UK P&I CLUB

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited

Directors' Report & Financial Statements for the year ended 20th February 2013

Chairman's statement

A solid result

This year the Club has produced a surplus of $9.5 million, increasing the free reserves and hybrid capital of the UK Club to a new high of $494 million. Underpinning this result was a respectable underwriting performance in the face of mounting claims costs, and an investment return of around 4 percent, equivalent to $39.6 million. Overall this was a good outcome, but it does not allow for complacency. Our combined ratio for the financial year was 104 percent (excluding the mutual premium discount) which is within our tolerances in the short term, taking into account the current elevated claims environment. However, the increased claims on the 2012 policy year are a warning that, despite weak global economic growth, claims inflation, particularly in the higher value claims, continues to be present. We must therefore maintain our disciplined approach to underwriting in the coming years and continue the progress we have already made towards a balanced underwriting result over the claims cycle.

Listening

Our disciplined approach to all financial matters has not come at the cost of mutuality. Your Board is very aware of the need to strike a sensible balance between the financial requirements of the Club on the one hand and the needs of the Members on the other, in what is a very weak market for most shipping sectors. It was with this in mind that the Board, in setting the general increase of 7.5 percent for the 2013 policy year, decided to declare a mutual premium discount of 2.5 percent on the 2011 policy year which was showing a respectable surplus due to unexpectedly low claims in that year. This discount amounted to a reduction of 10 percent on the final, fourth instalment of that year's premium. We were thereby able to return some of the capital built up over the past few years without compromising the need to keep premiums moving forward.

This desire to maintain our traditional role and to enhance the service we provide has encouraged us to conduct another Member and Broker Satisfaction Survey. The purpose of the survey is two-fold; to find out what progress we have made since our last survey in 2011 and to establish what more we must do to improve our performance. Of course, a survey can only tell a part of the story and we know we must continue to listen on a daily basis to the views of our Members and brokers. The survey does however, give your Board and the Managers a means of measuring performance and it helps us to set targets for improvements. I would like to take this opportunity to thank all the Members and brokers who have taken part in this process.

A successful renewal with controlled growth

The market's confidence in the Club produced one of our most successful renewals for a number of years. Before adjustments for renewal terms (typically increased deductibles) and the impact of the increased cost of the International Group's excess of loss reinsurance programme, premium increased by around 6 percent. Meanwhile mutual owned tonnage grew to 120 million GT. In addition, the charterers' book, which has been a success story for the Club over the past few years, stands at over 80 million GT. The growth in our tonnage at the renewal was just over 2 million GT. This may appear to be a modest level of growth compared to the scale of the movement of tonnage reported elsewhere in the market, but it reflects our aim to grow with quality tonnage at the right premium rating. We do not believe in growth for growth's sake.

Risk management and reinsurance

Last year I reported that we had put in place a comprehensive programme of reinsurances specific to the UK Club. That programme had been designed using our internal model, which we had developed as part of our Solvency 2 compliance regime. I am pleased to report that these reinsurance policies, which will protect the Club from a run of larger claims, whether within our retention or in the Pool, have all been competitively renewed for the 2013 policy year. The programme has already proved its worth in protecting the Club from the worst effects of the 2012 Pool claims. This is particularly reassuring as 2012 may turn out to be one of the more expensive Pool years in recent times. Our reinsurance programme is not a panacea and will not be a substitute for sound underwriting, but it will protect the Club from the impact of a significant surge in claims.

Reinsurance is just one element of our approach to risk management. At the UK Club we are proud of the steps we have taken to assist our Members to reduce their exposure to claims through our extensive loss prevention activity. Our loss prevention initiatives range from the "bow-tie" method, which offers practical guidance in tackling the root causes of claims, to regular updates on our website of the latest types of claims affecting our Members and how they can be avoided. During 2013 we aim to redevelop the loss prevention section of our website to make this information even easier to access. We will also continue with our programme of ship visits. This programme, which began in 1990, has evolved over time into a cooperative exercise between the Club and its Members to help raise standards and ensure a common approach to quality issues. In these difficult times for all shipowners, we will need to make sure that, together, we maintain vigilance on standards of operation and maintenance if we are to avoid a spike in preventable claims when economic conditions improve. A tangible measure of our success to date in this area can be found for example, in the rate of deficiencies per port state control inspection of bulkers entered in the UK Club, which at 1.82 remains one of the lowest in the International Group.

Standard & Poors rating

In November of last year S&P upgraded the Club's A- rating to "positive outlook". The UK Club was the only International Group club to receive a positive outlook during 2012 and it augurs well for the future. This move by S&P recognises the advances the Club has made in its capital, underwriting and enterprise risk management over the past three years.

Regulation and Restructuring

Although the introduction of Solvency 2 has been delayed, we have continued to take the steps necessary to bring the Club into line with the requirements laid down in the directive. These include development of our internal model and the successful restructuring of the Club. This has resulted in the UK (Europe) Club becoming the principal provider of insurance to UK Club Members at the 20th February 2013 renewal. As a result of these changes UK (Europe) is now the only group company regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), the successor regulators to the Financial Services Authority in the United Kingdom.

This change helps us to manage our solvency requirements more efficiently and is also now allowing us to streamline our governance arrangements.

The composition of the Board of UK (Europe) reflects its operational and regulatory role. Whilst the majority of Directors are drawn from the Bermuda Board and hence elected by the Members, we have for the first time included two Managers on the Board, Hugo Wynn-Williams as the CEO and Jonathan Goldthorpe as the CFO. We have also taken this opportunity to further strengthen the Board by including two non-shipowner Directors with specific skill sets: Nigel Smith, a former partner of auditors KPMG who will also chair the Audit & Risk Committees of UK (Europe) and its parent UK (Bermuda); and Roger Gillett, one of our Bermuda resident Directors who has considerable risk management and reinsurance expertise.

International matters
As usual we were involved with many industry and International Group issues during the year and provided advice to Members where appropriate. It was a busy period that saw discussions with the EU lead to the closure of its investigation of the International Group clubs; a decline in East African piracy but a rise in West African armed cargo theft; the development of a standard armed guards contract for ships; increasing complexity in sanctions regimes and in the targeting of financial services, including P&I insurance; the entry into force of the EU passenger liability regulation; preparations for the entry into force of the Maritime Labour Convention (MLC). All these are touched upon further in the Review of the Year.

Governance
In the five years since I took over as Chairman of the Club the burden of work on the Board and its committees has grown in complexity and volume each year. I am therefore most grateful to all my fellow Directors for the time they give to our affairs. In particular I would like to thank my Deputy Chairmen; Eric André, who for many years has chaired the Audit & Risk Committee and IPIR, Alan Olivier who represents the Club on the Board of Thomas Miller, and Ottmar Gast, their help and support has been invaluable. At the end of last year, and in preparation for my retirement from the Board at the October 2013 AGM, we appointed a fourth Deputy Chairman, Nicholas Inglessis. I wish them all continued success in leading the Club forward in the years to come.

I would also like to thank Faisal Ali (KOTC), Mike Carthew (Chevron), Zhang Liang (COSCO) and Myles Itkin (OSG) who left the Board in the past year and whose contributions to our affairs have been significant.

In October last year we were delighted to welcome Sun Jiakang (COSCO) to our Board.

In conclusion
This will be my last Chairman's Statement as I will be completing my five year tenure at the AGM in October 2013. When I took over the chairmanship in October 2008, the Club and all of us in our individual businesses were facing the post-Lehman economic shock whose severity was felt, and continues to be felt, by everyone worldwide. A combination of adverse investment conditions and a sharp deterioration in the claims on the more recent policy years at that time led the Board to the conclusion that supplementary premiums had to be levied. The fact that we were not alone in this position did not make that decision any easier.

Much has changed in the ensuing five years. With your loyalty and more significantly with your contributions, the Club has rebuilt its capital base, supported by the issuance of its own $100 million perpetual bond in August 2008; it has re-appraised its approach to risk management and loss prevention; greater discipline has been introduced into all areas of financial management, including underwriting; most importantly, and despite the turbulent economic background, we have not lost sight of our overriding mission to provide a first class service to our Members.

As Chairman, I had many opportunities during this period to work closely with the Managers and I would like to express my thanks to them for their support and for the excellent work they do on behalf of all of us.

As I said last year, we are committed to be the leading ship owner controlled provider of P&I insurance. That remains our guiding principle and affects everything we do. We have made significant strides towards that goal and will continue to do so in the years to come. Thank you sincerely for your support.

Dino Caroussis, Chairman

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 2013.

Principal activities
The principal activities of the Club, including its subsidiary companies, during the year were the insurance and reinsurance of marine protecting and indemnity risks on behalf of the Members.

At 20th February 2013 the owned tonnage entered in the Club and through its subsidiary, The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("UK (Europe)"), on mutual terms totalled approximately 120 million gross tons (112 million in 2012). In addition, in excess of 80 million gross tons of chartered tonnage was entered in the Association at any time during the year.

Direction and management
Ultimate control over the Club's affairs rests with the Board of Directors, who are all elected by the shipowner Members of the Club. With the exception of the two Bermuda resident Directors, all the Directors are officers or agents of Members.

The Directors met on four occasions during the year to carry out the general and specific responsibilities entrusted to them under the Rules and Bye-Laws, and a commentary on the matters considered during the past year is contained in the Review that follows. The Directors are themselves active shipowners, and are restricted in the amount of time that they can make available to running the Club's affairs. The Board delegates the day to day running of the Club to the Managers, Thomas Miller (Bermuda) Ltd.

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 Board, they also act as the conduit for feedback to the Board of the Members' views.

At the 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 Board also considers and decides issues of policy on general matters concerning the Club and the Members' interests.

The Chairman and Deputy Chairmen meet with the Managers regularly during the year to discuss current developments and the preparation of matters for consideration and decision by the Board. The Board has established a number of committees.

The Strategy Committee of the Board met eight times during the year to provide in depth discussion and analysis of strategic issues which are to be considered by the Board and of any particular matters which the Board decides to refer to it. Issues discussed by the Committee over the past year have included Solvency 2, group restructuring, International Group matters, reinsurance arrangements, governance arrangements and the Corporate Plan. The Committee is comprised of the Chairman and Deputy Chairmen of the Club and five other Directors who have considerable experience on the Board. The Committee reports to the full Board with the results of its deliberations and its recommendations.

The Audit & Risk Committee of the Board met four times during the year. Its current Chairman is Nigel Smith who provides accounting expertise to the Board in the insurance and shipping sectors. In addition to four Club Directors on the Committee, there is an independent Member - Robert Quayle, a director of IPIR.

Nigel Smith has specific responsibility for liaison, on behalf of the Committee, with the head of internal assurance of Thomas Miller. The Committee has wide ranging responsibilities including reviewing of reserving, Report and Accounts, internal audits and the oversight of regulatory matters worldwide. Over the past year the Committee has been particularly active in the work relating to Solvency 2 and governance of the Club and its subsidiaries. The Committee reports to the full Board on all of these issues to enable the Club to take key decisions.

The Nominations Committee makes recommendations to the Board regarding its composition as and when new Directors are to be appointed. It also makes recommendations on the composition of committees and subsidiary boards.

The Club's wholly owned European subsidiary's board ("UK (Europe)") is made up from shipowners who are also Directors of the Club, two directors who are employees of the Managers and two directors providing a specialism in accounting and reinsurance.

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 and includes seven other Directors.

Other committees of the Board are formed, as needed, in order to review specific issues as delegated by the Board, or 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.

The International P&I Reinsurance Company Limited ("IPIR") is a wholly owned subsidiary of the Club based in the Isle of Man. During the year, IPIR reinsured 90 percent of the retained protection and indemnity risks of the Club. Following the restructure of the Group, IPIR continues to reinsure part of the business of the Group but the majority of business is written by UK (Europe) and reinsured by the Club.

Group restructuring

On the final day of the year, the Group restructured its operations through a Part VII transfer of all assets of the London branch of the Club to its subsidiary UK (Europe). The Club has retained its remaining branches in Japan, Hong Kong and Singapore for the short term but plans to transfer the business of these branches to UK (Europe) in due course.

As part of the restructure, the reinsurance contract held by UK (Europe), including the transferred London branch of the Club, with IPIR has been novated and the Club now provides reinsurance cover for this business.

UK (Europe) is therefore the primary insurer of the group, reinsured by the Club for 90 percent of all retained losses.

This new structure affords the opportunity to revise the governance of the Group in 2013. The UK (Europe) Board has been strengthened and will act as the primary operational Board. The Board will meet seven times each year.

A new Investment Committee has also been formed to advise the Board on investment strategy and policy and monitor the performance of the investment portfolio. This committee will draw from the Board and investment specialists.

Directors

The present Directors of the Club are shown on page 7. Also shown are those who retired from the Board since 20th February 2012. The Board wishes to record its thanks to those Directors for the contribution they have made to the work of the Board and the affairs of the Club.

Bye-Law 14 (c)(i) provides for Directors to retire who have been in office for three years since their last election. Consequently Messrs E.A. Ambrosov, A.C. Junqueira, C. Kertsikoff, J.B. Lee, A. Lemos and Mrs A. Frangou will retire at the forthcoming Annual General Meeting in Bermuda on 28th October 2013. All these Directors, with the exception of Mr J.B. Lee and Mr. A. Lemos, have offered themselves for re-election.

In October 2012 Mr C.I. Caroussis was re-elected as Chairman of the Board of Directors and Messrs E. André, O. Gast and A.K. Olivier were re-elected as Deputy Chairmen and Mr N.G. Inglessis was elected as a fourth Deputy Chairman to ensure continuity.

Board of Directors

CHAIRMAN & PRESIDENT

C.I. Caroussis	Chios Navigation (Hellas) Ltd, Piraeus

DEPUTY CHAIRMEN AND VICE-PRESIDENTS

E. André	Suisse-Atlantique SA., Renens/Lausanne
O. Gast	Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft K.G., Hamburg
A.K. Olivier	Grindrod Limited, Durban
N.G. Inglessis	Samos Steamship Co., Athens

DIRECTORS

E.N. Ambrosov	OAO Sovcomflot, Moscow
G. Bottiglieri	Giuseppe Bottiglieri Shipping Company S.p.A, Naples
H.V. Franco	Harley Marine Services, Inc, Seattle
A. Frangou	Navios Maritime Holdings Inc, Piraeus
S.L. Ghomri	Hyproc Shipping Company SPA, Oran, Algeria
R.C. Gillett	Hamilton, Bermuda
I. Güngen	Güngen Maritime & Trading A/S, Ankara
G. Henderson	Shell International Trading and Shipping Company Ltd, London
N. Idris	MISC Berhad, Kuala Lumpur
A.C. Junqueira	Petrobras Transporte SA - Transpetro, Rio de Janeiro
C.E. Kertsikoff	Eletson Corporation, Piraeus
J.B. Lee	Korea Line Corporation, Seoul
A.M. Lemos	Unisea Shipping Ltd, Piraeus
J. Liberty	Royal Caribbean Cruises Ltd, Miami
P. Louis-Dreyfus, OBE	Louis Dreyfus Armateurs S.A.S., Paris
A.C. Margaronis	Diana Shipping Inc, Athens
M. Morooka	Nippon Yusen Kaisha, Tokyo
N. Mukae	Kumiai Senpaku Co., Ltd, Tokyo
Y.C. Ng	Neptune Orient Lines Ltd, Singapore
P. Pathy	Fednav Limited, Montreal
E. Rothwell	Irish Continental Group plc, Dublin
N.H. Schües	Reederei F. Laeisz GmbH, Hamburg
K. Siggins	Hamilton, Bermuda
Sun Jiakang *	China Ocean Shipping (Group) Co, Beijing
H. Takahashi	JX Tanker Company Ltd, Yokohama
N.P. Tsakos	Tsakos Energy Navigation Limited, Athens
P.A. Vasilchenko	Far Eastern Shipping Company, Vladivostok

* New Directors elected since 20th February 2012

The following Directors have left the Board since 20th February 2012: Messrs F.A.H. Ali, M.L. Carthew, Zhang Liang, M.R. Itkin and A.M. Lemos.

Performance for the year to February 2013

The financial year to 20th February saw a further increase in the Club's capital to $494 million. The combined ratio was 104 percent reflecting the impact of what is expected to be a more costly 2012 policy year, offset by continued releases on claims reserves for older policy years. This demonstrates the Club's prudent approach to claims reserving and most importantly the maintenance of underwriting discipline. The Club has total assets of $1.6 billion and a free reserve and capital ratio of 165 percent. During the year S&P recognised the Club's progress in both restoring its capital position and improving its underwriting by giving a positive outlook to the Club's A- rating. The Club remains one of the strongest within the International Group with one of the best combined ratios of its peer group. On S&P's capital model the Club's capital position remains comfortably within the AA range.

The investment return for the year was 3.7 percent, which outperformed the investment policy benchmarks set by the Board while remaining well within the Club's investment risk guidelines. The background to this financial year has been framed by the length and depth of the economic recession in the West, which has continued to impact the shipping industry through weak earnings, a condition that has been exacerbated by oversupply in most ship categories. In general, lower shipping activity leads to fewer claims. However, the incidence of the larger more random claims can dominate the picture for a particular policy year, and this explains the contrast between the 2011 policy year, which had a remarkable absence of such claims, and the 2012 policy year where the Club has seen more large claims.

Underwriting

The Club continues to target a 100 percent combined ratio across the insurance cycle. This disciplined approach to underwriting and risk selection has produced a satisfactory combined ratio when averaged over the more recent years, although, as noted in this review, the combined ratio has risen slightly in 2012 in line with the increase in claims. Increasing claims costs will mean that over time premiums will need to rise to keep pace with claims inflation, although every effort will be made to mitigate the required premium increases, for example through mutual premium discounts, if circumstances permit.

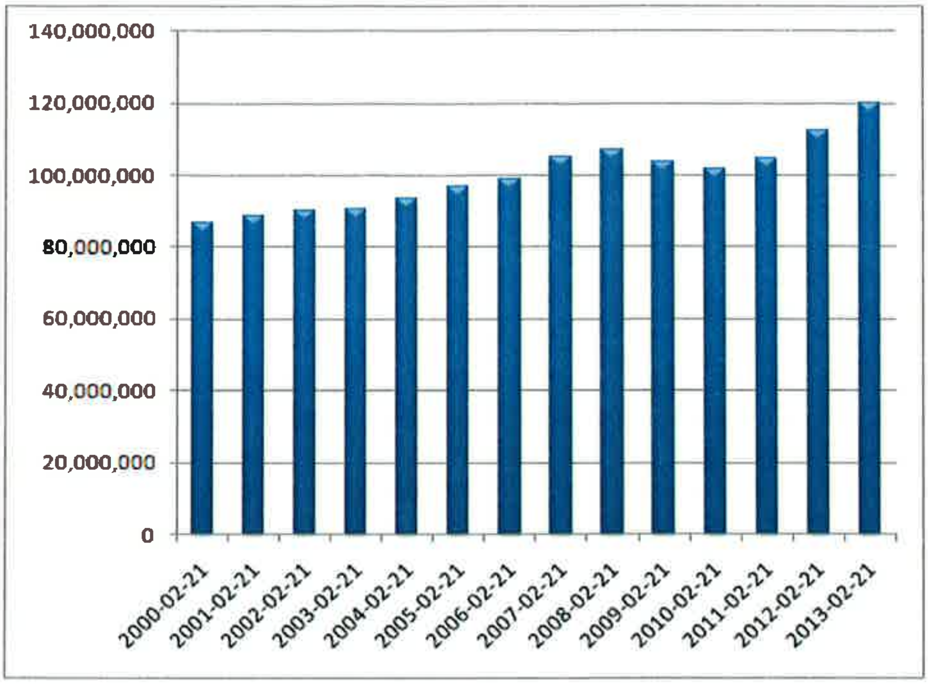
Growth

With improvements in underwriting, capital strength and confidence in the Club, membership retention levels have been exceptionally high, and the Club has seen more new Members in the past year than for several years. As the level of new builds peaked in 2012, the Club experienced a correspondingly high level of underwriting activity as Members took delivery of new ships, or sold and scrapped older ships. Mutual tonnage grew 5.4 million gross tons to 117.8 million gross tons by the end of the year. However, the net growth of over 5 million gross tons masks actual turnover of roughly 15 million gross tons coming on risk and 10 million tons going off risk. Modest renewal growth of 2.3 million gross tons lifted the 2013 policy entered tonnage to just over 120 million gross tons. During 2012 new builds represented two thirds of the added tonnage, or some 10 million gross tons.

Whilst welcoming both new Members to the Club and increased entries from existing Members, the Club nonetheless declined to quote on about 15 percent of all new enquiries. Maintaining the quality criteria for new entries is particularly important when claims costs may be escalating.

The following table tracks the development of the owned mutual entry at the start of each policy year since 2000.

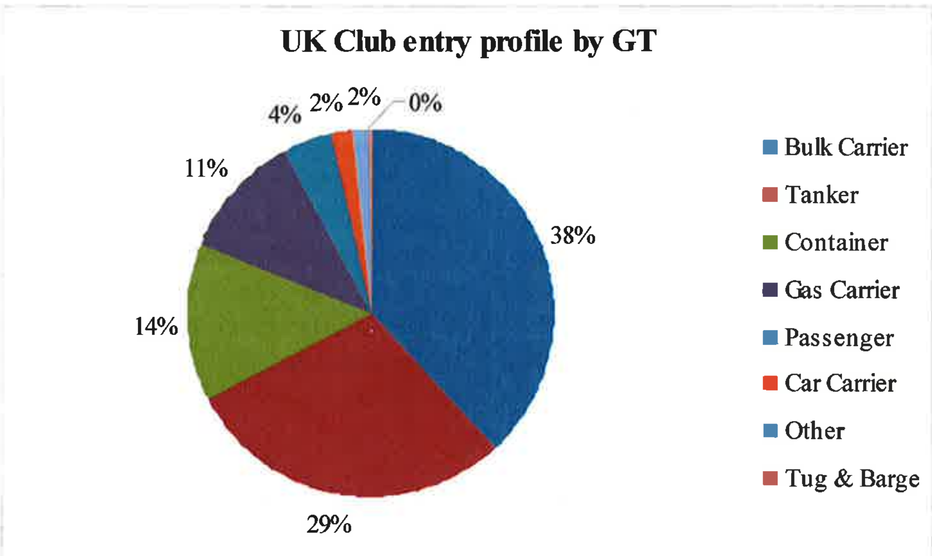
Figure 1: growth in mutual owned tonnage February 2000-2013, gross tons



UK Club fleet profile

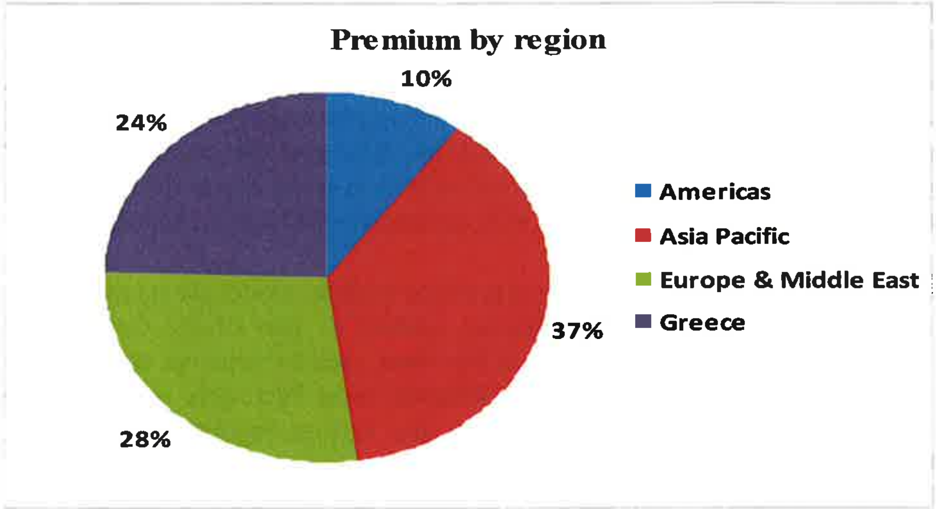
The tonnage entered in the Club broadly represents the profile of the world fleet. During the year the Board receives reports about underwriting performance to ensure, amongst other measures, that the different ship categories have satisfactory results and are underwritten fairly.

Figure 2: UK Club entry profile by gross tonnage at 20th February 2013



The Club's entry profile also reflects the global membership of the Club, which remains a key strength. The Club actively seeks quality Members from all regions and markets.

Figure 3: UK Club premium by region at 20th February 2013



The age profile of the entered fleet has changed as a result of the addition of a large number of new buildings from new and existing Members. The average age of entry has decreased to 12.3 years, and in the key bulk and tanker trades, the average age is now below 10 years. These are the lowest average ages for at least two decades and this will have a positive effect on some categories of claim in the short term.

Naturally, as older ships are scrapped, Members of the Club expect their new ships to be entered at lower, competitive rates, creating the so-called "churn effect". This phenomenon may or may not develop into a concern for the future, as the Club has, historically, experienced lower claims frequencies from younger entries. Nonetheless, in a rising claims environment, the claims trends across all categories and ages of ships will be monitored closely to ensure balanced underwriting and effective loss prevention advice.

Charterers

The Club successfully complements its mutual owned business with a strong charterers' offering, serving both mutual Members who also charter vessels, as well as Members with exclusively chartered entries. The Club underwrites a charterers' book of over $50 million annually, and provides dedicated services in underwriting and claims.

Delivering member satisfaction

Last year this review commented on the results of the 2011 satisfaction survey to ascertain how Members and brokers rated the Club's performance. Work has now begun on the 2013 survey. The survey provides the Board with a benchmark against which performance can be measured and targets for improvement set. As part of the ongoing process to deliver service enhancements, the Club launched in 2012 a mobile app "iPandi" that provides all key underwriting documents and, for those interested, daily information on claims estimates, credit control, and immediate access to Certificates of Entry and Blue Cards.

Broker relations

Today, about 70 percent of the Club's entries by premium involve a broker or an intermediary in some capacity. In 2012, the Club worked with more than 75 intermediaries, many of whom have long standing relationships with the entered Members and with the Club. Particular attention was paid during the year to ensure that the brokers were provided with the information they required to advise their clients, whether through personal meetings, publications, on-line tools, events or services.

Risk management and Solvency 2

Progress on Solvency 2 within Europe has stalled with the previous 1 January 2014 deadline now appearing unrealistic. Policymakers have been held back in their desire to deliver Solvency 2 as one package due to issues surrounding long term guarantees, which principally affect the life insurance industry. Consultations are now going on to put in place a revised date and also bring in interim compliance measures. The effect on the Club has been that the expected approval for its own internal model by the Prudential Regulatory Authority (the successor to the Financial Services Authority), which was expected early in 2013, is now expected to be later in the year.

Despite this, the Club has been making extensive use of the internal model across the business. The model has been used for allocating capital between entities as part of the Group's successful restructuring at 20th February 2013. Elsewhere, it has been used to structure the purchase of the Group's reinsurance programme, and as a result Directors have been able to see the impact of different reinsurance proposals on the combined ratio and various regulatory and rating agency capital measures.

The model has also enabled the Club to develop its appetite for risk during the year. The core aim has been to identify the Club's main requirements, such as solvency and rating agency capital and then specify the level of comfort required, or buffer, in excess of these requirements. This puts the Club in a much stronger position to manage these important benchmarks, and to be able to demonstrate to regulators and rating agencies the strength of the Club's risk management.

The Club continues to use the S&P capital model as another useful benchmark whilst Solvency 2 remains under development. The Club's capital adequacy for rating agency purposes remains comfortably within the AA range, which is the Club's targeted capital level.

"The Club's extremely strong capital adequacy, under our model sets it apart from its peers and from much of our mutual rated universe". (S&P's report dated November 2012).

UK Group restructure

The restructuring of the Group went ahead as planned during last year. As we reported the aim of the restructuring was to improve the Club's capital efficiency, streamline governance, and reduce compliance costs. The major part of the process, using court sanctioned transfers, saw the insurance business of UK Bermuda (other than of its Hong Kong, Japan and Singapore branches) transferred at 20th February 2013 to the UK (Europe) Club. Members' terms of entry, cover, premium, and service, were unaffected by the change. The remaining insurance business of UK Bermuda is planned to transfer to new Asian branches of UK (Europe) by February 2014.

Loss prevention

The Club's loss prevention initiatives continue to lead the market and remain a key element of the risk management framework. The Managers have further developed their BowTie program, assisting owners to identify the hazards on board their ships that can result in claims and devising controls to prevent accidents occurring and to mitigate their consequences. BowTie is rooted in the Club's claims experience over a long period. It is practical and straightforward to apply and has proved to be extremely popular with Members and their crews, being simple to integrate into existing systems for safety planning onboard. New modules were developed over the year to focus on particular areas of risk, and an introductory video "No Room for Risks" was produced and made available to spread knowledge of the programme amongst the membership.

Alongside this, the Loss Prevention department continued to produce a substantial volume of materials providing timely loss prevention advice on current issues, including 'Loss of Power' (based on analysis of claims arising from engine breakdowns), 'Slips, Trips and Falls' (addressing common causes of crew injury claims that often effect Members' insurance records), 'How to Reduce Bunker Claims and Associated Costs' (avoiding fuel quantity and quality disputes), and supplements focussing on claims prevention in reefer ships, gas ships, and tug and barge fleets. The department also continued its joint work with Lloyds Register in producing a pocket checklist for onboard compliance with the Maritime Labour Convention, supported by a free smartphone app.

Reinsurance

The Club has renewed its own reinsurance programme for the 2013 policy year. This programme, which was designed in 2011 and tested using the Club's internal model, has worked well in 2012. In particular, the Pool protection element of that programme will respond to limit the impact on the Club's finances of the very high Pool costs for that year. In addition to the Pool protection element, the programme is designed to protect the Club against single major losses and also a materially adverse aggregation of claims within the club retention.

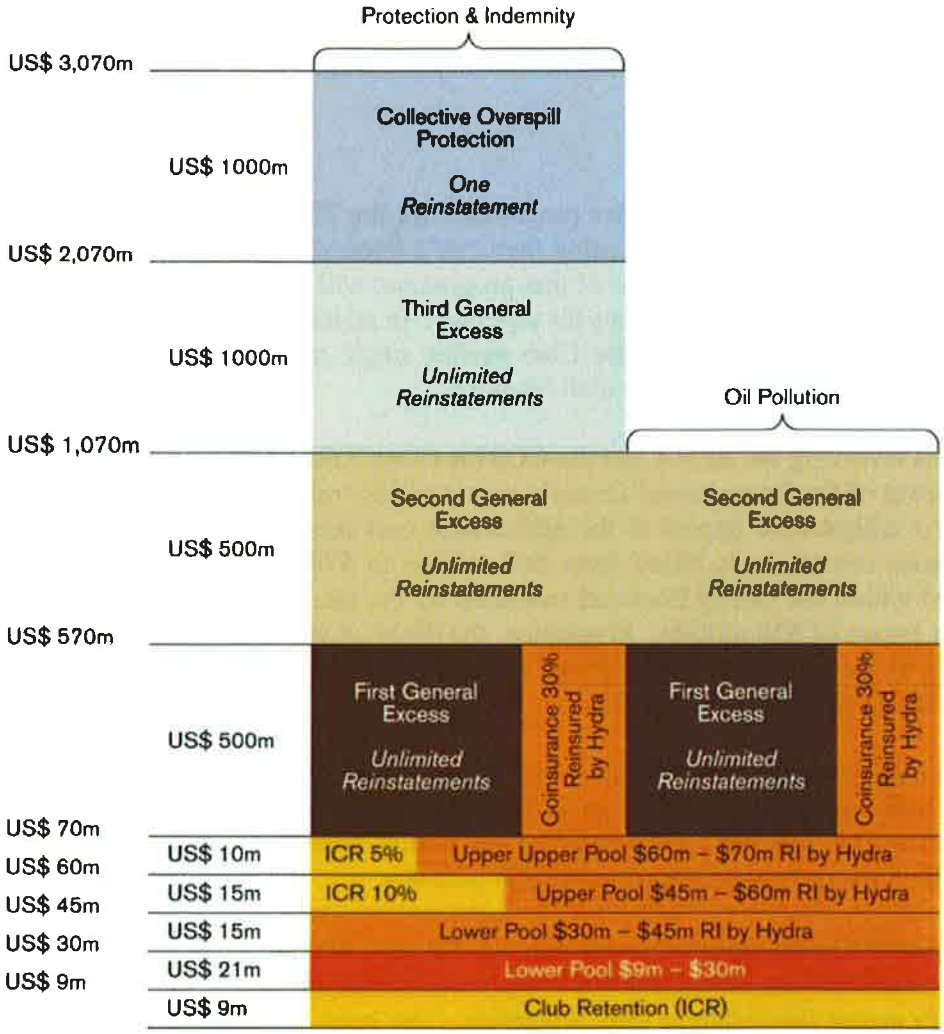
The 2011 claims involving the RENA and the COSTA CONCORDIA had a profound impact on the cost of the renewal of the International Group's excess of loss reinsurance programme for the 2013 policy year. To mitigate the impact of the reinsurance cost increase, the attachment point on the Group reinsurance contract was raised from $60 million to $70 million, with the additional $10 million retained within the Group Pool and reinsured by the International Group's captive, Hydra, for $40 million excess of $30 million. In addition, the decision was taken to increase the Hydra co-insurance share in the first layer of the group reinsurance programme ($500 million in excess of $70 million) from 25 percent to 30 percent.

For 2013/14, a new three layer Pool structure has been introduced with a lower level layer from $9 million to $45 million, a second layer from $45 million to $60 million (within which, as currently, there is a claiming club retention of 10 percent) and a third layer from $60 million to $70 million within which there is a claiming club retention of 5 percent).

As the International Group reported in its Annual Review, the steep increase in the cost of the Group's reinsurance contract meant that there was considerable interest in the process of allocation of that premium across the different ship categories. The rates were set, as in previous years, in accordance with the Group's general objectives, principally those of moving towards claims versus premium balance for each ship type over the medium to longer term. Currently there are four ship types for allocation purposes, although the Group continues to review the need for, or desirability of, increasing the range of ship types and has said that it will focus on this again during the course of 2013. Moreover, the structure of the Group claims sharing and Pooling arrangements, allocation of reinsurance premium and the more effective participation of Hydra in the Group's reinsurance arrangements will all be under review during 2013.

The overall structure of the International Group Excess Loss Reinsurance Contract is shown in figure 4 below.

Figure 4: structure of International Group general excess of loss reinsurance programme 2013 policy year



Claims

The claims development of the most recent policy years during the last financial year has been particularly encouraging with favourable performance on the 2007, 2008 and 2011 policy years. In overall terms the 2011 policy year is developing in line with the 2003 policy year, which was one of the best of recent times. In contrast the 2012 policy year is likely to be significantly more costly than 2011, see figure 5. At the twelve month stage net notified claims for 2012 are $186 million compared to $129 million and $172 million in 2011 and 2010 respectively. This is due principally to the incidence of larger, more random claims, rather than an increase in claims frequency see figure 6.

Figure 5: total net notified claims for policy years 1998-2012, at 20th February 2013 $ million

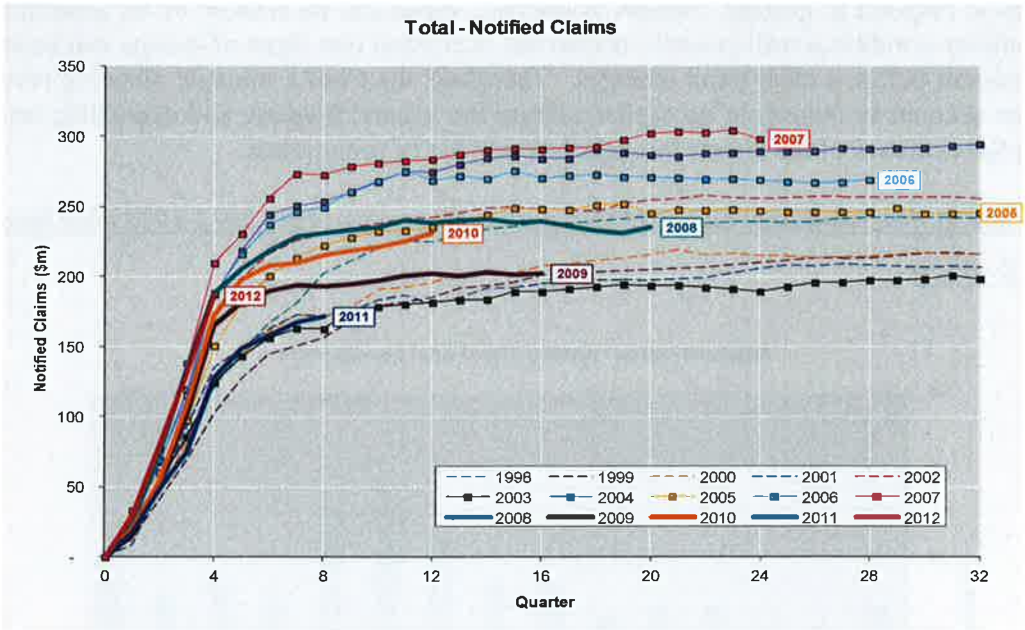
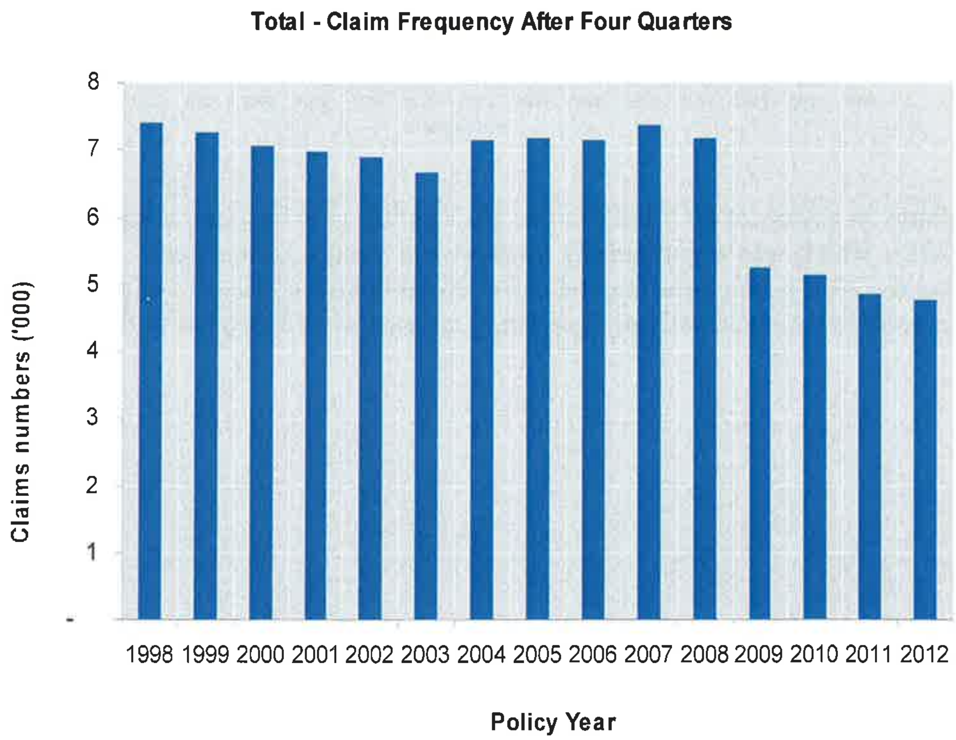
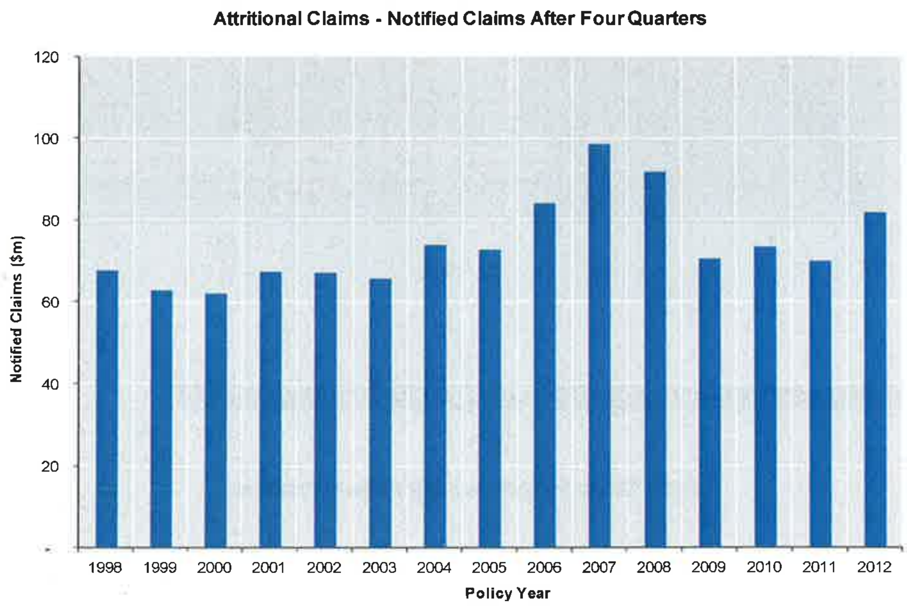


Figure 6: claims frequency policy years 1998-2012 at 20th February 2013



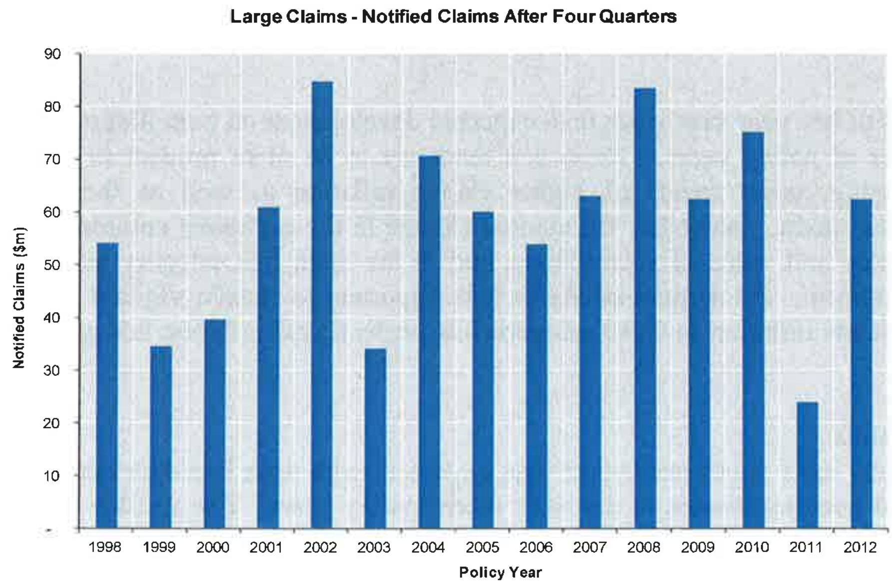
The frequency of notified claims below $0.5 million in 2012 is at a similar level to the 2011 policy year at 12 months. This is to be expected given the depressed levels of shipping activity. However, the value of these claims have slightly increased, see figure 7. At certain points in the cycle, it is easy to fail to respond to gradual changes in activity, which can be masked by an assumption that current industry conditions will prevail. Moreover, it is usual that signs of change can be irregular and inconsistent before a clear trend emerges. Therefore, the Club's strategic planning takes these factors into account in managing its capital, setting the general increase and deductible levels and managing the extremes of the claims through the purchase of reinsurance.

Figure 7: net notified attritional claims (<$0.5 million) for policy years 2012-1998 after four quarters, $ million



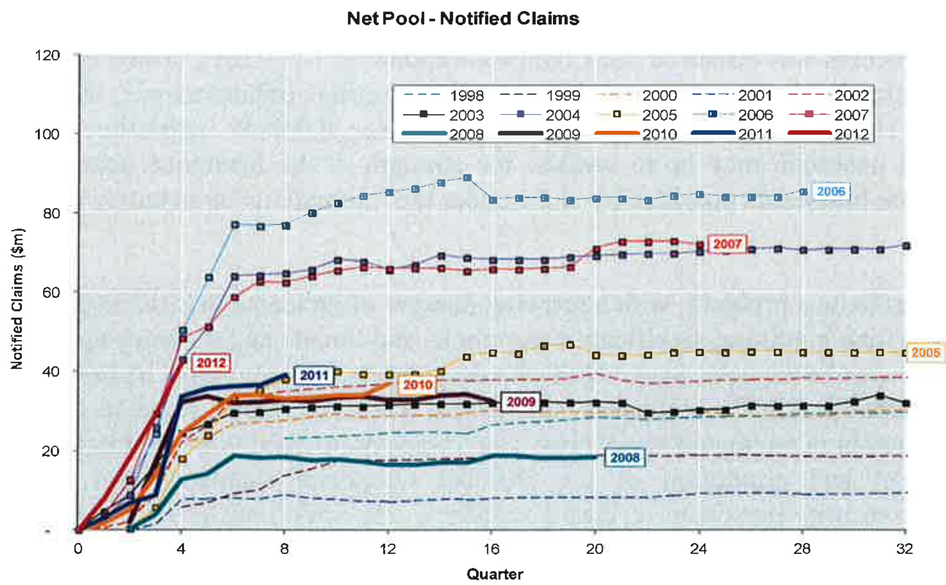
For notified claims in excess of $0.5 million the 2012 policy year has seen a much higher level of activity than 2011, which was a particularly unusual and benign claims year. Taking the longer term perspective the 2012 policy year may be more representative of the cost of an average year for the Club at this point in the cycle and this is certainly appears to be borne out in figure 8 below.

Figure 8: net notified large claims (>$0.5 million) for policy years 2012-1998 after four quarters, $ million



The random nature of events becomes more marked at the Pool level and figure 9 below shows the development of the Club's Pool contributions (on a claims notified basis) since 1998. Recent years have been marked by some significant claims, though the number and value of those claims has differed considerably. The Club's record on the Pool continues to be exceptionally good with its credit balance now standing well in excess of $100 million. The impact of this and other changes to the Pooling mechanism have served to reduce the Club's Pool share significantly. In addition to the benefit that this brings, the Club has protected itself by purchasing protection for its own and its share of other clubs' Pool claims, and it is projected that this will result in a material recovery on the 2012 policy year, effectively capping the exposure around current net notified levels.

Figure 9: net notified Pool claims for policy years 2012-1998, $ million



Claims types
An analysis of claims by type brings out some interesting trends. For the cargo category, more recent financial years have seen material reductions in estimates on large cargo claims and a stable development of attritional claims in this category below $0.5 million. The principal reason behind the improvement on the larger claims arises from significant third party recoveries made by the Club.

The second half of last year saw better than expected development on both illness and injury claims across a number of policy years. There is a tendency to be more prudent in reserving for this category, reflecting recent trends of higher claims inflation as well as the impact of some particularly costly cases. Inevitably the marked change in the economic environment has reduced both the frequency and value of such claims, and in the main this category has seen better than expected development. As mentioned above it is important to remain vigilant against a possible resurgence in claims inflation in these categories as medical cost inflation has generally run ahead of inflation.

Charterer's claims
Charterer's claims have developed worse than expected, with both late deteriorations in the older policy years and poor experience in the more recent policy years. The average cost of claims has increased in the recent policy years, although this may be partly caused by increases in the Club's retention under the charterers' reinsurance facility. Despite the increase in claims in 2012, charterers' claims are still the smallest category within the Club's business and the chartered account continues to outperform the Board's target for this class of business.

Industry issues

Sanctions
The effect of sanctions on the marine industry, and in particular on marine insurance, became more complex in 2012, with a web of overlapping and ambiguous regulations at national, regional and supra-national level targeting particular individuals, entities, trades and cargoes. The language of EU Council Regulation 267/2012 issued in January 2012, for example, created much uncertainty as to whether the use of bunkers originating in Iran or containing components from Iran was subject to sanctions, and by implication as to whether the provision of P&I insurance was subject to sanctions for voyages undertaken with such bunkers. The sanctions potentially jeopardised the insurance cover of shipowners engaged in lawful trade who had no knowledge of the source of bunkers stemmed to their vessels. The Managers, with other clubs participating in the International Group's Sanctions Working Group, engaged with authorities to seek clarification. Although a clarification in favour of shipowners was issued in the Council's Regulation 1263/2012 issued in December 2012, more recent indications have suggested that some US sanctions regulators may take a different and harsher line. The unintended side effect of drawing up sanctions legislation in ways that are ambiguous and uncertain may be to weaken the strength of the insurance guarantees that are in place through the blue cards provided by clubs under the international convention system.

Piracy
Piracy continues to be a problem, with a growing number of incidents in 2012 in the Gulf of Guinea and off West Africa involving significant cargo theft, and threats and violence against ships crews. However, there was better news in the Gulf of Aden / Indian Ocean region, as the combined effects of military operations, BMP compliance, and armed guards on ships, resulted in a welcome and significant reduction in attempted hijackings. The Managers worked with the International Group in the development and promotion of the BIMCO Guardcon standard form contract for the employment of security personnel on board vessels, a step which has greatly assisted Members in improving the acceptability and insurability of contractual terms relating to the employment of guards on ships.

EU Passenger Regulation
The European Union Passenger Liability Regulation (PLR), giving effect in Europe to provisions equivalent to those in the 2002 Athens Convention, came into force on 31st December 2012. The Board had confirmed in 2011 its support for issuing non-war blue cards required under the PLR. When it became clear that there was not a sufficient number of clubs in favour of providing war blue cards to permit Pooling of that risk, the Managers worked on alternative reinsurance schemes to ensure that the Club was still able to assist Members with passenger ships to comply with their blue card obligations.

Maritime Labour Convention ("MLC")
The MLC will enter into force in August 2013, a year after the required number of ratifying States (30) was reached. The Bahamas, Liberia, Marshall Islands and Panama are among the 30 States which have ratified the MLC, as well as a number of EU States traditionally providing a high percentage of the global seafaring workforce. As a result, the MLC will effectively have universal application once it enters in force. The MLC establishes and codifies a framework of rights and duties for seafarers, shipowners, states and manning agents. Its principal purpose is to ensure the application of uniform standards of living and working conditions for seafarers serving onboard ships flying the flag of MLC states, or entering their ports and terminals. The MLC is a consolidation of over 60 separate existing ILO standards that have been brought together and modernised in one consolidated instrument. It presents a particular challenge to shipowners and P&I insurers, as it requires shipowners to comply with many operational and technical requirements, and it introduces new provisions on financial security in respect of liabilities described in the Convention. The liability provisions in the MLC include, amongst others, rights of seafarers or their families to claim compensation in the event of their death or long-term disability due to an occupational injury, illness or hazard. This can be set out in national law, the seafarer's employment agreement or a collective bargaining agreement.

The Club has amended its rules in order to allow certificates of entry to be used as evidence of financial security required at this stage under the MLC. However three years after the MLC enters into force, it will be amended to include more detailed requirements for financial security in respect of repatriation and death or long term disability. While this is not of immediate concern, it should be noted that more stringent financial security requirements will eventually apply.

EU Commission
The EU Commission's investigation into the Group clubs, initiated in 2009 was finally closed, after a considerable amount of time spent by the Managers and the International Group in educating, persuading and exchanging of views with the Commission. The positive outcome is a further endorsement and recognition of the strength and importance of the cover provided through the mutual system embodied by the club system.

Liquefaction
The Club, in co-operation with others in the International Group, has continued to assist ship operators in relation to the carriage of cargoes which have a tendency to liquefy when loaded with excess moisture. Constructive industry discussions with the authorities in India diminished the problems which had been generated by the export of iron ore fine cargoes but the carriage of nickel ore cargoes from Indonesia and the Philippines has continued to cause concern. These have far too often been exported in poor condition, with incorrect declarations of their moisture content making the consignments prone to liquefying on the voyage, often to China, due to a combination of vibrations generated by the ship and the sea conditions encountered on the route. This problem has been considered in some detail amongst the International Group clubs and discussions extended to other industry bodies which culminated in a joint visit to Jakarta in March 2012 but, regrettably, progress towards implementation of the controls provided for in the IMSBC Code, which has been adopted internationally to regulate the safe carriage of cargoes, was not achieved.

With no likelihood of early compliance the International Group decided to make it mandatory for Members to report any intention to load nickel ore cargo in either Indonesia or the Philippines.

The Club took the opportunity to instigate a fresh approach aimed at focusing upon the underlying technical details and with that in mind retained two experts from Imperial College in London. Their brief was to review the available literature on the issue of the liquefaction process and undertake a critical review of the three main test methods currently used to determine moisture content and assess current industry practice in estimating transportable moisture limits (TML) based upon flow moisture points (FMP) and the appropriateness of the 90 percent factor used for different Group A cargoes. Imperial produced a report which covered the underlying issues from a scientific perspective.

As a result of a developing dialogue with Vale, Brazil's largest exporter of iron ore, in June 2012, Vale invited representatives from the International Group, the International Chamber of Shipping, BIMCO and Intercargo to visit a number of their facilities and to gain a clearer impression of the research which they had been undertaking aimed at ensuring safe carriage by sea. Vale considered that current test methods produced inaccurate results and proposed an alternative methodology. They conceded that their own tests could not be accepted without scrutiny and the Club was able to propose that the experts from Imperial College could be involved in a thorough peer view. This was soon followed by complementary developments which led to the three major mining interests of BHP, Rio Tinto and Vale agreeing to work together on a co-operative basis to share and verify each other's results. This would consider the adequacy of current methods for determining transportable moisture limits for iron ore fines and consider new and/or amended existing methods to be included in Appendix 2 of the IMSBC Code with the aim of submitting a report to IMO for DSC18 in September 2013.

The attitude of the three major mining exporters contrasts radically with the attitude of the myriad of small exporters in Indonesia and the Philippines and, unfortunately, the attitude of those government authorities which should be acting as effective regulators of the export of nickel ore cargoes by ensuring proper sampling, surveying and testing and consequently safe carriage. Only by this means can the loss of further ships and their crews be prevented.

Investments

The slow economic recovery from the deep recession caused by the consequences of excessive levels of gearing in the period leading up to 2008 continued during the year. The economic recovery speed, however, varied enormously by geographic area. In the US the banking system seems to have recovered fully, with satisfactory levels of lending taking place, helping to support business and consumer confidence which has led to a recovery in the employment market and a significant improvement in the housing market. The re-election of the President, and wrangles over budgets, deficits and debt ceilings, have, to date, not been sufficient to hold back the private sector. Economic activity in Europe and Japan on the other hand has remained more subdued. The central banks there have had to be more supportive in an attempt to prevent further dips in economic growth. Unfortunately central bank action has tended to be reactionary rather than proactive. Two central bank's decisions in the last twelve months had, and will continue to have, important implications for future economic progress and the performance of financial markets. The first was in June when the President of the European Central Bank indicated that they were prepared to do whatever it takes to support the euro. This announcement and subsequent actions has brought much needed stability to European financial markets, allowing the required economic adjustments to take place more gradually. The second was the decision of the Japanese central bank to undertake significant stimulatory measures in an attempt to escape from the debilitating deflation that has existed there for so long. Aggressive quantitative easing has weakened the currency and stimulated the stock market. The implications of this are likely to be felt globally and not just in Japan.

Given this backdrop, and the political and central bank wish to reflate, 2012 was a year when risk assets performed well and the investment portfolio benefitted accordingly, despite maintaining a relatively conservative asset allocation. Government bond markets provided very low returns although greater returns were obtained from longer dated bonds and corporate bonds, particularly those with lower credit ratings. Equity markets produced healthy returns in dollar terms with the S&P 500 rising 15.0 percent and the Eurostoxx 50 rising 12.6 percent with a strong recovery in the second half of the year. Emerging markets, despite continuing to produce healthy levels of economic growth, underperformed other equity markets.

Portfolio Positioning – percent of assets

	February 2013	**February 2012**
Equities	17.50	10.31
Fixed Interest	65.18	68.31
Absolute Return Funds	10.32	10.23
Cash	7.00	11.15
	100.00	**100.00**

As can be seen from the above table, the Club took on more risk in its portfolio than the previous year. The equity position was higher during the year, being reduced shortly before the year end after a strong run in the markets. The portfolio also benefitted from being underweight the weak euro in the first half of the year but then closing that underweight in June and going overweight European equities. This resulted in the investment portfolio returning 3.7 percent during the financial year, adding $39.6 million to the Club's assets.

Independent auditor's report to the Members of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited

Report on the Financial Statements

We have audited the accompanying financial statements of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited, which comprise the consolidated statement of financial position as at 20th February 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in reserves and consolidated statement of cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

This report is made solely to the Association's Members, as a body, in accordance with Bermuda law. Our audit work has been undertaken so that we might state to the Association's Members those matters we 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20th February 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB 13th May 2013

Note: The maintenance and integrity of the Association's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSOCIATION (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 20th February 2013

Amounts in $000	Notes	2013	2012
Insurance premium revenue	13	360,181	360,540
Insurance premium ceded to reinsurers	13	(73,190)	(70,685)
Net insurance premium revenue before discount		286,991	289,855
Mutual Premium Discount	13	(7,231)	-
Net insurance premium revenue		279,760	289,855
Net investment return	14,15,16	39,609	15,877
Net income		**319,369**	**305,732**
Change in provision for insurance claims	10	60,568	(10,430)
Reinsurers' share of change in provision for insurance claims	10	(39,709)	34,772
Insurance claims and loss adjustment expenses	10	(335,883)	(321,070)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	56,345	53,441
Net insurance benefits and claims		**(258,679)**	**(243,287)**
Expenses for the acquisition of insurance contracts	17	(20,060)	(20,425)
Net operating expenses	17	(21,073)	(18,962)
Foreign exchange losses		(412)	(2,852)
Expenses		**(300,224)**	**(285,526)**
Results from operating activities		**19,145**	**20,206**
Finance costs	12	(9,000)	(9,000)
Surplus before tax		**10,145**	**11,206**
Income tax expense	18	(636)	(267)
Surplus for the year attributable to members		**9,509**	**10,939**
Other comprehensive income			
- Amounts recycled into surplus		(1,963)	(3,046)
- Fair value gain/(loss)		51	(427)
Other comprehensive income for the year net of tax		**(1,912)**	**(3,473)**
Total comprehensive income for the year attributable to members		**7,597**	**7,466**

Other comprehensive income items are disclosed net of tax as there are no amounts of income tax that relate to these items.

The notes on pages 26 to 58 are an integral part of these consolidated financial statements.

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSOCIATION (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 20th February 2013

Amounts in $000	Notes	2013	2012
Assets			
Financial assets			
Investments	6	1,067,622	1,038,816
Loans and receivables including insurance receivables	7	83,560	85,029
Derivative financial instruments	8	51	1,963
Reinsurance contract assets	10	291,332	331,041
Cash and cash equivalents	9	116,120	158,423
Accrued interest		4,757	6,099
Total assets		**1,563,442**	**1,621,371**
Reserves and liabilities			
Capital and reserves attributable to members			
Free reserves		393,765	384,256
Cash flow hedging reserve	8	51	1,963
Other reserves		240	240
Total		**394,056**	**386,459**
Financial liabilities - Perpetual subordinated capital securities	12	99,775	99,318
Total		**493,831**	**485,777**
Other liabilities			
Insurance liabilities	10	1,046,420	1,109,910
Derivative financial instruments	8	367	824
Provisions		624	615
Trade and other payables	11	21,622	24,122
Current income tax		578	123
Total		**1,069,611**	**1,135,594**
Total reserves and liabilities		**1,563,442**	**1,621,371**

The notes on pages 26 to 58 form an integral part of these consolidated financial statements.
The consolidated financial statements were approved by the Board of Directors on 13th May 2013 and were signed on its behalf

Dino Caroussis
Director

Eric Andre
Director

Hugo Wynn-Williams
Manager

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSOCIATION (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	Attributable to members			
Amounts in $000	**Free reserves**	**Cash flow hedging reserve**	**Other reserves**	**Total**
Year ended 20th February 2013				
At the beginning of the year	384,256	1,963	240	386,459
Surplus for the year	9,509	-	-	**9,509**
Other comprehensive income				
Cash flow hedge- recycled to surplus	-	(1,963)	-	**(1,963)**
Cash flow hedge change in fair value	-	51	-	**51**
Total other comprehensive income for the year	-	(1,912)	-	**(1,912)**
Total comprehensive income for the year	9,509	(1,912)	-	**7,597**
At the end of the year	**393,765**	**51**	**240**	**394,056**
Year ended 20th February 2012				
At the beginning of the year	373,317	5,436	240	**378,993**
Surplus for the year	10,939	-	-	**10,939**
Other comprehensive income				
Cash flow hedge- recycled to surplus	-	(3,046)	-	**(3,046)**
Cash flow hedge change in fair value	-	(427)	-	**(427)**
Total other comprehensive income for the year	-	(3,473)	-	**(3,473)**
Total comprehensive income for the year	10,939	(3,473)	-	**7,466**
At the end of the year	**384,256**	**1,963**	**240**	**386,459**

The notes on pages 26 to 58 form an integral part of these consolidated financial statements.

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSOCIATION (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 20th February 2013

Amounts in $000	Notes	2013	2012
Operating activities			
Calls and premiums received		353,053	367,944
Receipts from reinsurance recoveries		58,955	50,637
Interest and dividends received		20,740	19,749
		432,748	**438,330**
Claims paid		337,403	320,678
Acquisition costs		20,060	20,425
Operating expenses paid		21,955	19,838
Reinsurance premiums paid		74,574	65,458
Taxation paid		180	821
		454,172	**427,220**
Net cash (used)/ provided by operating activities		**(21,424)**	**11,110**
Investing activities			
Purchase of investments		(1,375,095)	(677,266)
Sale of investments		1,363,081	558,118
Net cash used in investing activities		**(12,014)**	**(119,148)**
Financing activities			
Interest paid on perpetual subordinated securities		(9,000)	(9,000)
Net cash used in financing activities		**(9,000)**	**(9,000)**
Net decrease in cash and cash equivalents		(42,438)	(117,038)
Effect of exchange rate fluctuations on cash and cash equivalents		135	905
Cash and cash equivalents at the beginning of the year	9	158,423	274,556
Cash and cash equivalents at the end of the year	**9**	**116,120**	**158,423**

The notes on pages 26 to 58 form an integral part of these consolidated financial statements.

Note 1
General Information

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("the Association") is incorporated in Bermuda 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. The Association has no share capital and is controlled by the Members who are also the insured policy holders.

These consolidated financial statements have been authorised for issue by the Board of Directors on 13th May 2013.

Note 2
Summary of significant 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 Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as defined by International Accounting Standards 1 (IAS 1). They have been prepared under the historical cost convention, as modified by the recording of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Association has issued tradable securities on the London Stock Exchange. However the Association is not required to comply with the full disclosure requirements of the exchange since the securities are debt in nature.

Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Association.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board ("IASB") work on the replacement of IAS 39 Financial Instruments: recognition and measurement, and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Association's financial assets including the withdrawal of measurement at cost, but will potentially have no impact on classification and measurements of financial liabilities. The Association will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10: Consolidated Financial Statements

On 12 May 2011 the IASB issued IFRS 10 Consolidated Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. An assessment of IFRS 10 was performed by the Association, and it is considered to have little to no impact on the Association.

IFRS 12: Disclosure of interests in Other Entities

On 12 May 2011 the IASB issued IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 12 may impose certain additional disclosure requirements on the Association; however it has no effect on the financial position or performance of the Association.

IFRS 13: Fair value measurement

On 13 May 2011 the IASB issued IFRS 13 Fair Value Measurement. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The IFRS is not expected to have a significant impact on the financial results of the Association and is expected to have a minimal impact on disclosure.

IAS 1: Presentation of financial statements

The IASB issued amendments to IAS 1 Presentation of Financial Statements on the presentation of other comprehensive income (OCI). The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit and loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for annual periods beginning on or after 1 July 2012. As all of the Association's items of other comprehensive income will be reclassified to profit and loss in the future, this amendment is expected to have no impact on the results of the Association.

2.2 Consolidation

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Association has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Association controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Association and de-consolidated from the date on which control ceases.

The Association uses the acquisition method of accounting to account for the purchase of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interest. The excess of the cost of acquisition over the fair value of the Association's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income. Acquisition related costs are expensed in the year of cost.

Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated upon consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Association.

These consolidated financial statements include the results of the wholly owned subsidiary companies, International P&I Reinsurance Company Limited ("IPIR"), which is registered in the Isle of Man, and The United Kingdom Mutual Steam Ship Assurance (Europe) Limited ("UK (Europe)"). Before the Group was restructured (see Note 23), IPIR reinsured 90 percent of the risks retained by the Association and its subsidiary UK (Europe). At the year end, IPIR continues to reinsure certain risks of the Association. The Association is the sole Member of UK (Europe) which insures its Members. Following the Group restructure, the Association reinsures 90 percent of the risks retained by UK (Europe) which insures the majority of the Members of the Group.

The Association accounts for its investment in Hydra Insurance Company Limited ("Hydra") as a special purpose entity. Hydra is a Bermudian segregated cell captive established by the International Group of P&I clubs to reinsure part of the risk which clubs that are party to the Pooling Agreement previously reinsured in the market. Under the terms of the Hydra's byelaws, the governing instrument assets are segregated in separate cells in such a way that they can be used only to satisfy the liabilities of the 'owning' club. The results of the separate cell "owned" by the Association are consolidated within the consolidated financial statements; with all inter company transactions eliminated on consolidation.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. 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.

The Association provides protection and indemnity risk cover to its Members, and as such has identified this to be the only reportable segment of the Association. As a result no further segmental reporting is presented apart from the geographical disclosure as presented in Note 5.

2.4 Annual accounting

The consolidated statement of comprehensive income is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year, the cost of claims incurred and reinsurance for the current year, and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the consolidated statement of comprehensive income and are allocated to a policy year or to a reserve.

2.5 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. Both the realised gains on financial assets and fair value gains on financial assets through profit and loss, investment income and exchange gains and losses are allocated proportionately to the average balance of funds on each open policy year and the other funds at quarterly intervals. Operating expenses are allocated to the current policy year.

2.6 Closed policy years

On formally closing a policy year, an amount equivalent to the anticipated future investment income arising from funds attributable to that year is transferred into the policy year account from the Contingency Account. This allows the policy year to close at the anticipated ultimate result. Thereafter, the actual income from such funds is credited to the Contingency Account so setting-off the original amount debited.

For a closed policy year, it is the policy of the Association to retain a balance sufficient to meet the outstanding and unreported claims on that year. Upon subsequent review (of that balance) any anticipated surplus or shortfall is allocated to or from the Contingency Account.

2.7 Foreign currency translation

(a) Functional currency presentation
Items included in the financial statements of each 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 which is 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 consolidated statement of comprehensive income.

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 the consolidated statement of comprehensive income.

Forward currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The profit or loss on exchange on these contracts is included within exchange gains and losses.

2.8 Financial assets

The Association classifies its financial assets as: at fair value through profit and loss, at cost and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

2.8.1 Classification

(a) Financial assets at fair value through profit and loss
The Association has designated its financial assets as at fair value through profit and loss, as the Association manages and evaluates the performance of its financial assets on a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as in this category unless they are designated as hedges.

The financial investments of the Association that are classified at fair value through profit and loss are shown in the consolidated statement of financial position. The fair value gains and losses are taken to surplus or deficit within the consolidated statement of comprehensive income which reflects the management of the portfolio on a fair value basis.

(b) Financial assets at cost
Investments in equity instruments, held for the long term, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

(c) Loans and receivables
Loans and receivables 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 are reviewed for impairment as part of the impairment review of loans and receivables.

2.8.2 Recognition and measurement

Purchases and sales of financial assets are recognised on trade-date – the date on which the Association commits to purchase or sell the asset.

Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Association has also transferred substantially all risks and rewards of ownership.

Interest and dividends receivable from the investments are included within investment income in the consolidated statement of comprehensive income. The fair value gains and losses on the movement in the market value of the investments compared to the cost are included in net fair value gains and losses on investments within the consolidated statement of comprehensive income. The realised gains and losses on sale of investments are included in net realised gains on financial assets through profit and loss in the consolidated statement of comprehensive income.

2.8.3 Determination of fair value

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors. Shareholdings in entities for which there is no recognised market are held at cost less any impairments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

2.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Association designates derivatives as either: hedges of highly probable forecast transactions (cash flow hedges); or non-hedge derivatives.

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 Association also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 8. Movements on the hedging reserve are shown in the consolidated statement of changes in reserves.

(a) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of comprehensive income within 'net fair value gains on financial assets at fair value through profit and loss'.
Amounts accumulated in reserves are recycled to income in the periods in which the hedged item affects profit or loss (for example, when the hedged forecast transaction takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income.

(b) Derivatives that do not qualify for hedge accounting
Changes in the fair value of all derivative instruments that do not qualify for hedge accounting are recognised immediately as a surplus or deficit within the consolidated statement of comprehensive income.

2.10 Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the financial liability applying the effective interest method.

2.11 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 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.

2.13 Insurance contracts - classification

The Association issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

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 the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate for internal and external costs of handling the outstanding claims.

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

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 the amounts of claims provisions established in previous years are reflected in the consolidated financial statements for the period in which the adjustments are made and disclosed separately, if material.

The provision for outstanding claims is shown in Note 10.

Insurance receivables and payables
Receivables (Note 7) and payables (Note 11) arising under insurance contracts are recognised when due and measured at cost less provision for impairment, which approximate fair value.

2.14 Reinsurance

The Association enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when incurred.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

2.15 Current and deferred income tax

The charge for taxation is shown in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.16 Provisions

Provisions are recognised when the Association has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions represent the best estimate of future payments, excluding claims payments, arising from a past event where the final payment is likely but not certain. The amount provided relates to disputes arising in the ordinary course of business of the Association, and the exposure to loss in excess of the amount accrued is minimal.

2.17 Revenue recognition

Revenue comprises the fair value for services, net of value-added tax, after eliminating revenue within the Association. Revenue is recognised as follows:

Insurance premium revenue
Calls and premiums include gross calls, less return premiums, release charges and provisions for cancellations. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

The Directors retain the power to levy supplementary premiums, or give discounts on mutual premiums on open policy years. These are recognised when the Board of the Association approves the supplementary premium or the discount.

There are no unearned premiums.

Fee and commission income
Fee and commission income consist mainly of reinsurance and profit commissions and policyholder administration fees. There are no deferred commissions. All other fee income is recognised when the service is provided.

(a) Interest income and expenses
Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit and loss, are recognised within 'investment income' (Note 14) and 'finance costs' (Note 12) in the consolidated statement of comprehensive income using the effective interest rate method. When a receivable is impaired, the Association reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(b) Dividend income
Dividend income is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities. Dividends are recognised within investment income (Note 14).

(c) Fair value gains and losses
Fair value gains and losses on investments recorded in the consolidated statement of comprehensive income include gains and losses on financial assets that relates to the movement in the market value of financial assets compared to the cost. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Note 3
Critical Accounting estimates and judgements

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments.

Note 4
Management of risk

The Association is governed by the Board of Directors which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Board is supported in its management of risk and decision making by a number of sub committees, being:

1. The Ship and Membership Quality Committee which ensures the quality of Association's membership thereby managing insurance and credit risk.
2. The Strategy Committee which assists the Board in formulating strategic direction across the business including risk, investment and reinsurance strategy.
3. The Audit and Risk Committee which considers the Business Risk Log and directs internal audit effort.
4. The IPIR Board which assists the Board in managing the investment portfolio of the Association. The Investment Committee will assume this role in 2013.

In addition further committees have been established to support operational decision making each of which report to the Audit and Risk Committee, being:

1. The Reinsurance Committee which considers the optimal reinsurance structure for the Association and the security of the counterparties to the programme.
2. The Reserving Committee which considers appropriate provision against unpaid claims.
3. The Finance Committee which considers the financial position of the Association including the risk of counterparty default.

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

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks through the Individual Capital Assessment ("ICA") and through the preparation for Solvency 2.

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 forum 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.

4.1 Insurance risk

The Association's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Association from a Member. The risk is managed by the underwriting process, acquisition of reinsurance cover, cover provided by the International Group Pooling Agreement, the management of claims cost and the reserving process.

Underwriting process
The Association provides Protection and Indemnity risk cover to Members. The Association is a mono line insurer writing complex risks. The Association utilises an acceptable loss ratio method of pricing risks and development of claims is monitored on a quarterly basis by the reserving committee and the Audit and Risk Committee.

Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management. These parameters cover areas such as screening of potential new Members and risks to ensure that they fall within the Association's guidelines for acceptable risk. Where necessary a pre entry ship inspection is completed.

Reinsurance and International Group Pooling Agreement
The establishment of the Association's reinsurance programme is driven by the Board's objective to manage risk to an acceptable level and to optimise the Association's capital position. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, facultative reinsurance to cover specific risks, cover against a single catastrophic event and an accumulation of smaller attritional claims.

The International Group Pooling agreement provides a sharing of claims costs between thirteen member associations. For the current policy year (the 2012/13 year) the first $8 million (2011/12: $8 million) of each claim is retained by the Association with the next $52 million (2011/12: $52 million) shared between Pool members at a rate calculated each year.

Above $60 million, the excess of loss reinsurance provides cover up to a limit of $3.06 billion.

Management of claims cost
As a mutual, the Association considers the management of claims cost for its Members with great importance. The Association's strategy is to help its Members prevent and avoid the occurrence of incidents whilst ensuring the efficient handling and management of claims when they occur. To facilitate this strategy the Association has established programmes to reduce claims risk including: information for Members on common claims and how they may be prevented, completion of inspections to review ship conditions, pre employment medical examinations for crew and production of various guides for safe carriage of goods and the avoidance of incidents.

Reserving process
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 as set out in Note 2 of the financial statements as directed and reviewed by the Audit and Risk committee. In order to minimise the risk of understating these provisions the assumptions made and techniques employed are reviewed in detail by senior management and periodically tested against third party consulting actuaries.

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, 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.

Amounts in US$000s	**2013**	**2012**
Increase in loss ratios by 5 percentage points		
Gross	(18,009)	(18,027)
Net	(14,350)	(14,493)
Decrease in loss ratios by 5 percentage points		
Gross	18,009	18,027
Net	14,350	14,493

The Association's method for sensitivity testing has not changed significantly from the prior year.

Financial risk
The Association manages the financial 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 (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Association may seek to minimise the effect of these risks by using derivative financial instruments to hedge risk exposures. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

4.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

During the year, the Board of the Association's subsidiary undertaking, IPIR, managed the investment risk of the majority of the Association's assets. In 2013 this will be the responsibility of the Investment Committee. The investment policy is set by the Board of Directors and reviewed annually. The policy reflects the risk appetite of the Association and is designed to maximise return whilst holding risk to a level deemed acceptable. The policy allows the investment manager to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority in investments such as government bonds and cash.

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 profile of the Association'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.

As at 20th February 2013					
Amounts in US$000s	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
Debt securities	475,527	54,885	137,129	64,097	731,638
Equities	133,544	26,828	54,100	-	214,472
Absolute return funds	121,512	-	-	-	121,512
UCITS	44,191	5,537	-	-	49,728
Derivative financial instruments	51	-	-	-	51
Cash balances	56,093	1,934	7,833	532	66,392
Amounts due from members	69,954	217	1,617	-	71,788
Reinsurers' share of outstanding claims	291,332	-	-	-	291,332
Accrued interest	2,556	621	1,270	310	4,757
Sundry debtors	9,189	893	1,763	(73)	11,772
Gross outstanding claims	(666,384)	(88,948)	(122,713)	(168,375)	(1,046,420)
Other liabilities	(18,984)	(2,384)	(1,756)	(67)	(23,191)
	518,581	**(417)**	**79,243**	**(103,576)**	**493,831**

As at 20th February 2012					
Amounts in US$000s	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
Debt securities	481,557	82,659	158,252	67,698	790,166
Equities	103,017	26,313	4,506	-	133,836
Absolute return funds	114,814	-	-	-	114,814
UCITS	40,335	12,157	14,172	-	66,664
Derivative financial instruments	-	1,963	-	-	1,963
Cash balances	85,626	2,884	1,827	1,422	91,759
Amounts due from members	70,832	20	1,041	-	71,893
Reinsurers' share of outstanding claims	331,041	-	-	-	331,041
Accrued interest	2,918	1,186	1,678	317	6,099
Sundry Debtors	12,021	634	355	126	13,136
Gross outstanding claims	(715,457)	(101,219)	(143,421)	(149,813)	(1,109,910)
Other liabilities	(21,213)	(2,317)	(2,011)	(143)	(25,684)
	505,491	**24,280**	**36,399**	**(80,393)**	**485,777**

In addition a liability of $99.8 million (2012: $99.3 million) relating to perpetual subordinated capital securities is denominated in US dollars.

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 and reserves at the year end by the following amounts:

Amounts in US$000s	**Effect on surplus after tax and reserves**
As at 20th February 2013	
Sterling	2,423
Euro	5,448
As at 20th February 2012	
Sterling	2,723
Euro	3,959

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. These investments typically have a short duration and terms to maturity comparing favourably to the maturity profile of liabilities. Also the Association's financing structure includes perpetual subordinated capital securities which pay a fixed interest rate. The Association has no debt with interest payments which vary with changes in interest rate.

Interest rate sensitivity analysis
It is estimated that the value of the Association's investment 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.

Amounts in US$000s	**Effect on investment valuation**
As at 20th February 2013	18,300
As at 20th February 2012	25,479

A decrease of 100 basis points would have an equal and opposite effect.

Equity price sensitivity analysis
The Association is exposed to price risk through its holding of equities and "fund of fund" hedge funds. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equity instruments amounted to 17.5 percent of the investment portfolio with a further 11 percent invested in "fund of fund" hedge funds.

The aim of the investment in the "fund of funds" is to reduce volatility through diversification. The exposure to this investment is limited by investment guidelines and at the year end amounted to $122 million.

Where available, the Association uses closing bid market values to determine the fair value of an investment holding. Unquoted investments are valued at cost. The carrying value of non quoted equity holdings at the year end amounted to $16.9 million.

A 10 percent increase in equity values would be estimated to have increased the surplus before tax at the year end by $21.4 million. This analysis assumes that all other variables remain constant.

4.3 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, are:

- Amounts recoverable from reinsurance contracts
- Amounts due from members
- Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts
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 Board considers 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
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. In addition, the Directors reserve the right to offset outstanding claims payments with outstanding debt unless there is a contractual arrangement that prevents such offsetting. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments
The investment policy manages the risk of default by limiting investment in instruments with a credit rating below "A" whilst also ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty. The policy allows for investment in equities and absolute return funds to a limited amount. The majority of investments being in fixed interest securities and UCITS. Within these materially all investments are at least A rated with many relating to Government or Supranational bodies.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings and the profile of the date at which amounts are due for settlement.

The credit rating bands are provided by independent ratings agencies:

As at 20th February 2013

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	176,727	390,733	93,938	70,240	731,638
UCITS	49,728	-	-	-	49,728
Derivative financial instruments	-	-	-	51	51
Cash balances	-	1,541	64,395	456	66,392
Amounts due from members	-	-	-	71,788	71,788
Amounts due from group pooling arrangement	-	-	22,363	14,595	36,958
Amounts due from reinsurers	-	126,971	122,968	4,435	254,374
Accrued interest	1,107	1,863	1,204	583	4,757
Sundry debtors	-	-	2,663	9,109	11,772
Total of assets subject to credit risk	**227,562**	**521,108**	**307,531**	**171,257**	**1,227,458**
Other Assets					
Equities	-	-	-	214,472	214,472
Absolute return funds	-	-	-	121,512	121,512
Total assets	**227,562**	**521,108**	**307,531**	**507,241**	**1,563,442**

As at 20th February 2012

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	200,717	423,686	85,686	80,077	790,166
UCITS	66,664	-	-	-	66,664
Derivative financial instruments	-	-	-	1,963	1,963
Cash balances	12,968	76,952	1,533	306	91,759
Amounts due from members	-	-	-	71,893	71,893
Amounts due from group pooling arrangement	-	-	46,513	30,319	76,832
Amounts due from reinsurers	-	123,894	124,831	5,484	254,209
Accrued interest	2,564	1,991	898	646	6,099
Sundry debtors	-	-	-	13,136	13,136
Total of assets subject to credit risk	**282,913**	**626,523**	**259,461**	**203,824**	**1,372,721**
Other Assets					
Equities	-	-	-	133,836	133,836
Absolute return funds	-	-	-	114,814	114,814
Total Assets	**282,913**	**626,523**	**259,461**	**452,474**	**1,621,371**

The following tables provide the profile of the dates at which amounts fell due for settlement:

As at 20th February 2013

Amounts in US$000s	Neither past due or impaired	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	731,638	-	-	-	-	731,638
Equities	214,472	-	-	-	-	214,472
Absolute return funds	121,512	-	-	-	-	121,512
UCITS	49,728	-	-	-	-	49,728
Derivative financial instruments	51	-	-	-	-	51
Cash balances	66,392	-	-	-	-	66,392
Amounts due from members	66,265	1,946	1,580	1,649	348	71,788
Reinsurers share of outstanding claims	291,332	-	-	-	-	291,332
Accrued interest	4,757	-	-	-	-	4,757
Sundry debtors	11,772	-	-	-	-	11,772
Total assets	**1,557,919**	**1,946**	**1,580**	**1,649**	**348**	**1,563,442**

As at 20th February 2012

Amounts in US$000s	Neither past due or impaired	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	790,166	-	-	-	-	790,166
Equities	133,836	-	-	-	-	133,836
Absolute return funds	114,814	-	-	-	-	114,814
UCITS	66,664	-	-	-	-	66,664
Derivative financial instruments	1,963	-	-	-	-	1,963
Cash balances	91,759	-	-	-	-	91,759
Amounts due from members	62,790	6,566	1,747	551	239	71,893
Reinsurers share of outstanding claims	331,041	-	-	-	-	331,041
Accrued interest	6,099	-	-	-	-	6,099
Sundry debtors	10,823	1,671	292	350	-	13,136
Total assets	**1,609,955**	**8,237**	**2,039**	**901**	**239**	**1,621,371**

4.4 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. 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 the Association'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 2013

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	731,638	-	-	-	-	731,638
Equities	214,472	-	-	-	-	214,472
Absolute return funds	-	121,512	-	-	-	121,512
UCITS	49,728	-	-	-	-	49,728
Derivative financial instruments	-	51	-	-	-	51
Cash balances	66,392	-	-	-	-	66,392
Amounts due from members	5,522	66,266	-	-	-	71,788
Reinsurers share of outstanding claims	-	90,667	59,724	83,273	57,668	291,332
Accrued interest	-	4,757	-	-	-	4,757
Sundry debtors	262	11,510	-	-	-	11,772
Total assets	**1,068,014**	**294,763**	**59,724**	**83,273**	**57,668**	**1,563,442**

As at 20th February 2012

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	790,166	-	-	-	-	790,166
Equities	133,836	-	-	-	-	133,836
Absolute return funds	-	114,814	-	-	-	114,814
UCITS	66,664	-	-	-	-	66,664
Derivative financial instruments	-	1,963	-	-	-	1,963
Cash balances	91,759	-	-	-	-	91,759
Amounts due from members	13,186	58,707	-	-	-	71,893
Reinsurers share of outstanding claims	-	108,986	70,658	99,619	51,778	331,041
Accrued interest	-	6,099	-	-	-	6,099
Sundry debtors	413	12,723	-	-	-	13,136
Total assets	**1,096,024**	**303,292**	**70,658**	**99,619**	**51,778**	**1,621,371**

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:

As at 20th February 2013

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	(325,662)	(214,519)	(299,104)	(207,135)	(1,046,420)
Derivative contracts	(367)	-	-	-	(367)
Other liabilities	(22,824)	-	-	-	(22,824)
Total other liabilities	**(348,853)**	**(214,519)**	**(299,104)**	**(207,135)**	**(1,069,611)**

As at 20th February 2012

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	(365,405)	(236,902)	(334,003)	(173,600)	(1,109,910)
Derivative contracts	(824)	-	-	-	(824)
Other liabilities	(24,860)	-	-	-	(24,860)
Total other liabilities	**(391,089)**	**(236,902)**	**(334,003)**	**(173,600)**	**(1,135,594)**

For contractual amounts payable on perpetual subordinated capital securities refer to Note 12.

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 (Bermuda) 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 Audit and Risk Committee. A human resource manual and including all key policies have also been documented.

4.6 Limitation of the sensitivity analyses

These sensitivity analyses 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 maintains an efficient capital structure from a combination of members' funds (reserves) and long term funding (Perpetual Subordinated Capital Securities), consistent with the Association's risk profile. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern, 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 Group's principal direct insurer continues to be regulated by the successors of the Financial Services Authority ("FSA") in the United Kingdom, the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"). Under the existing ICA 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 or a longer time frame with an equivalent probability. Throughout the period the Association complied with the regulators capital requirements and the requirements in the other countries in which it operates.

The Solvency 2 regime, when implemented, will replace the existing ICA regime. The Group has made significant progress towards Solvency 2 compliance including the Pillar II requirements for governance and risk management of and within the business. In addition, the Group has developed a Partial Internal Model which is already being used for capital and business decision making.

The issue of Perpetual Subordinated Capital Securities allowed the Association to strengthen its capital base in line with its objectives. The capital issued qualifies as tier one capital for the purposes of the existing regulatory requirements. Its purpose is to provide long term capital without forming part of ongoing operational cash requirements.

At the year end the Association's capital resources included reserves of $394 million (2012: $384 million) and Perpetual Subordinated Capital Securities of $100 million (2012: $99 million).

4.8 Fair value hierarchy

IFRS 7, 'Financial instruments – Disclosures' (amendment), requires enhanced disclosures about fair value measurement and liquidity risk. This requires disclosure of fair value measurements by level of the following fair value measurement 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).

At 20th February 2013, investments classified as Level 1 comprise approximately 88 percent of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include shares in other variable income securities, government and agency securities, and certain corporate debt securities.

At 20th February 2013, investments classified as Level 2 comprise approximately 12 percent of financial assets measured at fair value on a recurring basis. This primarily includes investments in unit trusts.

As disclosed in Note 8, the net fair value of derivative positions is approximately $(0.3) million at 20th February 2013. All of these derivative contracts are classified in Level 2. The fair values of derivative assets and liabilities are determined using year-end rates of exchange and the potential profit or loss on the derivative.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, see Note 2.

The following table presents the Association's assets and liabilities measured at fair value:

As at 20th February 2013	Level 1	Level 2	Total
Assets	**US$000s**	**US$000s**	**US$000s**
Financial assets at fair value through profit and loss			
- Equity securities	197,603	121,512	319,115
- Debt securities	731,638	-	731,638
Derivative financial instruments	-	(316)	(316)
Total	**929,241**	**121,196**	**1,050,437**

As at 20th February 2012	Level 1	Level 2	Total
Assets	**US$000s**	**US$000s**	**US$000s**
Financial assets at fair value through profit and loss			
- Equity securities	116,559	114,814	231,373
- Debt securities	790,166	-	790,166
Derivative financial instruments	-	1,139	1,139
Total	**906,725**	**115,953**	**1,022,678**

Note 5
Segment 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 statement of comprehensive income 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 statement of comprehensive income.

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

Amounts in $000	2013	2012
USA	60,922	62,245
Greece	48,353	51,559
Japan	49,805	49,899
Germany	42,838	42,599
China	12,222	15,375
Other	138,810	138,863
Total	**352,950**	**360,540**

In the analysis above, which is stated net of the Mutual Premium Discount; revenue is allocated based on the country in which the Member is located.

Management considers its external customers to be the individual policyholders; as such the Association is not reliant on any individual customer.

Note 6
Financial assets

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

Amounts in $000	**2013**	**2012**
Financial assets at fair value through profit and loss	1,050,753	1,021,539
Financial assets at cost	16,869	17,277
	1,067,622	1,038,816
Loans and receivables including insurance receivables (Note 7)	83,560	85,029
Total financial assets	**1,156,582**	**1,123,845**

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

Financial assets at fair value through profit and loss **Amounts in $000**	**2013**	**2012**
Equity securities		
- Listed	319,115	231,373
Debt securities		
- Listed	731,638	790,166
Total financial assets at fair value through profit and loss	**1,050,753**	**1,021,539**

Financial assets at cost		
Equity securities		
- Unlisted	16,869	17,277
Total financial assets at cost through profit and loss	**16,869**	**17,277**

Equity and debt securities classified at fair value through profit and loss are designated in this category upon initial recognition.

The market values of the listed investments, which are classified at fair value through profit and loss, are determined by reference to published price quotations in major recognised international stock exchanges.

The movement in the Association's financial assets (excluding loans and receivables – see Note 7) are summarised in the table below by measurement category:

Amounts in $000	Fair value through profit and loss	Cost	Total
At the beginning of 2012	**913,427**	**17,703**	**931,130**
Exchange differences on monetary assets	(8,864)	(426)	(9,290)
Additions	677,266	-	677,266
Disposals	(558,118)	-	(558,118)
Fair value net gains			
- Designated at fair value through income on initial recognition	(14,029)	-	(14,029)
Profit on sale of investments			
- Designated at fair value through income on initial recognition	11,857	-	11,857
At the end of 2012	**1,021,539**	**17,277**	**1,038,816**
Exchange differences on monetary assets	(3,010)	(408)	(3,418)
Additions	1,375,095	-	1,375,095
Disposals	(1,363,081)	-	(1,363,081)
Fair value net gains			
- Designated at fair value through income on initial recognition	8,043	-	8,043
Profit on sale of investments			
- Designated at fair value through income on initial recognition	12,168	-	12,168
At the end of 2013	**1,050,753**	**16,869**	**1,067,622**

Note 7
Loans and receivables

Amounts in $000	2013	2012
Insurance receivables:		
- Due from contract holders	74,788	74,516
- Due from agents, brokers and intermediaries	-	-
- Less provision for doubtful debts	(3,000)	(2,624)
- Due from reinsurers	8,918	11,528
- Prepaid reinsurance	-	-
	80,706	**83,420**
Other loans and receivables		
- Prepayments	304	287
- Sundry receivables	2,550	1,322
	2,854	**1,609**
Total loans and receivables including insurance receivables	**83,560**	**85,029**
Current portion	83,560	85,029
Non-current portion	-	-
	83,560	**85,029**

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

Note 8
Derivative financial instruments

The Association uses cash flow hedges and non hedge derivatives in certain overseas operations.

(a) Cash flow 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 table below analyses the derivative positions included as cash flow hedges:

Forward currency contracts	**2013**		**2012**	
Amounts in $000	Contract/ notional amount	Fair value asset	Contract/ notional amount	Fair value asset
Cash flow hedge	60,975	51	61,463	1,963
Total	**60,975**	**51**	**61,463**	**1,963**

Gains and losses in reserves on forward foreign exchange contracts as at 20th February 2013 will be released to the consolidated statement of comprehensive income at various times during the next year.

There was no ineffective portion attributable to cash flow hedges.

During the year $2.0 million was recycled into surplus with $1.3 million included within the gross claims paid and $0.7 million within net operating expenses.

(b) Non hedge derivatives
Forward currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses. These are economic hedges, but do not meet the hedge accounting criteria.

Forward currency contracts	**2013**		**2012**	
Amounts in $000	Contract/ notional amount	Fair value liability	Contract/ notional amount	Fair value liability
Investment portfolio	67,295	(367)	72,395	(824)
Total	**67,295**	**(367)**	**72,395**	**(824)**

Note 9
Cash and cash equivalents

Amounts in $000	**2013**	**2012**
Cash at bank and in hand	42,055	27,549
Short-term bank deposits	74,065	130,874
Total	**116,120**	**158,423**

Note 10
Insurance liabilities and reinsurance assets

Amounts in $000	2013	2012
Gross outstanding claims		
- Members' claims	923,223	982,705
- Other clubs' pool claims	123,197	127,205
	1,046,420	**1,109,910**
Reinsurer's share of gross outstanding claims		
- Group excess of loss and market reinsurance	144,374	144,209
- Pool recoveries	36,958	76,832
- Other reinsurers	110,000	110,000
	291,332	**331,041**
Total insurance liabilities, net	**755,088**	**778,869**
Current	234,995	256,420
Non-current	520,093	522,449

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. The IBNR reserve includes an amount for Occupational Disease claims amounting to a discounted value of $50 million (2012: $50 million). Occupational Disease claims have a significant latency period 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.

Other reinsurers include the recovery of $110 million relating to a multi year reinsurance policy.

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 $000 **Reporting year**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
- At the end of reporting year	337,008	329,208	355,573	311,727	241,341	275,765
- One year later	365,443	297,658	327,240	358,772	226,792	
- Two years later	370,243	286,252	309,713	369,809		
- Three years later	365,084	275,825	295,195			
- Four years later	365,421	262,373				
- Five years later	357,704					
Current estimate of cumulative claims	357,704	262,373	295,195	369,809	226,792	275,765
Cumulative payments to date	306,259	214,325	197,850	180,153	104,237	47,293
Liability recognised in the consolidated statement of financial position	51,445	48,048	97,345	189,656	122,555	228,472
Total liability relating to last six policy years						**737,521**
Other claims liabilities						308,899
Total reserve included in the consolidated statement of financial position						**1,046,420**

Insurance claims - net

Estimate of ultimate claims cost attributable to the policy year

Amounts in $000 **Reporting year**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
- At the end of reporting year	315,000	312,461	275,533	273,754	236,292	271,408
- One year later	329,721	288,704	240,488	257,209	207,605	
- Two years later	312,721	271,734	227,620	253,353		
- Three years later	309,729	262,857	218,443			
- Four years later	317,832	251,214				
- Five years later	310,789					
Current estimate of cumulative claims	310,789	251,214	218,443	253,353	207,605	271,408
Cumulative payments to date	266,665	207,489	157,970	133,118	100,598	47,268
Liability recognised in the consolidated statement of financial position	44,124	43,725	60,473	120,235	107,007	224,140
Total liability relating to last six policy years						**599,704**
Other claims liabilities						155,384
Total reserve included in the consolidated statement of financial position						**755,088**

The Association has elected to disclose only six years of claims experience data in its claims development tables as permitted by IFRS 4 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the 10-year information requirement has been satisfied.

10.2 Movement in insurance liabilities and reinsurance assets
Claims and loss adjustment expenses

Amounts in $000		2013			2012	
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**1,109,910**	**(331,041)**	**778,869**	**1,105,013**	**(296,269)**	**808,744**
Cash paid for claims settled in the year	(335,883)	56,345	(279,538)	(321,070)	53,441	(267,629)
Claims incurred in the current year	275,315	(16,636)	258,679	331,500	(88,213)	243,287
Exchange differences and other movements	(2,922)	-	(2,922)	(5,533)	-	(5,533)
Outstanding claims carried forward	**1,046,420**	**(291,332)**	**755,088**	**1,109,910**	**(331,041)**	**778,869**

Note 11
Trade and other payables

Amounts in $000	2013	2012
Reinsurance premium payable	11,187	12,571
Claims payable	1,853	2,443
Trade payables and accrued expenses	8,582	9,108
Total	**21,622**	**24,122**

The fair value of these balances approximates their carrying value.

Note 12
Perpetual subordinated capital securities

Amounts in $000	2013	2012
Financial liabilities at amortised cost:		
Perpetual subordinated capital securities	99,775	99,318

The securities, which have a principal amount of $100 million, were issued on 20th August 2008 and are listed for trading on the London Stock Exchange. Interest payable on the securities amounts to 9 percent per annum until August 2013. Following this, the interest rate will be 481.5 basis points above 3 month LIBOR rate. The securities are perpetual but can be redeemed at the option of the Association after a five year non call period.

The securities are classified as financial liabilities at amortised cost under IAS 32, however for the purposes of PRA requirements the securities qualify as tier one capital.

The structure of the perpetual capital securities as Innovative Tier 1 capital means that the Association has the right, but not the obligation, to defer interest payments if a Regulatory Intervention occurs or the solvency condition (being 125 percent of the Association's Enhanced Capital Requirement) is not met. No interest will accrue on any Deferred Interest Payment ("DIP").

Any DIP may be satisfied at any time at the Association's election, provided that the Association must satisfy such DIP on the earliest of the following to occur:

- the date on which a Regulatory Intervention no longer applies and the Association meets and, after payment of the deferred interest will meet, the solvency condition;
- a distribution of assets is made to members of the Association generally (other than in their capacity as senior creditors);
- the date on which a return of surplus calls is made;
- any payment is made on any securities or other obligations which rank pari passu with or junior to the capital securities;
- a redemption of the capital securities; and
- winding-up.

Where an interest payment is deferred, the Association will be restricted from making payments on, or redeeming, any parity securities or junior obligations unless and until it pays (including by way of alternative satisfaction mechanism, ("ASM")) in full all current and DIP.

The ASM provides that investors should always receive payments made in respect of Capital Securities in cash or by way of an issue to them of payment in kind ("PIK") securities.

For DIP the Association must, and for any other interest payments the Association may, use any of the following or combination thereof (as the Board of Directors deems appropriate) to satisfy that payment:

- out of the amounts raised after the relevant interest payment date from new capital items which the Association determines in its sole discretion remain available for such use at that time;
- by issuing PIK Securities (ie a further issue of fully-fungible capital securities) to holders; or
- by issuing other payment securities (ie a new issue of securities pari passu with the capital securities) – such amount to be calculated by a calculation agent appointed at the time - to the Trustee, which will then be sold to purchasers for a cash amount.

A coupon interest of $9 million was paid during the year.

Note 13
Net insurance premium revenue

Amounts in $000	2013	2012
Mutual		
Mutual premium	289,134	293,705
Return premium	(2,729)	(2,416)
Release charges	117	1,220
	286,522	**292,509**
Fixed premium		
Chartered vessels	55,682	51,272
Owned vessels	15,742	13,092
US Oil pollution	2,235	3,667
	73,659	**68,031**
Premium revenue arising from insurance contracts issued	**360,181**	**360,540**
Reinsurance		
Market underwriters	(73,190)	(70,685)
Net insurance premium revenue (before discounts)	**286,991**	**289,855**
Mutual Premium Discounts	**(7,231)**	**-**
Total Net insurance premium revenue	**279,760**	**289,855**

Mutual Premium Discount
At the Association's Board meeting in October 2012, it was agreed to offer the Members of the 2011 policy year a discount on mutual premium for that year of 2.5 percent. This Mutual premium discount, which amounted to $7.2 million, was returned to Members in December 2012.

Note 14
Investment income

Amounts in $000	2013	2012
Dividend income	7,864	4,267
Interest on fixed income securities	15,072	17,443
Bank deposit interest	260	28
Other investment charges	(3,798)	(3,689)
Total investment income	**19,398**	**18,049**

Note 15
Net realised gains on financial assets

Amounts in $000	2013	2012
Realised gains on financial assets at fair value through profit and loss		
- Debt securities	12,144	810
- Equity securities	2,585	11,047
Realised losses on financial assets at fair value through profit and loss		
- Equity securities	(2,561)	-
Total net realised gains on financial assets	**12,168**	**11,857**

Note 16
Net fair value gains on assets through profit and loss

Amounts in $000	2013	2012
Net fair value gains on financial assets through profit and loss		
- Debt securities	(12,829)	14,278
- Equity securities	20,872	(28,307)
Total	**8,043**	**(14,029)**

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

Note 17
Other expenses

Amounts in $000	2013	2012
Costs incurred in the acquisition of insurance contracts	**20,060**	**20,425**
Net operating expenses		
Residual management fee	9,519	9,457
Directors' Meetings	2,943	2,519
Managers / Agent travel	768	798
Sales and marketing	767	597
Publications	235	289
Printing and telecommunications	284	249
Correspondent charges	12	11
Legal and professional expenses	2,153	2,178
Bank and financial expenses	708	543
Loss prevention initiatives	237	281
Ship inspection initiatives	462	470
Operating branch and subsidiary costs	927	956
Group restructuring	1,533	-
Other expenses	525	614
Total operating expenses	**21,073**	**18,962**

Note 18
Income tax expense

Amounts in $000	2013	2012
Current taxes on income for the reporting period	-	-
Adjustment in respect of prior periods	77	(34)
Overseas taxation	(713)	(233)
Total income tax expense	**(636)**	**(267)**

The weighted average applicable tax rate was 7 percent (2012: 1.9 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:

Surplus before tax	10,145	11,206
Non taxable transactions	(10,145)	(11,206)
Tax calculated at domestic tax rates applicable to profits in the respective countries	-	-
Effects of		
- Overseas taxation	(713)	(233)
- Net adjustment in respect of prior periods	77	(34)
Total	**(636)**	**(267)**

Note 19
Principal subsidiaries and associates

Name	Country of incorporation	Nature of business	Proportion of shareholding
International P&I Reinsurance Company Limited	Isle of Man	Reinsurance	100 percent
The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited	United Kingdom	Insurance	100 percent
Hydra Insurance Company Limited	Bermuda	Reinsurance	100 percent of owned cell
The UK Club Private Trust Company Ltd	Bermuda	Investment holding	100 percent

All subsidiary undertakings are included in the consolidation.

Note 20
Contingencies

In recent years the increase in the International Group Pool retention has led the Member Associations of the International Group of P&I clubs to enter into a joint agreement to provide each other with additional security. Under the Agreement this Association maintains a letter of credit for $30.0 million to cover its share of the increased International Group exposure.

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 21
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.

The Association does not charge internal investment management costs to investment income but includes these costs within the management fee within operating expenses. To calculate the ratio, the figures are those disclosed within the consolidated statement of comprehensive income except that the internal investment management costs are taken as being the subsidiary company's management fee.

For the five years ended 20th February 2013, the ratio of 9.47 (2012: 9.46) 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 22
Related party transactions

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 (Bermuda) 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 $16.9 million. The Association has a contract with Thomas Miller (Bermuda) Limited which contains a two year termination clause.

Amounts in $000	**2013**	**2012**
Key management compensation		
Short term employee benefits - Directors' fees	984	859
Total	**984**	**859**

Note 23
Restructuring

As part of the Association's objective to maximise both capital and operational efficiency in existing and future regulatory regimes within the insurance market, the Association has reorganised the group structure on 20 February 2013.

Under the old structure UK (Europe) (a 100 percent subsidiary of the Association) issued insurance policies to Members in certain European countries whereas the Association issued insurance policies to all other Members directly insured by the Association. Both entities benefited from a 90 percent reinsurance agreement with IPIR.

Under the new structure, most of the Association's business (apart from certain activities in the Singapore, Hong Kong and Japan branches) has been transferred to UK (Europe) in accordance with Part VII of the Financial Services and Markets Act 2000. The Members of the Association retain their interests in the assets and liabilities transferred through their continued membership in UK (Europe) which is effective from the date of the transfer. UK (Europe) will underwrite all future business in respect of policies transferred and also assume the insurance risks of the Singapore, Hong Kong and Japanese branches in the future.

The 90 percent reinsurance arrangement with IPIR has been novated and going forward, UK (Europe) will be reinsured by the Association. IPIR will continue to provide 90 percent reinsurance cover for the insurance risks of the Hong Kong, Singapore and Japan branches.

The restructuring took effect from 20 February 2013 and did not affect the consolidated results of the Association.

Appendix (Unaudited)

Amounts in $000	**2012**	**2011**	**2010**	**Closed years**
Premium debited in this financial year	356,466	(3,396)	40	
Premium debited in previous financial years	-	360,213	364,408	
Reinsurance premium	(70,700)	(67,309)	(65,870)	
Net premium income	285,766	289,508	298,578	
Net paid claims and expenses	(91,049)	(157,889)	(189,911)	
Investment income	7,923	4,762	12,907	
Funds Available	**202,640**	**136,381**	**121,574**	**282,673**
Gross Outstanding Claims (including IBNR)				
Members' claims	(208,628)	(115,777)	(176,417)	(429,292)
Pool claims	(31,539)	(13,694)	(17,985)	(53,088)
	(240,167)	(129,471)	(194,402)	(482,379)
Reinsurance Recoveries				
Pool recoveries	-	-	9,590	27,367
Group excess of loss	-	-	24,811	48,375
Other market recoveries	6,664	15,539	35,021	123,964
	6,664	15,539	69,422	199,707
Net outstanding claims	**(233,503)**	**(113,932)**	**(124,980)**	**(282,673)**
(Deficit)/ Surplus	**(30,863)**	**22,449**	**(3,406)**	**-**
Future investment income	10,000	5,000	11,000	-
Anticipated (Deficit)/ Surplus	**(20,863)**	**27,449**	**7,594**	**-**

Notes:

(a) The approximate yield of a 10 percent supplementary premium on the open policy years would be $29 million (2012), $29 million (2011) and $30 million (2010).

(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.

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited Incorporated under the laws of Bermuda

Notice of Meeting

Notice is hereby given that the forty fourth Annual General Meeting of the Members of the Association will be held at Southampton Princess Hotel, Bermuda on Monday, 28th of October, 2013 at 9.00 am for the following purposes:-

To receive the Directors' Report and Financial Statements for the year ended 20th February, 2013 and if they are approved, to adopt them.

To elect Directors.

To consider amendments to the Rules and Bye-Laws

To appoint auditors and authorise the Directors to fix their remuneration.

To transact any other business of an Ordinary General Meeting.

By Order of the Board

D.W.R. Hunter
Secretary
13 May, 2013

Note:
A member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote instead of him. The instrument appointing a proxy shall be left at the registered office at Canon's Court, 22 Victoria Street, Hamilton, Bermuda not less than 12 hours before the holding of the meeting.

REGISTERED OFFICE AND BUSINESS ADDRESS OF THE ASSOCIATION

Canon's Court,
22 Victoria Street,
Hamilton, Bermuda

MANAGERS AND OFFICER

Managers:	**Thomas Miller (Bermuda) Ltd**
Secretary of the Association:	**D.W.R. Hunter**