UK P&I CLUB

2018 Financial Statements

Directors' Report & Financial Statements for the year ended 20th February 2018

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

Contents

Financial Overview

2017 was a good year for the Club. The underwriting surplus of $29 million was the largest in recent years. This, when coupled with a strong investment return of over $43 million, delivered a total surplus of $72 million. After adjusting for forward currency contracts, the Free Reserves at 20 February 2018 increased by $82 million to $540 million.

Preserving underwriting discipline continues to be a key financial objective of the Club. The combined ratio for the year of 90% brings the average combined ratio for the last 5 years to 99%.

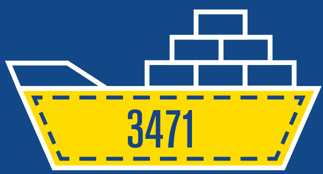
Premium rates across the market have steadily declined over recent years. Although financial year combined ratios have remained strong, the pressure on policy year results is increasing. It remains, therefore, essential that the Club stays focussed on maintaining breakeven underwriting.

At 20 February 2018 the Club continued to meet all capital targets and hold an appropriate buffer which is designed to avoid a breach of any target even in an extreme event.

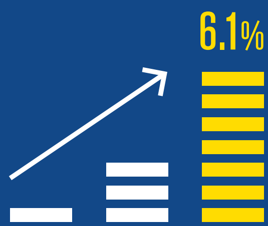
The Club holds Free Reserves of $540 million with a further $100 million in hybrid capital.

The Club has a strong track record of balanced underwriting.

139 million entered owned tonnage gt.



Number of ships over 1,500 gt.

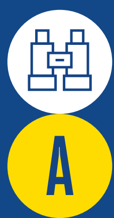


Investment return
(*including currency gains).

Combined ratio (excluding Currency gains in claims).

$540M

Free reserves $m.



STABLE
OUTLOOK

Standard and Poor's

Chairman's Statement

A strong result

This year the Club has produced a surplus of $72 million increasing the Free Reserve by $82 million to $540 million after adjustment for forward currency contracts. The addition of the Club's hybrid capital brings the Free Reserves and capital to $640 million. The surplus is a record for recent times and is the result of an excellent investment return of 6.1% (including currency gains) and good underwriting discipline with a combined ratio for the financial year of 90%. In last year's report I mentioned that one of the Club's most important objectives was to maintain underwriting discipline. This year's combined ratio means that we have achieved an average combined ratio for the last 5 years of 99%; an enviable record.

Underpinning these results has been a favourable claims environment. Once again, we experienced a decrease in claims frequency and a further reduction in the cost of our attritional claims (those claims costing less than $500,000). In fact the cost of the attritional claims was the lowest we had seen in 10 years. The cost of the larger claims above $500,000, which are much less predictable, was broadly in line with the experience of the past few years. In the Review of the Year which follows this statement we explore in a little more detail the changing pattern of our claims and the impact that this will have on how we underwrite, and how we service claims in the future. These factors together with the fundamental changes we have seen in the shipping market, all form part of our Corporate Plan review, on which I touch below.

Renewals and Pricing

For the second year in a row, the Board elected not to announce a general increase for all Members in advance of the renewal. We were able to do this because of the consistency of our underwriting results and the strength of our capital base.

As Shipowners, the Board is very well aware of the state of the shipping market and the need for the Club to deliver the most cost-efficient P&I insurance to the Members. We were pleased to adopt this approach once again, but must be careful to avoid complacency. We know that there is underlying P&I claims inflation of around 4% per annum. This has not come through in the claims figures because we continue to enjoy a period of low claims frequency. While there is an element of good fortune in that result, it is not purely a matter of luck. The Members of the Club have worked hard on safety and loss prevention and these efforts are reflected in the results. We know, however that this is only part of the story and that increased economic activity could quickly reverse the claims frequency trend. For the time being however, the Club is extremely well placed to deal with any sudden correction.

There was considerable turnover of tonnage during the year leading up to the renewal. Tonnage entered into the Club during the year totalled 15.2 million gt and tonnage leaving the Club through sales and scrapping totalled 10.5 million gt. This represents the highest turnover in the Club's recent history. As everyone involved in shipping will be aware it was a very active year for M&A activity in shipping markets and as the results for the year show there was considerable activity in the S&P market. The renewal itself was tough but by the 20th February the tonnage in the Club was a little up on the tonnage at the end of last year at around 139 million gt. Premium on renewing business was down by around 4% reflecting market conditions and the improving loss records of the majority of the Members.

Nothing is agreed before everything is agreed

Brexit and its impact on the Club's ability to trade in Europe still looms large in our planning. Despite recent announcements the access of UK Financial Services firms to the EU single market remains uncertain. This means that we have had to continue with our Brexit plans to be able to insure our European Members. We are now moving to form an insurance company in the Netherlands, based in Rotterdam, which will also front for most of the other Thomas Miller managed businesses trading in Europe. This company will be ready for business at the end of March 2019 for the start of the planned "transition" period.

Industry Issues

The Club continues to monitor industry developments with a view to helping Members meet the impact of regulatory changes, especially where related to liability issues. In 2017, the Directors received reports amongst other matters on MLC, Sanctions, Piracy, the Ballast Water Management Convention, Air emissions, Overspill limits, the 1992 Conventions (IOPCF and CLC), and Russian domestic implementation of HNS. The common theme was identification of liability risk and of the extent to which it can be insured or mitigated.

A significant part of this work is carried out in collaboration with other members of the International Group of P&I Clubs (IG), where our Managers make a substantial contribution, chairing or serving on many IG subcommittees and working groups, and providing the current chairman of the IG Managers.

The UK Club has been a strong advocate of the mutual system and of the benefit of making the IG's collective expertise available to IMO and other bodies involved in shipping regulation and maritime law. This year the IG's arrangements were themselves the subject of an internal strategic review, conducted by the IG Managers with external facilitators, in a process that will identify and address any areas where change may be required to ensure that the system remains fit for purpose in an evolving shipping environment.

Looking forward

Last year I reported that we would be taking the opportunity in the coming year to review our strategy for the Club. We have come a long way in the past decade. Ten years ago, the Board embarked on a journey to strengthen the financial position of the Club. In 2008 the Club became the first in the International Group to raise capital in the financial markets, and in 2010 a comprehensive reinsurance programme enhanced stability in the Club's underwriting results. After nearly ten years at breakeven underwriting the financial strength of the Club today is amongst the best in the industry. Over that period the Club has developed an internal model which has regulatory approval for modelling of underwriting risks. The model has enabled us to develop a reinsurance programme which is one of the most comprehensive in the market. It also enables analysis of risks specifically relating to Club business, which in turn delivers a solvency capital requirement approximately $75 million below that calculated by the more general standard factors. In looking at our plan for the next five years we were very conscious that many of the challenges since the financial crash of 2008 remain today. We need to maintain underwriting discipline and to enhance our already strong service offering to the Club's Members.

We have new challenges such as Brexit and as new technology enters the shipping market and need to make sure that we can adapt the Club's core product to meet the new challenges.

In addition to looking to improve our service and maintaining the capital strength of the Club, we want to put particular emphasis on promoting safety and developing market-leading risk management and loss prevention tools to support our Members' own loss prevention programmes. In looking at the strategy, we also reaffirmed our conviction that scale delivers value. As a result we will continue to seek opportunities for merger or acquisition, where the combination with another P&I club would produce value for the Members of both clubs.

150th anniversary

Next year will mark the 150th anniversary of the Club. We are planning a number ways to mark this significant event and shortly after the publication of financial statements we will be announcing details of an exciting project which we hope will engage the next generation of seafarers and shore staff of our Members.

People

This year saw the retirement of two of the Club's Deputy Chairmen, Dr Ottmar Gast and Mr Masamichi Morooka. Highly respected individuals in their respective sectors of the shipping industry, these gentlemen have made significant contributions during their time on the Board and we thank them for their guidance and support. We also thank Captain Nilson Nunes, who retired from the Members' Committee in October 2017, for his commitment to the work of that Committee and the Club more widely.

In May 2017 Niko Schües and Paul Wogan were appointed to join Nicholas Inglessis as Deputy Chairmen. The Deputy Chairmen fulfil an integral part of the governance of the Club supporting the Chairman, Boards, and Committees. At our October AGM we were pleased to welcome to the Members' Committee: Captain H. Boudia of Hyproc Shipping Company, Mr R.F. Figueiró of Transpetro and Mr Y. Higurashi of NYK Line.

As part of the Club's long-term management succession planning, Hugo Wynn-Williams will step down as CEO at the end of May and be succeeded by Andrew Taylor, currently the Club CFO. Hugo, who has been CEO since 2004, will not be lost to the UK Club. In his role as Chairman of the Thomas Miller group and Chairman of the Thomas Miller P&I management subsidiary, he will continue to be actively involved in Club affairs.

Hugo's wealth of experience has been invaluable and he has been instrumental in getting the Club to the very healthy financial position it is in today. We thank Hugo for his outstanding contribution.

Andrew has been involved with the business of the P&I Club since he joined Thomas Miller in 2007, and became Club CFO in 2014. More recently, Andrew has been closely involved with the development and implementation of the Club's future strategy and I am confident that the Club is in good hands for the future.

In conclusion

This will be my last Chairman's Statement as I will be completing my five year tenure at the AGM in October 2018. In the past five years we have continued to make excellent progress building on the work led by my predecessor, Dino Caroussis. The Club's free reserves have increased by almost $150 million and the Club tonnage has grown by 20 million gt; we have gained approval for our internal model, and placed even greater emphasis on our service to our Members by enhancing our risk management and loss prevention advice.

We could not have made the advances in the development of our Club without the contributions made by my fellow Directors and the close cooperation we have enjoyed with the Managers of the Club. I would like to take this opportunity to thank them all for their support and advice during my tenure. One of the most satisfying elements of my role as Chairman has been to witness the development of the relationship between the Board and the Managers which has evolved into a market leading team. In these days of enhanced regulatory supervision and the need to focus on understanding our risk and enhancing our capital, it is important that we do not lose sight of our overriding objective which is to provide a first class service to our Members. This has guided me over the past five years and I have no doubt that my successor will be equally committed to that same goal.

Alan Olivier
Chairman

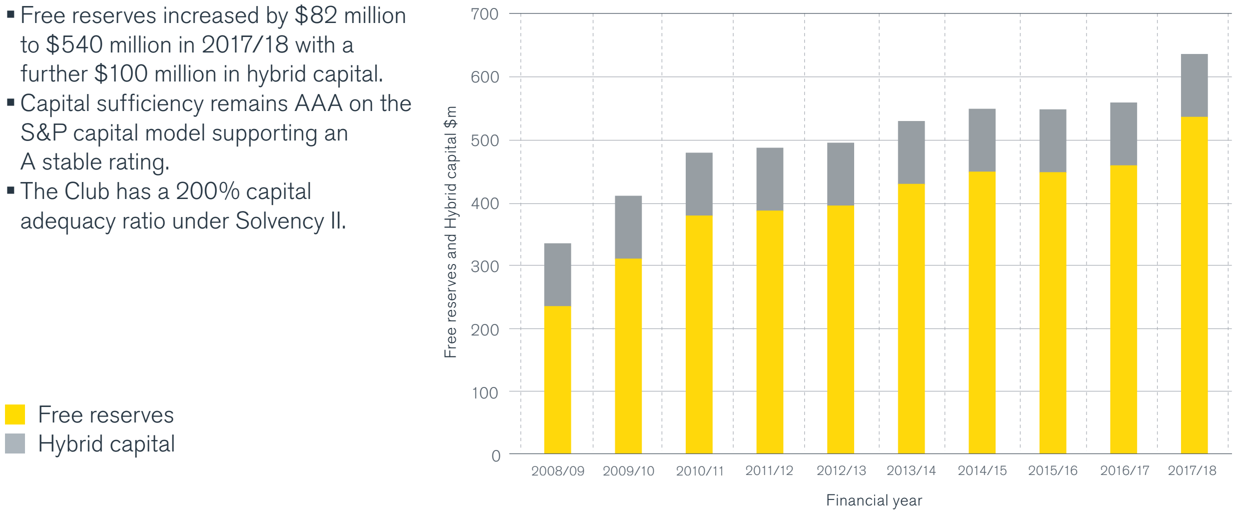
Financial Highlights

The Club holds Free reserves of $540 million with a further $100 million in hybrid capital.

Capital

Free reserves and hybrid capital for financial years 2009-2018

- Free reserves increased by $82 million to $540 million in 2017/18 with a further $100 million in hybrid capital.
- Capital sufficiency remains AAA on the S&P capital model supporting an A stable rating.
- The Club has a 200% capital adequacy ratio under Solvency II.



Claims Frequency

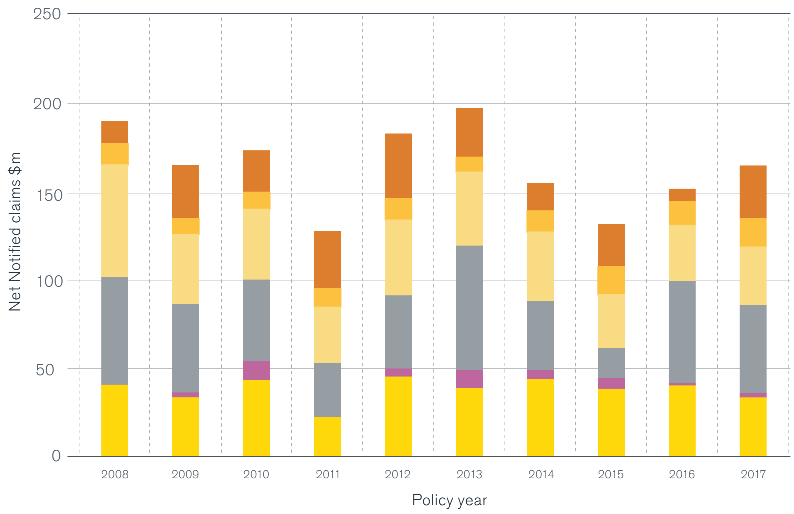
Attritional claims (<$0.5m) and claims frequency for policy years 2008-2017 at 12 months

- Claims frequency continues to fall.
- Claims inflation running at 4% but aggregate cost of attritional claims is falling.

Claims Values
Total net notified claims for policy years 2008-2017 at 12 months by claims category

- The cost of claims on the 2017 policy year is in line with the average of previous years.
- Total cost of pool claims on the 2017 policy year was more expensive than the four previous years.
- The total cost of casualty and pool claims are the most variable and have a significant impact on the overall cost of a policy year.

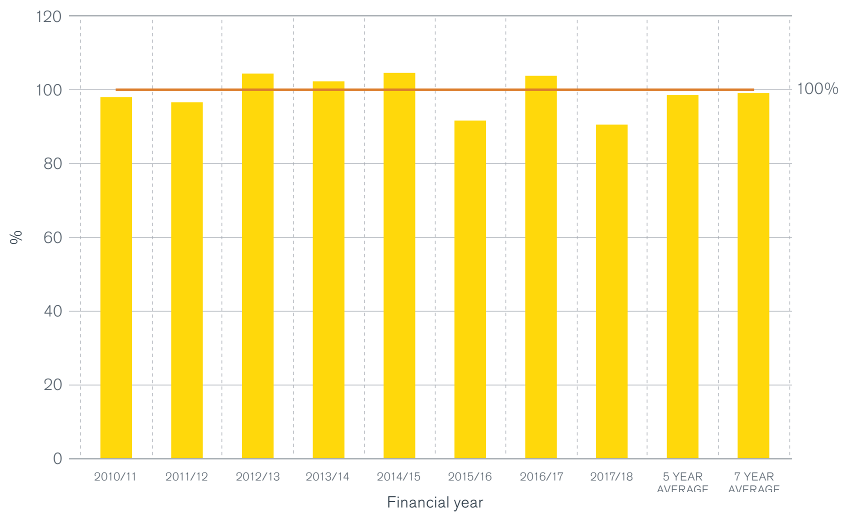
Cargo
Other
Casualty
Personal injury
Charterers
Pool



Combined ratio
Combined ratio for financial years 2010-2018

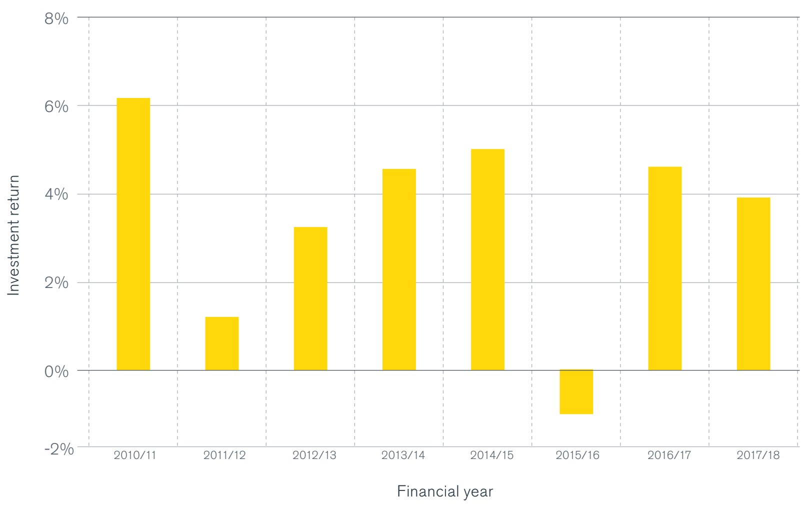
- The combined ratio on each financial year is at, or close to, the Club's breakeven target.
- Disciplined underwriting has been maintained.
- Continued reduction in rates has put recent policy years under considerable pressure.

Ratio
Target



Investment performance
Investment portfolio performance

- The investment portfolio returned 3.9% excluding currency gains.
- Strong return achieved from equity portfolio.
- Prudent portfolio positioning.



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 2018.

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 2018 the owned tonnage entered on mutual terms in the Club through its subsidiary, The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("UKE"), totalled approximately 139 million gt (139 million in 2017). In addition, approximately 100 million gt of chartered tonnage was entered in UKE at any time during the year.

Direction and management

Control over the Club's affairs rests with the regulated Board of Directors. The Board is elected by the Members' Committee which is in turn elected by the Members of the Club.

The Members' Committee, which provides input to the Board on matters within its terms of reference and is entrusted with decisions on discretionary claims, was constituted at the Annual General Meeting of the Club in November 2016.

The regulated Board met on five occasions during the year and a commentary on the matters considered by the Board during the past year is contained in the Review that follows.

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

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

At Board meetings, the Directors receive reports from the Managers on all areas of the Club's operations in accordance with an agreed schedule of reports. The Chairman and Deputy Chairmen meet regularly with the Managers to discuss current developments and the preparation of matters for consideration and decision by the Board, many of which are also subjects for consideration by the newly established Members' Committee, meeting alongside the regulated Boards three times a year.

The Club's wholly owned subsidiary (UKE) underwrites the business accepted by the group. UKE's Board, which met seven times in 2017, is comprised largely of the same shipowners as those who sit on the UKB Board, plus two directors who are employees of the Managers and two directors providing a specialist in accounting and reinsurance.

The work of the regulated Boards is supported by a number of functional committees.

The Group Audit & Risk Committee of the Board (GARCO) met five 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 seven Club Directors on the Committee, there is an independent Member - Robert Quayle, a director of the Club's former captive reinsurer International P&I Reinsurance Company Limited ("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 Board on all of these issues to enable the Club to take key decisions.

The Nominations Committee makes recommendations to the Board and to the Members' Committee regarding the appointment of new Directors. It also makes recommendations on the composition of committees and subsidiary boards. The Nominations Committee is chaired by the Club Chairman and includes seven other Directors.

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 (IVCO) advises the Board on investment strategy and policy. The Committee also monitors the performance of the investment portfolio. Currently there are nine shipowners' representatives serving on IVCO, supported by three investment specialists.

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

Directors

The present Directors of the Club are shown on page 10. Also shown are those who have retired from the Board since 20th February 2017. 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.

In May 2017, Mr N.G. Inglessis was re-elected as Deputy Chairmen, along with Messrs N. Schües and P. Wogan.

Members' Committee

The Members' Committee, comprised solely of elected representatives of the Members, was constituted at the Annual General Meeting in November 2016. Mr A.K. Olivier was appointed as the first Chairman of the Committee.

The current Members' Committee is shown on page 11.

Board of Directors

CHAIRMAN & PRESIDENT

A.K. Olivier

DEPUTY CHAIRMEN AND VICE-PRESIDENTS

N.G. Inglessis

H.N. Schües

P.A. Wogan

OTHER STATUTORY DIRECTORS

M. Morooka

O. Gast

R. Chen

H.V. Franco

R.C. Gillett

A.C. Margaronis

A.E. Sodergren

The following Directors have left the Board since 30th October 2017 and no longer participate in the Club's governing bodies:

O. Gast, M. Morooka

Following the restructure that took place immediately after the year-end the following Directors resigned from the Board on 20th February 2018:

R. Chen, H.V. Franco, N.G. Inglessis, A.C. Margaronis, A.K Olivier, P.A. Wogan

The current Chairman of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Ltd. is Mr H.N Schües

Members' Committee

CHAIRMAN

A.K. Olivier	Grindrod Limited

DIRECTORS

T. Al-Junaidi	Oman Ship Management Company S.A.O.C.
Sheikh Talal Khaled Al Ahmad Al Sabah	Kuwait Oil Tanker Co SAK
E.N. Ambrosov	OAO Sovcomflot
P. Bagh	Oldendorff Carriers GmbH & Co, KG
H. Boudia	Hyproc Shipping Company
A. Chao	Foremost Group
R. Chen	Wan Hai Lines Ltd
R.F. Figueiró	Petrobras Transporte S/A – Transpetro
H.V. Franco	Harley Marine Services, Inc
A. Frangou	Navios Maritime Holdings Inc
A.M. Gibson	Royal Caribbean Cruises Ltd
I. Güngen	Güngen Maritime & Trading A/S
A. Hadjipateras	Dorian LPG
P. Hajioannou	Safe Bulkers, Inc
G. Henderson	Shell International Trading and Shipping Company Ltd
Y. Higurashi	NYK Line
N.G. Inglessis	Samos Steamship Co
E. Louis-Dreyfus	Louis Dreyfus Armateurs S.A.S
A.C. Margaronis	Diana Shipping Inc
S. Messina	Gruppo Messina SpA
N. Mukae	Kumiai Senpaku Co., Ltd
M. Nomikos	Nomikos A.M. Transworld Maritime Agencies SA
D. Ofer	Zodiac Maritime Limited
M.H. Ross	Chevron Shipping LLC
H.N. Schües	Reederei F. Laeisz GmbH
Sun Jiakang	China COSCO Shipping Corporation Limited
N.P. Tsakos	Tsakos Energy Navigation Limited
J.M. Valkier	Anthony Veder Group N.V
P.A. Wogan	GasLog Ltd
Y.C. Yee	MISC Berhad
R. Zein	Naftomar Shipping and Trading Co Ltd

The following Directors were elected to the Members' Committee in October 2017:

H. Boudia, R.F. Figueiró and Y. Higurashi

The following Directors resigned from the Members' Committee in October 2017:

O Gast, M. Morooka and N. Nunes

Underwriting

Underwriting

2017 is the eighth consecutive financial year with a combined ratio at or around the breakeven target. The average combined over the last five years, excluding the impact of currency, is 99%.

Maintaining breakeven underwriting is vital to the future financial health of the Club particularly in an environment where investment returns may not be available to absorb underwriting deficits.

The Club's strategy to preserve underwriting discipline encompasses risk selection, appropriate pricing, risk management and loss prevention.

Underwriting result for the financial year (excluding mutual premium discounts).

	Year to 20/02/2018	Year to 20/02/2017
Loss ratio	76.1%	89.7%
Expense ratio	14.4%	14.3%
Combined ratio (excluding currency movements within claims)	90.5%	104.0%
Currency*	7.1%	(3.6%)
Combined ratio (including currency movements within claims)	97.6%	100.4%

**All currency movements, including those relating to claims, are reported within "Foreign exchange gains" in the Consolidated Income Statement. The table shows the combined ratio both including and excluding the currency movements.*

Risk selection and growth objectives

By building critical mass, through increasing scale, the Club is better able to achieve its key objectives. Scale brings opportunity for greater breadth and depth to the service offering and reduces financial volatility.

However, the Club will not pursue new business at the expense of financial discipline and the breakeven underwriting target. The Club therefore selects risk carefully. Over the last twelve months, the Club has declined to quote on more than 9 million gt of potential new business because underwriting criteria was not met.

The underwriting criteria includes Know Your Client, credit and sanctions checks. Pre-entry inspections of one or more ships in the fleet are also often undertaken by the Club's dedicated team of risk assessors. All of these checks are required by our regulators and are targeted to ensure that the quality of membership entered into the Club is maintained at its current high standard.

Appropriate pricing

One of the Club's key targets is to call sufficient premium to cover claims and expenses incurred. Premium rates across the market have fallen considerably over the last five years. Breakeven underwriting on a financial year basis has been maintained for a number of years but pressure is increasing on the policy year result, which does not benefit from releases from prior year reserves.

Policy year results act as an early warning for future financial performance. The combined ratio on the 2017 policy year, based on ultimate claims projections after 12 months, of 110% is outside the Club's acceptable range despite a relatively favourable claims environment. At this stage, claims reserving for the 2017 policy year is prudent as the year is immature. Improvements to the 2017 policy year combined ratio might be anticipated as claims develop.

The Board continues to monitor the appropriateness of overall premium rates across the Club. Overall market premium rating for the 2018 policy year is again lower than the already tight rates achieved for the 2017 policy year. An underwriting deficit might therefore be expected for the 2018 policy year and it is important that premium rates stabilise and begin to recover across the market in the near future.

Safety and loss prevention

The Club continues to focus on building a leading loss prevention team to work with Members to mitigate the risk of loss at sea. The team includes seven Master Mariners and three Chief Engineers and an ex-member of the Royal Navy based in various offices around the world.

The team draws on previous experience at sea and information on recent Club claims experience to provide advice on technical and operational issues to Members at no additional cost.

The Club gathers significant information on the root causes of claims and one of the principal successes of the loss prevention team is ensuring that the wider membership are briefed of operational shortcomings on board ships so to avoid similar incidents. More recently the team has broadened the format of this feedback to provide accessible in depth analysis through the "Lessons Learnt" publications which will be further supplemented with training videos over the coming year.

Promoting safety and increasing risk awareness to the widest possible audience is another key objective of the Club. Reaching such an audience in a diverse industry requires imaginative initiatives.

Underwriting risk management and reinsurance

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

A particular focus recently has been the dry bulk Handysize and Handymax trades where many, though not all, Members have suffered adverse records. Correcting these records has been a focus of the last two renewal periods and there are signs of improvement. The loss record of the Club's container entry has, conversely, improved significantly over recent years.

A further risk management tool is the Club's comprehensive reinsurance programme. The programme was reviewed during 2016 and the revised structure brings enhanced cover at a significantly reduced premium. The premium saved improved the combined ratio for the year ending 20 February 2018 by 5 percentage points. The programme protects the Club in the event of an adverse claims year or a run of large claims in a single year.

Pool and International Group reinsurance programme

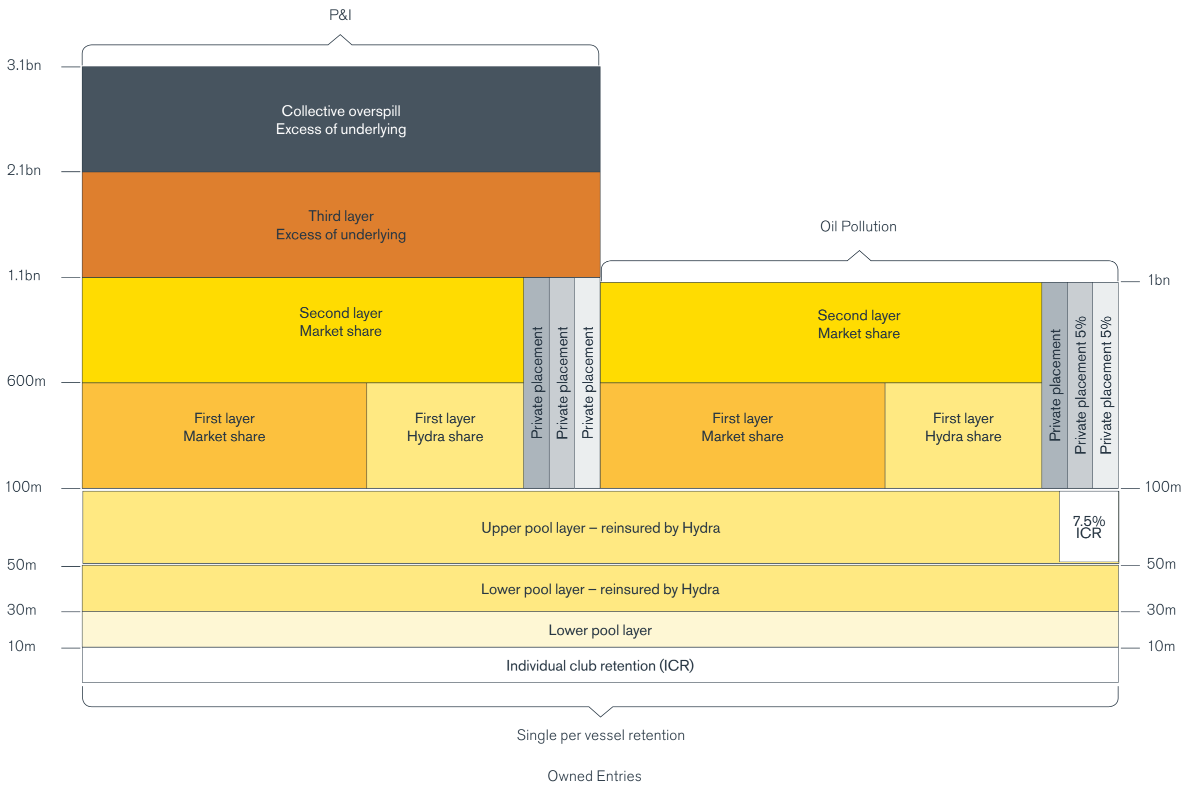
The International Group reinsurance programme provides cover against the largest claims in the P&I market. The structure of the programme for the 2018 policy year is very similar to the previous year with the individual club retention of $10 million, the lower pool and the group reinsurance structure for claims exceeding $100 million remaining unchanged.

The individual club retention of 7.5% within the upper pool covers the layer from $50 million to $100 million (2017: $45 million to $80 million).

The International Group of P&I Associations

The General Excess of Loss Reinsurance Contract Structure Owned Entries (including Overspill Protection, Hydra Participation, Pooling, Private Placements and Individual Club Retentions) for the 12 months at Noon GMT 20 February 2018.

2017-2019 Multi-Year Private Placement
2015-2019 Multi-Year Private Placement
2016-2018 Multi-Year Private Placement



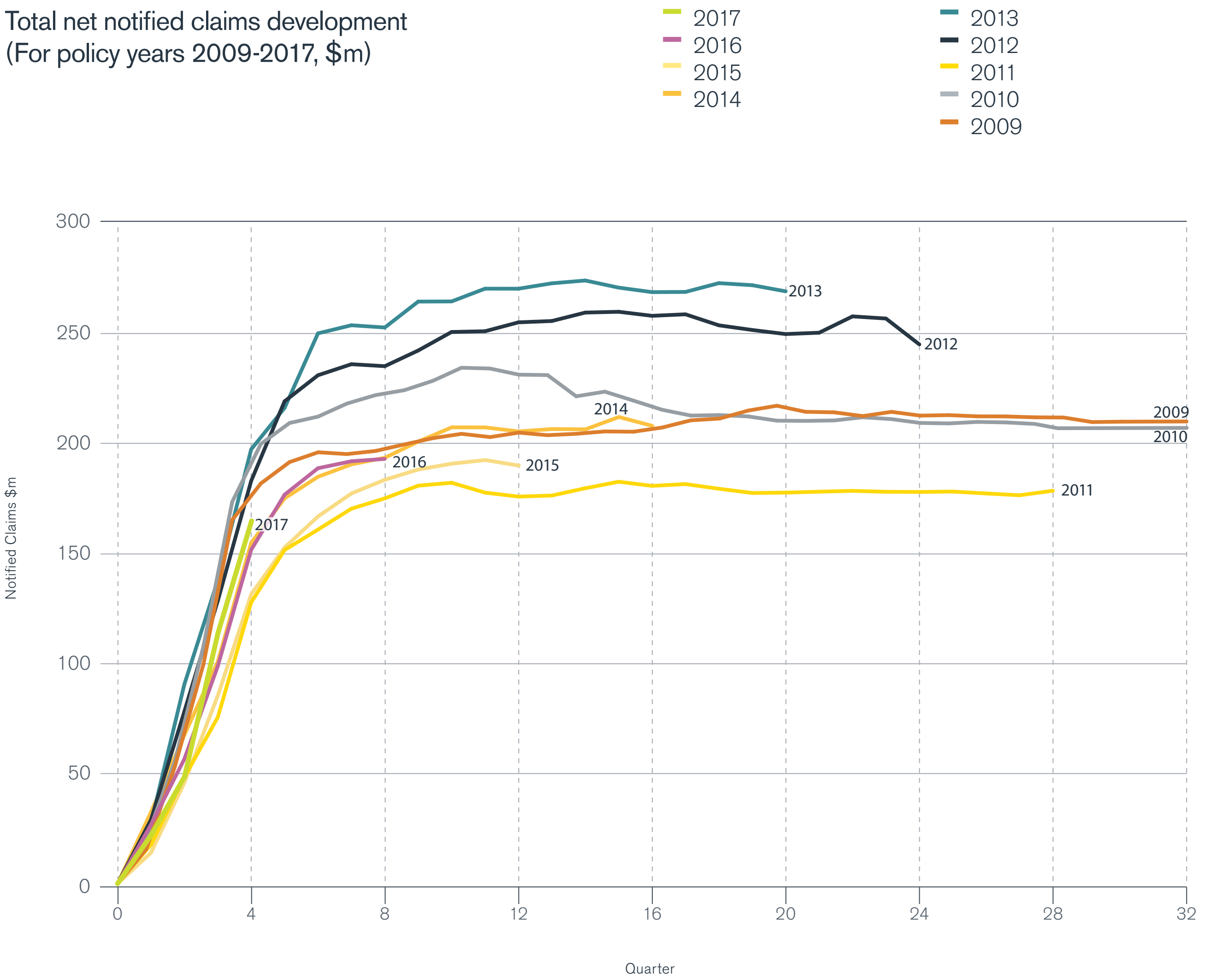
Claims

Overall claims development
Despite an increased cost of pool claims in 2017, the overall claims environment remained encouraging.

The Club experienced a decrease in claims frequency leading to one of the lowest cost years for attritional claims (those with a cost below $0.5 million) in the Club's recent history. The total cost of large claims, which are more variable, was broadly in line with previous years.

Prior policy years have developed favourably against prudent provisions. This has allowed a reduction in the provision for claims without diminishing the overall reserving confidence.

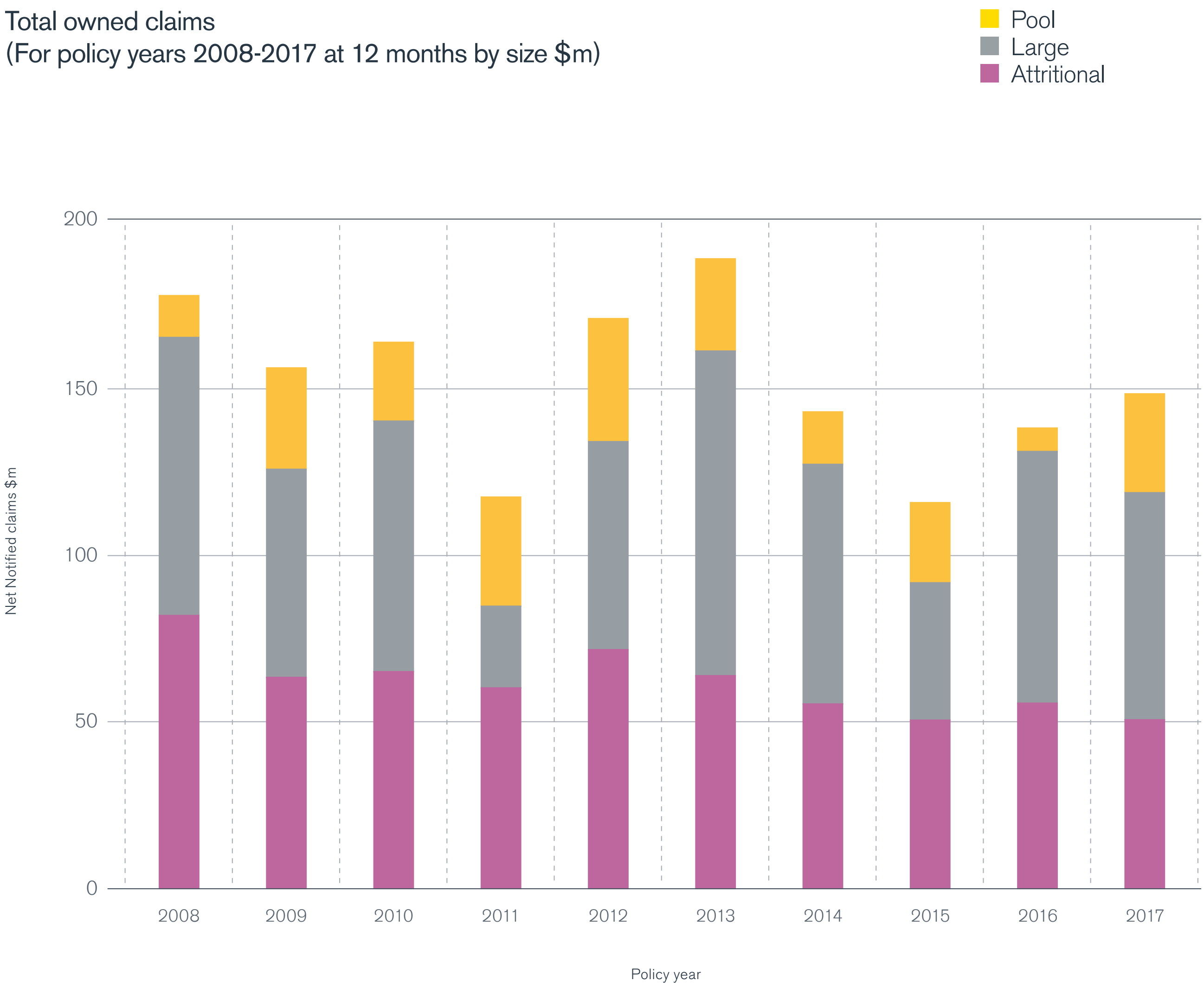
Total net notified claims development
(For policy years 2009-2017, $m)



Analysis by size of claim – a changing profile

The profile of claims notified to the Club has changed in recent years. Until the 2012 policy year the total cost of attritional claims outweighed the total cost of large claims. However, from 2013, the balance has changed and, with the exception of the 2015 policy year which suffered very few large claims, the cost of large claims outweighs that of the attritional claims.

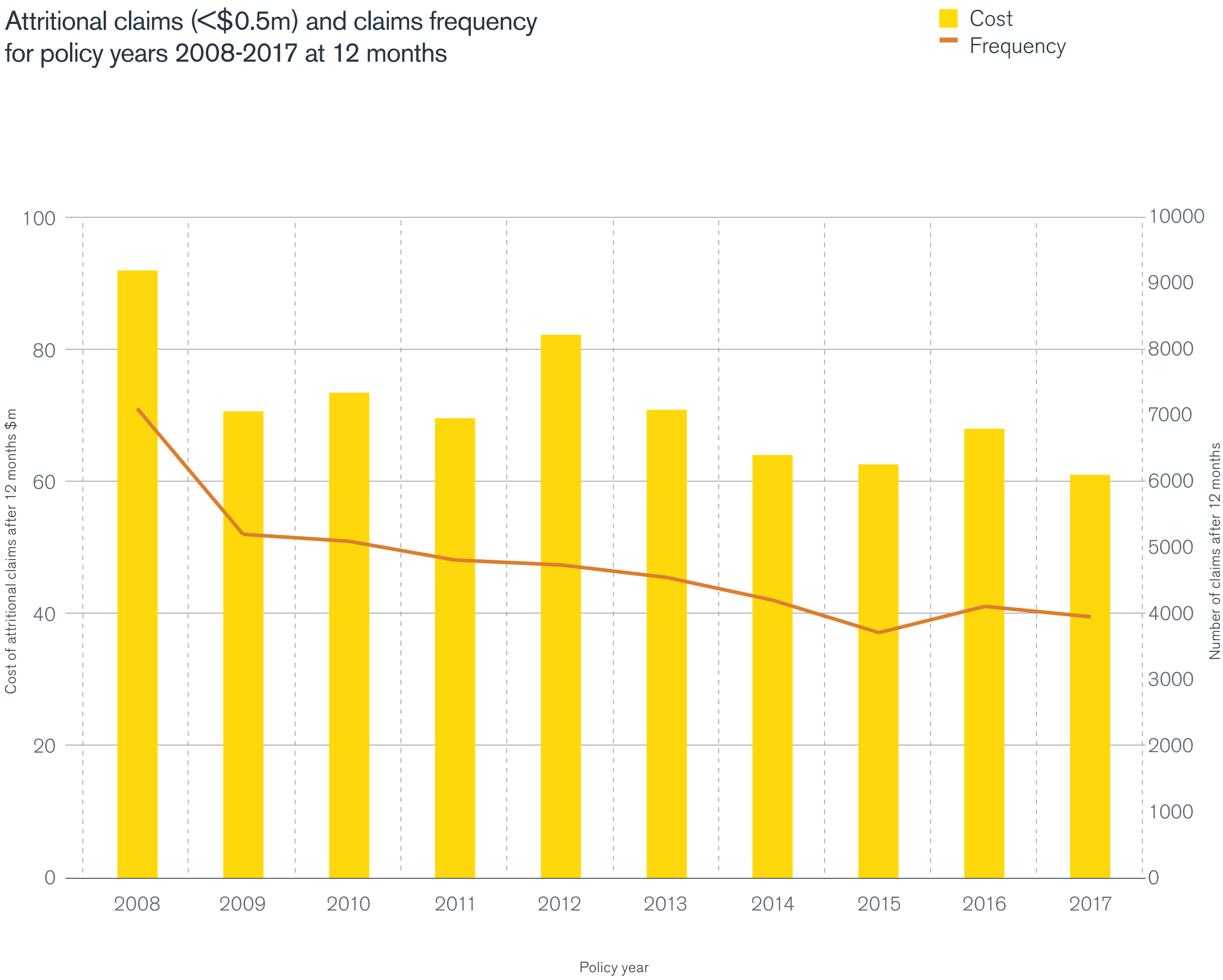
Total owned claims
(For policy years 2008-2017 at 12 months by size $m)



Claims

The reason for a changing profile
A steady reduction in the number of claims notified to the Club, the vast majority of which are of low value, is the reason for this change in profile. The number of claims has fallen consistently since 2008 due to a number of factors, including the overall economic environment, the improved standards within the shipping industry, the Club's approach to risk selection, and the increase in deductibles taken by Members.

Attritional claims (<$0.5m) and claims frequency for policy years 2008-2017 at 12 months



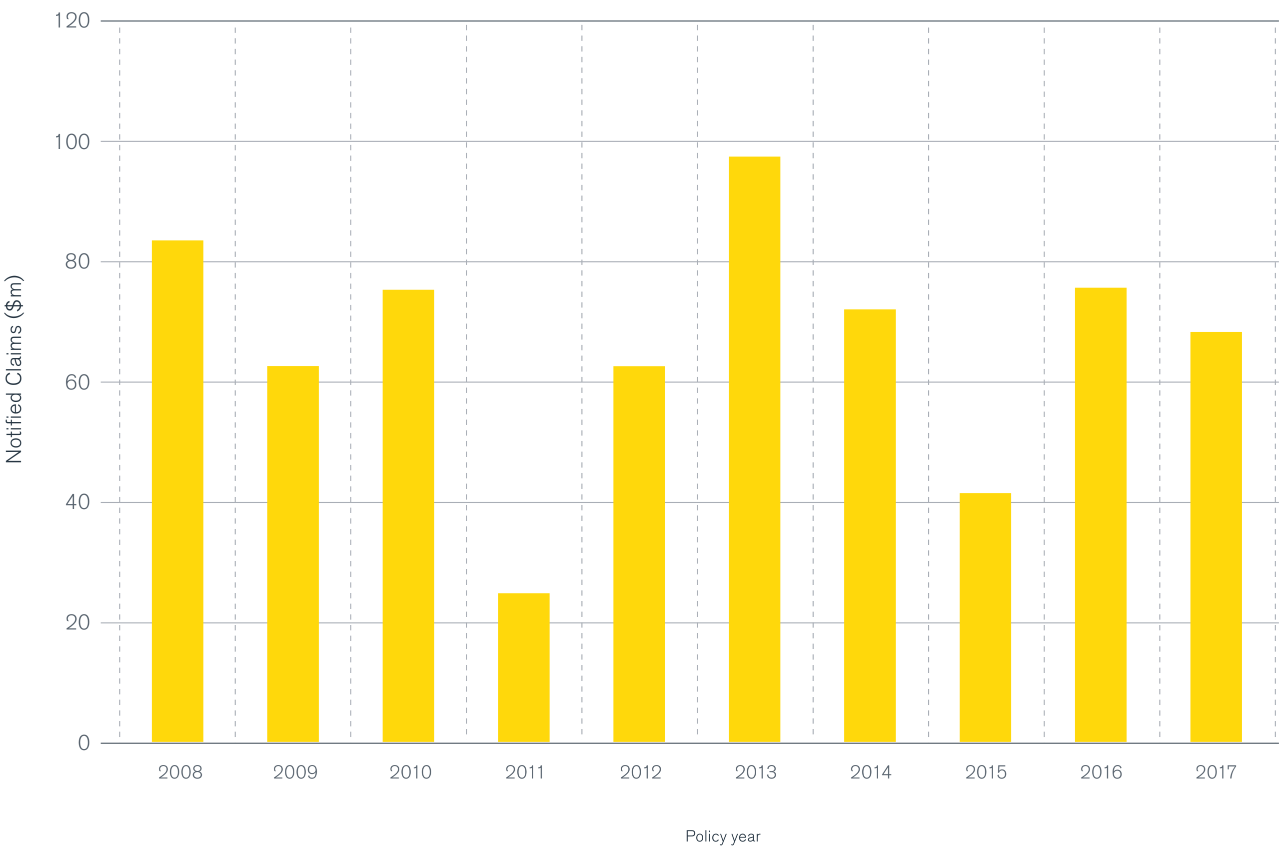
The volatility of large claims makes it difficult to discern trends within claims categories. Trends within attritional claims are more evident.

Since the 1998 policy year there has been a steady decline in the cost of casualty and cargo attritional claims. This decline reflects an ongoing reduction in the number of claims notified to the Club. People and cargo related claim numbers fell sharply following the slow-down in the world economy in 2009. Since then claims numbers have continued to decline steadily.

The reduction in cost of attritional claims over the last ten years has not been replicated in the cost of large claims. The cost of large claims is dependent on a small number of major incidents and therefore the profile is considerably more volatile from year to year.

The impact of a changing profile
Developments in the global economy more widely or the shipping market specifically may alter or reverse these trends. However the service demands on the Club are likely to change if the decline in attritional claims continues over an extended period of time. The P&I club of the future may handle fewer claims but each claim may be more significant and costly. Such a club would need to utilise underwriting techniques based on forward looking risk analysis rather than historic claims records and offer a service proposition focussed on larger incidents.

Large Claims (>$0.5m)
(For policy years 2008-2017 at 12 months, $m)



Claims

Case Study: The challenges of handling a large claim

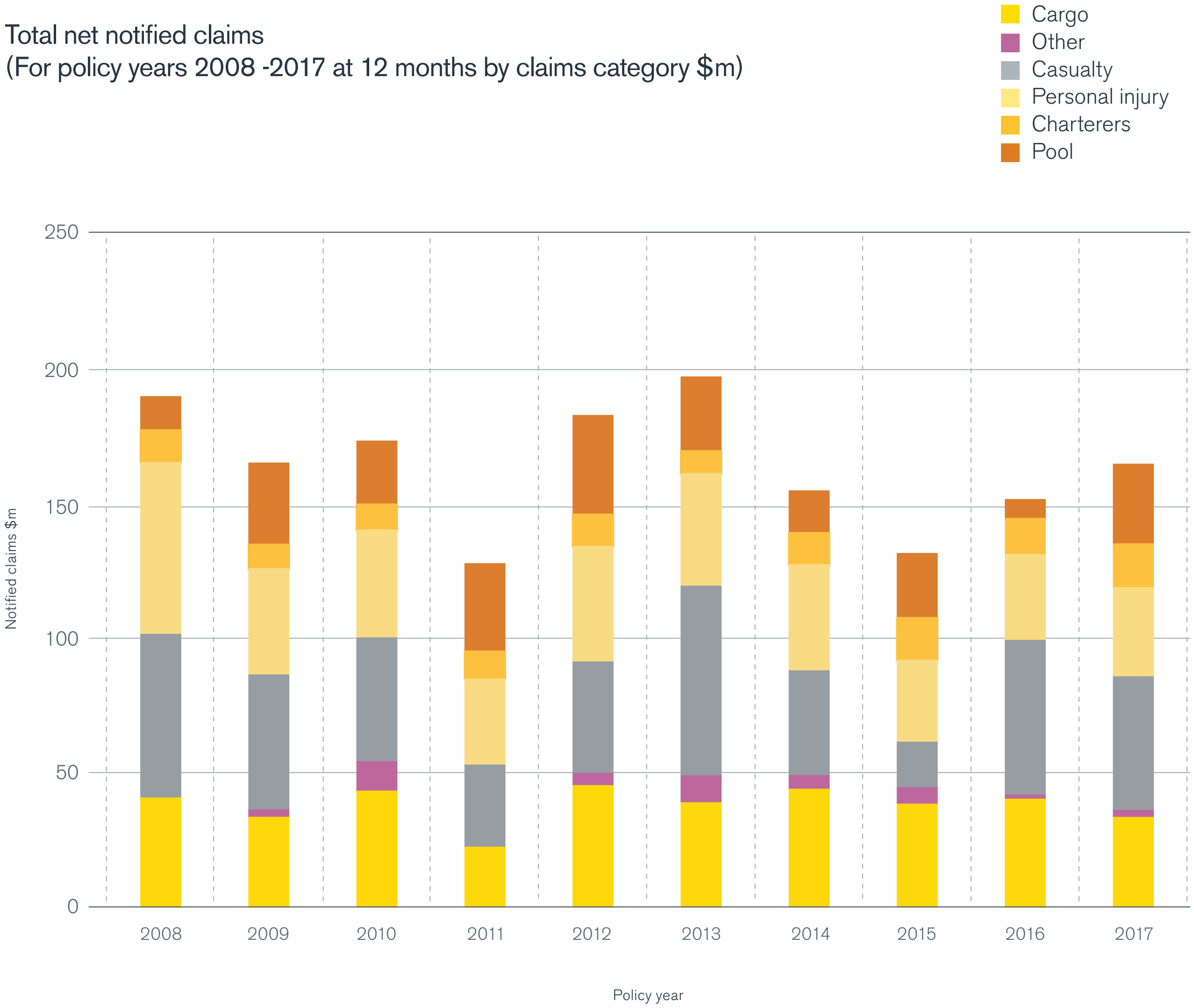
The challenge to the Club of the changing claims profile can best be demonstrated in the stark yearly contrast in the Club's large claims experience over the last 8 years. In 2011 after twelve months, large claims accounted for just over $25 million of the Club's claims experience that year. In 2013, the same period brought just under $100 million in large claims, a near fourfold increase.

The volatility continued in 2017, bringing with it an extraordinary spate of six large collisions off Singapore involving Members of the Club in the first six months of 2017 – all of which involve property and liability claims running into several million dollars. Two of the collisions happened within two miles and three days of each other. Beyond the obvious property damage, some of the incidents resulted in loss of life and pollution.

The Club's claim's staff includes several experienced casualty investigators. Thirty years ago, a steady stream of casualties ensured an equally steady supply of work. Cases were investigated at length, with the facts of each incident sometimes talking months to emerge, with the claims handling strategy usually evolving in a measured manner.

Today, technical advances such as AIS and VDR mean that what happened in the immediate build up to an incident is often known within days, sometimes hours, and the aftermath is often played out in front of the world's media. Such public interest also demands swift resolution. The feast and famine nature of these large cases requires the Club to maintain its pre-eminent experience, to be light on its feet and to be able swiftly to deploy the best team of claims handlers in the right place and at the right time, drawing on the Club's unrivalled worldwide network of offices.

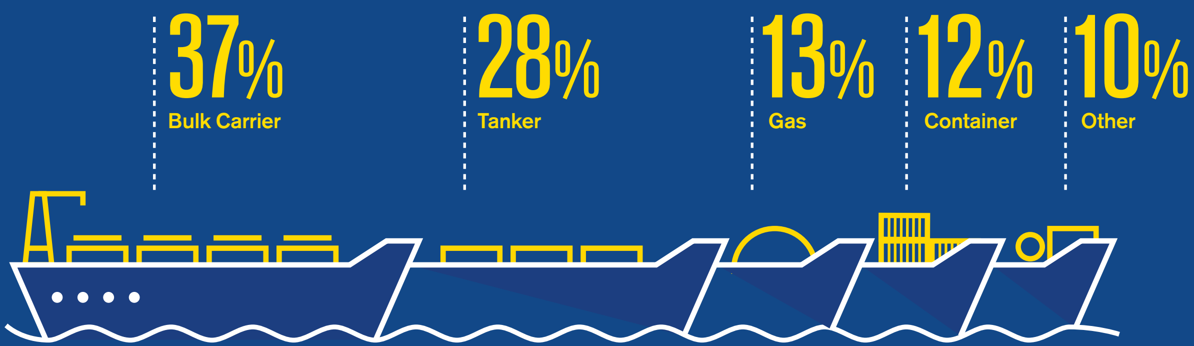
Total net notified claims
(For policy years 2008 -2017 at 12 months by claims category $m)



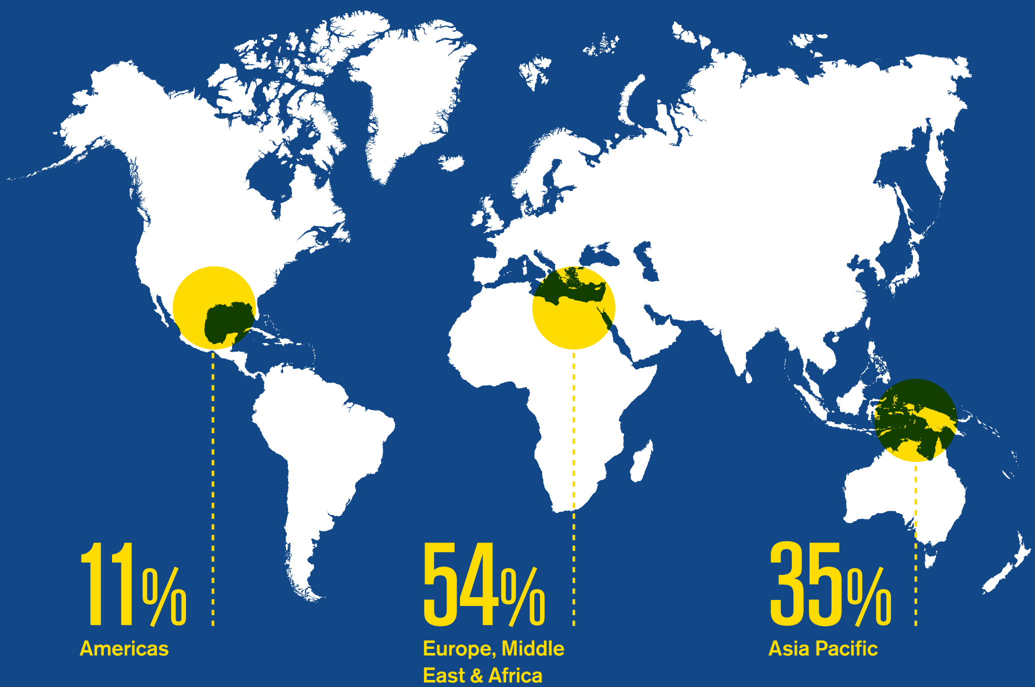
Fleet Profile

Owned fleet – figures as at 20 February 2018

Sector by share of total gt



Geographic regions



Industry Issues

The Club continually monitors shipping industry developments to assess implications for maritime liability and insurance, with information and guidance being developed for the benefit of Members in consultation with the Members' Committee and Boards.

As usual, a significant part of this work in 2017 was carried out in collaboration with other members of the International Group of P&I Clubs (IG), where UK Club's Managers continue to make a substantial contribution, chairing or serving on many IG subcommittees and working groups, and providing the current chairman of the IG Managers.

The UK Club has been a strong advocate of the mutual system and of the benefit of making the IG's collective expertise available to IMO and other bodies involved in regulation of shipping and development of maritime law. In 2017, the IG's arrangements were themselves the subject of internal strategic review by the IG Managers, in an exercise which will identify and address any areas where change may be required to ensure that the system remains fit for purpose in an evolving shipping environment.

Maritime Labour Convention (MLC)

A number of reports were made to the Board regarding the financial security requirements of the Maritime Labour Convention under which, since January 2017, Members have had to evidence financial security in respect of their crew responsibilities, in relation to traditional P&I risks of crew injury, illness, or death, and in respect of wages and repatriation in the event of abandonment. The Club provides the two financial security certificates required for each relevant vessel.

As the new system bedded down, queries arose early in 2017 regarding the identity of the party named in the financial security certificate. Clubs can only name an assured (which will be the registered owner wherever possible), but a different entity not necessarily insured under the P&I policy (e.g. an ISM manager), is sometimes named in other MLC documentation such as the Document of Maritime Labour Compliance and the flag state Maritime Labour Certificate. A small number of port state control (PSC) authorities had treated such differences as 'non-conformities'. Following discussion with the Clubs, several Flag States issued helpful public circulars to make clear that a difference in names used in these certificates should not be regarded as a problem; no further concerns were reported from PSC authorities.

Early in the year, a claim submitted by the crew of a vessel in another IG club raised two issues of principle. The claim was in respect of wages unpaid for two months before the financial security requirement came into force, and was made by crew who remained employed by and in contact with the ship owner. It was agreed that since the MLC financial security is designed to respond to a liability crystallised by the existence of a two month prior period of default, a claim for arrears of wages made during the period of validity of a financial security certificate could be covered even if the arrears was accrued prior to the validity of the certificate. Regarding the second issue, it was noted that liability to pay overdue wages under the financial security certificate arises only within provisions that envisage repatriation as a remedy for abandonment. The liability of the provider of financial security would therefore not be engaged where crew wish to continue working on board and do not agree to be repatriated.

A report was also made to the Members' Committee on a proposal from the International Transport Workers Federation (ITF) for an additional new security certificate to cover the risk that crew who are captured by pirates may remain unpaid for periods exceeding the four month cap under the existing financial security arrangements. It was agreed that such incidents are too rare to support the creation of a separate system of financial security and that a better course would be to extend the security under the existing system if necessary.

Sanctions

Following the election of Donald Trump in January 2017, a review was conducted with the Board of how the risk of a Sanctions related shortfall in recovery from the IG's reinsurances had been addressed to date and what risks might arise in future having regard to uncertainties about the long term future of the JCPOA (Joint Comprehensive Plan of Action) agreement with Iran. Such shortfalls would arise where an IG Club outside the US pays a claim with an Iranian nexus, for which reinsurance is provided in part by companies that are unable to pay their share because they are subject to US primary sanctions.

Steps had been taken to reduce the risk of a sanctions related shortfall by removing US domiciled reinsurers from the Group Excess Loss contract. However, about 40% of the contract capacity was provided by European insurers with US parent companies who relied upon the US General Licence H to permit their subsidiaries to reinsure Iran related claims.

Under arrangements (first introduced in 2011) a sanctions related shortfall in reinsurance recovery could fall back on the insured Member, unless either (i) the claim arose under a blue card or other approved certificate (for which the IG operates a Supplemental Pool) or (ii) the claim does not arise under a blue card, but there is agreement on the part of three fourths of Clubs to pool the shortfall on a discretionary basis. The 'ALPINE ETERNITY' case in 2015 had illustrated that clubs were willing to exercise that discretion positively where a shipowner found himself facing a shortfall in circumstances where the Iranian aspect of the risk arose as a result of fortuity (a collision).

The IG Sanctions Subcommittee had considered whether to recommend that Supplemental Pooling be extended to all reinsurance shortfalls arising from non-certificated sanctions risks. In the light of President Trump's public opposition to the JCPOA and the risk of General Licence H becoming ineffective, the Members Committee considered that such a recommendation would be imprudent and should be opposed. Most IG clubs took a similar view and the arrangements were therefore left unchanged.

Ballast Water Management Convention

At its October meeting, the Members' Committee received an update on the 2004 International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWMC) which had entered into force on 8th September 2017, triggered by Finland's accession to the Convention a year earlier, bringing the tonnage of ratifying States above the threshold of 35% of world merchant tonnage.

The UK Club had participated with others in an IG Working Group during 2016 to study the legislation and assess its implications for P&I cover, having regard to potential liabilities for fines or environmental damage claims. The Club had been vocal in resisting proposals that new exclusions of cover might be necessary to encourage compliance with the Convention. Operational requirements of the Convention are challenging enough, without the additional worry of finding that P&I protection has been reduced. It was pleasing to report agreement in the IG that neither the Convention nor the USCG regulations would require amendment of existing Club Rules. Liabilities, including fines for inadvertently introducing ballast into the environment, arising from the accidental escape or discharge overboard of untreated ballast through a "faulty" approved system, remain capable of cover as of right. Cover for other fines relating to a breach of BWM requirements is available only on a discretionary basis, reflecting the position that had already existed in relation to any other deliberate discharges from an entered ship.

The Managers advised that almost 60 ballast water management systems had received either basic or type approval by IMO, and that the United States, which had its own ballast water management legislation, had also approved 6 systems for use. However, in the light of concerns about capacity and the difficulties of fitting approved systems to all ships within the Convention deadlines, the Members' Committee welcomed the news that the date for compliance with BWMC requirements had been postponed by two years for ships built before 8th September 2017, following a revised implementation schedule agreed by IMO's Marine Environmental Protection Committee (MEPC) in July 2017.

Air Emission update

The attention of Directors was drawn to regular reports regarding the ongoing issue of ships emissions control under Marpol Annex VI, which are provided on the Club's website and updated from time to time. It was noted that there are 4 designated ECAs (Baltic Sea, North Sea, North America, US Caribbean Sea) where the Sox emission is limited at 0.10% m/m since 1st January 2015 and that the fuel oil standard (0.50% m/m) should become effective on 1st January 2020 (Resolution MEPC.280(70) for all other areas. It was also noted that with effect from September 2017 China had established three ECAs, the Yangtze River ECA, the Pearl River ECA and the Bohai ECA, where the Sox emission was limited at 0.5mm. The Directors were advised that as far as P&I cover was concerned, the most likely claim relating to air emissions would be fines imposed on the vessels for failure to comply with the applicable requirements. As for fines for any other type of deliberate discharge, cover was available at the discretion of the Directors, if they were satisfied that the Member in question had taken reasonable measures to prevent the event giving rise to the fines.

Capital Management

The Club's overriding aim is to hold sufficient capital to provide Members with first class financial security without the need to retain more of the Members' funds than necessary.

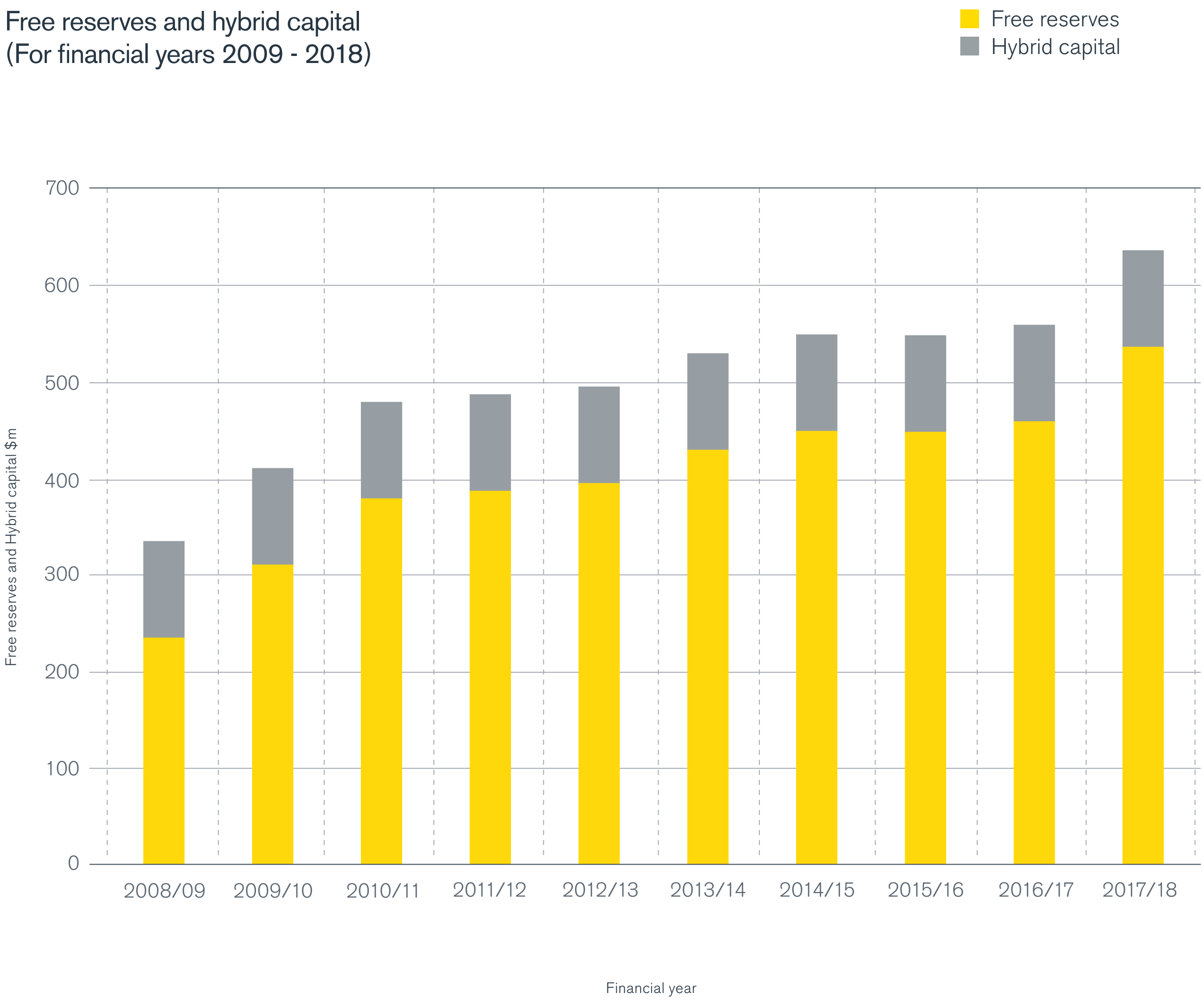
As part of this overall aim, the Club's key objectives are to maintain its A (stable) credit rating with S&P and to hold sufficient capital to meet regulatory requirements in all jurisdictions.

The Club's capital position exceeds all minimum capital targets, including appropriate buffers. The buffers are designed to protect the Club from breaching its capital targets following an extreme event.

Capital targets are determined by the risk accepted by the Club. The Club utilises risk management and sophisticated modelling techniques to identify, understand and mitigate the impact of extreme loss events. By utilising efficient risk mitigation techniques, such as reinsurance or asset allocation, capital targets are reduced.

To quantify the risk accepted by the Club, a sophisticated internal model has been developed. This model enables the Board to assess the capital impact of strategic decisions.

Free reserves and hybrid capital
(For financial years 2009 - 2018)



The model has been approved by the regulator for the calculation of the underwriting component of the group capital requirements for regulatory purposes under Solvency II. The model enables analysis of the risks specifically relating to Club business. This more accurate quantification of risk delivers a solvency capital requirement below that calculated by the more general standard factors.

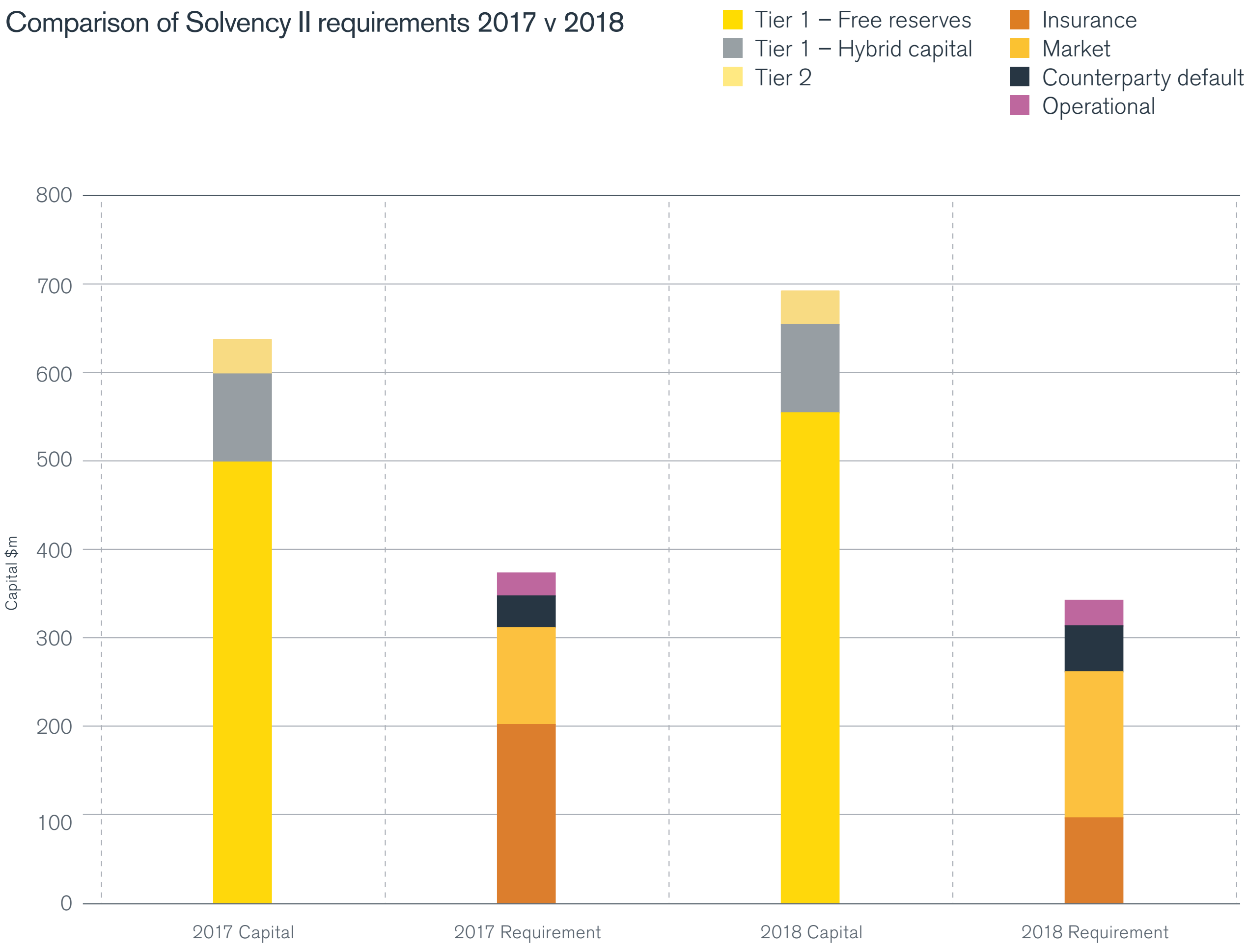
The full regulatory reporting under Solvency II was published for the first time in the summer of 2017. The Solvency and Financial Condition Report ("SFCR") provides information on various aspects of the Club including its solvency position. The following graph shows the coverage of regulatory capital requirements on a Solvency II valuation basis. In 2017, the standard factors were applied to calculate the group requirements whereas in 2018 the internal model has been used.

There are a number of levers available to the Club should capital coverage diminish. One potential lever is to reduce the capital requirement.

48% of the total capital requirement relates to market risk factors. The Club's equity investment holding has delivered high returns in recent years but also attracts a high capital charge of around 40-50%. A reduction in equity holding would significantly reduce the capital requirement though the likely reduction in investment return would intensify pressure to achieve a breakeven underwriting result.

The current capital position comfortably supports an equity investment holding of around 20% of the portfolio at the year end.

Comparison of Solvency II requirements 2017 v 2018



Investments

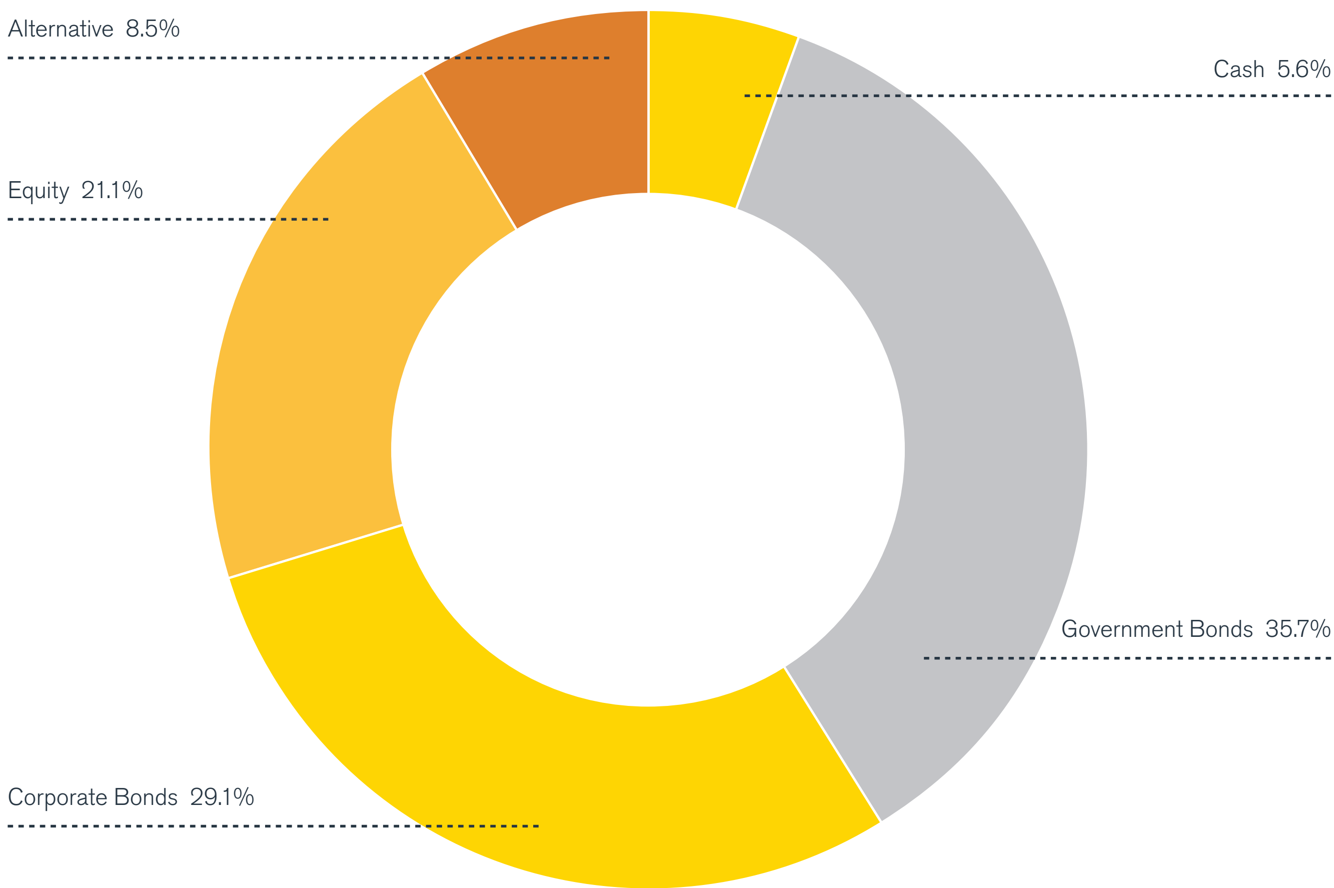
Economic Background and Investment Returns

The Club's investment portfolio performed strongly in the 2017 financial year as the backdrop of robust economic growth and supportive monetary policy helped to overcome concerns about geo-political uncertainty both in the UK and US.

The overall investment portfolio returned 3.9% excluding currency gains and 6.1% when currency gains are included. All component parts of the investment portfolio contributed positively to returns, led by another strong performance by the equity portfolio which returned over 19% for the year.

Investment Strategy

The Club's overarching investment strategy remains unchanged. The strategy focusses on maintaining a well-diversified portfolio, set within the risk appetite of the Club, which provides adequate liability cover while ensuring opportunities to maximise investment returns.



Looking Forward

During 2017, the Board took the opportunity to reconsider how trends in both the shipping and insurance markets might affect the Club in the future.

The investment return achieved for the year ended 20 February 2018 was extremely strong. However the general outlook for future return is likely to be more limited than Club has seen in the past. This places additional emphasis on a disciplined approach to underwriting to avoid pressure on the Club's capital.

Capital efficiency through risk mitigation techniques, based on a thorough understanding of risk, is increasingly important. Such techniques enable the Club to manage excessive risk but do not extinguish the need for disciplined underwriting.

A key part of disciplined underwriting is appropriate pricing of the risk accepted. New tools to determine appropriate pricing will be needed if the Club is exposed to fewer and larger claims. Where historically the Club could monitor risk through an historic claims record new techniques will be required if the claims throughput takes a different shape.

Another key element to disciplined underwriting is cost efficiency. The Club's aim is to provide market leading service to its Members. However the Club seeks to provide this service as efficiently as possible to avoid unnecessary strain on the combined ratio.

The service proposition will develop if the current trend towards larger claims continues. The number of claims related touch points between the Club and its Members may reduce but service more widely will be increasingly important.

One key area of the Club's service proposition is working with Members to prevent or mitigate the impact of losses. Improving safety at sea, early warning systems and crisis response is of vital importance to our Members and all those working on board ships. It also helps the Club to manage the risk of a growing importance of large claims. The Club's future plan puts greater emphasis on providing improved information and support to Members in respect of safety.

Developments in data and digital technology may offer additional opportunity to meet the demands of a number of these trends. Additional data sources may help the Club more accurately determine risk and changes to risk on a real time basis. Technology will also enable improved information flow from the Club to Members for the benefit of safety programmes and efficient transaction flows.

Finally, the Club will continue to invest in its people. The Club of the future will continue to need people of the highest calibre who are committed to the success of both the Club and its Members.

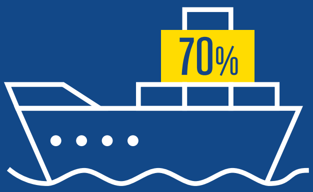
Management

UKP&I is managed by Thomas Miller, a group of specialist international insurance, professional services and investment businesses.

Thomas Miller managed transport businesses' annual premium income exceeds $700m.

TT Club insures 80% of the world's containers and 30% of the ports.

ITIC has over 2300 Members in more than 100 countries.



Hellenic War Risks insures over 70% of all Greek owned ships.

17 locations. 1 global guarantee. Wherever you are in the world, we will be there to ensure your best interests are secured.

UK War risks – Largest British war risks club.

The UK Defence Club is the largest defence club in the world insuring over 3900 ships.

Global network

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

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 financial statements of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited, which comprise the consolidated statement of financial position as at 20 February 2018 and the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in reserves and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20 February 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Bermuda law and 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control
- Evaluate the appropriateness off accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cause significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the group to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

May 2018

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.

Consolidated Income Statement

for the year ended 20th February 2018

Amounts in US$000	Notes	2018	2017
Income			
Gross earned premium	13	361,793	386,166
Mutual premium discount	13	-	(9,996)
		361,793	376,170
Premium ceded to reinsurers	13	(65,119)	(81,082)
Net earned premium		296,674	295,088
Net investment return	14	43,161	51,774
Total net income		**339,835**	**346,862**
Expenses			
Claims and claims adjustment expenses net of reinsurance	10	(225,700)	(273,619)
Expenses for the acquisition of insurance contracts		(20,947)	(20,299)
Net operating expenses	15	(21,804)	(23,296)
Foreign exchange (losses)/gains		8,209	(7,715)
Total expenses		**(260,242)**	**(324,929)**
Results from operating activities		**79,593**	**21,933**
Finance costs	12	(7,500)	(7,500)
Surplus before tax		**72,093**	**14,433**
Income tax expense	16	(207)	(417)
Surplus for the year attributable to members		**71,886**	**14,016**

Consolidated Statement of Comprehensive Income

for the year ended 20th February 2018

Amounts in US$000	Notes	2018	2017
Surplus for the year		**71,886**	**14,016**
Other comprehensive income			
- Amounts recycled to the income statement		4,077	4,215
- Fair value gain/(loss)		5,640	(7,698)
Other comprehensive income for the year net of tax		**9,717**	**(3,483)**
Total comprehensive income for the year attributable to members		**81,603**	**10,533**

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 20th February 2018

Amounts in US$000	Notes	2018	2017
Assets			
Investments	6	1,236,614	1,080,601
Loans and receivables including insurance receivables	7	87,502	103,738
Derivative financial instruments	8	2,785	11
Reinsurance assets	10	155,108	213,798
Cash and cash equivalents	9	156,244	115,486
Current income tax credit		1,645	959
Accrued interest		270	675
Total assets		**1,640,168**	**1,515,268**
Reserves and liabilities			
Capital and reserves attributable to members			
Free reserves		536,955	465,069
Cash flow hedging reserve	8	2,785	(6,932)
Other reserves		240	240
Total		**539,980**	**458,377**
Financial liabilities - Perpetual subordinated capital securities	12	99,816	99,440
Total		**639,796**	**557,817**
Other liabilities			
Insurance liabilities	10	986,236	924,537
Derivative financial instruments	8	-	6,943
Trade and other payables	11	14,136	25,971
Total		**1,000,372**	**957,451**
Total reserves and liabilities		**1,640,168**	**1,515,268**

The notes on pages 35 to 60 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 28th May 2018 and were signed on its behalf

A. K. Olivier
Chairman

R.C. Gillett
Director

N.H. Schües
Director

H.J. Wynn-Williams
Manager

Consolidated Statement of Changes in Reserves

	Attributable to members			
Amounts in US$000	**Free reserves**	**Cash flow hedging reserve**	**Other reserves**	**Total**
Balance at 20th February 2016	**451,053**	**(3,449)**	**240**	**447,844**
Surplus for the year	14,016	-	-	14,016
Other comprehensive income	-	(3,483)	-	(3,483)
Total comprehensive income for the year	14,016	(3,483)	-	**10,533**
Balance at 20th February 2017	**465,069**	**(6,932)**	**240**	**458,377**
Surplus for the year	71,886	-	-	71,886
Other comprehensive income	-	9,717	-	9,717
Total comprehensive income for the year	71,886	9,717	-	81,603
Balance at 20th February 2018	**536,955**	**2,785**	**240**	**539,980**

The notes on pages 35 to 60 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 20th February 2018

Amounts in US$000	Notes	2018	2017
Operating activities			
Calls and premiums received		368,412	374,489
Receipts from reinsurance recoveries		33,711	44,544
Interest and dividends received		15,005	21,211
		417,128	**440,244**
Claims paid		287,941	273,985
Acquisition costs		20,947	20,299
Operating expenses paid		1,756	39,931
Reinsurance premiums paid		69,091	82,553
Taxation paid		892	1,592
		380,627	**418,360**
Net cash provided/(used) by operating activities		**36,501**	**21,884**
Investing activities			
Purchase of investments		525,105	(1,632,218)
Sale of investments		(514,213)	1,646,471
Net cash provided by/(used in) investing activities		**10,892**	**14,253**
Financing activities			
Interest paid on perpetual subordinated securities		(7,500)	(7,500)
Net cash used in financing activities		**(7,500)**	**(7,500)**
Net increase in cash and cash equivalents		39,893	28,637
Effect of exchange rate fluctuations on cash and cash equivalents		865	(393)
Cash and cash equivalents at the beginning of the year	9	115,486	87,242
Cash and cash equivalents at the end of the year	**9**	**156,244**	**115,486**

The notes on pages 35 to 60 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1
General Information

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

The Association is unlisted, 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 28th May 2018.

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 Standard 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 or 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 Association'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. The Association is however 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 International Accounting Standards Board's ("IASB") work on the replacement of IAS 39 Financial Instruments: recognition and measurement. The standard is effective for annual periods beginning on or after 1 January 2018. The adoption 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.

IFRS 15: Revenue from Contracts with customers
IFRS 15 as issued reflects the IASB work on the replacement of IAS 18 Revenue. The standard sets out the requirements for recognising revenue that apply to contracts with customers, except for those covered by standards on leases, insurance contracts and financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. A high level assessment of IFRS 15 was performed, and it is considered to have no impact on the Association.

IFRS 17: Insurance Contracts
IFRS 17 as issued reflects IASB work on the replacement of IFRS 4 Insurance Contracts. The standard establishes principles for the recognition, measurement; presentation and disclosure of insurance contracts issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The standard is effective for annual periods beginning on or after 1 January 2021, however earlier application is permitted. The Association is currently in the process of performing an impact assessment of the key changes that IFRS 17 introduces and has elected not to apply IFRS 17 early.

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 acquisition.

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 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 intercompany 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

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

(b) Transactions and balances
Revenue transactions in foreign currencies have been translated into U.S. dollars at rates revised at monthly intervals. All exchange gains and losses, whether realised or unrealised, are included in the 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 foreign exchange gains and losses 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 or loss
The Association has designated its financial assets as at fair value through profit or 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 or 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).

The forward currency contracts mature in March and September 2018 and 2019. The contracts cover foreign currency payment in respect of Club management. The cash flow hedging reserve will unwind as the contracts mature to match the foreign currency liabilities.

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 derivative instruments used for hedging purposes are disclosed in Note 8. Movements on the hedging reserve are shown in the consolidated statement of changes in reserves.

(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 claims incurred but not yet reported (“IBNR”). Included in the provision is an estimate for internal and external costs of handling the outstanding claims. Individual claims estimates are made on a most likely outcome basis.

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

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

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

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

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 or 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 exdividend 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 relate 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.

2.16 Reserves attributable to members

Free reserves are the accumulated surplus of the Association and represent the excess of assets over liabilities.

Cash flow hedge reserves represent the fair value of open forward foreign currency contracts at the year end date.

Other reserves represent the statutory reserves required at incorporation.

Note 3
Critical Accounting estimates and judgements

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

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

The estimation techniques applied in the calculation of the technical provisions are described in Note 2.12. The technical provisions at the year end are disclosed in Note 10.

Note 4
Management of risk

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

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

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

In addition further committees, which report to the GARCO, 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

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

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

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

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

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

4.1 Insurance risk

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

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

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

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

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

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

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

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

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

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

Amounts in US$000	**2018**	**2017**
Increase in loss ratio by 5 percentage points		
Gross	(18,090)	(18,808)
Net	(14,834)	(14,754)

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

4.2 Market risk

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

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

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

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

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

A 5 per cent reduction in the valuation of all investments would result in a reduction in free reserves of $62 million (2017: $54 million).

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

The profile of 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 2018

Amounts in US$000	US Dollar	Sterling	Euro	Other	Total
Debt securities	624,846	122,289	80,273	-	**827,408**
Alternative investments	37,019	-	-	-	**37,019**
Equities	327,728	44,430	-	-	**372,158**
Absolute return funds	29	-	-	-	**29**
UCITS	70,008	800	24	-	**70,832**
Derivative financial instruments	(25,353)	27,399	739	-	**2,785**
Cash balances	73,096	3,733	7,892	691	**85,412**
Amounts due from members	72,939	220	-	-	**73,159**
Reinsurers' share of outstanding claims	155,108	-	-	-	**155,108**
Accrued interest	270	-	-	-	**270**
Sundry debtors	15,988	-	-	-	**15,988**
Gross outstanding claims	(751,023)	(106,429)	(94,243)	(34,541)	**(986,236)**
Other liabilities	0	(14,136)	-	-	**(14,136)**
	600,655	**78,306**	**(5,315)**	**(33,850)**	**639,796**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $559 million, equities of $341 million and alternative investments of $37 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000	US Dollar	Sterling	Euro	Other	Total
Debt securities	648,911	96,722	65,165	1,767	**812,565**
Alternative investments	35,765	-	-	-	**35,765**
Equities	206,453	25,789	-	-	**232,242**
Absolute return funds	29	-	-	-	**29**
UCITS	29,567	574	-	-	**30,141**
Derivative financial instruments	(76,240)	69,308	-	-	**(6,932)**
Cash balances	79,068	2,056	3,064	1,157	**85,345**
Amounts due from members	79,100	208	390	-	**79,698**
Reinsurers' share of outstanding claims	213,798	-	-	-	**213,798**
Accrued interest	675	-	-	-	**675**
Sundry debtors	24,039	-	-	-	**24,039**
Gross outstanding claims	(705,599)	(104,041)	(70,988)	(43,909)	**(924,537)**
Other liabilities	(24,311)	(700)	-	-	**(25,011)**
	511,255	**89,916**	**(2,369)**	**(40,985)**	**557,817**

In addition a liability of $99.8 million (2017: $99.4 million) relating to the perpetual subordinated capital securities is denominated in US dollars.

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

As at 20th February 2018

Amounts in US$000	Effect on reserves	Effect on surplus
Sterling	139	2,650
Euro	-	438

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

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

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

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds. The maturity profile of these investments is typically shorter than the profile of claims liabilities. 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 investments would decrease for the following amounts if market interest rates had increased by 100 basis points at the consolidated statement of financial position dates and all assumptions had remained unchanged. The sensitivity analysis is limited to the effect of changes in interest rates on debt securities.

Amounts in US$000	Effect on investment valuation
As at 20th February 2018	48,626
As at 20th February 2017	34,681

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

4.3 Credit risk

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

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

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

The investment policy manages the risk of default by limiting 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 a limited investment in equities, the majority of investments being in fixed interest securities and UCITS. Within these, most investments are at least A rated with many relating to Government or Supranational bodies.

The following tables provide information 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 2018

Amounts in US$000	AAA	AA	A	Not readily available/not rated	Total
Debt securities	119,285	522,936	-	185,187	827,408
Alternative investments	-	-	-	37,019	37,019
UCITS	70,210	622	-	-	70,832
Derivative financial instruments	-	-	2,785	-	2,785
Cash balances	-	-	85,412	-	85,412
Amounts due from members	-	-	-	73,159	73,159
Amounts due from group pooling arrangement	-	-	52,005	17,671	69,676
Amounts due from reinsurers		20,450	64,603	379	85,432
Accrued interest	-	-	270	-	270
Sundry debtors	-	-	-	15,988	15,988
Total of assets subject to credit risk	**189,495**	**544,008**	**205,075**	**329,403**	**1,267,981**
Other Assets					
Equities	-	-	-	372,158	372,158
Absolute return funds	-	-	-	29	29
Total assets	**189,495**	**544,008**	**205,075**	**701,590**	**1,640,168**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $559 million, equities of $341 million and alternative investments of $37 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	186,674	466,679	1,767	157,445	812,565
Alternative investments	-	-	-	35,765	35,765
UCITS	30,141	-	-	-	30,141
Derivative financial instruments	-	-	11	-	11
Cash balances	-	-	85,345	-	85,345
Amounts due from members	-	-	-	79,698	79,698
Amounts due from group pooling arrangement	-	-	21,708	7,974	29,682
Amounts due from reinsurers		128,258	55,271	587	184,116
Accrued interest	-	-	675	-	675
Sundry debtors	-	-	-	24,999	24,999
Total of assets subject to credit risk	**216,815**	**594,937**	**164,777**	**306,468**	**1,282,997**
Other Assets					
Equities	-	-	-	232,242	232,242
Absolute return funds	-	-	-	29	29
Total assets	**216,815**	**594,937**	**164,777**	**538,739**	**1,515,268**

4.4 Liquidity risk

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

The following table provides a maturity analysis of 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 2018

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	37,928	27,748	177,659	584,073	827,408
Alternative investments	37,019	-	-	-	-	37,019
Equities	372,158	-	-	-	-	372,158
Absolute return funds	29	-	-	-	-	29
UCITS	70,832	-	-	-	-	70,832
Derivative financial instruments	-	2,785	-	-	-	2,785
Cash balances	85,412	-	-	-	-	85,412
Amounts due from members	13,471	59,688	-	-	-	73,159
Accrued interest	270	-	-	-	-	270
Sundry debtors	-	15,988	-	-	-	15,988
Reinsurers share of outstanding claims	-	43,797	28,477	42,263	40,571	155,108
Total assets	**579,191**	**160,186**	**56,225**	**219,922**	**624,644**	**1,640,168**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $559 million, equities of $341 million and alternative investments of $37 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	43,168	38,286	228,284	502,827	812,565
Alternative investments	35,765	-	-	-	-	35,765
Equities	232,055	187	-	-	-	232,242
Absolute return funds	29	-	-	-	-	29
UCITS	30,141	-	-	-	-	30,141
Derivative financial instruments	-	11	-	-	-	11
Cash balances	85,345	-	-	-	-	85,345
Amounts due from members	2,299	77,399	-	-	-	79,698
Accrued interest	675	-	-	-	-	675
Sundry debtors	-	24,999	-	-	-	24,999
Reinsurers share of outstanding claims	-	138,644	18,487	27,460	29,207	213,798
Total assets	**386,309**	**284,408**	**56,773**	**255,744**	**532,034**	**1,515,268**

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 2018

Amounts in US$000	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(278,315)	(181,111)	(268,787)	(258,023)
Derivative contracts	-	-	-	-
Other liabilities	(14,136)	-	-	-
Total other liabilities	**(292,451)**	**(181,111)**	**(268,787)**	**(258,023)**

As at 20th February 2017

Amounts in US$000	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(299,560)	(154,034)	(228,798)	(272,263)
Derivative contracts	(6,943)	-	-	-
Other liabilities	(25,971)	-	-	-
Total other liabilities	**(332,474)**	**(154,034)**	**(228,798)**	**(272,263)**

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 GARCO. A human resource manual and including all key policies have also been documented.

4.6 Limitation of the sensitivity analyses

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

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

4.7 Capital management

The Association 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 to meet regulatory requirements and maintain an "A" rating with Standard and Poor's, with a substantial margin in each case. The Association manages its capital requirement by utilising risk management techniques.

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

The Association's principal direct insurer continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the Solvency 2 regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 percent confidence level of solvency over one year time frame. Throughout the period the Association complied with the regulators capital requirements and the requirements in the other countries in which it operates. The Group has developed a Partial Internal Model which is 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.

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 2018

Amounts in US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Equity securities	341,336	-	30,851	372,187
- Debt securities	268,008	559,400	-	827,408
- Alternative investments	-	37,019	-	37,019
Derivative financial instruments	-	2,785	-	2,785
Total	**609,344**	**599,204**	**30,851**	**1,239,399**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Total debt securities of $559 million, equities of $341 million and alternative investments of $37 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Equity securities	206,483	-	25,788	232,271
- Debt securities	316,436	496,129	-	812,565
- Alternative investments	-	35,765	-	35,765
Derivative financial instruments	-	(6,932)	-	(6,932)
Total	**522,919**	**524,962**	**25,788**	**1,073,669**

In relation to level 3 securities, fair value gain of $1.6 million have been recognised in net investment return and foreign exchange gain of $3.5 million in foreign exchange losses 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:

Amounts in US$000	2018	2017
USA	75,217	76,515
Greece	68,579	67,884
Japan	49,146	50,471
Germany	29,659	29,942
United Kingdom	11,623	12,308
China	19,953	20,268
Other	107,616	118,782
Total	**361,793**	**376,170**

In the analysis above, 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.

Amounts in US$000	2018	2017
Financial assets at fair value through profit or loss	1,236,614	1,080,601
Loans and receivables including insurance receivables (note 7)	87,502	103,738
Total financial assets	**1,324,116**	**1,184,339**

The assets comprised within the financial asset category above are detailed in the tables below:

Financial assets at fair value through profit or loss

Amounts in US$000	2018	2017
Equity securities and Absolute return funds	30,879	25,817
Mutual funds	937,727	738,348
Debt securities	268,008	316,436
Total financial assets at fair value through profit or loss	**1,236,614**	**1,080,601**

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

Mutual funds

Amounts in US$000	2018	2017
Equity securities and Absolute return funds	341,308	206,454
Debt securities	559,400	496,129
Alternative investments	37,019	35,765
Total mutual funds	**937,727**	**738,348**

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

Amounts in US$000	Fair value through profit or loss	Total
At the end of 20 February 2016	**1,078,340**	**1,078,340**
Exchange differences on monetary assets	(18,595)	(18,595)
Additions	1,632,218	1,632,218
Disposals	(1,646,471)	(1,646,471)
Fair value net gains		
- Designated at fair value through income statement on initial recognition	26,865	26,865
Profit on sale of investments		
- Designated at fair value through income statement on initial recognition	8,244	8,244
At the end of 20 February 2017	**1,080,601**	**1,080,601**
Exchange differences on monetary assets	28,345	28,345
Additions	(525,105)	(525,105)
Disposals	624,213	624,213
Fair value net gains		
- Designated at fair value through income statement on initial recognition	8,862	8,862
Profit on sale of investments		
- Designated at fair value through income statement on initial recognition	19,698	19,698
At the end of 20 February 2018	**1,236,614**	**1,236,614**

Note 7
Loans and receivables

Amounts in US$000	2018	2017
Insurance receivables:		
- Due from contract holders	77.269	81,582
- Less provision for doubtful debts	(4,111)	(1,884)
- Due from reinsurers	11,537	3,888
	84,695	**83,586**
Other loans and receivables		
- Prepayments	300	11,540
- Sundry receivables	2,507	8,612
	2,807	**20,152**
Total loans and receivables including insurance receivables	**87,502**	**103,738**
Current portion	87,502	103,738

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 fair value of forward foreign exchange contract that are open at the year end is included as an asset in the Association's Statement of financial position and within the cash flow hedge reserve. Gains and losses in the valuation of forward foreign exchange contracts as at 20th February 2018 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 manage 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.

The table below analyses all derivative positions:

Forward currency contracts		**2018**			**2017**	
Amounts in US$000	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Cash flow hedge	42,242	2,785	-	69,308	11	(6,943)
Non hedge derivatives	-	-	-	-	-	-
Total	**42,242**	**2,785**	**-**	**69,308**	**11**	**(6,943)**

Note 9
Cash and cash equivalents

Amounts in US$000	2018	2017
Cash at bank and in hand	85,412	55,114
Short-term bank deposits	70,832	60,372
Total	**156,244**	**115,486**

Note 10
Insurance liabilities and reinsurance assets

Amounts in US$000	2018	2017
Gross outstanding claims		
- Members' claims	911,101	844,355
- Other clubs' pool claims	74,155	79,282
	985,256	**923,637**
Reinsurer's share of gross outstanding claims		
- Group excess of loss and market reinsurance	85,241	73,947
- Pool recoveries	69,677	29,681
- Other reinsurers	-	110,000
	154,918	**213,628**
Provision for unearned premium	980	900
Provision for unearned reinsurance premium	(190)	(170)
Total insurance liabilities, net	**831,128**	**710,739**
Current	234,517	160,916
Non-current	596,611	549,823

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 $69 million (2017: $64 million). The discount is based on A and AA rated corporate bonds. The discount rate has decreased this year to 2.75% from 3.00% last year.

Occupational Disease claims have a significant latency period estimated to be 17 years making them particularly uncertain for reserving purposes. The reserve has been set with reference to industry studies and the Association's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of those claims.

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

As at 20th February 2018

Amounts in US$000	Effect on the reserve
1% decrease in discount rate	7,100
1% increase in discount rate	(5,900)

10.1 Development claim tables

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

Insurance claims - gross

Estimate of ultimate claims cost attributable to the policy year

Amounts in US$000										
Reporting year	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
- End of reporting year	329,208	355,573	311,727	241,341	275,765	340,169	250,715	284,788	259,872	292,229
- One year later	297,658	327,240	358,772	226,792	285,365	352,655	229,089	271,752	255,565	
- Two years later	286,252	309,713	369,809	209,766	280,149	356,187	222,165	278,309		
- Three years later	275,825	295,195	338,631	209,870	281,221	346,093	219,975			
- Four years later	262,373	299,227	314,882	203,828	259,179	365,760				
- Five years later	262,743	294,255	310,649	202,660	253,003					
- Six years later	262,234	275,595	288,092	201,479						
- Seven years later	257,550	273,280	287,509							
- Eight years later	256,707	265,280								
- Nine years later	256,037									
Current estimate of ultimate claims	256,037	265,280	287,509	201,479	253,003	365,760	219,975	278,309	255,565	292,299
Cumulative payments to date	246,599	253,446	254,934	189,994	226,889	300,958	154,901	123,242	89,650	52,403
Liability recognised in the consolidated statement of financial position	9,438	11,834	32,575	11,485	26,114	64,802	65,074	155,067	165,915	239,896
Total liability relating to last ten policy years										**782,200**
Other claims liabilities										203,056
Total reserve included in the consolidated statement of financial position										**985,256**

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

Amounts in US$000										
Reporting year	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
- End of reporting year	312,461	275,533	273,754	236,292	271,408	281,504	250,715	233,062	250,534	249,392
- One year later	288,704	240,488	257,209	207,605	251,787	280,894	222,322	222,591	229,582	
- Two years later	271,734	227,620	253,353	191,576	252,845	271,002	217,495	212,539		
- Three years later	262,857	218,443	232,102	189,979	248,843	267,683	215,170			
- Four years later	251,214	222,048	219,291	181,884	238,469	261,518				
- Five years later	249,062	219,276	214,684	180,605	235,608					
- Six years later	250,277	215,977	212,669	179,986						
- Seven years later	245,342	214,435	212,314							
- Eight years later	245,370	211,231								
- Nine years later	244,934									
Current estimate of ultimate claims	244,934	211,231	212,314	179,986	235,608	261,518	215,170	212,539	229,582	249,392
Cumulative payments to date	235,546	200,183	187,037	169,957	216,197	222,617	154,960	122,142	89,655	52,403
Liability recognised in the consolidated statement of financial position	9,388	11,048	25,277	10,029	19,411	38,901	60,210	90,397	139,927	196,989
Total liability relating to last ten policy years										**601,577**
Other claims liabilities										228,761
Total reserve included in the consolidated statement of financial position										**830,338**

10.2 Movement in insurance liabilities and reinsurance assets

Claims and loss adjustment expenses

Amounts in US$000		**2018**			**2017**	
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**
Outstanding claims brought forward	**923,637**	**(213,628)**	**710,009**	**968,455**	**(267,763)**	**700,692**
Settlement of multi-years reinsurance contract		110,000	110,000	(280,284)	27,256	(253,028)
Cash paid for claims settled in the year	(277,732)	41,361	(236,371)	(280,284)	27,256	(253,028)
Claims incurred in the current year	318,351	(92,651)	225,700	246,740	26,879	273,619
Exchange movements on claims liabilities	21,000	-	21,000	(11,274)	-	(11,274)
Outstanding claims carried forward	**985,256**	**(154,918)**	**830,338**	**923,637**	**(213,628)**	**710,009**

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

The impact of foreign currency exchange movement on claims liabilities is recognised in foreign exchange gains and losses in the consolidated income statement rather than claims incurred. The corresponding exchange movement in respect of the investment portfolio is also recognised in exchange gains and losses in the consolidated income statement.

Note 11
Trade and other payables

Amounts in US$000	2018	2017
Reinsurance premium payable	7,631	11,582
Claims payable	2,915	6,712
Trade payables and accrued expenses	3,590	7,677
Total	**14,136**	**25,971**

The fair value of these balances approximates their carrying value.

Note 12
Perpetual subordinated capital securities

Amounts in US$000	2018	2017
Financial liabilities at amortised cost:		
Perpetual subordinated capital securities	99,816	99,440

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. This is also considered to be the fair value. In August 2013 the Association obtained consent from investors to extend the period in which the securities cannot be redeemed until 2018. 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 $7.5 million (2017:$7.5 million) was paid during the year.

Note 13
Net earned premium

Amounts in US$000	2018	2017
Mutual		
Mutual premium	313,073	334,236
Return premium	(236)	(2,574)
Release charges	1,953	1,370
Other premium	367	824
	315,157	**333,856**
Fixed premium		
Chartered vessels	38,191	43,301
Owned vessels	8,525	9,058
	46,716	**52,359**
Gross written premium	**361,873**	**386,216**
Change in unearned premium provision	(80)	(50)
Gross earned premium	**361,793**	**386,166**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(42,669)	(48,403)
Other market reinsurance	(22,109)	(31,824)
Other reinsurance premium	(361)	(825)
	(65,139)	**(81,052)**
Changes in unearned reinsurance premium provision	**20**	**(30)**
Total premium ceded to reinsurers	**(65,119)**	**(81,082)**
Net insurance premium (before discounts)	**296,674**	**305,084**
Mutual premium discounts	**-**	**(9,996)**
Total Net earned premium	**296,674**	**295,088**

Note 14
Investment return

Amounts in US$000	2018	2017
Investment income		
Dividend income	20,874	8,692
Interest on fixed income securities	3,121	14,683
Bank deposit interest	443	72
Other investment charges	(9,837)	(6,782)
Total investment income	**14,601**	**16,665**
Net realised gains on financial assets at fair value through profit or loss		
- Debt securities	(852)	(6,156)
- Equity securities	20,550	14,400
Total net realised gains on financial assets	**19,698**	**8,244**
Net fair value gains on financial assets through profit or loss		
- Debt securities	(1,222)	(8,652)
- Equity securities	10,084	35,517
Total	**8,862**	**26,865**
Total investment return	**43,161**	**51,774**

Note 15
Net operating expenses

Amounts in US$000	2018	2017
Residual management fee	12,073	12,503
Directors' Meetings	2,461	2,665
Managers / Agent travel	281	325
Sales and marketing	1,008	1,077
Legal and professional expenses	1,425	2,623
Bank and financial expenses	595	660
Loss prevention and Ship inspection initiatives	759	659
Audit fee	367	357
Other expenses	2,835	2,427
Total operating expenses	**21,804**	**23,296**

Note 16
Income tax expense

Amounts in US$000	2018	2017
Current taxes on income for the reporting period		
Adjustment in respect of prior periods	25	42
Overseas taxation	(232)	(459)
Total income tax expense	**(207)**	**(417)**

The weighted average applicable tax rate was 5 percent (2017: 5 percent).

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

Amounts in US$000	2018	2017
Surplus before tax	72,093	14,433
Non-taxable transactions		
Tax calculated at domestic tax rates applicable to profits in the respective countries		
Effects of		
- Overseas taxation	(232)	(459)
- Net adjustment in respect of prior periods	25	42
Total	**(207)**	**(417)**

Note 17
Subsidiaries and associates

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

All subsidiary undertakings are included in the consolidation. The United Kingdom Mutual Steam Ship Assurance Association (London) Limited became a subsidiary of the Group on 13th December, 2016.

Note 18
Contingencies

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

Note 19
Average expense ratio

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

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

For the five years ended 20th February 2018, the ratio of 10.31 (2017: 10.22) 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 $30.9 million. The Association has a contract with Thomas Miller (Bermuda) Limited which contains a one year termination clause.

A proportion of the management fee covers key management personnel.

Amounts in US$000	2018	2017
Key management compensation		
Short term employee benefits - Directors' fees	961	998

Note 21
Subsequent event - Group restructure

Immediately following the year end, the group was restructured. As a result of the restructure, UK Europe became the ultimate parent company for the group and the sole Member of the Association. UK Europe's policyholders, who were previously Members of the Association, had their Membership rights transferred to UK Europe.

The activities of the individual companies have not been affected by the restructure.

The restructure has no impact on the group's free reserves which are $540 million with a further $100 million of Hybrid capital as at 20 February 2018.

Appendix (Unaudited)

Policy year tables

Amounts in US$000	**2017**	**2016**	**2015**	**Closed years**
Premium debited in this financial year	358,149	853	(69)	
Premium debited in previous financial years	-	384,672	383,683	
Reinsurance premium	(62,853)	(79,432)	(77,426)	
Net premium income	295,296	306,093	306,188	
Net paid claims and expenses	(132,584)	(172,409)	(202,604)	
Investment income	8,107	16,447	3,735	
Funds Available	**170,818**	**150,130**	**107,319**	**371,048**
Gross Outstanding Claims (including IBNR)				
Own Business	(183,796)	(140,501)	(133,290)	(348,511)
Pool claims	(45,912)	(17,878)	(16,614)	(66,655)
	(229,708)	(158,379)	(149,904)	(415,166)
Reinsurance Recoveries				
Pool recoveries	26,400	15,817	10,599	16,860
Group excess of loss	-	-	-	6,304
Other market recoveries	6,452	2,623	48,908	20,955
	32,852	18,441	59,507	44,118
Net outstanding claims	**(196,856)**	**(139,938)**	**(90,397)**	**(371,048)**
Surplus/(Deficit)	**(26,038)**	**10,192**	**16,922**	**-**
Future investment income	11,000	4,000	10,000	
Anticipated Surplus/(Deficit)	**(15,038)**	**14,192**	**26,922**	

Notes:

(a) The approximate yield of a 10 percent supplementary premium on the open policy years would be $31 million (2017), $33 million (2016) and $34 million (2015).

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

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

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

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