assurance Association (Netherlands) Limited ("UKNV")** has been established as the Club's "Brexit" solution in order to continue to operate in Europe.

Direction and Management

Control over the Club's affairs rests with the regulated Board of Directors, which met on seven occasions during the year. The Board is elected by the Members' Committee which is in turn elected by the Members of the Club.

The Members' Committee met on three occasions during the year. It provides input to the Board on Member-related matters and, in particular, is entrusted with decisions on discretionary claims.

Most of the Directors are active shipowners so are restricted in the amount of time that they can make available to running the Club's affairs. Therefore, the day to day running of the Club is delegated to the Managers, Thomas Miller P&I (Europe) Ltd (and Thomas Miller (Bermuda) Ltd for UKB).

The Managers, through a network of offices in Europe, Asia and America, form the principal contact between the Club and the Members. In addition to carrying out the policies laid down by the Boards, they also act as a conduit for feedback of the Members' views.

At Board meetings, the Directors receive reports from the Managers on all areas of the Club's operations in accordance with an agreed schedule of reports. The work of the regulated Boards is supported by a number of functional committees:

- The **Group Audit & Risk Committee** oversees all risk, regulatory and accounting (including internal and external audit) matters worldwide. The Committee is chaired by Nigel Smith, an independent director providing additional accounting and insurance expertise to the shipowning Directors.
- The **Nominations Committee** makes recommendations regarding the appointment of new Directors and the composition of committees and subsidiary boards. The Committee is chaired by the Club Chairman.

- The **Ship and Membership Quality Committee** in addition to advising on the ship inspection and condition survey schemes, provides the Board with advice on the criteria used to set the standards for membership of the Club and the direction of the Club's loss prevention initiatives. The Committee is chaired by the Club Chairman.
- The **Investment Committee** advises the Board on investment strategy and policy. The Committee also monitors the performance of the investment portfolio.
- The **Strategy Committee** advises the Board on strategic issues.

Other committees of the Board are formed, as needed, in order to review specific issues as delegated by the Board, or to take decisions on behalf of the Board, for instance regarding the operation of the Club's war risks cover where urgent decisions may be required.

Corporate and social responsibility

Due to the nature of the business, the environmental impact of the Club's activities is considered to be low. There are therefore currently no KPIs relating to environmental matters. The Club is part of Thomas Miller's 'Be the Difference', an inventive approach to Corporate Social Responsibility, which aims to engage employees to play their part in the community. This includes a partnership with international medical charity Mercy Ships and a link up with Thirdbridge, a social enterprise dedicated to building and strengthening partnerships between the private and third sector.

As the Associations executive function is performed by independent professional managers there are no employee matters to report.

The Club has a zero tolerance approach to acts of bribery and corruption. To manage bribery and corruption risks, the Club operates within a robust risk management framework.

The Club has a zero-tolerance approach to modern slavery and human trafficking and are also committed to acting ethically and with integrity in all our business dealings and relationships to ensure modern slavery is not taking place in our own business nor in any of the supply chains we operate. The Club commits to the highest professional standards and complies with all laws and regulations applicable to the business. The selection and management of suppliers, including service evaluation and review, are governed by procurement policies. Recruitment methods and standards for potential suppliers are articulated in those policies.

The Group made charitable donations of $0.1 million during the year, none were to political parties.

Directors

CHAIRMAN & PRESIDENT

N.G. Inglessis	Samos Steamship Co

DEPUTY CHAIRMEN AND VICE-PRESIDENTS

R. Chen	Wan Hai Lines Ltd
N.H. Schües	Reederei F. Laeisz GmbH
P.A. Wogan	GasLog Ltd

OTHER STATUTORY DIRECTORS

N.C. De Silva (elected June 2018)	
H.V. Franco	Harley Marine Services, Inc
R.C. Gillett	
A.C. Margaronis	Diana Shipping Inc
N.H.H. Smith	
A.J. Taylor	

Mr A.K. Olivier retired from his role as Chairman of the Board in October 2018. Mr H.Wynn-Williams also retired from the Board in June 2018. The Board wishes to record its thanks for the contribution that they both made to the work of the Board and the affairs of the Club.

Members' Committee

The Members' Committee comprises solely of elected representatives of the Members.

N.G. Inglessis (Chairman)	Samos Steamship Co
E.N. Ambrosov	OAO Sovcomflot
P. Bagh	Oldendorff Carriers GmbH & Co, KG
H. Boudia	Hyproc Shipping Company
A. Chao	Foremost Group
R. Chen	Wan Hai Lines Ltd
R.F. Figueiró	Petrobras Transporte S/A – Transpetro
H.V. Franco	Harley Marine Services, Inc
A. Frangou	Navios Maritime Holdings Inc
A.M. Gibson	Royal Caribbean Cruises Ltd
I. Güngen	Güngen Maritime & Trading A/S
A. Hadjipateras	Dorian LPG
P. Hajioannou	Safe Bulkers, Inc
G. Henderson	Shell International Trading and Shipping Company Ltd
Y. Higurashi	NYK Line
E. Louis-Dreyfus	Louis Dreyfus Armateurs S.A.S
A.C. Margaronis	Diana Shipping Inc
S. Messina	Gruppo Messina SpA
N. Mukae	Kumiai Senpaku Co., Ltd
M. Nomikos	A.M. Nomikos Transworld Maritime Agencies SA
D. Ofer	Zodiac Maritime Limited
M.H. Ross	Chevron Shipping LLC
U. Schawohl (elected Oct 2018)	Hapag Lloyd AG
N.H. Schües	Reederei F. Laeisz GmbH
N. Smedegaard (elected Oct 2018)	DFDS A/S
Sun Jiakang	China COSCO Shipping Corporation Limited
J.M. Valkier	Anthony Veder Group N.V
S.N. Vlassopoulos (elected Oct 2018)	Ionic Shipping (Management) Inc
P.A. Wogan	GasLog Ltd
Y.C. Yee	MISC Berhad
R. Zein	Naftomar Shipping and Trading Co Ltd

The following Members resigned from the Members' Committee since October 2018:

A.K. Olivier, N. Tsakos and T. Al-Junaidi

Disclosure of Information to the Auditors

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

1. so far as the Director is aware, there is no relevant audit information of which the Association's auditor is unaware;
2. the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

On 1st February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in their place. BDO LLP has indicated its willingness to continue in office and a resolution will be proposed at the annual general meeting to reappoint BDO LLP as auditor for the next financial year.

Directors' Report Disclosures

The Association's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks arising from these financial instruments are credit risk, market risk, and insurance risk. The Association's approach to management of these risks is disclosed in note 4 of the financial statements.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors has effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Association against loss arising from any claim against them jointly or severally by reason of any wrongful act in their capacity as Directors or Officers of the Association. The cost of the insurance is included in net operating expenses.

Approved by the Board of Directors and signed on behalf of the Board.

K. P. Halpenny
Secretary
May 2019

Independent Auditors Report to the Members of the United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Opinion

We have audited the financial statements of the United Kingdom Steam Ship Assurance Association (Europe) Limited ("The Association") and its subsidiaries (the 'Group') for the year ended 20 February 2019 which comprise the Consolidated Income and Expenditure Statement, Consolidated Statement of Financial Position, Parent Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Parent Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and Financial Reporting Standard 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Association's affairs as at 20 February 2019 and of the Group's deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the financial statements 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.

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 where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or Association'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 financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. These matters relate to the Association, which is a public interest entity.

Key audit matter	How our audit addressed the key audit matter
Valuation of Technical Provisions The valuation of technical provisions, both gross and net of reinsurance, is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions. As per note 10 and accountancy policy 2.5, the Association's financial statements record gross technical provisions of US$984.1m (2018: US$986.2m), and net technical provisions of US$841.4m (2018: US$831.1m). This is made up of individual case estimates and claims incurred but not yet reported ('IBNR'). IBNR modelling by internal actuarial experts is reliant on: • Relevant claims data being input correctly into actuarial models. • The application of appropriate actuarial techniques, judgements and assumptions. There is particular risk in the reserving for: • Occupational Disease claims due to the high volatility of such claims. Furthermore claim estimates are inherently uncertain and rely on: • The expertise of the claims handlers and their experience of assessing claims in different jurisdictions and of different types. • The correct and timely entry of claims information onto the claims system. • Adjustments being made to significant year end estimates and payments being absorbed by the Association's assessment of IBNR. The Association has a range of reinsurance placement, incorporating group quota share. Pool excess of loss, non-pool cover and facultative covers. Reinsurers share of Technical Provisions is dependent on the correct valuation of gross reserves and the appropriate application of the portfolio of reinsurance agreements in place.	We performed the following: **Valuation of IBNR:** • Reconciled key actuarial data to underwriting and accounting records. • Reviewed the methodology, significant judgements and assumptions applied by the Association's actuarial team. • Reviewed the outturn of prior years' IBNR against previous estimates. • The BDO actuarial team assessed the work of the Associations' actuaries, including their projections for Occupational Disease claims. • Independently projected the ultimate claims figure using historical claims data and our own actuarial techniques. **Valuation of Claim Estimates:** • Agreed all claim estimates above our performance materiality level to third party documentation. • Assessed key information used by management to monitor claim estimates. • Reviewed the outturn of prior year's estimates against the previous year's position. **Cut-off of Case Reserves:** • Agreed significant claims estimate adjustments and payments either side of the year end to third party documentation, to ensure these adjustments and payments were accounted for in the correct period. **Valuation of Reinsurance Share of Technical Provisions:** • Recomputed recoveries on the Association's quota share reinsurance arrangements. • Assessed the accuracy of the reinsurance calculations.

Our application of materiality

In planning and performing our audit we were guided by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Group financial statements materiality

The Group's financial statements materiality was set at US$8,500k. The principal determinant in this assessment was the Group's net assets, which we consider to be the most relevant benchmark, as it indicates the performance of the Association, and hence the ability of for the Group to return members' funds. On 21 February 2018, the Association became the parent company of the Group. As such this is the first year that consolidated financial statements have been prepared for the Association, so there is no comparative Group's financial statements materiality for the year ended 20 February 2018.

Association financial statements materiality

The Association's (parent company only) financial statements materiality was set at US$8,000k (2018: US$7,700k). The principal determinant in this assessment was the Association's gross written premiums, which we consider to be the most relevant benchmark, as it indicates the scale of the Association's underwriting.

Association specific materiality

The Association relies to a significant extent on quota share reinsurance with one its subsidiaries. This arrangement have the effect of transferring insurance premiums and claims to this group reinsurer. Due to the extent of this arrangement it was felt appropriate to set a lower level of materiality for Association (parent company) transactions and balances not affected by the group quota share reinsurance arrangements. The lower level of materiality has been based on net assets, as the key performance indicator for stakeholders is the economic stability of the Association. The materiality selected of US$3,800k (2018: US$4,000k) represents 1.7% of net assets.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Assertions within each transactional cycle have a different risk profile. Therefore a specific performance materiality is assessed based on a basic, medium or high risk assertion, the percentages applied in the current year were 68%, 55% and 45%.

Triviality

We agreed with the Group Audit & Risk Committee that we shall report to them any misstatements in excess of US$400k (2018: US$385k) that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Association when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions. Our approach to the valuation of technical provisions and reinsurers' share of technical provisions has been addressed above.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with the directors and other management, as required by the auditing standards. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears 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 financial statements 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities on page 17, the directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Association'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 the directors either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (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 economic decisions of users taken on the basis of these financial statements.

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. This description forms part of our auditor's report.

Matters on which we are required to address

Moore Stephens LLP were appointed by the Group Audit & Risk Committee in 1998. On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in their place. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Group Audit & Risk Committee.

Use of our report

This report is made solely to the Association's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Barnes
Senior Statutory Auditor

For and on behalf of **BDO LLP**, Statutory Auditor

150 Aldersgate Street,
London EC1A 4AB

May 2019

Consolidated Statement of Income And Expenditure

for the year ended 20th February 2019

TECHNICAL ACCOUNT

Amounts in $000	Notes	2019	2018
Income			
Gross premium earned	13	322,398	361,793
Outward reinsurance premiums	13	(64,860)	(65,119)
Net earned premium		257,538	296,674
Investment return transferred from the non-technical account	14	9,279	30,370
Other income		83	74
Total income		**266,900**	**327,118**
Expenses			
Net claims paid	10	(240,633)	(239,496)
Change in provision for claims	10	(10,308)	34,797
Net claims incurred		(250,941)	(204,699)
Net operating expenses	15	(43,654)	(42,819)
Total expenses		**(294,595)**	**(247,518)**
Balance on technical account		**(27,695)**	**79,600**

NON-TECHNICAL ACCOUNT

for the year ended 20th February 2019

Amounts in $000	Notes	2019	2018
Balance on technical account		**(27,695)**	**79,600**
Net investment income	14	9,279	30,370
Investment return transferred to the technical account	14	(9,279)	(30,370)
Finance costs	12	(3,750)	(7,500)
Net (deficit) / surplus before taxation		**(31,445)**	**72,100**
Taxation	16	(950)	(207)
Total comprehensive (loss) / income after tax		**(32,395)**	**71,893**

Consolidated Statement of Financial Position

as at 20th February 2019

Amounts in $000	Notes	2019	2018
Assets			
Financial Investments	6	1,121,005	1,236,614
Derivative financial instruments	8	501	2,753
Reinsurers' share of technical provisions	10	142,709	155,108
Debtors	7	74,500	87,502
Cash and cash equivalents	9	166,698	156,244
Current income tax credit		697	1,645
Accrued interest		761	270
Total assets		**1,506,871**	**1,640,136**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		504,553	536,948
Other reserves		240	240
Total reserves		**504,793**	**537,188**
Liabilities			
Technical provisions	10	984,145	986,236
Financial liabilities - Perpetual subordinated capital securities	12	-	99,816
Derivative financial instruments	8	490	2,746
Creditors	11	17,443	14,150
Total liabilities		**1,002,078**	**1,102,948**
Total reserves and liabilities		**1,506,871**	**1,640,136**

The notes on pages 30 to 57 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 13 May 2019 and were signed on its behalf by:

N.Inglessis
Chairman

N.H. Schües
Director

A.J.Taylor
Manager

Parent Company Statement of Financial Position

as at 20th February 2019

Amounts in $000	Notes	2019	2018
Assets			
Financial Investments		156,117	211,404
Investment in subsidiaries	17	36,259	-
Reinsurance share of technical provisions	10	907,618	910,630
Debtors	7	69,792	85,062
Cash and cash equivalents	9	64,494	61,374
Current income tax credit		697	1,646
Accrued interest		259	-
Total assets		**1,235,236**	**1,270,116**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		97,500	67,447
Capital contribution		130,679	130,679
Total reserves		**228,179**	**198,126**
Liabilities			
Technical provision	10	984,145	986,236
Creditors	11	22,912	85,754
Total liabilities		**1,007,057**	**1,071,990**
Total reserves and liabilities		**1,235,236**	**1,270,116**

The parent company surplus on ordinary activities after tax for the year ended 20th February 2019 was $30.1 million.

The Association has taken exemption under Section 408 of the Companies' Act from preparing a Parent Company Statement of Income and Expenditure.

The parent company financial position was approved by the Board of Directors on 13 May 2019 and was signed on its behalf by:

Companies House number: **00022215**

N.Inglessis

Chairman

N.H. Schües

Director

A.J.Taylor

Manager

Consolidated Statement of Changes in Equity

for the year ended 20th February 2019

	Attributable to members		
Amounts in $000	**Free reserves**	**Other reserves**	**Total**
Balance at 20th February 2017	**465,055**	**240**	**465,295**
Surplus for the year	71,893	-	71,893
Balance at 20th February 2018	**536,948**	**240**	**537,188**
Deficit for the year	(32,395)	-	(32,395)
Balance at 20th February 2019	**504,553**	**240**	**504,793**

Parent Company Statement of Changes in Equity

for the year ended 20th February 2019

	Attributable to members		
Amounts in $000	**Free reserves**	**Capital contribution**	**Total**
Balance at 20th February 2017	**42,362**	**130,679**	**173,041**
Surplus for the year	25,085	-	25,085
Balance at 20th February 2018	**67,447**	**130,679**	**198,126**
Surplus for the year	30,053	-	30,053
Balance at 20th February 2019	**97,500**	**130,679**	**228,179**

The notes on pages 30 to 57 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 20th February 2019

Amounts in $000	Notes	2019	2018
Operating activities			
Calls and premiums received		332,011	368,412
Receipts from reinsurance recoveries		33,471	33,711
Interest and dividends received		20,055	15,005
		385,537	**417,128**
Claims paid		271,065	287,941
Acquisition costs		20,309	20,947
Operating expenses paid		17,540	1,756
Reinsurance premiums paid		66,940	69,091
Taxation paid		4	892
		375,858	**380,627**
Net cash provided by operating activities		**9,679**	**36,501**
Investing activities			
Purchase of investments		737,737	525,105
Sale of investments		(634,206)	(514,213)
Net cash provided by investing activities		**103,531**	**10,892**
Financing activities			
Settlement of perpetual subordinated securities		(99,816)	
Interest in perpetual subordinated securities		(3,752)	(7,500)
Net cash used in financing activities		**(103,568)**	**(7,500)**
Net increase in cash and cash equivalents		9,642	39,893
Effect of exchange rate fluctuations on cash and cash equivalents		812	865
Cash and cash equivalents at the beginning of the year	9	156,244	115,486
Cash and cash equivalents at the end of the year	**9**	**166,698**	**156,244**

The notes on pages 30 to 57 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

Note 1
General Information

The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("the Association") is incorporated in United Kingdom as a company limited by guarantee and having a statutory reserve but not share capital. The principal activities of the Association are the insurance and reinsurance of marine protection and indemnity risks on behalf of the Members. The liability of the Members is limited to the calls and supplementary premiums set by the Directors and in the event of its liquidation, any net assets of the Association (including the Statutory Reserve) are to be returned equitably to those Members insured by it during the final five underwriting years.

The Association is unlisted, has no share capital and is controlled by the Members who are also the insured policy holders.

In prior years the financial statements were presented under International Financial Reporting Standards ("IFRS"). The free reserves of the Group on the transition date were restated for material adjustments on adoption of FRS 102 in the current year. All comparative figures are presented under the requirements of FRS 102. For more information see note 21.

These consolidated financial statements have been authorised for issue by the Board of Directors on 13 May 2019.

Note 2
Accounting Policies

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

2.1 Accounting disclosures

The financial statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ("FRS") 102 –

Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and FRS 103 – Insurance contracts issued by the Financial Reporting Council.

The functional currency of the Association is considered to be US Dollar because that is the currency of the primary economic environment in which the Association operates. This has been selected on the basis that materially all of the Association's claims and expenses are paid in US Dollar, and the Association's main reinsurance contract with UKB (the Association's Bermudan subsidiary) is denominated in US Dollar.

2.2 Foreign currencies

(a) Functional currency presentation
Items included in the financial statements of the Association's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in U.S. dollars, being the Association's presentation and functional currency.

(b) Transactions and balances
Revenue transactions in foreign currencies have been translated into U.S. dollars at rates revised at monthly intervals. All exchange gains and losses, whether realised or unrealised, are included in the non-technical account. Foreign currency assets and liabilities are translated into US dollars at the rates of exchange ruling at the end of the reporting period. The resulting difference is included in foreign exchange gains and losses in the non-technical account.

2.3 Gross premiums written

Calls and premiums are presented net of return premiums and continuity credits and are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. Ceded commissions are recognised in line with gross commissions.

2.4 Outward reinsurance premiums

Outward reinsurance premiums are the total payable in respect of excess of loss and quota share reinsurances for the period to which the relevant contracts relate. Quota share reinsurance premiums are subject to an overriding commission in the form of an agreed discount, the rate of which for each policy year is agreed with UKB.

The agreed discount is recognised in the Consolidated Statement of Income and Expenditure when corresponding reinsurance premiums are recognised.

2.5 Claims

These are the legal costs and expenses of the Members covered by the Association. They include all claims incurred during the year, whether paid, estimated or unreported, together with internal claims, management costs and future claims management costs and adjustments for claims outstanding from previous years.

Provision for outstanding claims
Provision for the liabilities of insurance contracts is made for outstanding claims and settlement expenses incurred at the consolidated Statement of Financial Position date including an estimate for claims incurred but not yet reported ("IBNR"). Included in the provision is an estimate for internal and external costs of handling the outstanding claims. Individual claims estimates are made on a most likely outcome basis.

The risks associated with insurance contracts are complex and subject to a number of variables. The Association uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost and ultimate claims numbers. The key methods used by the Association in estimating liabilities are:

- Chain ladder
- Bornhuetter-Ferguson
- Other statistical and benchmarking techniques

Significant delays are experienced in the notification and settlement of certain types of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to claims provisions established in previous years are reflected in the consolidated financial statements for the period in which the adjustments are made.

Occupational Disease claims have a significant latency period and therefore the liability is discounted. Details of the discount rates applied are disclosed in Note 10.

2.6 Other financial investment

The Association has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets. Investments in short term deposit funds and the foreign exchange security deposit are designated in the Statement of Financial Position at fair value through profit or loss. Fair value is calculated using the bid price at the close of business on the Statement of Financial Position date. Those purchased in foreign currencies are translated into sterling on the date of purchase. The fair value of foreign currency investments is translated at the rate of exchange ruling at the Statement of Financial Position date.

2.7 Derivative financial instruments

Hedge Derivative Financial Instruments
The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future operating expenses being payable in sterling. The forward currency contracts taken out to hedge against the future management fee payments have been designated as fair value hedges.

The Association documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The fair values of various derivative instruments used for hedging purposes are disclosed in note 8.

The changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Consolidated Income and expenditure Statement. The cumulative hedging gain or loss on the unrecognised firm commitment is recognised as an asset or liability with a corresponding gain or loss recognised in the Consolidated Income and expenditure Statement.

2.8 Policy year accounting

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. Return on investments is allocated proportionately to the average balance of funds on each policy year or other funds. Operating expenses are allocated to the current policy year.

2.9 Segment reporting

The Board of Directors, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the body that makes strategic decisions. All business written by the Association relates to protection and indemnity risks of its Members. Internal reporting to the Board of Directors covers this single segment and, consistent with the internal reporting, no further segmental reporting is presented apart from the geographical disclosure as presented in Note 5.

2.10 Investment income

This comprises income received during the year adjusted in respect of interest receivable at the year end, and profits and losses on the sale of investments and gains and losses on closed forward currency contracts.

The unrealised gains and losses on the movement in the fair value of the investments are included in the non-technical account.

2.11 Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

2.12 Debtors

Debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and include Members' contributions, claims deductibles recoverable from Members and reinsurance receivables. Debtors are carried at cost less impairment. Debtors are reviewed for impairment as part of an ongoing and annual review.

2.13 Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the Statement of Financial Position date, unless such provision is not permitted by FRS 102 section 29.

Note 3
Critical Accounting estimates and judgements

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

The estimation techniques applied in the calculation of the technical provisions are described in Note 2.5. The technical provisions at the year-end are disclosed in Note 10.

Note 4
Management of risk

The Association is governed by the Board of Directors which holds responsibility for the direction and activities of the Association. The Board has formalised its appetite for risk at both the strategic and operational level.

The Board has established a framework of governance through which risk is managed. This framework operates through a number of sub committees, being:

1. The Ship and Membership Quality Committee ensures the quality of the Association's membership thereby managing insurance and credit risk.
2. The Strategy Committee assists the Board in formulating strategic direction across the business including risk, investment and reinsurance strategy.
3. The Group Audit and Risk Committee (GARCO) considers the risks that may impede the Association from accomplishing its objectives and how these risks are managed and controlled.
4. The Investment Committee assists the Board in managing the investment portfolio of the Association.

Further committees, which report to the Group Audit and Risk Committee, have been established by the Managers to support risk management and operational decision-making:

1. The Risk Committee identifies risks faced by the Club and monitors the risk position against risk appetite.
2. The Finance Committee considers the financial position of the Association including the risk of counterparty default.
3. The Reserving Committee considers appropriate provision against unpaid claims.
4. The Reinsurance Committee considers the optimal reinsurance structure for the Association and the security of the counterparties to the programme.
5. The GARCO considers the business risk log and emerging risks of the Association.

The Association is focussed on the identification and management of potential risks. This covers all aspects of risk management including that to which the Association is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk impairing the Association can be classified as follows:

1. Insurance risk – incorporating underwriting and reserving risk
2. Market risk – incorporating investment risk, interest rate risk and currency rate risk
3. Credit risk – being the risk that a counterparty is unable to pay amounts in full when due
4. Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due
5. Operational risk – being the risk of failure of internal processes or controls

The Board has established its appetite for risk in relation to its business strategy and available resources. The Board seek to maximise their resources by effective risk management techniques. Therefore a risk management system has been developed to identify and mitigate risk.

As part of the risk management system, the Board have developed an internal model to cover underwriting risk. The model is tailored specifically to the underwriting risk accepted by the Association and therefore provides the Board with the expected outcome of a given scenario.

This allows the Board to consider more accurately the effectiveness and efficiency of risk mitigation techniques such as reinsurance. The model is designed to encompass the full spectrum of underwriting risks to which the Association is exposed.

The Board and Managers have sought to establish and embed risk management procedures within the business through a Compliance manual, an internal quality management system and a risk management framework which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function and various committees noted above.

The Association manages the risks relating to the operations of the Association through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk, credit risk and liquidity risk.

4.1 Insurance risk

The Association is a mono-line insurer, underwriting only protection and indemnity insurance for the shipping community.

Underwriting risk is the risk that the Association's net insurance obligations (i.e. claims less premiums) are different to expectations. The Association considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk).

Reserve risk is managed by the Association's reserving policy. The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management and the Group Audit and Risk Committee.

Premium risk is managed by an underwriting policy which establishes robust underwriting practices in order to meet business needs and satisfy regulatory control. This is supplemented with a robust forecasting approach undertaken as part of the Association's ORSA process.

The underwriting process is based on a thorough understanding of the risk accepted. This understanding is enhanced as:

- The Association is a mono line insurer and has provided broadly the same cover for many years.
- The Boards and Members Committee of the Association include representatives from a full cross section of the shipping community so giving insight into changes in the risk accepted by the Association over time.
- Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management.

Underwriting Risk is mitigated via the Association's reinsurance programme. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, the International Group Pooling agreement and reinsurance of claims within the claims retained by the Association within the Pool deductible.

The excess of loss reinsurance cover purchased jointly with other members of the International Group provides cover for large claims arising from mutual business. The International Group Pooling agreement provides a sharing of claims costs between thirteen member Clubs. The share attributable to each member is calculated for each policy year on an agreed formula including an adjustment for each Club's historic loss record on the Pool.

The Association considers that the liability for insurance claims recognised in the consolidated Statement of Financial Position is adequate. However, actual experience will differ from the expected outcome.

Some results of sensitivity testing are set out below, showing the impact on surplus before tax and equity, gross and net of reinsurance. For each sensitivity analysis, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Group:

Amounts in US$000s	**2019**	**2018**
Increase in loss ratio by 5 percentage points		
Gross	(16,120)	(18,090)
Net	(12,877)	(14,834)

A 5 percent decrease in loss ratios would have an equal and opposite effect.

Parent Company:

Amounts in US$000s	**2019**	**2018**
Increase in loss ratio by 5 percentage points		
Gross	(16,120)	(18,090)
Net	(3,160)	(3,848)

A 5 percent decrease in loss ratios would have an equal and opposite effect.

4.2 Market risk

Market risk arises through fluctuations in market valuations, interest rates, corporate bond spreads and foreign currency exchange rates.

The Association's investment policy is reviewed by the Investment Committee and approved by the Board. The policy manages exposure to investment risk which is monitored by regular reports from the investment managers. Further discussion of this arrangement is provided below under the "prudent person principle".

The prudent person principle
Under the Association's investment policy, all of the Association's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically the portfolio:

- is invested in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- ensures the security, quality and liquidity of the portfolio as a whole.
- Is appropriate to the nature, currency and duration of the Association's insurance liabilities.
- Includes derivative instruments only where they contribute to a reduction of risks or efficient portfolio management;
- Includes only a prudent level of unlisted investments and assets and
- is diversified to avoid excessive reliance on any asset, issuer or group, or geographical area

The Association's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Association's investment assets in conformity with the business and investment objectives and sets the parameters within which the Association's assets may be invested. It is considered and approved by the Board on an annual basis and ad hoc as required and is subject to the Association's Investment Policy. The Investment Managers report to the Board at each meeting.

A 5 per cent reduction in the valuation of all investments would result in a reduction in free reserves of $56 million (2018: $62 million).

Foreign currency risk management
The Association is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollars. The most significant currencies to which the Association is exposed are Sterling and the Euro. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in that currency. In addition, from time to time, the Association uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

The profile of both the Association's and the Parent's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurer's share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

Group:

As at 20th February 2019

Amounts in US$000s	US Dollar	Sterling	Euro	Other	Total
Debt securities	673,224	96,102	58,944	171	**828,441**
Alternative investments	38,509	-	-	-	**38,509**
Equities	225,598	28,428	-	-	**254,026**
Absolute return funds	29	-	-	-	**29**
UCITS	49,222	28	-	3,260	**52,510**
Derivative financial instruments	(58,777)	58,788	-	-	**11**
Cash at bank and in hand	106,746	2,185	1,459	3,798	**114,188**
Amounts due from members	63,485	144	-	-	**63,629**
Reinsurers' share of technical provisions	142,709	-	-	-	**142,709**
Accrued interest	626	-	133	2	**761**
Other debtors including due from reinsurers	11,568	-	-	-	**11,568**
Technical provisions	(767,187)	(96,536)	(78,094)	(42,328)	**(984,145)**
Creditors	-	(17,443)	-	-	**(17,443)**
	485,752	**71,696**	**(17,558)**	**(35,097)**	**504,793**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $828 million (2018: $827 million), equities of $254 million (2018: $372 million) and alternative investments of $39 million (2018: $37 million) are held within mutual funds.

As at 20th February 2018

Amounts in US$000s	US Dollar	Sterling	Euro	Other	Total
Debt securities	624,846	122,289	80,273	-	**827,408**
Alternative investments	37,019	-	-	-	**37,019**
Equities	327,728	44,430	-	-	**372,158**
Absolute return funds	29	-	-	-	**29**
UCITS	70,008	800	24	-	**70,832**
Derivative financial instruments	(42,234)	42,241	-	-	**7**
Cash at bank and in hand	73,096	3,733	7,892	691	**85,412**
Amounts due from members	72,938	220	-	-	**73,158**
Reinsurers' share of technical provisions	155,108	-	-	-	**155,108**
Accrued interest	270	-	-	-	**270**
Other debtors including due from reinsurers	15,989	-	-	-	**15,989**
Technical provisions	(751,023)	(106,429)	(94,243)	(34,541)	**(986,236)**
Creditors	-	(14,150)	-	-	**(14,150)**
	583,774	**93,134**	**(6,054)**	**(33,850)**	**637,004**

Parent Company:

As at 20th February 2019

Amounts in US$000s	US Dollar	Sterling	Euro	Other	Total
Debt securities	128,746	27,371	-	-	**156,117**
UCITS	5,673	6	-	-	**5,679**
Cash at bank and in hand	52,305	1,742	1,459	3,309	**58,815**
Investment in subsidiaries	36,259	-	-	-	**36,259**
Amounts due from members	63,485	144	-	-	**63,629**
Reinsurers' share of technical provisions	907,618	-	-	-	**907,618**
Accrued interest	259	-	-	-	**259**
Other debtors including due from reinsurers	6,860	-	-	-	**6,860**
Technical provisions	(767,187)	(96,536)	(78,094)	(42,328)	**(984,145)**
Creditors	(22,912)	-	-	-	**(22,912)**
	411,106	**(67,273)**	**(76,635)**	**(39,019)**	**228,179**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $156 million (2018: $211 million) are held within mutual funds.

As at 20th February 2018

Amounts in US$000s	US Dollar	Sterling	Euro	Other	Total
Debt securities	158,606	31,396	21,402	-	**211,404**
UCITS	7,700	504	-	-	**8,204**
Cash at bank and in hand	38,959	3,457	7,824	2,930	**53,170**
Amounts due from members	72,938	220	-	-	**73,158**
Reinsurers' share of technical provisions	910,630	-	-	-	**910,630**
Other debtors including due from reinsurers	6,486	5,618	1,446	-	**13,550**
Technical provisions	(751,023)	(106,429)	(94,243)	(34,541)	**(986,236)**
Creditors	(85,754)	-	-	-	**(85,754)**
	358,542	**(65,234)**	**(63,571)**	**(31,611)**	**198,126**

Foreign currency sensitivity analysis
A 5 percent strengthening of the following currencies against the US dollar would be estimated to have increased/ (decreased) the surplus before tax at the year end by the following amounts:

Group:

As at 20th February 2019

Amounts in US$000s	Effect on surplus
Sterling	1,349
Euro	(312)

As at 20th February 2018

Amounts in US$000s	Effect on surplus
Sterling	2,650
Euro	438

A 5 percent weakening of these currencies against the US dollar would have an equal and opposite effect.

Parent Company:

As at 20th February 2019

Amounts in US$000s	Effect on surplus
Sterling	1,088
Euro	(231)

As at 20th February 2018

Amounts in US$000s	Effect on surplus
Sterling	1,652
Euro	1,172

A 5 percent weakening of these currencies against the US dollar would have an equal and opposite effect.

Interest rate risk management
Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to Members are exposed to interest rate risk.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds. The maturity profile of these investments is typically shorter than the profile of claims liabilities.

Interest rate sensitivity analysis
It is estimated that the value of both the Association's and the Parent's investments would decrease for the following amounts if market interest rates had increased by 100 basis points at the consolidated Statement of Financial Position dates and all assumptions had remained unchanged. The sensitivity analysis is limited to the effect of changes in interest rates on debt securities.

Group:

Amounts in US$000s	Effect on investment valuation
As at 20th February 2019	10,637
As at 20th February 2018	14,459

A decrease of 100 basis points would have a similar, but opposite, effect.

Parent Company:

Amounts in US$000s	Effect on investment valuation
As at 20th February 2019	2,787
As at 20th February 2018	3,255

A decrease of 100 basis points would have a similar, but opposite, effect.

4.3 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Boards consider the financial position of significant counterparties on a regular basis, the Reinsurance committee monitors aggregate exposure to each reinsurer and the Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made.

Amounts due from members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to members that fail to settle amounts payable. The Association limits its reliance on any single member.

The investment policy manages the risk of default by limiting investments to "investment grade" (i.e. BBB and above) whilst also ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty. The policy allows for a limited investment in equities, the majority of investments being in fixed interest securities and UCITS. Within these, most investments are at least A rated with many relating to Government or Supranational bodies.

The following tables provide information for both the Association and the Parent regarding aggregate credit risk exposure for financial assets with external credit ratings. The credit rating bands are provided by independent ratings agencies:

Group:

As at 20th February 2019

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	227,170	305,037	205,385	90,849	828,441
Alternative investments	-	-	-	38,509	38,509
UCITS	49,250	-	-	3,260	52,510
Derivative financial instruments	-	-	501	-	501
Cash at bank and in hand	-	-	114,188	-	114,188
Amounts due from members	-	-	-	63,629	63,629
Amounts due from group pooling arrangement	-	-	50,147	17,210	67,357
Amounts due from reinsurers	-	16,268	58,105	979	75,352
Accrued interest	-	-	761	-	761
Other debtors including due from reinsurers	-	-	-	11,568	11,568
Total of assets subject to credit risk	**276,420**	**321,305**	**429,087**	**226,004**	**1,252,816**
Other Assets					
Equities	-	-	-	254,026	254,026
Absolute return funds	-	-	-	29	29
Total assets	**276,420**	**321,305**	**429,087**	**480,059**	**1,506,871**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $828 million (2018: $827 million), and alternative investments of $39 million (2018: $37 million) are held within mutual funds.

As at 20th February 2018

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	125,059	537,997	63,187	101,465	827,408
Alternative investments	-	-	-	37,019	37,019
UCITS	70,210	622	-	-	70,832
Derivative financial instruments	-	-	2,753	-	2,753
Cash at bank and in hand	-	-	85,412	-	85,412
Amounts due from members	-	-	-	73,158	73,158
Amounts due from group pooling arrangement	-	-	52,005	17,671	69,676
Amounts due from reinsurers		20,450	64,603	379	85,432
Accrued interest	-	-	270	-	270
Other debtors including due from reinsurers	-	-	-	15,989	15,989
Total of assets subject to credit risk	**192,269**	**559,069**	**268,230**	**245,681**	**1,267,949**
Other Assets					
Equities	-	-	-	372,158	372,158
Absolute return funds	-	-	-	29	29
Total assets	**192,269**	**559,069**	**268,230**	**617,868**	**1,640,136**

Parent Company:

As at 20th February 2019

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	49,694	63,432	16,498	26,493	156,117
UCITS	5,679	-	-	-	5,679
Cash at bank and in hand	-	-	58,815	-	58,815
Amounts due from members	-	-	-	63,629	63,629
Amounts due from group pooling arrangement			50,147	17,210	67,357
Amounts due from reinsurers	687	94,714	637,706	107,154	840,261
Accrued interest	-	-	259	-	259
Other debtors including due from reinsurers	-	-	-	6,860	6,860
Total of assets subject to credit risk	**56,060**	**158,146**	**763,425**	**221,346**	**1,198,977**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $156 million are held within mutual funds.

As at 20th February 2018

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	1,492	165,043	17,219	27,650	211,404
UCITS	8,204	-	-	-	8,204
Cash at bank and in hand	-	-	53,170	-	53,170
Amounts due from members	-	-	-	73,158	73,158
Amounts due from group pooling arrangement	-	-	52,005	17,672	69,677
Amounts due from reinsurers		109,977	632,990	97,986	840,953
Other debtors including due from reinsurers	-	-	-	13,550	13,550
Total of assets subject to credit risk	**9,696**	**275,020**	**755,384**	**230,016**	**1,270,116**

4.4 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due. The Association has adopted an investment policy which requires the maintenance of significant holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of both the Association's and the Parent's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

As at 20th February 2019

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	171	120,936	94,959	612,375	828,441
Alternative investments	38,509	-	-	-	-	38,509
Equities	254,026	-	-	-	-	254,026
Absolute return funds	29	-	-	-	-	29
UCITS	52,510	-	-	-	-	52,510
Derivative financial instruments	-	501	-	-	-	501
Cash at bank and in hand	114,188	-	-	-	-	114,188
Amounts due from members	10,616	53,013	-	-	-	63,629
Accrued interest	761	-	-	-	-	761
Other debtors including due from reinsurers	-	11,568	-	-	-	11,568
Reinsurers share of outstanding claims	-	39,368	26,175	39,739	37,427	142,709
Total assets	**470,639**	**104,621**	**147,111**	**134,698**	**649,802**	**1,506,871**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $828 million (2018: $827 million), equities of $254 million (2018: 372 million) and alternative investments of $39 million (2018: $37 million) are held within mutual funds.

As at 20th February 2018

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	37,928	27,748	177,659	584,073	827,408
Alternative investments	37,019	-	-	-	-	37,019
Equities	372,158	-	-	-	-	372,158
Absolute return funds	29	-	-	-	-	29
UCITS	70,832	-	-	-	-	70,832
Derivative financial instruments	-	2,753	-	-	-	2,753
Cash at bank and in hand	85,412	-	-	-	-	85,412
Amounts due from members	13,471	59,687	-	-	-	73,158
Accrued interest	270	-	-	-	-	270
Other debtors including due from reinsurers	-	15,989	-	-	-	15,989
Reinsurers share of outstanding claims	-	43,797	28,477	42,263	40,571	155,108
Total assets	**579,191**	**160,154**	**56,225**	**219,922**	**624,644**	**1,640,136**

Parent Company:

As at 20th February 2019

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	-	-	28,327	127,790	156,117
UCITS	5,679	-	-	-	-	5,679
Cash at bank and in hand	58,815	-	-	-	-	58,815
Investment in subsidiaries	-	-	-	-	36,259	36,259
Amounts due from members	10,616	53,013	-	-	-	63,629
Accrued interest	259	-	-	-	-	259
Other debtors including due from reinsurers	-	6,860	-	-	-	6,860
Reinsurers share of outstanding claims	-	249,647	166,656	253,016	238,299	907,618
Total assets	**75,369**	**309,520**	**166,656**	**281,343**	**402,348**	**1,235,236**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $156 million are held within mutual funds.

As at 20th February 2018

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	-	-	42,729	168,675	211,404
UCITS	8,204	-	-	-	-	8,204
Cash at bank and in hand	53,170	-	-	-	-	53,170
Amounts due from members	13,471	59,687	-	-	-	73,158
Other debtors including due from reinsurers	-	13,550	-	-	-	13,550
Reinsurers share of outstanding claims	-	258,568	166,820	247,578	237,664	910,630
Total assets	**74,845**	**331,805**	**166,820**	**290,307**	**406,339**	**1,270,116**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

Group:

As at 20th February 2019

Amounts in US$000	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(271,249)	(180,568)	(274,137)	(258,191)
Derivative contracts	(490)	-	-	-
Other liabilities	(17,443)	-	-	-
Total other liabilities	**(289,182)**	**(180,568)**	**(274,137)**	**(258,191)**

As at 20th February 2018

Amounts in US$000s	Within 1 year	Within 1-2 years	Within 2-5 years	Over 5 years
Gross outstanding claims	(278,315)	(181,111)	(268,787)	(258,023)
Derivative contracts	(2,746)	-	-	-
Other liabilities	(14,150)	-	-	-
Total other liabilities	**(295,211)**	**(181,111)**	**(268,787)**	**(258,023)**

Parent Company:

As at 20th February 2019

Amounts in US$000	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(271,249)	(180,568)	(274,137)	(258,191)
Other liabilities	(22,912)	-	-	-
Total other liabilities	**(294,161)**	**(180,568)**	**(274,137)**	**(258,191)**

As at 20th February 2018

Amounts in US$000s	Within 1 year	Within 1-2 years	Within 2-5 years	Over 5 years
Gross outstanding claims	(278,315)	(181,111)	(268,787)	(258,023)
Other liabilities	(85,754)	-	-	-
Total other liabilities	**(364,069)**	**(181,111)**	**(268,787)**	**(258,023)**

4.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association has engaged Thomas Miller (Europe) Limited as managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Group Audit and Risk Committee. A human resource manual and including all key policies have also been documented.

4.6 Limitation of the sensitivity analyses

The sensitivity analyses in sections 4.1, 4.2 above show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

There have been no changes to methods and assumptions used in the calculation of sensitivity analyses from the previous year.

4.7 Capital management

The Association's objective is to maintain sufficient capital to ensure it is able to continue to meet regulatory requirements and maintain an "A" rating with Standard and Poor's, with a substantial margin in each case.

The Association monitors available capital and its funding structure in the light of the prevailing economic environment, the risk associated with its asset holdings, and regulatory developments impacting on the Association.

The Association's principal direct insurer continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the Solvency II regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 percent confidence level of solvency over one year time frame. Throughout the period the Association complied with the regulators capital requirements and the requirements in the other countries in which it operates. The Group has developed a Partial Internal Model which is being used for capital management and business decision making.

4.8 Fair value hierarchy

In accordance with section 34 of FRS 102, as a financial institution, the Association applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the Statement of Financial Position, disclosure of fair value measurements by level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present both the Association's and Parent's assets and liabilities measured at fair value:

Group:

As at 20th February 2019

Amounts in US$000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Equity securities	225,598	-	28,428	254,026
- Debt securities	828,441	-	-	828,441
- Alternative investments	-	38,509	-	38,509
- Absolute return funds	29	-	-	29
Derivative financial instruments (net)	-	11	-	11
Total	**1,054,068**	**38,520**	**28,428**	**1,121,016**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $828 million (2018: $827 million), equities of $254 million (2018: $372 million) and alternative investments of $39 million (2018: $37 million) are held within mutual funds.

As at 20th February 2018

Amounts in US$000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Equity securities	341,307	-	30,851	372,158
- Debt securities	827,408	-	-	827,408
- Alternative investments	-	37,019	-	37,019
- Absolute return funds	29	-	-	29
Derivative financial instruments (net)	-	7	-	7
Total	**1,168,744**	**37,026**	**30,851**	**1,236,621**

In relation to level 3 securities, fair value losses of $0.3 million have been recognised in net investment return and foreign exchange losses of $2.1 million have been recognised in the non-technical account.

Parent Company:

As at 20th February 2019

Amounts in US$000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	156,117	-	-	156,117
Total	**156,117**	**-**	**-**	**156,117**

As at 20th February 2018

Amounts in US$000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	211,404	-	-	211,404
Total	**211,404**	**-**	**-**	**211,404**

Note 5
Segmental information

The Association only provides protection and indemnity risk cover to its Members and as a result, no concentration analysis of risks by cover can be performed. As this cover applies to ships at sea it is not feasible to measure geographical concentration of insurance liabilities. Consequently, the Association has identified protection and indemnity risk to be the only reportable segment.

The surplus amount reported in the consolidated income and expenditure account is similar to the amount reported to the Board of Directors for allocating resources and assessing performance of the operating segment. Consequently, for the results of the operating segment protection and indemnity risks refer to the consolidated income and expenditure account.

The entity is domiciled in the United Kingdom. The result of its revenue from Members by geographical area is as follows:

Amounts in US$000	2018	2017
USA	66,788	75,217
Greece	65,656	68,579
Japan	38,032	49,146
Germany	28,889	29,659
United Kingdom	10,597	11,623
China	19,154	19,953
Other	93,282	107,616
Total	**322,398**	**361,793**

In the analysis above, revenue is allocated based on the country in which the Member is located.

Note 6
Financial assets

The consolidated Association's financial assets are summarised by measurement category in the table below.

	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Financial assets at fair value through profit or loss	1,121,005	1,236,614	156,117	211,404
Debtors (note 7)	74,500	87,502	69,792	85,062
Total financial assets	**1,195,505**	**1,324,116**	**225,909**	**296,466**

The assets comprised in each of the categories above are detailed in the tables below:

Financial assets at fair value through profit or loss	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Equity securities and absolute return funds	28,456	30,879	-	-
Mutual funds	767,237	937,727	91,896	172,968
Debt securities	325,312	268,008	64,221	38,436
Total financial assets	**1,121,005**	**1,236,614**	**156,117**	**211,404**

Within the mutual funds above, there is an underlying investment in debt securities equities and alternative investments are detailed in the table below:

Mutual funds	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Equity securities and Absolute return funds	225,599	341,308	-	-
Debt securities	503,129	559,400	91,896	172,968
Alternative investments	38,509	37,019	-	-
Total mutual funds	**767,237**	**937,727**	**91,896**	**172,968**

The movement in the Association's financial assets (excluding Debtors – see Note 7) is summarised in the table below by measurement category:

Amounts in US$000	Fair value through profit or loss	Total
As at 20 February 2017	**1,080,601**	**1,080,601**
Exchange differences on monetary assets	28,345	28,345
Additions	(525,105)	(525,105)
Disposals	624,213	624,213
Fair value net gains		
- Designated at fair value through profit or loss	8,862	8,862
Profit on sale of investments		
- Designated at fair value through profit or loss	19,698	19,698
As at 20 February 2018	**1,236,614**	**1,236,614**
Exchange differences on monetary assets	(18,611)	(18,611)
Additions	(737,737)	(737,737)
Disposals	634,206	634,206
Fair value net gains		
- Designated at fair value through profit or loss	7,299	7,299
Loss on sale of investments		
- Designated at fair value through profit or loss	(766)	(766)
As at 20 February 2019	**1,121,005**	**1,121,005**

Note 7
Debtors

	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Insurance receivables:				
- Due from contract holders	67,793	77,269	67,793	77,269
- Less provision for doubtful debts	(4,164)	(4,111)	(4,164)	(4,111)
	63,629	**73,158**	**63,629**	**73,158**
Insurance receivables due from reinsurers	2,597	11,537	1,706	10,685
Total insurance receivables	**66,226**	**84,695**	**65,335**	**83,843**
Other debtors				
- Prepayments	506	300	418	95
- Sundry debtors	7,768	2,507	4,039	1,124
	8,274	**2,807**	**4,457**	**1,219**
Total debtors	**74,500**	**87,502**	**69,792**	**85,062**

All Debtors are current.

There is no concentration of credit risk with respect to the debtors' balance, as the Association has a large number of internationally dispersed debtors.

Note 8
Derivative financial instruments

(a) Fair value hedges

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future operating expenses being payable in sterling.

The forward currency contracts taken out to hedge against the future management fee payments have been designated as fair value hedges. As a result, both the fair value of the contracts and the corresponding change in the value of the hedged item are shown on the Statement of Financial Position, with the gain or loss shown in the Statement of Income and Expenditure.

The table below analyses all derivative positions where hedging instruments are represented by forward currency contracts and the hedged item is represented by the currency portion of future management fee payments that are classified as unrecognised firm commitments:

Forward currency contracts	**2019**			**2018**		
Amounts in US$000	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Hedged item	58,788	-	(490)	42,242	-	(2,746)
Hedging instrument	58,788	501	-	42,242	2,753	-
Total		**501**	**(490)**		**2,753**	**(2,746)**

Note 9
Cash and cash equivalents

	Group		**Parent Company**	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Cash at bank and in hand	77,929	85,412	58,814	50,931
Short-term bank deposits	52,510	70,832	5,680	10,443
Total	**130,439**	**156,244**	**64,494**	**61,374**

Cash and bank overdrafts include the following for the purposes of the Consolidated Statement of Cash Flows:

	Group		**Parent Company**	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Cash and cash equivalents	130,439	156,244	64,494	61,374
Cash per investment from UK P&I NV	36,259	-	-	-
Total	**166,698**	**156,244**	**64,494**	**61,374**

Note 10
Technical provisions

	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Gross outstanding claims				
- Members' claims	881,469	911,101	881,469	911,101
- Other clubs' pool claims	101,696	74,155	101,696	74,155
	983,165	**985,256**	**983,165**	**985,256**
Reinsurer's share of gross outstanding claims				
- Group excess of loss and market reinsurance	(75,162)	(85,241)	(154,207)	(162,445)
- Pool recoveries	(67,357)	(69,677)	(67,357)	(69,677)
- Other intergroup reinsurers			(685,367)	(677,821)
	(142,519)	**(154,918)**	**(906,931)**	**(909,943)**
Provision for unearned premium	980	980	980	980
Provision for unearned reinsurance premium	(190)	(190)	(687)	(687)
Total insurance liabilities, net	**841,436**	**831,128**	**76,527**	**75,606**
Current	231,880	234,517	21,601	19,745
Non-current	609,556	596,611	54,926	55,861

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. The reserve includes an amount for Occupational Disease claims amounting to a discounted value of $73.2 million (2018: $83.5 million). The discount is based on A and AA rated corporate bonds. The discount rate has increased this year to 3.00% from 2.75% last year.

Occupational Disease claims have a significant latency period of approximately 40 years from exposure, making them particularly uncertain for reserving purposes. The reserve has been set with reference to industry studies and the Association's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of those claims.

Discount rate sensitivity analysis
It is estimated that the value of the Association's reserve for Occupational Disease would increase by the following amounts if the discount rate decreased by 1 per cent at the Statement of Financial Position date.

As at 20th February 2019

Amounts in US$000	**Effect on the reserve**
1% decrease in discount rate	8,237
1% increase in discount rate	(6,927)

10.1 Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Association's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated Statement of Financial Position.

Insurance claims - gross
Estimate of ultimate claims cost attributable to the policy year

Amounts in US$000										
Reporting year	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
- End of reporting year	355,573	311,727	241,341	275,765	318,428	250,715	275,552	250,572	282,111	277,372
- One year later	327,240	358,772	226,792	250,196	352,655	222,257	264,873	248,028	291,969	
- Two years later	309,713	369,809	203,056	280,149	351,505	217,452	273,145	243,901		
- Three years later	295,195	338,941	209,870	277,805	342,653	216,207	270,602			
- Four years later	294,699	314,882	201,804	257,140	363,527	218,077				
- Five years later	294,255	309,257	201,259	251,468	359,243					
- Six years later	274,835	287,328	200,641	249,415						
- Seven years later	272,770	286,951	201,979							
- Eight years later	265,000	291,155								
- Nine years later	264,292									
Current estimate of ultimate claims	264,292	291,155	201,979	249,415	359,243	218,077	270,602	243,901	291,969	277,372
Cumulative payments to date	254,049	260,608	192,273	230,418	316,318	168,602	150,773	136,777	111,923	37,641
Liability recognised in the Consolidated Statement of Financial Position	10,243	30,547	9,706	18,997	42,925	49,475	119,829	107,124	180,046	239,731
Total liability relating to last ten policy years										**808,623**
Other claims liabilities										174,542
Total reserve excluding UPR in the Consolidated Statement of Financial Position										**983,165**

Insurance claims - net
Estimate of ultimate claims cost attributable to the policy year

Amounts in US$000										
Reporting year	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
- End of reporting year	275,533	273,754	236,292	271,408	281,504	250,718	233,062	250,534	249,392	265,000
- One year later	240,488	257,209	207,605	251,787	280,894	222,322	222,591	229,582	233,541	
- Two years later	227,620	253,353	191,576	252,845	271,002	217,495	212,539	221,229		
- Three years later	218,443	232,102	189,979	248,843	267,683	215,170	206,578			
- Four years later	222,048	219,291	181,884	238,469	261,518	214,761				
- Five years later	219,276	214,684	180,605	235,608	256,453					
- Six years later	215,977	212,669	179,986	234,155						
- Seven years later	214,435	212,314	180,795							
- Eight years later	211,231	214,223								
- Nine years later	209,789									
Current estimate of ultimate claims	209,789	214,223	180,795	234,155	256,453	214,761	206,578	221,229	233,541	265,000
Cumulative payments to date	200,437	192,621	171,990	219,179	233,066	168,660	145,074	128,085	108,803	37,642
Liability recognised in the consolidated Statement of Financial Position	9,352	21,602	8,805	14,976	23,387	46,101	61,504	93,144	124,738	227,358
Total liability relating to last ten policy years										**630,967**
Other claims liabilities										209,679
Total reserve excluding UPR in the consolidated Statement of Financial Position										**840,646**

10.2 Movement in insurance liabilities and reinsurance assets

Consolidated claims and loss adjustment expenses

Amounts in US$000	2019			2018		
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**985,256**	**(154,918)**	**830,338**	**944,637**	**(213,628)**	**731,009**
Settlement of multi-years reinsurance contract	-	-	-	-	110,000	110,000
Cash paid for claims settled in the year	(265,163)	24,530	(240,633)	(277,732)	41,361	(236,371)
Claims incurred in the current year	263,072	(12,131)	250,941	318,351	(92,651)	225,700
Outstanding claims carried forward	**983,165**	**(142,519)**	**840,646**	**985,256**	**(154,918)**	**830,338**

Parent company claims and loss adjustment expenses

Amounts in US$000	2019			2018		
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**985,256**	**(909,943)**	**75,313**	**944,637**	**(869,110)**	**75,527**
Cash paid for claims settled in the year	(265,163)	241,839	(23,323)	(277,732)	256,877	(20,855)
Claims incurred in the current year	263,072	(238,827)	24,243	318,351	(297,710)	20,641
Outstanding claims carried forward	**983,165**	**(906,931)**	**76,233**	**985,256**	**(909,943)**	**75,313**

The Association seeks to minimise foreign exchange risk by holding investments in non US dollar currencies to match claims exposure.

Note 11
Creditors

	Group		Parent Company	
Amounts in US$000	**2019**	**2018**	**2019**	**2018**
Reinsurance premium payable	5,550	7,631	5,615	6,614
Claims payable	2,704	2,929	2,576	2,840
Trade payables and accrued expenses	9,189	3,590	8,689	5,743
Intercompany creditors	-	-	6,032	70,557
Total	**17,433**	**14,150**	**22,912**	**85,754**

The fair value of these balances approximates their carrying value.

Note 12
Perpetual subordinated capital securities

Amounts in US$000	**2019**	**2018**
Financial liabilities at amortised cost:		
Perpetual subordinated capital securities	-	99,816

The securities, which had a principal amount of $100 million, were issued on 20th August 2008 and were listed for trading on the London Stock Exchange. In August 2013 the Association obtained consent from investors to extend the period in which the securities cannot be redeemed until August 2018.

The securities were classified as financial liabilities at amortised cost, however for the purposes of PRA requirements the securities qualify as tier one capital.

A coupon interest of $3.75 million (2018:$7.5 million) was paid during the year.

During the year the Board agreed to settle this liability and the liability was repaid in its entirety on 21 August 2018.

Note 13
Net earned premium

Amounts in US$000	2019	2018
Mutual		
Mutual premium	285,649	313,073
Return premium	(1,535)	(236)
Release charges	229	1,953
Other premium	195	367
	284,538	**315,157**
Fixed premium		
Chartered vessels	30,160	38,191
Owned vessels	7,700	8,525
	37,860	**46,716**
Gross written premium	**322,398**	**361,873**
Change in unearned premium provision	-	(80)
Gross earned premium	**322,398**	**361,793**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(41,830)	(42,669)
Other market reinsurance	(22,835)	(22,109)
Other reinsurance premium	(195)	(361)
	(64,860)	**(65,139)**
Changes in unearned reinsurance premium provision	**-**	**20**
Total premium ceded to reinsurers	**(64,860)**	**(65,119)**
Net insurance premium (before discounts)	**257,538**	**296,674**
Mutual premium discounts	**-**	**-**
Total net earned premium	**257,538**	**296,674**

Note 14
Investment return

Amounts in US$000	2019	2018
Investment income		
Dividend income	25,034	20,874
Interest on fixed income securities	5,421	3,121
Bank deposit interest	772	442
Other investment charges	(10,681)	(9,837)
Foreign exchange gain/(loss)	(17,800)	(12,790)
Total investment income	**2,746**	**1,810**
Net realised gains on financial assets at fair value through profit or loss		
- Debt securities	(1,050)	(852)
- Equity securities	284	20,550
Total net realised gains on financial assets	**(766)**	**19,698**
Net fair value gains on financial assets through profit or loss		
- Debt securities	4,091	(1,222)
- Equity securities	3,208	10,084
Total	**7,299**	**8,862**
Total investment return	**9,279**	**30,370**

Net fair value gains on financial assets at fair value through profit or loss relate entirely to assets designated to be in this category upon initial recognition.

Note 15
Net operating expenses

Amounts in US$000	2019	2018
Acquisition cost	20,309	21,021
Residual management fee	12,307	12,073
Directors' Meetings	2,436	2,461
Managers / Agent travel	286	281
Sales and marketing	1,012	1,008
Legal and professional expenses	1,399	1,425
Bank and financial expenses	543	595
Loss prevention and Ship inspection initiatives	671	759
Audit fee	541	367
Other expenses	4,150	2,829
Total operating expenses	**43,654**	**42,819**

Note 16
Income tax expense

Amounts in US$000	2019	2018
Current taxes on income for the reporting period		
Net adjustment in respect of current and prior periods	676	(25)
Overseas taxation	274	232
Total income tax expense	**950**	**207**

The average applicable tax rate over five years was 5 percent (2018: 5 percent).

Tax on the Association's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Amounts in US$000	2019	2018
(Deficit) / Surplus before tax	(31,445)	72,100
Tax at 19% (2018 at 19%)	5,975	(13,699)
Non-taxable transactions	(5,025)	13,906
Total income tax expense	**950**	**207**
Tax calculated at domestic tax rates applicable to profits in the respective countries		
Effects of		
- Net adjustment in respect of current and prior periods	676	(25)
- Overseas taxation	274	232
Total	**950**	**207**

The Corporation Tax main rate will reduce from 19% to 17% for the year starting 1 April 2020.

Note 17
Principal subsidiaries and associates

Name	Country of incorporation	Nature of business	Proportion of shareholding
International P&I Reinsurance Company Limited	Isle of Man	Not trading	100 percent
The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited	Bermuda	Reinsurance	100 percent
Hydra Insurance Company Limited	Bermuda	Reinsurance	100 percent of owned cell
The United Kingdom Mutual Steam Ship Assurance Association (London) Limited	United Kingdom	Insurance	100 percent
UK P&I Club N.V.	Netherlands	Insurance	100 percent

All subsidiary undertakings are included in the consolidation. The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited became a subsidiary of the Group on 21st February, 2018.

Note 18
Contingencies

The Association like all other insurers is subject to litigation in the normal course of its business. The Association does not believe that such litigation will have a material effect on its profit or loss and financial condition.

Note 19
Average expense ratio

In accordance with Schedule 3 of the International Group Agreement, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment return.

The operating expenses include all expenditure incurred in operating the Association, excluding expenditure incurred in dealing with claims. The premium income includes all premiums and calls. The investment return includes all income and gains whether realised or unrealised, exchange gains and losses less tax, custodial fees and internal and external investment management costs.

For the five years ended 20th February 2019, the ratio of 11.09 (2018: 10.31) has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant financial statements.

Note 20
Related party transactions

The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited is the parent company of the group. See Note 17 for the list of subsidiaries.

The Association has no share capital and is controlled by the Members who are also the insured. The insurance transactions are deemed to be between related parties but these are the only transactions between the Association and the Members.

All of the Directors (except two who are Bermuda residents) are representatives or agents of member companies and other than the insurance and membership interests of the Directors' companies, the Directors have no financial interests in the Association.

Thomas Miller (Europe) Limited provides management services to the Association. This company is a subsidiary of Thomas Miller Holdings Limited in which the Association holds an investment of $28 million. The Association has a contract with Thomas Miller (Europe) Limited which contains a one year termination clause.

A proportion of the management fee covers key management personnel.

Amounts in US$000	2019	2018
Key management compensation		
Short term employee benefits - Directors' fees	934	961

The Association has taken an exemption under section 479a of the Companies' Act not to disclose related party transaction within the Group.

Note 21
Explanation of transition to FRS 102

This is the first year that the Association has presented its financial statements under Financial Reporting Standards 102 and 103 as issued by the Financial Reporting Council. The year ended 20 February 2018 financial statements were prepared under International Financial Reporting Standards. The date of transition to UK GAAP was therefore 21 February 2017.

The Table shows the impact of transition to FRSs 102 on consolidated reserves at the date of transition:

Amounts in US$000	21 February 2017 Free reserves	21 February 2017 Cash flow hedge reserve
Reserves (as previously stated)	465,069	(6,932)
Adjustments to equity on transition to FRSs 102:		
- Removal of cash flow hedges	-	6,932
- Impact of recognition of fair value hedges	(14)	
Reserves reported under FRS 102	**465,055**	

All of the adjustments above relate to the recognition of hedges as further explained in note 8. Under IFRS the forward currency contracts relating to the hedge of future management fee payments have been recorded as cash flow hedges resulting in any movements being recorded within a cash flow hedging reserve.

Under FRS 102, the forward currency contracts relating to the payment of future management fee payments have been recorded as fair value hedges. This results in the forward currency contract (hedging instrument) being recognised on the Consolidated Statement of Financial Position, with a partly offsetting recognition of the cumulative currency movements on the future management fee payments that is an unrecognised firm commitment (hedged item). Any movements on the hedging instrument and hedged items are recorded in the Consolidated Statement of Income and Expenditure.

Note 22
Group restructure

The Group restructured on 20 February 2018, at the start of the new financial year. As a result The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("UKE") has become the parent undertaking within the Group and The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("UKB") has become its subsidiary. Previously UKB was the parent of the Group and UKE its subsidiary. This restructure has had no impact on the Group's capital reserves and has been applied retrospectively.

Note 23
Employees

During the year to 20 February 2019, the Group employed 11 members of staff based in Japan.

In the year to 20 February 2020, a new Thomas Miller (Europe) Limited office will be set up and the members of staff will be transferred to the new Thomas Miller entity.

Appendix (Unaudited)

Policy year tables

Amounts in US$000	**2018**	**2017**	**2016**	**Closed years**
Premium debited in this financial year	322,992	(484)	(162)	-
Premium debited in previous financial years	-	357,269	387,175	-
Reinsurance premium	(61,778)	(62,853)	(79,432)	-
Net premium income	261,214	293,932	307,581	-
Net paid claims and expenses	(117,511)	(189,023)	(210,778)	-
Investment income	2,505	9,501	17,483	-
Funds Available	**146,208**	**114,410**	**114,286**	**364,896**
Gross Outstanding Claims (including IBNR)				
Members' claims	(188,049)	(139,737)	(92,287)	(380,233)
Pool claims	(42,033)	(33,172)	(9,947)	(67,307)
	(230,082)	(172,909)	(102,234)	(447,540)
Reinsurance Recoveries				
Pool recoveries	1,941	39,105	8,549	17,762
Group excess of loss	-	-	-	1,772
Other market recoveries	759	8,986	535	63,110
	2,700	48,091	9,084	82,644
Net outstanding claims	**(227,382)**	**(124,818)**	**(93,150)**	**(364,896)**
(Deficit)/Surplus	**(81,174)**	**(10,408)**	**21,136**	**-**
Future investment income	18,000	10,000	8,000	-
Anticipated Surplus/(Deficit)	**(63,174)**	**(408)**	**29,136**	**-**

Notes:

(a) The approximate yield of a 10 percent supplementary premium on the open policy years would be $29 million (2018), $31 million (2017) and $33 million (2016).

(b) Net outstanding claims include estimates for unreported claims.

(c) Future investment income reflects the investment income expected in respect of policy year funds.

(d) Any significant deficits on open policy years will be funded by transfers from reserves, or by raising a supplementary premium.

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