UK P&I CLUB

2014 REPORT & ACCOUNTS

Directors' Report & Financial Statements
for the year ended 20th February 2014

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

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FINANCIAL OVERVIEW

$528

Free reserves and hybrid capital $m

A (STABLE)

Standard & Poor's rating

$4.29

Free reserves & hybrid capital per gt

102%

Combined ratio

INTRODUCTION

The Club's return to the top level of our industry, both in terms of capital and its underwriting discipline, has been recognised by Standard & Poor's in their decision to restore the Club's full A (Stable) rating. It is a very significant event for the Club, but we should not see this as an end in itself.

Having restored the Club's financial position, we have now to make sure that we put a similar level of effort into maintaining our reputation for best in class service.

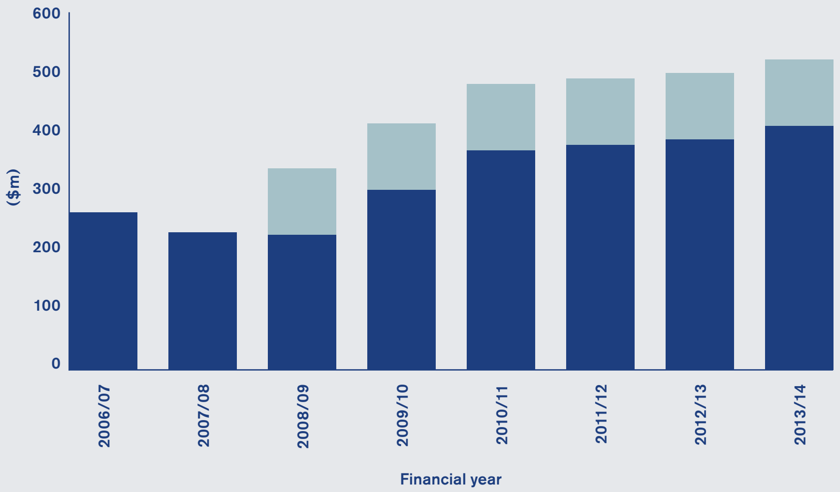
FINANCIAL HIGHLIGHTS

The financial year combined ratio of 102% represents the 4th consecutive year of combined ratio around the Club's target of 100%.

CAPITAL

- S&P rating improved to A (Stable)
- Free reserves and hybrid capital increased from $494 million to $528 million
- Free reserves and hybrid capital of $4.29 per ton (2012/13: $4.11)

Free reserves and hybrid capital for financial years 2006-2013

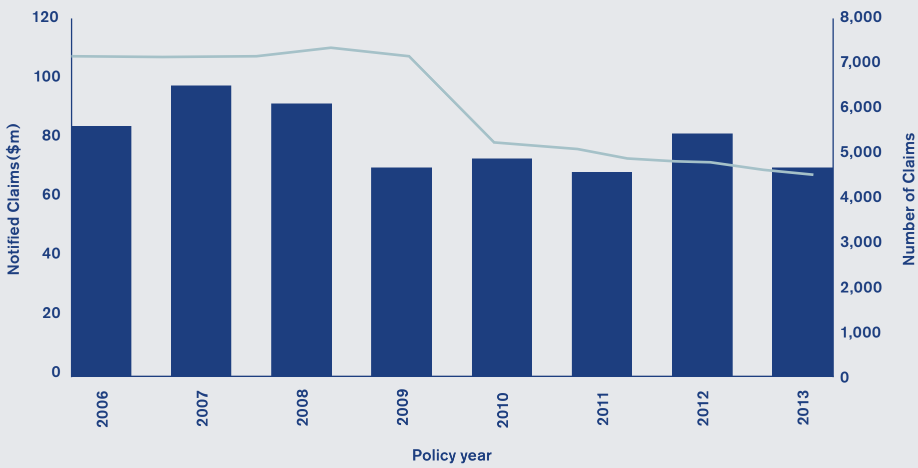


Key
Free reserves
Hybrid capital

CLAIMS FREQUENCY

- Continued decline in the number of claims brought to the Club
- Only 1% of claims exceed $0.5 million but these claims represent 60% of total cost
- The average cost of claims is inflating. On average, attritional claims (<$0.5m) are 50% more expensive than a decade ago

Attritional claims (<$0.5m) notified claims and claims frequency at 12 months 2006-2013



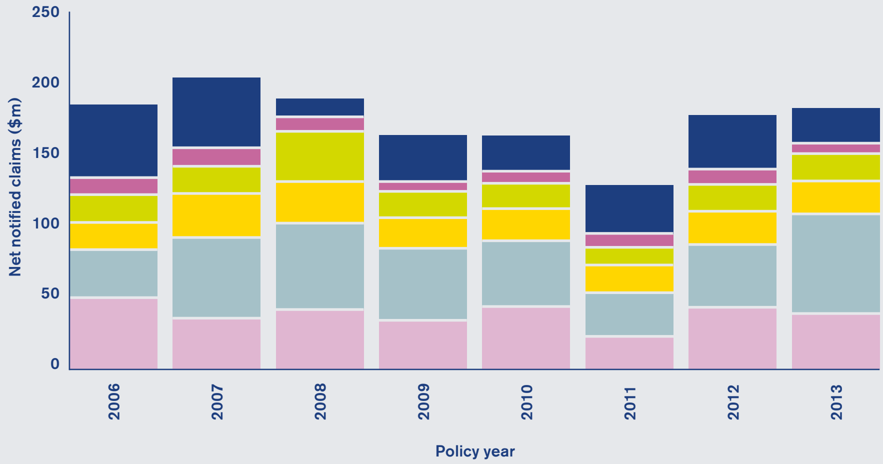
Key
Notified attritional claims cost
Number of claims

CLAIMS VALUES

- Steady growth in total claims cost of 4% per annum since 2009
- Variability year on year driven by the number and severity of large claims
- Pool credit balance remains in excess of $100 million significantly reducing the Club's pool share
- 2013 is one of the most costly years in recent times at the 12 month stage

Key
- Pool
- Charterers
- Injury
- Illness
- Casualty
- Cargo

Net notified claims at 12 months for policy years 2006-2013

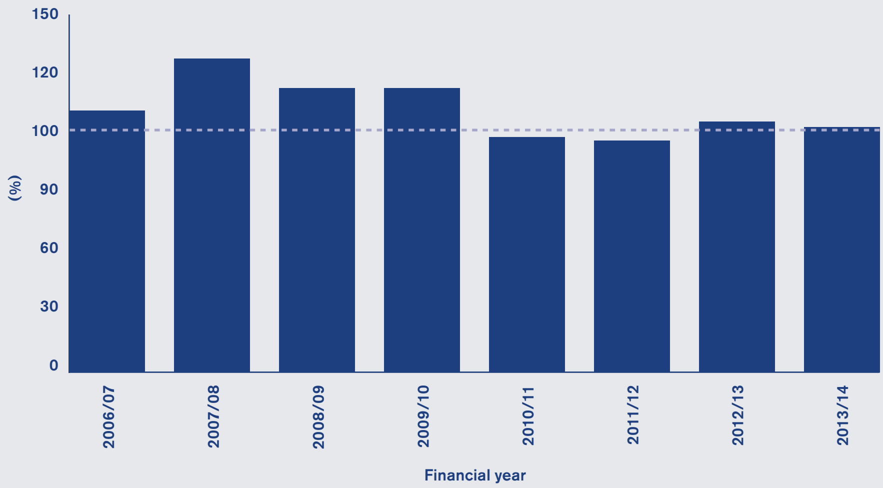


UNDERWRITING DISCIPLINE

- 2013/2014 financial year combined ratio of 102%
- Average combined ratio over the last four years of 100%
- Significant improvements on prior policy years offset expensive 2013 policy year

Key
- Combined ratio (%) excluding supplementary premium and mutual premium discount
- Target

Combined ratio for financial years 2006-2013

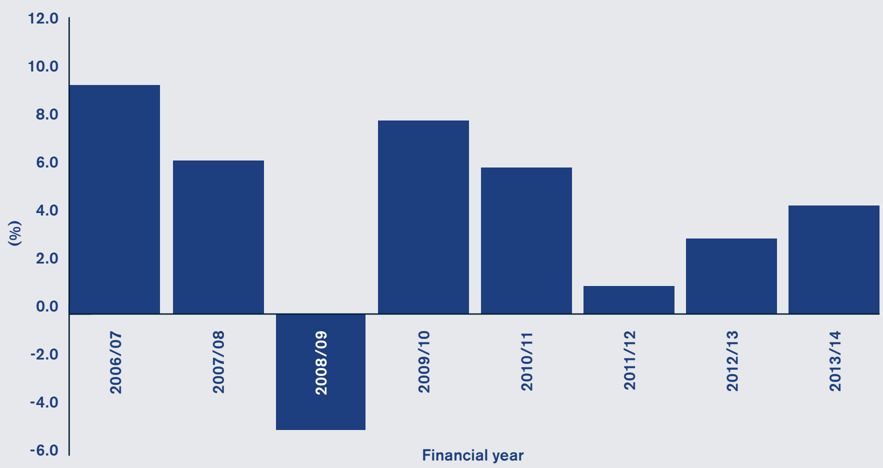


INVESTMENT PERFORMANCE

- Investment return of 4.5% ($44 million)
- Capital strength affords greater flexibility to investment strategy
- Asset allocation remains conservative

Key
- Return as % of portfolio

Investment portfolio performance



CHAIRMAN'S STATEMENT

Having restored the Club's financial position, we have now to make sure that we put a similar level of effort into maintaining our reputation for best in class service.

This is my first Chairman's Statement having taken over from Dino Caroussis in October last year and I would like to begin by expressing my thanks to him on behalf of the Board and the Club for his outstanding contribution to the affairs of our Club. When Dino took over the chair it was an extremely challenging time for the Club and its Members. During his tenure the Club has made huge strides towards its goal of becoming the leading shipowner controlled provider of P&I insurance. The strong results which we publish in these financial statements are a fitting testament to his leadership over the past five years

A strong result

This year the Club has increased its free reserves and capital by $34 million. This takes the Club's total capital to a new high of $528 million, comprising the underlying free reserves of $430 million and hybrid capital of $98 million. The outcome reflects a sound underwriting result in the face of mounting claims costs during the 2013 policy year, and an investment return of 4.5% amounting to $44 million.

The financial year combined ratio of 102% represents the fourth consecutive year of combined ratios close to 100%. As is noted in the Review of the Year, the financial year combined ratio is made up of a significant level of claims releases on older policy years, particularly the more recent years of 2011 and 2012. These releases have been driven by better than expected results on a number of major casualty claims. Combined with improvements on earlier policy years, this has enabled us to make significant releases while preserving the overall strength of the claims reserves.

We must be mindful, however, not to be over confident. This year's result has been offset by higher claims in the 2013 policy year, which at the half year point looked to be one of the most expensive on record. Although the claims eased in the second half of the policy year, the currently projected claims ultimate for 2013 is the highest since 2007, which marked the height of the claims exposure during the shipping boom, and it is currently 25% higher than the average of the claims in the past 5 years. While the overall result for the year is encouraging, we must take care to ensure that our premiums continue to move forward in order to address the undoubted underlying inflation in P&I claims.

Standard & Poor's

Standard & Poor's

I am delighted to report that the Club's return to the top level of our industry, both in terms of capital and its underwriting discipline, has been recognised by Standard & Poor's in their decision to restore the Club's full "A (Stable)" rating. It is a very significant event for the Club, but we should not see this as an end in itself. Having restored the Club's financial position, we have now to make sure that we put a similar level of effort into maintaining our reputation for best in class service. During the coming year we will be taking a hard look at all aspects of our service delivery to ensure that we have the right mix of skills in our offices around the world and the insurance products that our Members need to meet the demands placed on today's shipowners and charterers.

Capital

Capital

In this year's Review of the Year we have included for the first time a section on capital. This provides an explanation of the approach we take to determine the capital required to meet the risks facing the Club. The current level of capital that the Club holds through a combination of the free reserves and the hybrid capital will enable us to meet the regulatory requirements imposed by the Solvency 2 Directive. Your Board is very aware that the Club should not hold excessive amounts of capital, particularly in the current commercial conditions facing all shipowners, and is aware of the need to strike the right balance between maintaining a strong capital position and remaining competitive. In 2012 we were able to make a small return of funds on the 2011 policy year. If the circumstances allow, particularly in the event of another strong underwriting year, I would hope that it would be possible to make a further return in the future.

Another good renewal

Another good renewal

The market's confidence in the Club, underpinned by its strong financial results, has produced another good renewal for the Club. Premium was increased by 7% after allowing for movement in tonnage, the impact of changes in terms, and the increase in the cost of reinsurance. There was also a healthy increase in the tonnage, which now stands at around 124 million gt, and commitments were made for a further 4 million gt to be delivered during 2014. The achievement of both increased premium and increased tonnage underlines our commitment to controlled growth at the right premium rating. 2013 was also a good year for the Club's charterers' tonnage which now stands at over 80 million gt and generates in excess of $50 million in premium.

Risk management and reinsurance

Risk management and reinsurance

The Club's own reinsurance programme has played an important part in managing claims volatility over the past two years. It has cushioned the impact of pool claims in the 2012 and 2013 policy years and the Club's own large claims experience in 2012, thereby making a significant contribution to the Club's overall financial result this year. I am pleased to report that during 2013 we have been able to renew all the Club's own reinsurances on favourable terms and this will give us a large measure of protection against a surge in the frequency and value of our claims. As my predecessor said last year, our own reinsurance programme is not a substitute for sound underwriting, but it will protect the Club from the impact of a sudden increase in claims.

Risk management is not limited to reinsurance. The UK Club has the most extensive loss prevention programme in the P&I industry. It ranges from production of brochures and pamphlets to an in-depth risk assessment system using our own tailored methodology. During last year, the UK Club's website was refreshed and access to the loss prevention section, which contains a wealth of continually updated information, greatly improved.

Regulation

Regulation

Last year the Chairman reported on the steps that had been taken by the Club to meet the requirements laid down by the Solvency 2 Directive. These included the development of our internal model and the restructuring of our group of Clubs. The UK (Europe) Club became the principal provider of insurance to UK Club Members at 20th February 2013, save for those insured by Asian branches of the UK (Bermuda) Club. During 2013, new branches of the UK (Europe) Club were licensed in Hong Kong, Japan, and Singapore, and with the transfers of business to these branches in 2014 the restructuring exercise will have been concluded.

Industry matters

Industry matters

The Review of the Year provides the background to some of the key industry issues that were addressed by the Board during last year. These included the Maritime Labour Convention which entered into force in August 2013; the impact of expanded sanctions on Iran by the EU and US; and, most recently, the news that an IG club had developed plans to issue directly to the US Coastguard the guarantees that are needed for vessels to obtain a COFR (Certificate of Financial Responsibility) when trading to US ports. This initiative is in conflict with the long-established policy of the IG clubs to support the international convention system and to decline requests from individual states for anticipatory guarantees. Your Board strongly believes that the status quo should be maintained, as it has enabled the IG successfully to argue, at state and regional level, that multiple new financial security burdens should not be imposed on shipowners.

Governance

Governance

The revisions to the governance structure which we introduced last year are working well. The Board of UK (Europe) met seven times and the Board of UK (Bermuda) met three times. I would like to take this opportunity to thank my fellow directors and particularly those who serve on our key committees for the time they give to the Club's affairs. In particular I would like thank the Deputy Chairmen - Eric André, Ottmar Gast, Nicholas Inglessis and Masamichi Morooka for their support and to Nigel Smith for his chairing of the Audit Committee. Over the year we have lost the services of four directors - Philippe Louis-Dreyfus OBE, Agenor Junqueira, Jin Bang Lee and Adamantios Lemos in addition to Dino Caroussis who stood down from the Board at the end of his five year period as Chairman. I am grateful to all of them for the important contributions they have made to our deliberations over many years.

I am also delighted to welcome seven new directors - Sheikh Talal Khaled Al Ahmad Al Sabah, Angela Chao, Michael Fostiropoulos, Polys Hajioannou, Edouard Louis-Dreyfus, Paul Wogan and Riad Zein - who joined us during 2013 and I very much look forward to their contribution over the coming years.

In conclusion

In conclusion

I feel very privileged to have taken the chairmanship of the UK Club at a turning point in its fortunes. Over the past five years the Club has been able to rebuild its capital base, introduce discipline to its underwriting and improve its service proposition. It has moved significantly closer to achieving its goal of being the leading shipowner controlled P&I Club. I look forward to working with the Board and the Managers over the next five years and achieving that goal.

Alan Olivier, 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 2014.

Principal activities

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 2014 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 123 million gt (120 million in 2013). In addition, in excess of 80 million gt of chartered tonnage was entered in the Association at any time during the year.

Direction and management

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 three 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 Group Audit & Risk Committee of the Board meet three 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 eight 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.

REPORT OF THE DIRECTORS

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 subsidiary ("UK (Europe)") underwrites the majority of the business accepted by the group. The Board, which meets seven times 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 eight other Directors.

The Investment Committee advises the Board on investment strategy and policy. The Committee also monitors the performance of the investment portfolio. Eight members of the Board are supported by three investment specialists on the Committee.

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.

Directors

The present Directors of the Club are shown on page 9. Also shown are those who retired from the Board since 20th February 2013. 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 14C(i) provides for Directors to retire who have been in office for three years since their last election. Consequently Messrs E. André, N.G. Inglessis, A.C. Margaronis, M. Morooka, I. Güngen, G. Henderson, N. Idris, Y.C. Ng, P. Pathy, E. Rothwell, N.H. Schües and P.A Vasilchenko will retire at the forthcoming Annual General Meeting in Tokyo on 27th October 2014. All these Directors, with the exception of Messrs E. André and P.A. Vasilchenko, have offered themselves for re-election. Under a procedure permitted in Bye-Law 14C(v) Sheikh Talal Khaled Al Ahmad Al Sabah was elected to fill a casual vacancy in January 2014 and would also, therefore, stand for re-election.

In October 2013 Mr A.K. Olivier was elected as Chairman of the Board of Directors and Messrs E. André, O. Gast and Mr N.G. Inglessis were re-elected as Deputy Chairmen and Mr M. Morooka was elected as an additional Deputy Chairman to ensure continuity in January 2014.

BOARD OF DIRECTORS

Ultimate control over the Association's affairs rests with the Board of Directors, who are all elected by the shipowner Members of the Association.

CHAIRMAN & PRESIDENT

A.K. Olivier	Grindrod Limited, Durban

DEPUTY CHAIRMEN AND VICE-PRESIDENTS

E. André	Suisse-Atlantique SA., Renens/Lausanne
O. Gast	Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft K.G., Hamburg
N.G. Inglessis	Samos Steamship Co., Athens
M. Morooka	Nippon Yusen Kaisha, Tokyo

DIRECTORS

Sheikh Talal Khaled Al Ahmad Al Sabah *	Kuwait Oil Tanker Co SAK, Kuwait
E.N. Ambrosov	OAO Sovcomflot, Moscow
G. Bottiglieri	Giuseppe Bottiglieri Shipping Company S.p.A, Naples
A. Chao*	Foremost Group, New York
M. Fostiropoulos *	Almi Tankers S.A., Athens
H.V. Franco	Harley Marine Services, Inc, Seattle
A. Frangou	Navios Maritime Holdings Inc, Piraeus
S.L. Ghomri	Hyproc Shipping Company SPA, Oran
R.C. Gillett	Hamilton, Bermuda
I. Güngen	Güngen Maritime & Trading A/S, Ankara
P. Hajioannou *	Safe Bulkers, Inc, Athens
G. Henderson	Shell International Trading and Shipping Company Ltd, London
N. Idris	MISC Berhad, Kuala Lumpur
C.E. Kertsikoff	Eletson Corporation, Piraeus
J. Liberty	Royal Caribbean Cruises Ltd, Miami
E. Louis-Dreyfus *	Louis Dreyfus Armateurs S.A.S., Paris
A.C. Margaronis	Diana Shipping Inc, Athens
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 Ocean Co., Ltd, Tokyo
N.P. Tsakos	Tsakos Energy Navigation Limited, Athens
P.A. Vasilchenko	Far Eastern Shipping Company, Vladivostok
P. Wogan *	GasLog Ltd, Monaco
R. Zein *	Naftomar Shipping and Trading Co Ltd, Athens

* New Directors elected since 20th February 2013

The following Directors have left the Board since 20th February 2013: Messrs C.I. Caroussis, A.C. Junqueira, J.B. Lee, A.M. Lemos and P. Louis-Dreyfus, OBE.

PERFORMANCE FOR THE YEAR
TO FEBRUARY 2014

Club's S&P rating upgraded to A (Stable). Increase in free reserves & hybrid capital to $528 million.

A strong result

The Club has produced a surplus this year of $30 million which, together with the foreign exchange differences, takes the Club's total free reserves and hybrid capital to a new high of $528 million; this is made up of underlying free reserves of $430 million and hybrid capital of $98 million. The year benefited from a favourable release of claims reserves from previous policy years, but this was partly offset by a more costly 2013 policy year. In addition there was a healthy investment return of $44 million (4.5%) after taking into account foreign exchange movements.

The financial year combined ratio of 102% represents the fourth consecutive year of combined ratios close to the Club's target of 100%. This combined ratio includes a significant release of claims reserves on older policy years, particularly 2011 and 2012, as a result of favourable results on a number of large casualty claims, combined with a generally better than expected development on claims in other years.

The currently projected ultimate for 2013 is the highest since 2007, and 25% higher than the average of the past 5 years.

The improvement in the back years was offset by higher claims in 2013 and the adverse claims development on that year was an important factor in the Club's decision for the general increase for 2014. Although the claims experience on the 2013 policy year eased in the second half of the year, the year has seen many more claims above $1 million than any other policy year at the same stage. The currently projected ultimate for 2013 is the highest since 2007, and 25% higher than the average of the past 5 years. So, while the results for the current financial year are very encouraging, the claims profile for the 2013 policy year is a warning of the potential for claims inflation in the future, and of the need to ensure premiums keep pace with the cost of claims.

Standard and Poor's rating

S&P rating upgraded to A (Stable).

Following the annual review with Standard and Poor's in April, it was confirmed that the Club's rating had been upgraded to a full A (Stable) rating. This welcome resolution of the Club's previous A- (Positive Outlook) rating was in recognition of the progress made by the Club both in strengthening its capital and also in delivering a consistent underwriting result.

Free reserves and hybrid capital.

$528M

UNDERWRITING DISCIPLINE

The Club's commitment to disciplined financial management has as its foundation a balanced underwriting account over the market cycle; this means a clear focus on risk selection and rating.

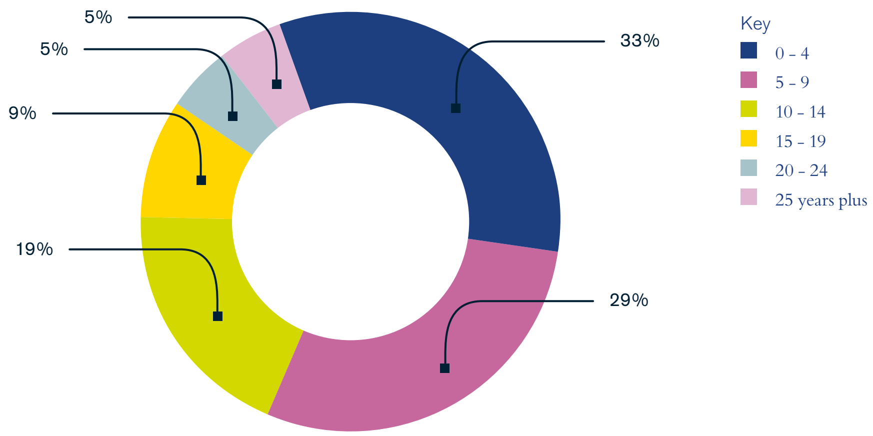
Against the backdrop of a strong and balanced Membership, the Club's target remains to balance claims and premium. The financial year combined ratio for recent years demonstrates the extent to which the Club has been able to do this, but the experience of the 2013 policy year shows that there is no room for complacency.

The Club fleet

The profile of the Club's entered fleet remains well balanced by trade type and broadly reflects the composition of the world fleet. The Club continues actively to seek Members who operate vessels to a high standard, across the spectrum of ship types.

The Club also monitors the age profile of the entered fleet. At present the average age of ships in the Club is 12.3 years, which is the lowest in many years. For bulkers and tankers - which together account for 65% of entries - the average age of ships on risk is 8.5 years and 9.9 years respectively. Although young ships can have higher claims frequencies in their early years of operation, as a general rule a low age profile has a positive impact on claims over time.

UK Club fleet age profile



UNDERWRITING DISCIPLINE

The Membership of the Club is also geographically diverse and broadly reflects world ship ownership by region.

Underwriting activity throughout the year was relatively intense compared to past years, as a result partly of high, if declining, levels of newbuild deliveries but now also of increased interest in the Club. During the year the Club saw nearly 10.5 million gt come on risk, of which 6.5 million gt were newbuildings, while nearly 7.5 million gt went off risk as a result of being sold or scrapped. In line with recent experience, the Club declined to quote for about 25% of the potential entries that were shown to the Club; the number of declinations - an indirect measure of the maintenance of quality standards - is monitored by the Club's Board during the year.

Chartered Entries

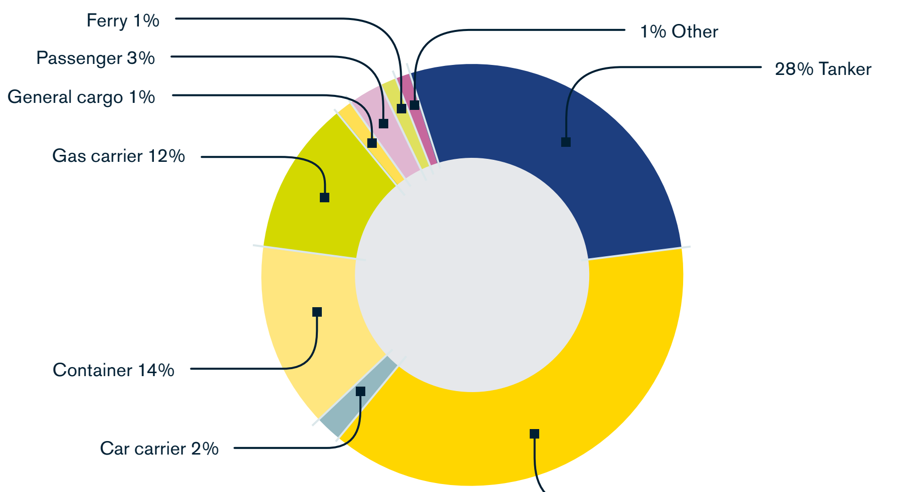
The Club provides fixed premium insurance for charterers and traders, and during the year had some 80 to 100 million gt on risk at any time, generating a premium of $50 million annually. The Club insures many mutual Members that are also active as charterers, while also insuring companies which act purely as charterers or traders.

Renewal

The overall premium increase for the Club following the renewal was approximately 7%, which contrasts with the amount of the general increase announced at 10%. In deciding upon the general increase the Board was acutely aware of the position of Members trading in current shipping markets but equally also of the need to balance claims and premium over the cycle.

After the renewal, mutual tonnage increased to 124 million gt, compared with 120 million gt the year before. In addition, some 4 million gt of ships due for delivery during 2014 was committed to the Club by renewing Members.

Share of total gt



CLAIMS

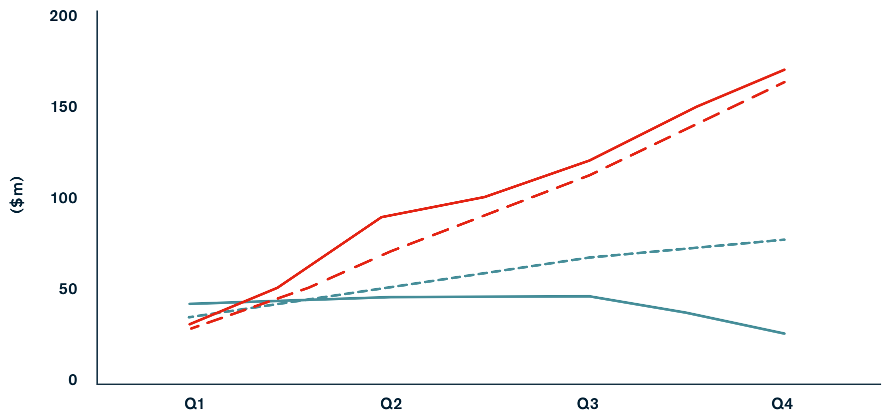
Our goal is to anticipate, manage and protect against a rising claims environment whilst providing our Members with an unrivalled service across all jurisdictions.

Overall, different classes of claims affect the Club's finances at different points in the market cycle. In recent years, we have seen the greater impact of a growing number of large claims, while the overall number of claims has declined year on year since 2008. During this time, the average value of claims in some categories has risen significantly.

Claims development in the financial year

The following graph compares the expected development of claims costs during the financial year to the actual claims experience.

Figure 1: Actual claims notified during the year compared to expectations.



Key
- 2013 Policy year actual
- 2013 Policy year expected
- 2004 - 2012 Policy years actual
- 2004 - 2012 Policy years expected

A run of large claims was notified to the Club towards the end of the first half of the year. If that trend had continued the 2013 policy year would have become one of the most expensive on record. Although the second half of the year proved to be more benign, the 2013 policy year will be an expensive year for claims; its total cost, including pool claims, is currently projected to be 12% more than the 2012 year.

The prior policy years developed over the first six months of 2013, broadly in line with expectations. However, a combination of relatively few notifications during the year, reductions in the Club pool share and some very positive results in defending some larger claims has led to a reduction in the total level of notified claims. This coincidence of factors has in turn led to a significant release of claims reserves in the second half of the financial year. The releases did not, however, reduce the overall strength of the Club's claims reserves.

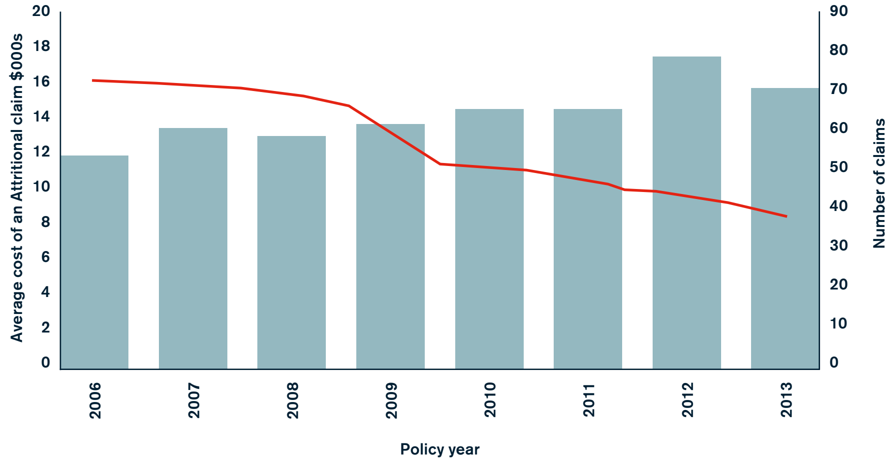
The 2013 policy year

The 2013 policy year will be more expensive than the previous policy year. Total notified claims (excluding pool contributions) after twelve months were 5% higher at $194 million, compared to $184 million in 2012.

Attritional claims (<$0.5 million)

Average cost and claims frequency at 12 months for years 2006 - 2013

Figure 2: Net notified attritional claims (<$0.5m) and claims frequency at 12 months.



Key
Average cost of an attritional claim
Claims frequency per million tons

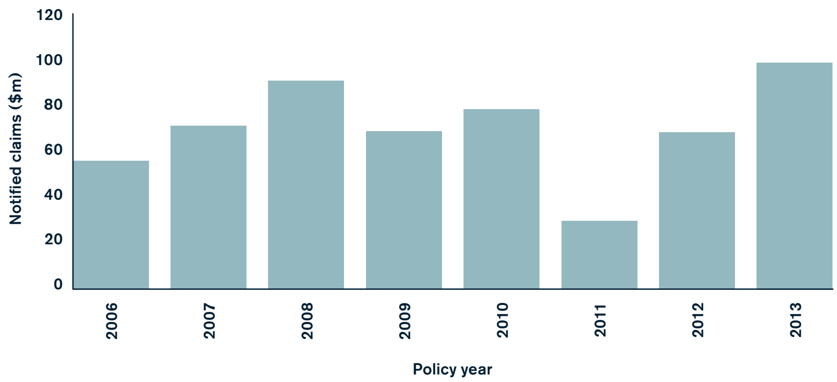
The two key trends of recent years – reduced frequency and increased average costs - continued in 2013. The frequency of notified claims below $0.5 million has continued to fall when compared to the tonnage entered into the Club. Conversely, the average cost of an attritional claim has steadily increased and on average each claim is now approximately 50% more expensive than a decade ago.

Of particular concern is the potential for a significant increase in frequency, as the global economy recovers, but at the higher average cost experienced in more recent years.

Large claims (>$0.5m)

Net notified large claims at 12 months

Figure 3: Net notified large claims (>$0.5m) for policy years 2006-2013 at 12 months.



Although 99% of all claims notified to the Club are below $0.5 million, the remaining 1% - those greater than $0.5 million - represent 60% of the total cost of any policy year. Given the more random nature of these larger claims, the total cost is more difficult to predict.

The number of large claims, particularly those over $3 million, in the first six months of 2013 was considerably greater than in any other recent year. Although the frequency of these claims reduced in the second half of the year, the 2013 policy year was the most expensive year for large claims in well over a decade.

Given the relatively small number of large claims means it is difficult to identify an underlying trend. The Board has, therefore, chosen to protect the Club against an extreme year of large claims through the purchase of reinsurance. It is anticipated that this protection will respond to the accumulation of large claims in 2013 as the year develops.

CLAIMS

Pool

The nature of the largest P&I claims, which tend to be major casualties, makes the Pool the most volatile area of claims cost for all Clubs in the International Group. Despite the volatility, a trend of increasing claims cost is discernable, with the three most recent policy years being among the most expensive on record.

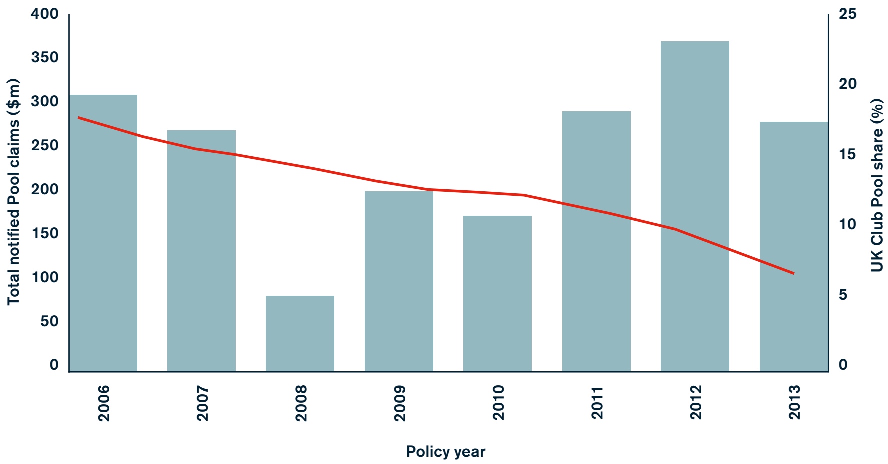
The frequency of major incidents does not appear to be relenting despite improvements in shipping safety. The cost of major casualties is, however, increasing and although the number of Pool claims in total is relatively stable, the number of claims that exceed $20 million has more than doubled over the last decade.

Over this period of increasing cost, the UK Club has brought relatively few claims to the Pool. This, and other changes to the Pool sharing mechanism, has served to reduce the Club's contribution significantly over recent years. This has afforded the Club some protection from the increasing cost of pool claims.

In addition the Club has bought reinsurance protection, which will result in significant recoveries on the 2012 and 2013 policy years if those years develop as expected.

Cost of Pool claims

Figure 4: Total cost of Pool claims net of reinsurances for policy years 2006-2013 at twelve months.



Key
Total cost of Pool claims
UK Club Pool share (%)

CLAIMS

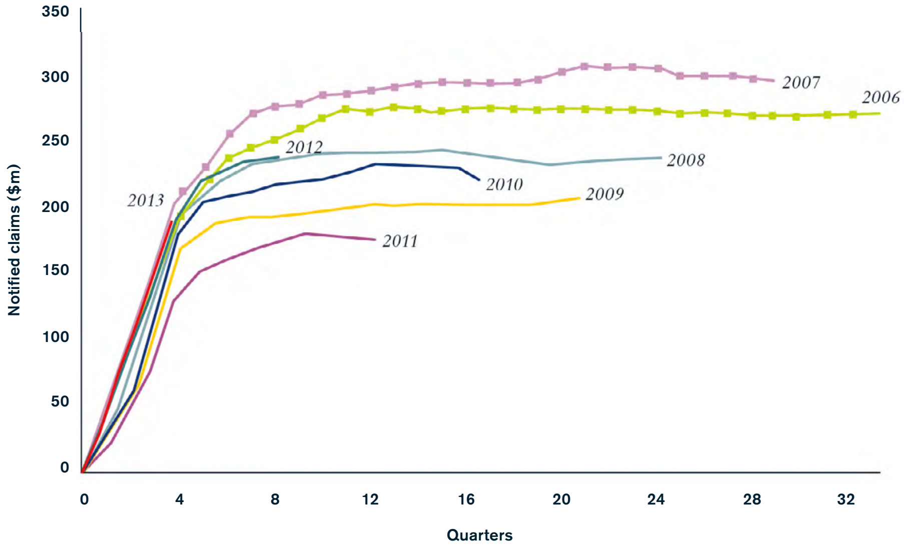
Prior policy years

The overall claims development of the most recent policy years has been particularly encouraging. During the past 12 months the 2010, 2011 and 2012 policy years all improved and produced significant releases from their claims reserves. The principal reason behind this improvement has been a better than expected outcome on a number of large casualty claims. Such claims can be very expensive and unpredictable in their outcome; by necessity, therefore, they are reserved prudently in the early stages. As the claims develop, the outcome becomes clearer and in a limited number of cases this can lead to a significant improvement in the expected outcome.

The favourable experience on the 2012 policy year was also due, in part, to a reduction in the Club's pooling percentage applicable to that year. This follows the Club's recent exceptional record on the Pool, which has seen the Club's credit balance with the Pool grow to well over $100 million.

Figure 5: Total net notified claims development for policy years 2006-2013.

Total Notified claims



Key

- 2013
- 2012
- 2011
- 2010
- 2009
- 2008
- 2007
- 2006

INDUSTRY ISSUES

The Maritime Labour Convention (MLC) entered into force in August 2013, consolidating more than 60 separate existing ILO standards into a single instrument.

Maritime Labour Convention

The Convention presented a particular challenge for shipowners, requiring compliance with many operational and technical provisions, and requiring financial security in respect of repatriation and claims arising from death or long term disability of seafarers. In preparation for the entry into force, the Club provided help in the form of an MLC pocket checklist developed jointly with Lloyds Register, and a copy for each Member of the International Shipping Federation's publication "Guidelines on the Application of the ILO Maritime Labour Conventions (2nd edition)". Alongside these practical steps, the Club amended its Rules to align the cover with the financial security requirements, thereby making it possible for Members to offer Club certificates of entry (CoE) as evidence of financial security.

In the event, the implementation of the Convention went smoothly and within a short period there was widespread general acceptance of Club CoEs by flag states as evidence of financial security. Looking to the future, we can expect the MLC to be amended within a year or two to extend the scope of financial security obligations, to include claims for unpaid wages and to permit direct action against the providers of such security. The Club's Directors will be considering in due course whether additional liabilities of this nature can be insured on a mutual basis by a further extension to Club cover, or whether any special insurance arrangements are required.

US COFRs and support for IMO

The Board was particularly concerned to receive news during the year that an International Group Club had developed plans to issue directly to the US Coast Guard the guarantees that are needed for vessels to obtain a COFR (Certificate of Financial Responsibility) when trading to US ports, under the US Oil Pollution Act 1990 (OPA 90) and under the Comprehensive Environment Response, Compensation and Liability Act ("CERCLA"). Currently such guarantees are provided by specialist companies, SIGCo, Shoreline, Arvak, and WQIS, thereby distancing the clubs from some aspects of US pollution risks.

The plans run counter to a long established policy of the International Group Clubs to support the International Convention system (including the provision of financial security in that system) and to decline requests for anticipatory guarantees in respect of financial responsibility demands of individual states or regional authorities. The policy reflects the international nature of shipping and the belief that global trade, and the ability of shipowners to serve it, is enhanced by uniformity of maritime law. The policy has been followed by all clubs for many years and has enabled the International Group successfully to argue at individual state and regional levels that proposals for multiple new financial security burdens should not be proceeded with.

The UK Club Board has considered the issue on several occasions, but concluded that the benefits of the proposal (modest savings in COFR costs) would be much outweighed by the potential economic disadvantages of encouraging development of national and regional financial security regimes.

Decisions on whether to maintain or to support a change to the current International Group policy are expected to be made by all Clubs by June 2014. Whatever the outcome, it is important that it is respected by all Clubs going forwards, for the continuing ability of the International Group to speak with a united voice for shipowners on liability matters.

INDUSTRY ISSUES

Sanctions

Continuing tensions regarding the purpose of Iran's nuclear programme led to further strengthening in 2013 of the sanctions regimes put in place by the EU and US. In particular, new US sanctions under the National Defense Authorization Act for Fiscal Year 2013 ("NDAA 2013") and its subtitle, the "Iran Freedom and Counter Proliferation Act of 2012" ("IFCA"), took effect from 1st July 2013 and targeted a wide range of activities, including transactions with Iran's energy, shipping, shipbuilding and ports sectors, transactions in precious metals and in various raw materials, and the provision "knowingly" of underwriting, insurance or reinsurance services for any Iran related activity for which sanctions have been imposed under any U.S. law. The Managers participated with fellow International Group members in the development of advice on the implications of the expanded sanctions, while strengthening the due diligence processes used by the Club internally to ensure that any applicable sanctions laws are adhered to. Later in the year, talks between the EU, US and Iran resulted in the announcement of a 6 month period of limited sanctions relief, commencing from 21st January 2014, but in practice the relief was of little value for shipowners in the light of confirmation from the US authorities that, absent any extension, the payment of claims arising during the relief period would not be permitted after 20th July 2014, leaving shipowners with the risk of being effectively uninsured.

The use of sanctions continues to expand and as States increasingly resort to economic pressures in place of military power to influence political outcomes, the complexities in this area for those involved in international shipping, and for their insurers, will continue to grow. As the year drew to a close, political difficulties in Ukraine threatened to engender a new raft of US and EU sanctions targeting Russia.

RISK MANAGEMENT AND REINSURANCE

Our aim is to maintain a robust risk management system that allows us to identify, manage and mitigate all significant risks facing the Club.

The Club's own reinsurance programme

As noted in the claims section of this review, the Club's own reinsurance programme has played an important part in managing claims volatility over the last two years. In particular, both the Pool protection and the large claims reinsurance are expected to provide significant recoveries on the 2012 and 2013 policy years.

In addition the Club has protection against a surge in the frequency of smaller claims and the impact of a single major loss. The Club purchases reinsurances where it is economic to do so: buying protection closer to the current level of claims is too expensive and is not an effective use of the Club's resources so the Club makes use of its internal model and of the modelling and structuring skill of its reinsurance brokers to create a programme that adds real value; which has been clearly demonstrated over the last two years.

The International Group reinsurance programme

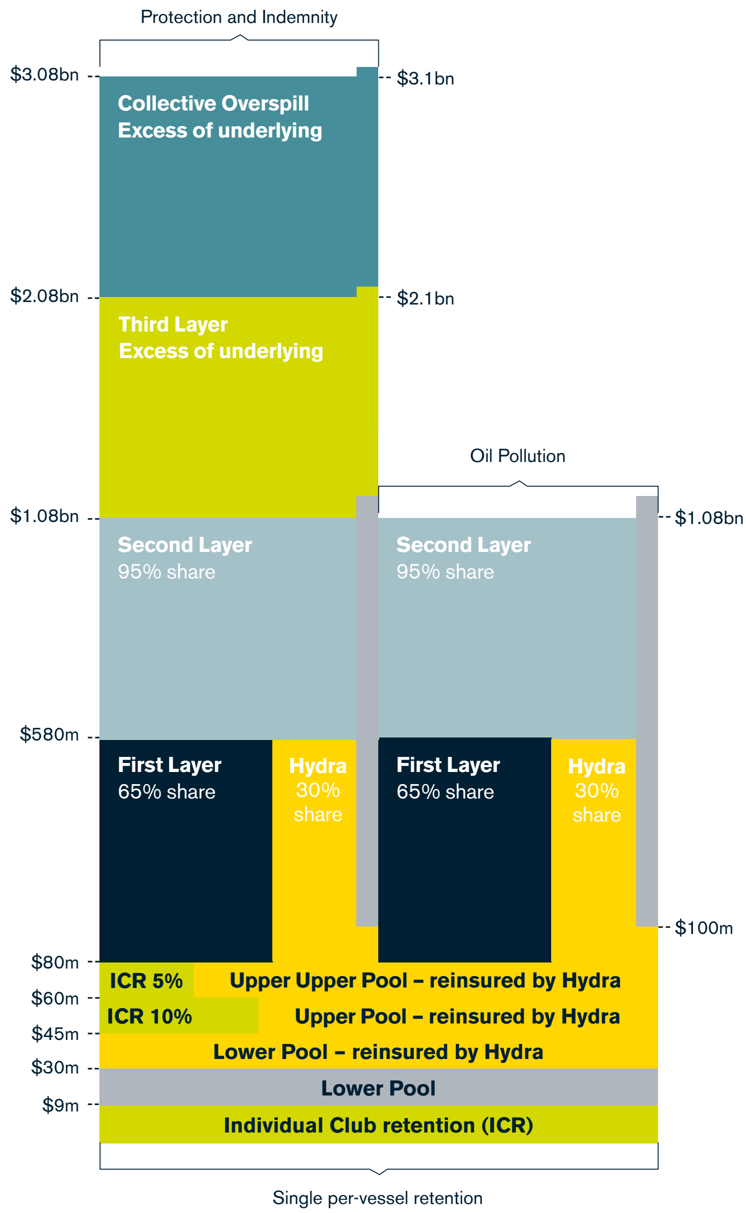
It looks as though 2013 will be a benign year for the Group reinsurance programme with only one claim notified during the year. Unfortunately, the 2011/12 policy year continued to deteriorate during 2013 with the claims on the RENA and COSTA CONCORDIA once again having a profound impact on the renewal. The effect of the deterioration on these two claims, coupled with general concerns regarding the increased costs of major casualties, led the Group reinsurers once again to seek rises in the renewal premium for the 2014/15 policy year. In order to mitigate the impact of the increase imposed by the market, the International Group took the decision to increase the excess point on the contract from $70 million to $80 million, with the additional $10 million retained by the Group within its captive, Hydra. In a further change to the 2013/14 reinsurance programme structure, the Group placed 5% of the market reinsurance cover in two layers from $100 million to $1 billion on a three year fixed placement basis. Other changes achieved at the renewal included the reduction of the US Voyage Surcharge to nil and a reduction of 10% in the cost of P&I excess War Risk reinsurance.

For 2014/15 the existing Pool structure has been maintained with a lower level from $9 million to $45 million, a second layer from $45 million to $60 million (within which there is a claiming club retention of 10%) and a third layer from $60 to $80 million within which there is claiming club retention of 5%.

RISK MANAGEMENT AND REINSURANCE

A key focus of the Group's reinsurance renewal was the subject of allocation of costs by ship type. 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. The final adopted allocation reflected the continuing favourable tanker sector record and improved dry cargo sector. In the passenger sector where there remains a long term imbalance to address, the 2013/14 increase and the more modest 2014/15 increase should contribute significantly to achieving a return to equilibrium for this sector.

International group excess loss reinsurance contract for 2014/15



Helping our Members manage risk

The UK Club has the most extensive loss prevention programme in the P&I industry. The loss prevention team continues to develop and provide Members with the resources and knowledge to assist them in managing risk and exposure to claims. The program offers a wide range of products, services and information, ranging from brochures and pamphlets which outline key issues and changes within the industry, to an in-depth risk assessment system using a specially developed methodology which can be tailored to suit Members' needs. The UK Club website contains a wealth of continually updated information on previous, current and future issues as well as information and guidance on how to deal with them.

INVESTMENTS

Our aim is to achieve a superior return on our assets whilst protecting the Club's capital from excessive market risk.

Investment return

The investment portfolio returned 4.5% during the financial year, adding $44 million, excluding foreign exchange movements, to the Club's assets.

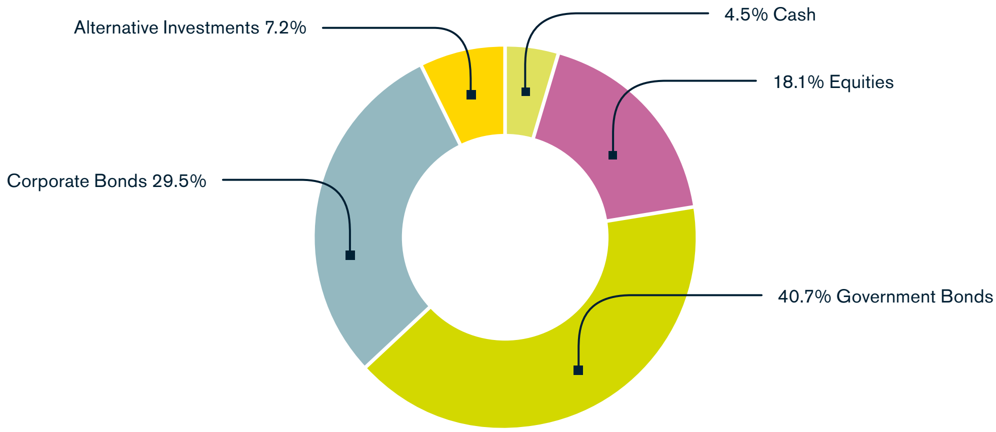
2013 proved to be another strong year for risk assets as an improving macroeconomic backdrop saw confidence increase in the sustainability of the global economic recovery. The broad improvement brought about the anticipated shift in the Federal Reserve's monetary policy stance and a tapering of quantitative easing policies was confirmed at the end of 2013. This provided a volatile and challenging backdrop for government bond markets as yields rose during the year before reducing once again towards the end of the financial year. Corporate bonds fared well due to the ongoing narrowing of spreads between government and corporate bonds as the recovery became more embedded.

Equity markets produced the strongest gains with the S&P 500 rising 22% with other developed equity markets producing similar returns. The Nikkei was the best performer of the major markets returning 32% for the financial year, although this was reduced somewhat by the weaker currency. Emerging markets struggled due to a combination of political events and slower economic growth.

Portfolio positioning

The Board and Managers undertook an investment mandate review during the year. The main benchmark changes were the removal of hedge funds, a large increase in the corporate bond weighting, and a small additional weighting to equities.

Figure 6: Asset allocation at 20th February 2014.



INSURANCE REGULATION AND GOVERNANCE

Our aim is not only to maintain compliance with regulation across all jurisdictions but also to capitalise on the benefits of sound governance.

The prospective EU regulatory regime, Solvency 2, has seen renewed progress in 2013/14 following prior delays. During the year, provisional agreement was reached by EU Member States on a revised implementation date of 1st January 2016. The Club's project to achieve full compliance remains on track and a clear implementation date is welcome.

The Club's internal model enables it to test the impact of a wide range of financial scenarios on capital. One example of the benefits of the model is the design of the Club's reinsurance programme which has successfully limited the Club's exposure to the high frequency and severity of large claims over the last two years.

The Club intends to submit its internal model for regulatory approval during 2014. If the application is successful, it will enable the Club to reduce its regulatory capital requirements under Solvency 2.

CAPITAL MANAGEMENT

The Club's vision is to be the leading shipowner controlled provider of P&I insurance and other services to the international shipping community.

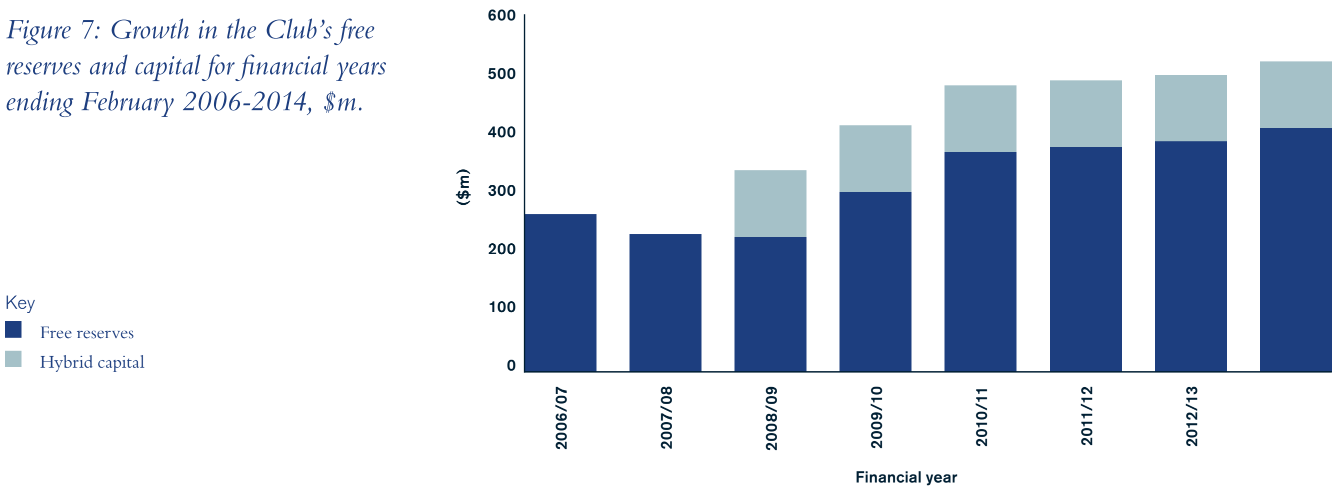
The Club is required to hold an appropriate level of capital both to meet regulatory requirements and also to provide predictability of insurance cost to the Membership while sustaining a long term position as a stable and secure insurer.

Capital strength

With a combined ratio of 102% the investment return in 2013 has enabled the Club's underlying free reserves to grow to $430 million, with a further $98 million of hybrid capital taking the overall free reserve and hybrid capital total to $528 million.

Growth in the Club's free reserves and hybrid capital for financial years ending February 2006-2014

Figure 7: Growth in the Club's free reserves and capital for financial years ending February 2006-2014, $m.



Capital required

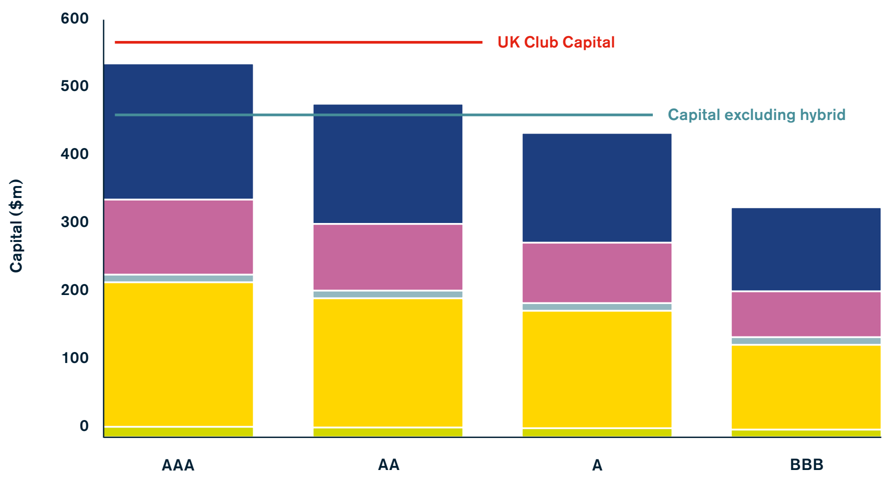
The capital required under the internal model depends on the Club's appetite for risk across the business; this includes the risk accepted through underwriting, the market risk with the investment portfolio and the risk of reinsurance counterparties defaulting on amounts due to the Club.

The Club's target is to hold sufficient capital to meet regulatory and external rating agency requirements, plus suitable "buffers". These buffers are needed to avoid the Club having to make additional calls on Members following shock events, with a certain level of confidence. The Club has set its buffer above the regulatory capital requirement such that it can cope with a loss equivalent to a 1 in 20 event and still have sufficient regulatory capital. This broadly equates to holding capital equivalent to the AA/AAA range on the S&P capital model.

Figure 8: Composition of S&P capital requirement compared to Club's capital February 2014

Key
- Reserve Risk
- Premium Risk
- Concentration Risk
- Market Risk
- Credit Risk
- Total Available Capital (TAC)
- TAC Excluding Hybrid

S&P Insurance Capital Model

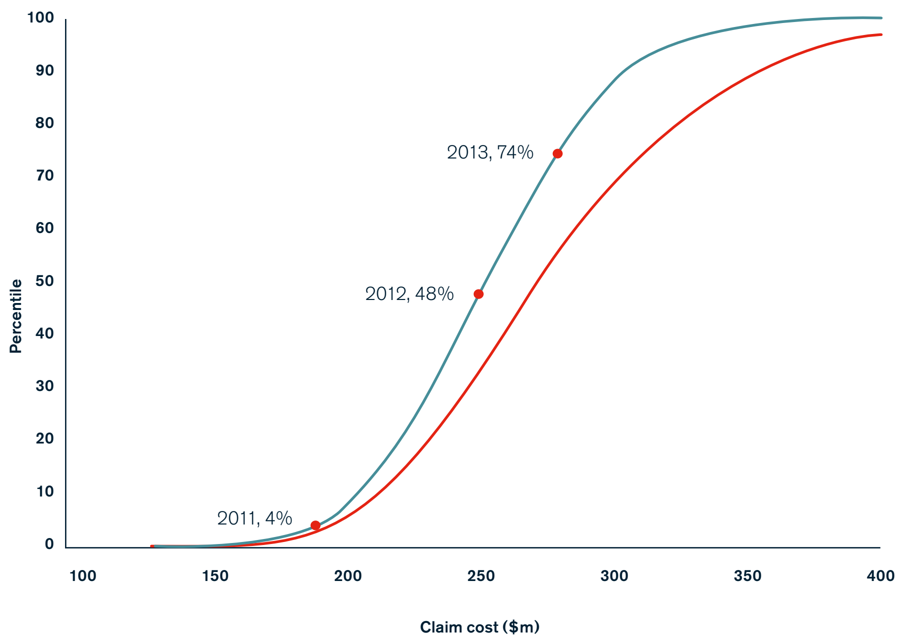


The best illustration of the potential range of outcomes that can influence the Club's financial year is to look at a probability distribution of claims that is produced by the Club's internal model. The table below shows, at various probabilities, what the ultimate claims might be for the upcoming 2014 policy year; this indicates that there is a 25% chance that claims might be lower than $225 million or exceeding $280 million even after the operation of the Club's reinsurances. The International Group Pool and the IG reinsurances programme significantly compress the range of potential outcomes; this clearly underlines the value of the International Group and its collective reinsurance purchase to the P&I clubs and to shipowners.

Probability range of claims outcomes 2014 policy year net of Club's reinsurances and Pool reinsurances

Figure 9: Probability range of claims outcomes 2014 policy year net of Club's reinsurances and Pool reinsurance.

2014 Claims Distribution



Key
- Net of Club's own reinsurance
- Gross of Club's own reinsurance

CAPITAL MANAGEMENT

Sources of capital

The principal source of available capital is the free reserves of the Club. However, the Club supplements its own capital with external capital through the issuance of a hybrid perpetual bond to increase capital efficiency and provide greater flexibility. The Club has also restructured its operations over the last two years to ensure the most capital efficient group structure for regulatory capital purposes. The regulators and rating agency give the highest credit to free reserves, with hybrid capital being the next highest in terms of quality for meeting their respective requirements.

Capital management

The Club has determined the immediate actions that it would take should its available capital fall below the target level If the Club's capital were to exceed the needs of regulators and rating agencies and the requirements of its Corporate Plan, then the Club has the option to adjust the amount of risk it takes (e.g. through the amount of reinsurance it buys or its approach to investment risk) or make a return of capital to Members.

INDEPENDENT AUDITOR'S REPORT

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 2014, the consolidated income statement, 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 2014, 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

14th May 2014

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.

ACCOUNTS

Consolidated Income Statement
for the year ended 20th February 2014

	Notes	2014 $'000	2013 $'000
Gross earned premium	13	396,281	360,181
Premium ceded to reinsurers	13	(93,502)	(73,190)
Net earned premium before discount		302,779	286,991
Mutual Premium Discount	13	-	(7,231)
Net earned premium		302,779	279,760
Net investment return	14	44,643	39,609
Total net income		**347,422**	**319,369**
Claims and claims adjustment expenses net of reinsurance	10	(268,906)	(258,679)
Expenses for the acquisition of insurance contracts		(20,965)	(20,060)
Net operating expenses	15	(19,977)	(21,073)
Foreign exchange gains/(losses)		1,066	(412)
Total expenses		**(308,782)**	**(300,224)**
Results from operating activities		**38,640**	**19,145**
Finance costs	12	(8,250)	(9,000)
Surplus before tax		**30,390**	**10,145**
Income tax expense	16	(275)	(636)
Surplus for the year attributable to members		**30,115**	**9,509**

Consolidated Statement of Comprehensive Income for the year ended 20th February 2014

	Notes	2014 $'000	2013 $'000
Surplus for the year		**30,115**	9,509
Other comprehensive income			
- Amounts recycled into surplus		(26)	(1,963)
- Fair value gain		5,859	51
Other comprehensive income for the year net of tax		**5,833**	**(1,912)**
Total comprehensive income for the year attributable to members		**35,948**	**7,597**

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 33 to 57 are an integral part of these consolidated financial statements.

ACCOUNTS

Consolidated Statement of Financial Position as at 20th February 2014

	Notes	2014 $'000	2013 $'000
Assets			
Investments	6	1,131,488	1,067,622
Loans and receivables including insurance receivables	7	90,616	83,560
Derivative financial instruments	8	5,884	51
Reinsurance assets	10	303,361	291,332
Cash and cash equivalents	9	87,580	116,120
Accrued interest		5,178	4,757
Total assets		**1,624,107**	**1,563,442**
Reserves and liabilities			
Capital and reserves attributable to members			
Free reserves		423,880	393,765
Cash flow hedging reserve	8	5,884	51
Other reserves		240	240
Total		**430,004**	**394,056**
Financial liabilities - Perpetual subordinated capital securities	12	98,338	99,775
Total		**528,342**	**493,831**
Other liabilities			
Insurance liabilities	10	1,066,134	1,046,420
Derivative financial instruments	8	517	367
Trade and other payables	11	28,700	22,246
Current income tax		414	578
Total		**1,095,765**	**1,069,611**
Total reserves and liabilities		**1,624,107**	**1,563,442**

The notes on pages 33 to 57 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 12th May 2014 and were signed on its behalf

Alan Olivier Director

Eric Andre Director

Hugo Wynn-Williams Manager

Consolidated Statement of Changes in Reserves

	Attributable to members			
	Free reserves $'000	Cash flow hedging reserve $'000	Other reserves $'000	Total $'000
Balance at 20th February 2012	**384,256**	**1,963**	**240**	**386,459**
Surplus for the year	9,509	-	-	**9,509**
Other comprehensive income	-	(1,912)	-	**(1,912)**
Total comprehensive income for the year	9,509	(1,912)	-	**7,597**
Balance at 20th February 2013	**393,765**	**51**	**240**	**394,056**
Surplus for the year	30,115	-	-	**30,115**
Other comprehensive income	-	5,833	-	**5,833**
Total comprehensive income for the year	30,115	5,833	-	**35,948**
Balance at 20th February 2014	**423,880**	**5,884**	**240**	**430,004**

The notes on pages 33 to 57 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 20th February 2014

	Notes	2014 $'000	2013 $'000
Operating activities			
Calls and premiums received		390,501	353,053
Receipts from reinsurance recoveries		58,807	58,955
Interest and dividends received		15,143	20,740
		464,451	**432,748**
Claims paid		318,862	337,403
Acquisition costs		20,968	20,060
Operating expenses paid		25,332	21,955
Reinsurance premiums paid		92,421	74,574
Taxation paid		439	180
		458,022	**454,172**
Net cash provided/(used) by operating activities		**6,429**	**(21,424)**
Investing activities			
Purchase of investments		(920,227)	(1,375,095)
Sale of investments		893,164	1,363,081
Net cash used in investing activities		**(27,063)**	**(12,014)**
Financing activities			
Interest paid on perpetual subordinated securities		(8,250)	(9,000)
Net cash used in financing activities		**(8,250)**	**(9,000)**
Net decrease in cash and cash equivalents		(28,884)	(42,438)
Effect of exchange rate fluctuations on cash and cash equivalents		344	135
Cash and cash equivalents at the beginning of the year	9	116,120	158,423
Cash and cash equivalents at the end of the year	**9**	**87,580**	**116,120**

The notes on pages 33 to 57 are an integral part of these consolidated financial statements.

NOTES

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, 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 12th May 2014.

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’s (“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 2018. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Association’s financial assets but will 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.

Standards, amendments to published standards and interpretations to existing standards effective on or after 21st February 2013

(a) IFRS 13: Fair value measurements
Fair value measurements IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

In accordance with the transitional provisions of IFRS 13, the Association has applied the new fair value measurement guidance prospectively. The change had no significant impact on the measurements of the Association’s assets and liabilities.

(b) IFRS 10: Consolidated financial statements
As a result of IFRS 10, the Association has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Association has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The Association reassessed the control conclusion for its investees at 21st February 2013 and no changes in control conclusions were made.

2.2 Consolidation

Subsidiaries
Subsidiaries are all entities (including special purpose entities) where the Association is exposed or has rights to variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. The Association is considered to have power over a subsidiary when existing rights give the Association the ability to direct the activities that significantly affect the subsidiary's return. 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 income statement. 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.

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

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

2.4 Annual accounting

The consolidated income statement 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 income statement 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. Return on investments is allocated proportionately to the average balance of funds on each policy year or other funds. Operating expenses are allocated to the current policy year.

2.6 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, being the Association's presentation and functional currency.

(b) Transactions and balances
Revenue transactions in foreign currencies have been translated into U.S. dollars at rates revised at monthly intervals. All exchange gains and losses, whether realised or unrealised, are included in the consolidated income statement.

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 income statement.

2.7 Financial assets

2.7.1 Classification

The classification of financial assets is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

(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.

(b) 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.

2.7.2 Recognition and measurement

Purchases and sales of financial assets are recognised on trade-date which is 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 income statement.

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.

2.7.3 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 such as independent valuation reports.

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.

When a financial asset 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.

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

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

(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 income statement income within investment return.

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 income statement. 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 income statement.

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 on-going 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 erivative 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.

(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 within the consolidated income statement.

2.9 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 income statement over the period of the financial liability applying the effective interest method.

2.10 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.

2.11 Cash and cash equivalents

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

2.12 Insurance contracts

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 IBNR. 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

- Other statistical and benchmarking techniques

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

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

2.13 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 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.

2.14 Current and deferred income tax

The charge for taxation is shown in the consolidated income statement. 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.

2.15 Revenue recognition

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.

Premiums are recognised as revenue (premiums earned) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

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.

Investment income

(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 return” and “finance costs” in the consolidated income statement using the effective interest rate method.

(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 return.

(c) Fair value and realised gains and losses
Fair value gains and losses on investments recorded in the consolidated income statement 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 the expected ultimate cost of claims, whether reported or unreported, 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 has established a framework of governance through which risk is managed and decisions are taken. This framework operates through a number of sub committees, being:

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

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

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

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

1. Insurance risk – incorporating underwriting and reserving risk.
2. Market risk – incorporating investment risk, interest rate risk and currency rate risk.
3. Credit risk – being the risk that a counterparty is unable to pay amounts in full when due.

4. Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due.

5. Operational risk – being the risk of failure of internal processes or controls.

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks through the development and use of an internal model and own risk and solvency assessment as well as other tools.

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

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

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 on-going 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 above an agreed retention between thirteen member associations.

Management of claims cost

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 actuarial techniques employed are reviewed in detail by senior management.

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.

	2014 $'000	2013 $'000
Increase in loss ratio by 5 percentage points		
Gross	(19,814)	(18,009)
Net	(15,139)	(14,350)
Decrease in loss ratio by 5 percentage points		
Gross	19,814	18,009
Net	15,139	14,350

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

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.

The investment policy, which is revised annually, is set by the Board of Directors with the assistance of the investment committee. 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 Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

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 2014

	US Dollar $'000	Sterling $'000	Euro $'000	Other $'000	Total $'000
Debt securities	539,044	79,807	142,877	51,621	813,349
Equities	152,004	35,245	46,775	-	234,024
Absolute return funds	84,115	-	-	-	84,115
UCITS	52,376	4,736	-	-	57,112
Derivative financial instruments	-	5,884	-	-	5,884
Cash balances	28,422	(2,278)	2,942	1,382	30,468
Amounts due from members	76,397	425	1,546	-	78,368
Reinsurers' share of outstanding claims	303,361	-	-	-	303,361
Accrued interest	2,096	1,223	1,623	236	5,178
Sundry debtors	5,508	1,196	3,656	1,888	12,248
Gross outstanding claims	(756,528)	(123,264)	(120,748)	(65,594)	(1,066,134)
Other liabilities	(26,007)	(1,841)	(1,807)	24	(29,631)
	460,788	**1,133**	**76,864**	**(10,443)**	**528,342**

As at 20th February 2013

	US Dollar $'000	Sterling $'000	Euro $'000	Other $'000	Total $'000
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**

In addition a liability of $98.3 million (2013: $99.8 million) relating to perpetual subordinated capital securities is denominated in US dollars.

Foreign currency sensitivity analysis
A 5% 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:

As at 20th February 2014

	Effect on reserves $'000	**Effect on surplus $'000**
Sterling	3,780	1,413
Euro	-	435

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

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

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

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds. The maturity profile of these investments is typically shorter than the profile of claims liabilities. The Association's financing structure also includes perpetual subordinated capital securities which pay a fixed interest rate. The Association has no debt with interest payments that 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.

	Effect on investment valuation $'000
As at 20th February 2014	20,516
As at 20th February 2013	18,300

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 21% of the investment portfolio with a further 7% 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 $84 million (2013: $122 million).

Where available, the Association uses closing bid market values to determine the fair value of an investment holding.

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year end by $23.4 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 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 tables on page 44 provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

The credit rating bands are provided by independent ratings agencies:

As at 20th February 2014

	AAA $'000	AA $'000	A $'000	Not readily available/ not rated $'000	Total $'000
Debt securities	107,048	541,282	148,364	16,655	813,349
UCITS	57,112	-	-	-	57,112
Derivative financial instruments	-	5,884	-	-	5,884
Cash balances	-	1,993	28,395	80	30,468
Amounts due from members	-	-	-	78,368	78,368
Amounts due from group pooling arrangement	-	-	57,352	18,782	76,134
Amounts due from reinsurers	-	133,596	90,809	2,822	227,227
Accrued interest	553	2,197	2,044	384	5,178
Sundry debtors	-	-	1,419	10,829	12,248
Total of assets subject to credit risk	**164,713**	**684,952**	**328,383**	**127,920**	**1,305,968**
Other Assets					
Equities	-	-	-	234,024	234,024
Absolute return funds	-	-	-	84,115	84,115
Total assets	**164,713**	**684,952**	**328,383**	**446,059**	**1,624,107**

As at 20th February 2013

	AAA $'000	AA $'000	A $'000	Not readily available/ not rated $'000	Total $'000
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**

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 2014

	Short term assets $'000	Within 1 year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Debt securities	-	197,172	212,884	256,326	146,967	813,349
Equities	234,024	-	-	-	-	234,024
Absolute return funds	-	84,115	-	-	-	84,115
UCITS	57,112	-	-	-	-	57,112
Derivative financial instruments	-	2,952	2,932	-	-	5,884
Cash balances	30,468	-	-	-	-	30,468
Amounts due from members	9,792	68,576	-	-	-	78,368
Accrued interest	5,178	-	-	-	-	5,178
Sundry debtors	-	12,248	-	-	-	12,248
Reinsurers share of outstanding claims	-	55,719	37,319	167,751	42,572	303,361
Total assets	**336,574**	**420,782**	**253,135**	**424,077**	**189,539**	**1,624,107**

As at 20th February 2013

	Short term assets $'000	Within 1 year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Debt securities	-	137,598	232,413	274,325	87,302	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
Accrued interest	4,757	-	-	-	-	4,757
Sundry debtors	-	11,773	-	-	-	11,773
Reinsurers share of outstanding claims	-	90,667	59,724	83,273	57,668	291,332
Total assets	**340,871**	**427,867**	**292,137**	**357,598**	**144,970**	**1,563,443**

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 2014

	Within 1 year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Gross outstanding claims	(308,748)	(206,985)	(319,801)	(230,600)	(1,066,134)
Derivative contracts	(517)	-	-	-	(517)
Other liabilities	(29,114)	-	-	-	(29,114)
Total other liabilities	**(338,379)**	**(206,985)**	**(319,801)**	**(230,600)**	**(1,095,765)**

As at 20th February 2013

	Within 1 year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
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)**

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

The sensitivity analyses in sections 4.1, 4.2 and 4.3 above shows 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 Association's principal direct insurer continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the 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 per cent 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 on-going operational cash requirements.

At the year end the Association's capital resources included reserves of $430 million (2013: $394 million) and Perpetual Subordinated Capital Securities of $98 million (2013: $100 million).

4.8 Fair value hierarchy

IFRS 13, 'Fair value measurement', 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).

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

As at 20th February 2014

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit and loss				
- Equity securities	210,845	84,136	23,158	318,139
- Debt securities	813,349	-	-	813,349
Derivative financial instruments	-	5,367	-	5,367
Total	**1,024,194**	**89,503**	**23,158**	**1,136,855**

As at 20th February 2013

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
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**

Assets recorded as level 3 securities were previously classified as financial assets at cost and were reclassified to financial assets at fair value through profit and loss to better align the valuation of these securities with the overall policy of the Association. In relation to these assets, fair value gains of $4.9m have been recognised in net investment return and foreign exchange gains of $1.4m in foreign exchange gains in the consolidated income statement.

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

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

	2014 $'000	2013 $'000
USA	67,273	60,922
Greece	65,542	57,327
Japan	54,699	49,805
Germany	48,582	42,838
United Kingdom	12,747	16,693
China	20,635	12,222
Other	126,803	113,143
Total	**396,281**	**352,950**

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.

Note 6 – Financial assets

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

	2014 $'000	2013 $'000
Financial assets at fair value through profit and loss	1,131,488	1,050,753
Financial assets at cost	-	16,869
	1,131,488	1,067,622
Loans and receivables including insurance receivables (note 7)	90,616	83,560
Total financial assets	**1,222,104**	**1,151,182**

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

Financial assets at fair value through profit and loss	2014 $'000	2013 $'000
Equity securities	318,139	319,115
Debt securities	813,349	731,638
Total financial assets at fair value through profit and loss	**1,131,488**	**1,050,753**

Financial assets at cost		
Equity securities	-	16,869
Total financial assets at cost	**-**	**16,869**

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

	Fair value through profit and loss $'000	Cost $'000	Total $'000
At the beginning of 2013	**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**
Reclassification of financial assets at cost	17,941	(17,941)	-
Exchange differences on monetary assets	6,653	1,072	7,725
Additions	920,227	-	920,227
Disposals	(893,164)	-	(893,164)
Fair value net gains			
- Designated at fair value through income on initial recognition	23,716	-	23,716
Profit on sale of investments			
- Designated at fair value through income on initial recognition	5,362	-	5,362
At the end of 2014	**1,131,488**	**-**	**1,131,488**

Note 7 – Loans and receivables

	2014 $'000	2013 $'000
Insurance receivables:		
- Due from contract holders	81,127	74,788
- Less provision for doubtful debts	(2,759)	(3,000)
- Due from reinsurers	1,639	8,918
	80,007	**80,706**
Other loans and receivables		
- Prepayments	4,473	304
- Sundry receivables	6,136	2,550
	10,609	**2,854**
Total loans and receivables including insurance receivables	**90,616**	**83,560**
Current portion	90,616	83,560
Non-current portion	-	-
	90,616	**83,560**

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

(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	**2014 $'000**	**$'000**	**2013 $'000**	**$'000**
	Contract/ notional amount	Fair value asset	Contract/ notional amount	Fair value asset
Cash flow hedge	71,816	5,884	60,975	51
Total	**71,816**	**5,884**	**60,975**	**51**

Gains and losses in reserves on forward foreign exchange contracts as at 20th February 2014 will be released to the consolidated income statement in future periods.

There was no ineffective portion attributable to cash flow hedges.

(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	**2014 $'000**	**$'000**	**2013 $'000**	**$'000**
	Contract/ notional amount	Fair value liability	Contract/ notional amount	Fair value liability
Investment portfolio	134,074	(517)	67,295	(367)
Total	**134,074**	**(517)**	**67,295**	**(367)**

Note 9 – Cash and cash equivalents

	2014 $'000	**2013 $'000**
Cash at bank and in hand	12,709	42,055
Short-term bank deposits	74,871	74,065
Total	**87,580**	**116,120**

Note 10 –Insurance liabilities and reinsurance assets

	2014 $'000	**2013 $'000**
Provision for unearned premium	**800**	**-**
Gross outstanding claims		
- Members' claims	963,448	923,223
- Other clubs' pool claims	101,886	123,197
	1,065,334	**1,046,420**
Reinsurer's share of gross outstanding claims		
- Group excess of loss and market reinsurance	117,227	144,374
- Pool recoveries	76,134	36,958
- Other reinsurers	110,000	110,000
	303,361	**291,332**
Total insurance liabilities, net	**762,773**	**755,088**
Current	218,080	234,995
Non-current	544,693	520,093

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 $55 million (2013: $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

Reporting year	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000
- End of reporting year	337,008	329,208	355,573	311,727	241,341	275,765	318,428
- One year later	365,443	297,658	327,240	358,772	226,792	250,196	
- Two years later	370,243	286,252	309,713	369,809	203,056		
- Three years later	365,084	275,825	295,195	338,941			
- Four years later	365,421	262,373	294,699				
- Five years later	357,704	261,289					
- Six years later	345,890						
Current estimate of ultimate claims	345,890	261,289	294,699	338,941	203,056	250,196	318,428
Cumulative payments to date	315,398	224,799	219,389	199,299	141,354	92,259	31,831
Liability recognised in the consolidated statement of financial position	30,492	36,490	75,310	139,642	61,702	157,937	286,597
Total liability relating to last seven policy years							788,170
Other claims liabilities							277,164
Total reserve included in the consolidated statement of financial position							**1,065,334**

Insurance claims - net

Estimate of ultimate claims cost attributable to the policy year

Reporting year	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000
- End of reporting year	315,000	312,461	275,533	273,754	236,292	271,408	281,504
- One year later	329,721	288,704	240,488	257,209	207,605	251,787	
- Two years later	312,721	271,734	227,620	253,353	191,576		
- Three years later	309,729	262,857	218,443	232,102			
- Four years later	317,832	251,214	222,048				
- Five years later	310,789	249,062					
- Six years later	303,384						
Current estimate of ultimate claims	303,384	249,062	222,048	232,102	191,576	251,787	281,504
Cumulative payments to date	276,330	214,621	175,742	147,043	132,566	116,480	43,479
Liability recognised in the consolidated statement of financial position	27,054	34,441	46,306	85,059	59,010	135,307	238,025
Total liability relating to last seven policy years							625,202
Other claims liabilities							136,771
Total reserve included in the consolidated statement of financial position							**761,973**

The Association has elected to disclose only seven 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

	2014 $'000	$'000	$'000	2013 $'000	$'000	$'000
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**
Outstanding claims brought forward	**1,046,420**	**(291,332)**	**755,088**	**1,109,910**	**(331,041)**	**778,869**
Cash paid for claims settled in the year	(320,549)	51,528	(269,021)	(335,883)	56,345	(279,538)
Claims incurred in the current year	332,463	(63,557)	268,906	275,315	(16,636)	258,679
Exchange differences and other movements	7,000	-	7,000	(2,922)	-	(2,922)
Outstanding claims carried forward	**1,065,334**	**(303,361)**	**761,973**	**1,046,420**	**(291,332)**	**755,088**

Note 11 – Trade and other payables

	2014 $'000	2013 $'000
Reinsurance premium payable	16,467	11,187
Claims payable	3,506	1,853
Trade payables and accrued expenses	8,727	9,206
Total	**28,700**	**22,246**

The fair value of these balances approximates their carrying value.

Note 12 – Perpetual subordinated capital securities

	2014 $'000	2013 $'000
Financial liabilities at amortised cost:		
Perpetual subordinated capital securities	98,338	99,775

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. During the current year the Association obtained consent from investors to extend the period in which the securities cannot be redeemed until 2018. The interest payable on the securities has been reduced to 7.5 per cent until that date. The Association has accounted for the transaction as a modification of the terms of the securities and as a result capitalised $1.8m of costs associated with the transaction.

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.

A coupon interest of $8.25 million (2013:$9 million) was paid during the year.

Note 13 – Net earned premium

	2014 $'000	2013 $'000
Mutual		
Mutual premium	325,071	289,134
Return premium	(3,192)	(2,729)
Release charges	3,003	117
	324,882	**286,522**
Fixed premium		
Chartered vessels	53,505	55,682
Owned vessels	16,740	15,742
US Oil pollution	1,954	2,235
	72,199	**73,659**
Gross written premium	**397,081**	**360,181**
Change in unearned premium provision	**(800)**	**-**
Gross earned premium	**396,281**	**360,181**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(50,299)	(35,853)
Other market reinsurance	(43,203)	(37,337)
Total premium ceded to reinsurers	**(93,502)**	**(73,190)**
Net earned premium (before discounts)	**302,779**	**286,991**
Mutual Premium Discounts	**-**	**(7,231)**
Total Net earned premium	**302,779**	**279,760**

Note 14 – Investment return

	2014 $'000	2013 $'000
Investment income		
Dividend income	3,750	7,864
Interest on fixed income securities	15,960	15,072
Bank deposit interest	3	260
Other investment charges	(4,148)	(3,798)
Total investment income	**15,565**	**19,398**
Net realised gains on financial assets at fair value through profit and loss		
- Debt securities	(4,772)	12,144
- Equity securities	10,134	24
Total net realised gains on financial assets	**5,362**	**12,168**
Net fair value gains on financial assets through profit and loss		
- Debt securities	(10,274)	(12,829)
- Equity securities	33,990	20,872
Total	**23,716**	**8,043**
Total investment return	**44,643**	**39,609**

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 15 – Net operating expenses

	2014 $'000	2013 $'000
Residual management fee	10,515	9,519
Directors' Meetings	2,795	2,943
Managers / Agent travel	404	768
Sales and marketing	751	767
Publications	456	235
Printing and telecommunications	243	284
Correspondent charges	11	12
Legal and professional expenses	2,059	2,153
Bank and financial expenses	773	708
Loss prevention initiatives	118	237
Ship inspection initiatives	523	462
Operating branch and subsidiary costs	552	927
Group restructuring	-	1,533
Other expenses	777	525
Total operating expenses	**19,977**	**21,073**

Note 16 – Income tax expense

	2014 $'000	2013 $'000
Current taxes on income for the reporting period	-	-
Adjustment in respect of prior periods	113	77
Overseas taxation	(388)	(713)
Total income tax expense	**(275)**	**(636)**

The weighted average applicable tax rate was 1 per cent (2013: 7 per cent).

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:

	2014 $'000	2013 $'000
Surplus before tax	30,390	10,145
Non-taxable transactions	(30,390)	(10,145)
Tax calculated at domestic tax rates applicable to profits in the respective countries	-	-
Effects of		
- Overseas taxation	(388)	(713)
- Net adjustment in respect of prior periods	113	77
Total	**(275)**	**(636)**

Note 17 – Principal subsidiaries and associates

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

All subsidiary undertakings are included in the consolidation.

Note 18 – 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 19 – Average expense ratio

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

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

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 income statement except that the internal investment management costs are taken as being the subsidiary company's management fee.

For the five years ended 20th February 2014, the ratio of 9.35 (2013: 9.47) has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant financial statements.

Note 20 – Related party transactions

The 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 $23.2 million. The Association has a contract with Thomas Miller (Bermuda) Limited which contains a one year termination clause.

	2014 $'000	**2013 $'000**
Key management compensation		
Short term employee benefits - Directors' fees	882	984

APPENDIX

(Unaudited)

	2013 $'000	2012 $'000	2011 $'000	Closed years $'000
Premium debited in this financial year	394,800	343	393	
Premium debited in previous financial years	-	356,466	356,817	
Reinsurance premium	(91,063)	(68,216)	(69,087)	
Net premium income	303,737	288,593	288,123	
Net paid claims and expenses	(118,113)	(194,525)	(208,029)	
Investment income	14,815	16,451	8,596	
Funds Available	**200,439**	**110,519**	**88,690**	**296,730**
Gross Outstanding Claims (including IBNR)				
Members' claims	(258,344)	(145,896)	(54,753)	(477,268)
Pool claims	(28,253)	(12,041)	(6,949)	(48,930)
	(286,597)	(157,937)	(61,702)	(526,198)
Reinsurance Recoveries				
Pool recoveries	46,525	6,737	-	22,871
Group excess of loss	-	-	-	58,831
Other market recoveries	2,046	15,892	2,691	147,766
	48,571	22,629	2,691	229,468
Net outstanding claims	**(238,026)**	**(135,308)**	**(59,011)**	**(296,730)**
(Deficit)/ Surplus	**(37,587)**	**(24,789)**	**29,679**	**-**
Future investment income	15,000	12,500	10,000	
Anticipated (Deficit)/ Surplus	**(22,587)**	**(12,289)**	**39,679**	

Notes:

(a) The approximate yield of a 10% supplementary premium on the open policy years would be $33 million (2013), $29 million (2012) and $29 million (2011).

(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.

NOTICE OF MEETING

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 fifth Annual General Meeting of the Members of the Association will be held at the Palace Hotel, Tokyo on Monday, 27th of October, 2014 at 9.00 am for the following purposes:-

To receive the Directors' Report and Financial Statements for the year ended 20th February, 2014 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

Thomas Miller (Bermuda) Limited

Secretary

12 May, 2014

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.

MANAGERS AND OFFICER

Managers and Secretary of the Association:	Thomas Miller (Bermuda) Ltd

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