STEAMSHIP MUTUAL

Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2017

Contents

Steamship Mutual Underwriting Association Limited

Managers
Steamship P&I Management LLP
Aquatical House
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Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the One Hundred and Eighth Annual General Meeting of the Members of the Company will be held at the Biltmore Hotel, Coral Gables, Miami, Florida, United States, on Tuesday, 24 October 2017 at 09:10 hours for the following purposes:

1 To receive and if thought fit, to adopt the balance sheet and accounts for the year ended 20 February 2017, they having been recommended for adoption by the Board.

2 To elect Members of the Board.
The Members of the Board retiring by rotation and in accordance with Article 11.2 of the Association are Mr A Pohan and Mr G W F Rynsard. Being eligible, they offer themselves for re-election. A Member of the Board appointed during the year who, in accordance with Article 11.9 of the Association, is obliged to retire at their first Annual General Meeting is Mr A L Tung. Being eligible, he offers himself for re-election.

3 To authorise the Managers to fix the remuneration of the Auditor. A Resolution proposing the appointment of the Auditor to the Company will be put to the Meeting.

4 To transact any other ordinary business of the Company.

By Order of the Board

S A Ward
Secretary

9 May 2017

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend, speak and vote in his or her place. The instrument appointing a proxy may be in the form enclosed and must be deposited with the Secretary at Aquatical House, 39 Bell Lane, London, E1 7LU, United Kingdom, not less than 48 hours before the time specified for the holding of the Meeting.

Directors

Directors
A Pohan, NY Waterway (Chairman)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
C Bouch
I Grimaldi, Grimaldi Holdings SpA
H M Juniel, Reederei F Laeisz GmbH (retired 10 May 2016)
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
G W F Rynsard, Steamship P&I Management LLP
A L Tung, Island Navigation Corp International Ltd (appointed 6 September 2016)

Secretary
S A Ward, Steamship P&I Management LLP

Managers
Steamship P&I Management LLP

Registered office
Aquatical House
39 Bell Lane
London E1 7LU
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Website: www.steamshipmutual.com

Registered number
105461

Strategic Report

Free reserves

After considering the strong current and projected capital position of the Association, in October 2016 the Directors decided to return 10% of mutual premium paid for the 2014/15 policy year (Class 1 – P&I) to the Members. Accordingly US$25.8 million was credited to Members' statements in November 2016.

The balance on the technical account for general business was a deficit of US$2.0 million for the financial year (2016: surplus US$12.8 million). Free reserves decreased from US$115.6 million to US$113.9 million.

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2016/17 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2016/17 policy year (Class 2 – FD&D).

The 2013/14 policy year was closed in May 2016.

Excluding the return of premium, gross premium written totalled US$331.4 million compared to US$350.3 million last year, a 5.4% decrease, and the combined ratio, a key financial performance indicator, rose from 85.6% to 99.0%.

The Directors have decided to review release call levels in October 2017 as part of the Group Solvency Self-Assessment. In the meantime release calls for both Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") will be set at 12.5% for the 2017/18 policy year, 2.5% for the 2016/17 policy year and 0% for the 2015/16 policy year. For the year under review, the Directors ordered a general increase of 0% in P&I premium. At the 2017 renewal the Directors again ordered a general increase of 0%.

Tonnage

Owned entered tonnage increased by 5.6 million gross tons ("GT") during the year. The 2017 renewal saw a net increase in owned entered tonnage of 1.1 million GT. Total entered tonnage for both owned and chartered entries rose to 151.3 million GT.

The Association's policy is to achieve diversity of vessel types and trades within its underwriting portfolio. Similarly, the Association seeks to keep a worldwide spread of owners.

This policy of avoiding an over concentration in any one area minimises the adverse effects of market differences or economic difficulties in particular trades or regions. Analysis of gross tonnage by geographical area will be included within the Management Highlights published in July 2017.

Claims

Gross claims and related expenses, including Pool claims, paid during the financial year, increased by 14.6% from US$269.9 million to US$309.2 million in respect of all policy years. Claims paid by the Association, net of all reinsurance recoveries but including claims handling costs, decreased by US$6.5 million to US$30.3 million.
During the policy year, through the Association's membership of the International Group ("the Group"), the Managers have been closely involved in issues concerning the introduction of the amendments to the Maritime Labour Convention and the Ballast Water Convention together with issues in the US relating to vessel response planning and responder immunity. A review of STOPIA and TOPIA was also undertaken and the likely effects of the "Prestige" decision in Spain were considered. Discussions with the IOPC Fund regarding interim funding resulted in a new Memorandum of Understanding between the Group and IOPC Fund. The monitoring of China's developing pollution prevention regulations also continued. Sanctions developed in both the US and the EU against a range of countries have continued to be an issue; particularly in relation to the partial lifting of sanctions relating to Iran.

The Association has experienced one claim during the policy year involving an engine room fire and the evacuation of a ferry off San Juan, Puerto Rico which has been reported to the Pool on a precautionary basis, although the estimate remains below the pool retention. The 26th and 27th issues of Sea Venture were published in July 2016 and March 2017 respectively. Throughout the year the Managers also published on the Association's website various circulars, Risk Alerts articles and news bulletins on the issues described above and other matters of topical interest.

In February 2017, a further loss prevention DVD-ROM "Cyber Security: Smart, Safe Shipping" was released which highlights on the implications of a potential cyber security breach for a shipping company.

In order to supplement the loss prevention messages contained in the "Fit for Life" loss prevention DVD-ROM, the Managers have worked with Marine Catering Training Consultancy to develop a computer based training course on Safe Food Handling and Nutrition which will be completed in 2017.

In addition, with funding from the Ship Safety Trust, sponsorship has been provided to the Sailors' Society to support the Physical Wellbeing module of their Wellness at Sea programme.

Pooling and reinsurance

The Association's reinsurance programme for the 2016/17 policy year was arranged in conjunction with other members of the Group. The programme provided an ultimate limit of US$3,070 million in excess of US$10 million, except in relation to oil pollution claims, which were subject to an overall limit of US$1,000 million.

Pooling

For 2017/18, the individual Club retention, before Pooling with other members of the Group, remains at US$10 million, with the upper limit of the Pool increasing to US$100 million for each event. A Club bringing a claim to the Pool will bear a 7.5% retention within the layer of US$45 million to US$80 million, with the balance being divided amongst all Clubs in accordance with the Pooling Agreement.

Hydra Insurance Company Limited ("Hydra")

With effect from 20 February 2017, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US$30 million to US$100 million each event), and for the Group's retention of 30% of the first US$500 million layer of the General Excess of Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

Excess Loss cover

The Group's Excess of Loss programme was renewed with a similar structure as for the expiring year, other than the attachment point has increased to US$100 million. Therefore, the Group is reinsured for 55% of the excess of US$100 million up to US$600 million, 85% of the excess of US$600 million up to US$1,100 million, 15% of the excess of US$100 million up to US$1,100 million, and 100% excess of the remainder up to US$3,100 million.

The limit of the supplementary pooled cover for a restricted range of risks covered by the "Bio-Chem" exclusions in War Risk policies remains at US$30 million, any one event each vessel, for the 2017/18 policy year.

US oil pollution

There will be no surcharge again for 2017/18.

Charterers' cover

The Association provides cover for P&I and other risks for charterers, reinsured outside the Pool. Combined single limits up to US$1,000 million are provided for P&I and other risks.

Non-Poolable covers

The Club continues to provide P&I cover for European Inland Craft and additional covers for a range of risks which are ancillary to Members' core operations, reinsured outside the Pool with limits up to US$1,000 million.

Strategic Report

continued

Risk management

The Association's primary risk exposure is to underwriting losses that may arise from the insurance of its Members. Such losses could arise through adverse development of claims on prior policy years ('reserving risk') or through adverse claims experience in the current policy year ('underwriting risk'). The Association transfers a substantial portion of these risks to its reinsurers so that its principal risk exposure becomes reinsurer default ('credit risk'). The Board manages this risk through the operation of collateral agreements and a review of investment risk in its key reinsurers.

The Association's exposure to liquidity or cash flow risk is minimal given the terms of its reinsurance arrangements and that its investments are cash and money market instruments.

Further information on financial risk management is set out in the notes on the accounts.

The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB")

The Association is entered into a reinsurance contract with SMUAB under which, in return for a percentage of written premium ceded to SMUAB, the Association is indemnified for 90% of its net underlying liabilities in respect of the 2015/16 and subsequent policy years. All Members of the Association are automatically Members of SMUAB and thus beneficiaries of The Steamship Mutual Trust.

The Steamship Mutual Trust

The reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of The Trust covers 100% of the Association's net underlying liabilities in respect of all years up to and including the 2014/15 policy year.

The Chairman of the Association is an ex-officio Director of the Corporate Trustee which administers the Trust.

Policy year statements

The figures in Appendices I and II to this Report have been produced as if the Association had written the policies transferred under the corporate reorganisation. The figures are prepared under the accounting policies and in the format used within the financial statements providing a summary and breakdown by both class of business and underwriting year. No allowance has been made for the allocation of any future investment income.

A Pohan
Chairman

Managers
Steamship P&I Management LLP

Hamburg, Germany
9 May 2017

Report of the Directors

The Directors have pleasure in presenting their Report and the Audited Accounts of the Association for the year ended 20 February 2017.

Principal activities

The Association is a company limited by guarantee incorporated in the United Kingdom. The principal activities of the Association were the insurance and reinsurance of P&I, and of FD&D risks on behalf of Members.

The Association is a member of the International Group of Protection and Indemnity Clubs ("the Group") and is reinsured by SMUAB for the 2015/16 policy year onwards and by the Trust for all earlier policy years.

Directors

The Directors of the Association are as shown on page 3.

In accordance with Article 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Mr A Pohan and Mr G W F Rynsard. Being eligible, they offer themselves for re-election. A Member of the Board appointed during the year who, in accordance with Article 11.9 of the Association, is obliged to retire at their first Annual General Meeting is Mr A L Tung. Being eligible, he offers himself for re-election.

Audit and Risk Committee

The Committee acts on behalf of the Board in considering the Association's financial statements and its external and internal audit activities. In so doing the Committee liaises with the Managers and external auditors in monitoring the quality of all reporting which contains material financial information, assessing the Association's internal control systems, and advising the Board on the effectiveness and objectivity of the internal and external auditors.

The Committee meets four times a year and is currently comprised of the following Directors: Mr C J Madinabeitia (Chairman), Mr C J Ahrenkiel and Mr C Bouch. Mr A Pohan is invited to attend the meeting in his capacity as Club Chairman and two representatives of the Managers, who are also Directors of the Club, namely Mr S J Martin and Mr G W F Rynsard, are also invited to attend.

In discharging its responsibilities the Committee receives regular financial and management reports from the Managers including a quarterly report from the Risk and Compliance Director and the internal auditor. The Committee establishes the scope of the reporting, both to itself and the Board, and continually assesses the quality and adequacy of this information. The Committee monitors the effectiveness of the Managers' activities with respect to their regulatory, audit and control responsibilities with a specific focus on any issues of enhanced strategic importance or which present a significant risk to the Association. Within the past year the Committee's work has included a review of the following matters:

- compliance with the solvency capital requirement as set by the Prudential Regulation Authority ("PRA");
- internal audit reports on the human resources function, the finance function, Solvency II Pillar 3 reporting, security controls in place to safeguard against cyber-attacks and the loss prevention and IT strategies;
- the critical or important outsourcing arrangements;
- the sanctions policy and supporting procedures;
- the potential for a return of Class 1 P&I mutual premium to Members in relation to the 2014/15 policy year and the impact this would have on the capital position;
- the implications of the UK leaving the EU and specifically the removal of passporting arrangements;
- the signifiers of reputational risk events and the range of potential risk management tools;
- the establishment of local offices in Hong Kong, Japan and Singapore;
- the effectiveness of business continuity arrangements and the extension of those arrangements to include all overseas offices;
- the enhancement of cyber security awareness via the development of an in-house computer based training programme;
- compliance with the PRA Senior Insurance Managers Regime;
- the implications of and compliance with the PRA's Statutory Audit Directive;
- development and consideration of stress and reverse stress test in support of the Own Risk Solvency Assessment ("ORSA");
- review of the PRA's Supervisory Statement 5/16 – Corporate Governance : Board Responsibilities and an attestation that the Board had fulfilled its collective responsibilities in this regard;
- review of an independent report on Board Effectiveness;
- the funding of the deficit on the Steamship Insurance Management Services Limited's ("SIMSL") defined benefit pension scheme; and
- a review of the investment strategy adopted by the Trustees of the SIMSL pension scheme and consideration of proposed changes to the asset allocation.

Rules

With the support of advice from the Association's lawyers, the Directors have approved Rule changes to clarify and in some cases broaden the scope of existing cover.

Class 1 – Protection and Indemnity

Rules Nos 21 i and 25 ii – Maritime Labour Convention 2006 as amended ("MLC")

Amendments which took effect from 18 January 2017 to give effect to the agreement of the Boards of all Clubs in the Group that Clubs should provide certificates of financial responsibility, including in respect of the wages element, pursuant to the updated MLC provisions which came into effect from that date.

Rule No 25 vi – Pollution

An amendment in respect of TOPIA to acknowledge entry of Members' ships in accordance with the provisions of the revised TOPIA agreement, which came into effect from 20 February 2017.

Rule No 25 xxii – Deductibles and policy limits

An amendment to clarify that policy deductibles form part of and reduce the amount of recovery up to policy limits.

Rule No 36 – Cessation of insurance of individual vessels

An amendment to require, in the event of a change of management of an entered vessel, the Member to forthwith provide notice of such change, and which provides that insurance will cease only if the Club does not consent to the change of management within seven days of receipt of such notice.

Class 2 – Freight, Demurrage and Defence

Rule No 8 iii – Deductibles and policy limits

An amendment consistent with the amendment in respect of Rule 25 xxii of the Class 1 Rules.

Management Highlights

The Management Highlights will be published in July 2017.

Directors' responsibilities statement

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association as at the end of the financial year and of the surplus or deficit of the Association, for that period.

In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Association's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Disclosure of information to the auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Association's auditor is unaware; and
- the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

A Pohan
Chairman

Managers
Steamship P&I Management LLP

Hamburg, Germany
9 May 2017

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes	2016/17 US$000	2015/16 US$000	2014/15 US$000	Total US$000
Gross premium	333,162	351,519	338,324	**1,023,005**
Less:				
Group Excess Loss reinsurance premium	(34,854)	(38,109)	(39,440)	**(112,403)**
Other reinsurance premium	(47,968)	(51,526)	(31,729)	**(131,223)**
Portfolio transfer premium	—	—	14,068	**14,068**
SMUAB reinsurance premium	(169,982)	(173,231)	(63,175)	**(406,388)**
The Trust reinsurance premium	—	—	(165,985)	**(165,985)**
Net premium	80,358	88,653	52,063	**221,074**
Allocated investment return transferred from the non-technical account	(2,118)	(1,759)	—	**(3,877)**
Gross claims paid				
Own claims paid	(24,671)	(141,159)	(118,836)	**(284,666)**
Claims administration expenses	(23,519)	(13,703)	(14,558)	**(51,780)**
Group Pool claims	(1,078)	(10,791)	(12,014)	**(23,883)**
	(49,268)	(165,653)	(145,408)	**(360,329)**
Less:				
Group Excess Loss recoveries	—	118	—	**118**
Group Pool recoveries	—	62,580	14,007	**76,587**
Other reinsurance recoveries	—	8,647	5,237	**13,884**
SMUAB reinsurance recoveries	23,174	72,544	(8)	**95,710**
The Trust reinsurance recoveries	—	—	106,017	**106,017**
Net claims paid	(26,094)	(21,764)	(20,155)	**(68,013)**
Claims outstanding including IBNR	(160,278)	(147,326)	(55,779)	**(363,383)**
Pool claims outstanding including IBNR	(25,464)	(22,461)	(7,124)	**(55,049)**
Estimated future claims handling costs	(9,762)	(2,578)	(1,166)	**(13,506)**
Less:				
Group Excess Loss recoveries	—	3,917	—	**3,917**
Group Pool recoveries	17,787	34,942	5,948	**58,677**
Other reinsurance recoveries	19,283	21,067	10,160	**50,510**
SMUAB reinsurance recoveries	142,591	101,195	—	**243,786**
The Trust reinsurance recoveries	—	—	47,961	**47,961**
Net provision for claims outstanding	(15,843)	(11,244)	—	**(27,087)**
Brokerage	(20,500)	(20,833)	(22,640)	**(63,973)**
Underwriting administration expenses	(7,516)	(8,381)	(6,977)	**(22,874)**
Other expenses	(9,730)	(10,253)	(3,494)	**(23,477)**
Balance on the technical account	(1,443)	14,419	(1,203)	**11,773**

Open Policy Years – All Classes continued	2016/17 US$000	2015/16 US$000	2014/15 US$000	**Total** **US$000**
Balance on the technical account	(1,443)	14,419	(1,203)	**11,773**
Investment income (including realised and unrealised)	385	108	(751)	**(258)**
Other income	16	27	33	**76**
Taxation	(77)	(26)	(8)	**(111)**
Open policy years funds available	(1,119)	14,528	(1,929)	**11,480**

Closed Policy Years – All Classes	**Total** **US$000**
Available balance as at 20 February 2016	**77,954**
Add:	
Balance of 2013/14 year as at 20 February 2016	**32,876**
Movements during financial year:	
Net premium	**(8,713)**
Net claims paid	**126**
Expenses	**198**
Available balance as at 20 February 2017	**102,441**
Claims outstanding	**(333,447)**
Less:	
Group Excess Loss recoveries	**64,753**
Group Pool recoveries	**23,458**
Other reinsurance recoveries	**50,959**
SMUAB reinsurance recoveries	**—**
The Trust reinsurance recoveries	**194,277**
Net provision for claims outstanding	**—**
Closed policy years funds available	**102,441**

Summary

Total open and closed years funds available	**113,921**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class	2016/17 US$000	2015/16 US$000	2014/15 US$000	**Total US$000**
Gross premium	300,676	315,723	300,694	**917,093**
Less:				
Group Excess Loss reinsurance premium	(34,854)	(38,109)	(39,440)	**(112,403)**
Other reinsurance premium	(38,742)	(41,573)	(21,848)	**(102,163)**
Portfolio transfer premium	—	—	13,239	**13,239**
SMUAB reinsurance premium	(153,950)	(155,788)	(58,653)	**(368,391)**
The Trust reinsurance premium	—	—	(146,920)	**(146,920)**
Net premium	73,130	80,253	47,072	**200,455**
Allocated investment return transferred from the non-technical account	(1,911)	(1,578)	—	**(3,489)**
Gross claims paid				
Own claims paid	(22,944)	(135,371)	(110,759)	**(269,074)**
Claims administration expenses	(21,258)	(12,298)	(13,359)	**(46,915)**
Group Pool claims	(1,078)	(10,791)	(12,014)	**(23,883)**
	(45,280)	(158,460)	(136,132)	**(339,872)**
Less:				
Group Excess Loss recoveries	—	118	—	**118**
Group Pool recoveries	—	62,580	14,007	**76,587**
Other reinsurance recoveries	—	8,647	5,237	**13,884**
SMUAB reinsurance recoveries	21,620	67,335	(7)	**88,948**
The Trust reinsurance recoveries	—	—	98,479	**98,479**
Net claims paid	(23,660)	(19,780)	(18,416)	**(61,856)**
Claims outstanding including IBNR	(152,563)	(136,135)	(50,930)	**(339,628)**
Pool claims outstanding including IBNR	(25,464)	(22,461)	(7,124)	**(55,049)**
Future claims handling costs	(9,344)	(2,375)	(1,064)	**(12,783)**
Less:				
Group Excess Loss recoveries	-	3,917	—	**3,917**
Group Pool recoveries	17,787	34,942	5,948	**58,677**
Other reinsurance recoveries	18,551	19,871	9,695	**48,117**
SMUAB reinsurance recoveries	135,930	92,017	—	**227,947**
The Trust reinsurance recoveries	—	—	43,475	**43,475**
Net provision for claims outstanding	(15,103)	(10,224)	—	**(25,327)**
Brokerage	(19,044)	(19,315)	(20,954)	**(59,313)**
Underwriting administration expenses	(6,800)	(7,522)	(6,276)	**(20,598)**
Other expenses	(8,792)	(9,203)	(3,139)	**(21,134)**
Balance on the technical account	(2,180)	12,631	(1,713)	**8,738**

Open Policy Years – P&I Class continued	2016/17 US$000	2015/16 US$000	2014/15 US$000	**Total US$000**
Balance on the technical account	(2,180)	12,631	(1,713)	**8,738**
Investment income (including realised and unrealised)	348	97	(680)	**(235)**
Other income	14	24	33	**71**
Taxation	(70)	(22)	(7)	**(99)**
Open policy years funds available	(1,888)	12,730	(2,367)	**8,475**

Closed Policy Years – P&I Class	**Total US$000**
Available balance as at 20 February 2016	**72,957**
Add:	
Balance of 2013/14 year as at 20 February 2016	**27,983**
Movements during financial year:	
Net premium	**(8,260)**
Net claims paid	**119**
Expenses	**192**
Portfolio transfer premium	**—**
Available balance as at 20 February 2017	**92,991**
Claims outstanding including IBNRs	**(323,039)**
Less:	
Group Excess Loss recoveries	**64,753**
Group Pool recoveries	**23,458**
Other reinsurance recoveries	**48,822**
SMUAB reinsurance recoveries	**—**
The Trust reinsurance recoveries	**186,006**
Net provision for claims outstanding	**—**
Closed policy years funds available	**92,991**

Summary	All Classes	FD&D	Others	P&I
Total open and closed years funds available	113,921	4,950	7,505	101,466

Income and Expenditure Account

for the year ended 20 February 2017

Technical Account	Note	2017 US$000	2016 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**305,642**	350,329
Outward reinsurance premium	3	**(247,103)**	(261,786)
Earned premium, net of reinsurance		**58,539**	88,543
Allocated investment return transferred from the non-technical account		**(2,118)**	(1,759)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**309,163**	269,889
Reinsurers' share	4	**(278,829)**	(233,104)
Net claims paid		**30,334**	36,785
Change in the provision for claims			
Gross amount	5	**(142,642)**	(116,680)
Reinsurers' share	5	**132,996**	114,495
Change in the net provision for claims	5	**(9,646)**	(2,185)
Claims incurred, net of reinsurance		**20,688**	34,600
Net operating expenses	6	**37,703**	39,411
Balance on the technical account for general business		**(1,970)**	12,773
Non-Technical Account			
Balance on the general business technical account		**(1,970)**	12,773
Investment income		**(2,331)**	(523)
Unrealised gains/(losses) on investments		**598**	(1,128)
Allocated investment return transferred to the technical account		**2,118**	1,759
Other income		**16**	27
Surplus on ordinary activities before taxation		**(1,569)**	12,908
Taxation	7	**77**	25
(Deficit)/surplus for the financial year		**(1,646)**	12,883
Free reserves brought forward		**115,567**	102,684
Free reserves		**113,921**	115,567

The results for both years are in respect of continuing operations.

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

Balance Sheet

as at 20 February 2017

	Note	2017 US$000	2016 US$000
Assets			
Investments			
Other financial investments	8	**75,534**	104,915
Reinsurers' share of technical provisions			
Claims outstanding	5	**738,298**	871,294
Debtors			
Debtors arising out of direct insurance operations		**16,617**	17,730
Debtors arising out of reinsurance operations	9	**68,285**	55,114
Other debtors		**2,009**	969
Other assets			
Cash at bank and in hand		**21,030**	17,887
Prepayments and accrued income			
Deferred acquisition costs		**253**	248
Other prepayments and accrued income		**3,618**	3,382
Total assets		**925,644**	1,071,539
Liabilities			
Capital and reserves			
Free reserves	12	**113,921**	115,567
Technical provisions			
Provision for unearned premium		**1,711**	1,751
Claims outstanding	5	**765,386**	908,028
Provisions for other risks and charges			
Provision for taxation		**77**	25
Other provisions	11	**—**	—
Creditors			
Creditors arising out of direct insurance operations		**10,688**	4,329
Creditors arising out of reinsurance operations	10	**27,857**	35,773
Other creditors including taxation and social security		**6,004**	6,066
Total liabilities		**925,644**	1,071,539

The accompanying notes to these accounts form an integral part of this balance sheet. These financial statements were approved by the Board of Directors on 9 May 2017.

A Pohan
Chairman

C J Ahrenkiel
Director

Managers:
Steamship P&I Management LLP

Cash Flow Statement

for the year ended 20 February 2017

	2017	2016
(Deficit)/surplus on ordinary activities before tax	**US$000**	US$000
Operating (deficit)/surplus before taxation after interest	**(1,569)**	12,908
Decrease in general insurance technical provisions	**(9,686)**	(2,220)
Decrease in other provisions	—	(1,387)
Unrealised (gains)/losses on investments	**(598)**	1,128
Increase in debtors	**(13,339)**	(13,021)
(Decrease)/increase in creditors	**(1,619)**	20,196
	(25,242)	4,696
Net cash inflow from operating activities	**(26,811)**	17,604
Cash flow statement		
Net cash (outflow)/inflow from operating activities	**(26,811)**	17,604
Taxation paid	**(25)**	(8)
	(26,836)	17,596
Cash flows were invested as follows:		
Increase in cash holdings	**3,143**	7,494
Net portfolio investment		
Purchase of bonds and loans	**15,739**	1,152
(Sale)/purchase of money market instruments	**(37,719)**	8,936
(Decrease)/increase in cash on short term deposit	**(7,999)**	14
Net investment of cash flows	**(26,836)**	17,596
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	**3,143**	7,494
Portfolio investments	**(29,979)**	10,102
Movements arising from cash flows	**(26,836)**	17,596
Changes in market values and exchange rate effects	**598**	(1,128)
Total movement in portfolio investments net of financing	**(26,238)**	16,468
Portfolio investments net of financing at 20 February 2016	**122,802**	106,334
Portfolio investments net of financing at 20 February 2017	**96,564**	122,802

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

The accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom per Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and applicable United Kingdom Financial Reporting Standards ("FRS") 102 and 103.

After making enquiries, the Directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Premium written

Premium, less returns, comprise the total premium receivable for the whole period of cover provided by contracts incepting during the financial year. All premium is shown gross of commission payable to intermediaries and exclusive of taxes levied on premium.

(c) Unearned premium

The proportion of the premium written relating to periods of cover after the year end is carried forward as a provision for unearned premium.

(d) Deferred acquisition costs

Acquisition costs, comprising commission, is deferred to the extent that it is attributable to premium unearned at the balance sheet date.

(e) Claims and related expenses

Claims and related expenses are charged to the income and expenditure account when they have been settled. A provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date and for the estimated future costs of handling these claims. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates. The reinsurers' share of technical provisions is calculated consistently with the amounts associated with the underlying insurance contract and the terms of the reinsurance contract.

(f) Reinsurance premium and recoveries

Payments made to and recoveries from other Associations under the Group Pooling arrangements are recognised in the income and expenditure account when debited or credited. Reinsurance premium and recoveries are recognised in the income and expenditure account on an accruals basis.

(g) Investments

Quoted investments at their bid-value and cash at bank have been valued as at the close of business on 19 February 2017. Investment income consists of interest and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of realised and unrealised exchange differences arising on the conversion of transactions on non-dollar denominated Member accounts and the funding of the operating expenses of the Managers' London office.

(h) Allocation to policy years and classes

Mutual premium, fixed premium, additional premium, reinsurance premium payable, claims and reinsurance recoveries are allocated to the policy years and classes to which they relate. Claims handling expenses are allocated with reference to net outstanding claims. Operating expenses, investment income and exchange gains or losses are allocated to policy years in line with total calls and premium income.

Notes on the Accounts

continued

1. Accounting policies continued

(i) Foreign currencies

The functional currency is US dollars. Assets and liabilities are converted at the rate of exchange ruling at the balance sheet date. Income and expenditure items are translated at the rate of exchange ruling at the relevant month end. All exchange differences are included in the income and expenditure account.

The rates of exchange ruling on the balance sheet date and used for the purpose of preparing the accounts were as follows:

		2017	2016
Euro	€	**0.941**	0.900
UK sterling	£	**0.804**	0.701

2. Gross premium written

	2017	2016
	US$000	US$000
Mutual and fixed premium written	**336,404**	349,305
Return of premium	**(25,780)**	—
Release calls	**(5,022)**	989
Movement in unearned premium	**40**	35
	305,642	350,329
Gross premium by class of business		
Protection and Indemnity	**272,460**	313,901
Freight, Demurrage and Defence	**14,050**	14,646
Other	**19,132**	21,782
	305,642	350,329
Gross premium by member location		
United States of America	**103,249**	121,598
South Korea	**21,434**	25,910
Germany	**18,881**	24,162
Netherlands	**15,752**	14,617
Brazil	**15,005**	17,749
Hong Kong	**12,337**	15,377
Taiwan	**11,728**	13,556
Italy	**11,129**	11,557
Cyprus	**10,179**	11,410
India	**9,912**	11,821
United Kingdom	**9,360**	9,426
China	**8,302**	10,152
Chile	**7,760**	9,089
Other countries	**50,614**	53,905
	305,642	350,329

3. Reinsurance contracts

The Association has the following reinsurance arrangements:

The Association has entered a reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of the Trust, a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover 100% of its net underlying liabilities for all policy years up to and including 2014/15.

The Association receives the benefit of all Group Pool and other external reinsurance recoveries.

For 2015/16 and subsequent policy years the Association entered into a reinsurance contract with SMUAB under which, in return for a percentage of written premium ceded to SMUAB, the Association is indemnified for 90% of its net underlying liabilities.

4. Claims paid – gross amount

	2017	2016
	US$000	US$000
Claims and related expenses	**265,316**	221,732
Group Pool claims	**20,310**	22,206
Claims administration expenses	**23,537**	25,951
	309,163	269,889
Less reinsurers' share		
SMUAB	**61,168**	34,551
The Trust	**114,347**	119,181
Other reinsurers	**103,314**	79,372
	278,829	233,104
Net claims paid	**30,334**	36,785

Notes on the Accounts
continued

5. Change in net provision for claims	2017 US$000	2016 US$000
Gross outstanding claims		
Provision brought forward	**(908,028)**	(1,024,708)
Provision carried forward	**765,386**	908,028
	(142,642)	(116,680)
The Trust's share of outstanding claims		
Provision brought forward	**377,327**	568,236
Provision carried forward	**(242,238)**	(377,327)
	135,089	190,909
SMUAB's share of outstanding claims		
Provision brought forward	**200,090**	46,519
Provision carried forward	**(295,171)**	(200,090)
	(95,081)	(153,571)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	**248,188**	328,701
Provision carried forward	**(150,806)**	(248,188)
	97,382	80,513
Other reinsurers' share of outstanding claims		
Provision brought forward	**45,689**	42,333
Provision carried forward	**(50,083)**	(45,689)
	(4,394)	(3,356)
Change in net provision for claims	**(9,646)**	(2,185)

The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of the final cost of individual cases based on current information. The individual estimates are reviewed regularly and include this Association's share of other Associations' Pool claims. Provision is also made for claims incurred but not reported by the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

Gross outstanding claims carried forward are net of US$46.5 million of third party recoveries (2016: US$43.3 million).

	2017 US$000	2016 US$000
6. Net operating expenses		
Acquisition costs		
Brokerage	**20,442**	20,763
Underwriting administration expenses	**7,525**	8,390
	27,967	29,153
Administrative expenses		
Other administration expenses	**9,134**	9,750
Regulatory fees	**359**	387
Directors' remuneration	**18**	20
Auditor's remuneration – audit fees	**225**	101
	9,736	10,258
	37,703	39,411

The Association had no employees in either financial year.

Transactions with related parties

The Association, which is limited by guarantee, 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. The aggregate of these transactions is disclosed in these financial statements.

Steamship P&I Management LLP ("SPIM") provides management and administrative services to the Association. Under the terms of its management contract SPIM receives, as remuneration for its services, a fee which is based in part on premium payable by Members in each accounting year together with reimbursement of its office and administration expenses. For the financial year to 20 February 2017, these fees amounted to US$35.597 million (2016: US$39.439 million). US$1.026 million was due from SPIM at the year end (2016: US$0.341 million).

Steamship P&I Management (Singapore) PTE Ltd ("SPIM Singapore"), a subsidiary of SPIM created in June 2016, provides management and administrative services to the Association. SPIM Singapore receives as remuneration for its services, a fee which is based on the reimbursement of its office expenses. For the financial year to 20 February 2017 these fees and expenses amounted to US$0.299 million. US$0.276 million was due to SPIM Singapore at the year end.

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses and those of its worldwide representatives. For the financial year to 20 February 2017 these fees and expenses amounted to US$3.097 million (2016: US$2.901 million). US$0.737 million was due from SMM(B) at the year end (2016: US$0.174 million).

Notes on the Accounts

continued

7. Taxation

The charge represents the estimated liability for the accounting year to 20 February 2017, of US$77,483 (2016: US$25,065) based upon negotiations with the United Kingdom tax authorities, assessed on the investment income of the Association for the year.

	2017 US$000	2016 US$000
Analysis of tax charge on ordinary activities		
United Kingdom corporation tax at 20% (2016: 20%) based on the deficit/surplus for the financial year	**77**	25
	77	25

Factors affecting tax charge for the current period

The tax assessed for the financial year is higher than that resulting from applying the standard rate of corporation tax in the United Kingdom. The differences are explained below.

(Deficit)/surplus on ordinary activities before tax	**(1,569)**	12,908
Tax at 20% (2016: 20%) thereon	**(314)**	2,582
Effect of income not subject to corporation tax	**391**	(2,557)
Current tax charge for period	**77**	25

8. Other financial investments

	2017 US$000	2016 US$000
Market value		
Bonds and loans	**16,802**	1,129
Money market instruments	**37,173**	74,892
Deposits with credit institutions	**22,000**	29,999
Derivative financial instruments	**(441)**	(1,105)
	75,534	104,915
Cost		
Bonds and loans	**16,891**	1,152
Money market instruments	**37,173**	74,892
Deposits with credit institutions	**22,000**	29,999
	76,064	106,043

The Association's investment assets have been fair valued at the unadjusted quoted price for an identical asset in an active market at the reporting date except for the open forward foreign exchange contracts which have been valued using observable market data.

9. Debtors arising out of reinsurance operations	2017 US$000	2016 US$000
The Trust	**59,237**	51,533
Group Clubs	**4,369**	3,538
Other reinsurance debtors	**4,679**	43
	68,285	55,114

10. Creditors arising out of reinsurance operations	2017 US$000	2016 US$000
SMUAB	**21,014**	24,434
Group Clubs	**32**	254
Other reinsurance creditors	**6,811**	11,085
	27,857	35,773

11. Other provisions

As described under Transactions with related parties in note 6, the Association has an obligation to reimburse the office and administration expenses of SPIM which include the expenses of its subsidiary service company Steamship Insurance Management Services Limited ("SIMSL"). These expenses include the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. The Directors consider that the Association has a constructive obligation to provide funding to SIMSL for the scheme requiring a provision to be recognised if the scheme has an accounting deficit as calculated in accordance with International Accounting Standard 19 – Employee Benefits. On this basis there was a surplus of US$0.004 million at the balance sheet date (2016: US$12.198 million).

12. Free reserves	2017 US$000	2016 US$000
Free reserves brought forward	**115,567**	102,684
(Deficit)/surplus for year	**(1,646)**	12,883
	113,921	115,567

The balance carried forward of US$113.9 million together with any further additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

13. Contingent liabilities

The Association provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provision. For uncovered claims, guarantees are issued when appropriate counter security is obtained. As at 20 February 2017 the total value of guarantees issued in respect of uncovered claims was US$10.6 million (2016: US$9.5 million).

14. Security

A trust has been set up to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US$5.4 million (2016: US$5.4 million) had been allocated to the trust. The Association deposits funds as required in the agreement between various members of the International Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited had a total value of US$11.4 million (2016: US$12.3 million).

Notes on the Accounts

continued

15. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirement of the Prudential Regulation Authority ("PRA"). Capital resources for regulatory purposes consist of free reserves and an allowance for the ability to levy additional premium on Members.

The Association was in compliance with its regulatory capital requirements throughout the financial year.

16. Risk management

The Association monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment ("GSSA") report which is submitted to both the UK and Bermudian regulators.

The GSSA documents the Association's risk and capital management processes employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

The principal risks faced by the Association are insurance risk, credit risk, market risk and operational risk.

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium written in the current policy year is insufficient to cover claims and other costs arising in that year. It thus relates to the future, whereas reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. The Association is exposed to the uncertainty surrounding the timing, frequency and severity of claims made under its insurance contracts. Premium and reserving risk are calculated by reference to risk factors prescribed by the PRA and then combined taking account of dependencies and diversification effects.

Premium is set using assumptions which have regard to trends and the past experience of a specific Member. Premium risk is mitigated by diversification across a variety of ship types and geographical areas, and by careful selection and implementation of underwriting strategy guidelines including the screening of new Members.

The Association transfers a substantial portion of its insurance risk to its reinsurers through the provisions of the reinsurance arrangements outlined under note 3 on the accounts and its membership of the International Group.

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

The Association aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome but this prudent basis is expected to result in releases of prior year claim reserves.

The sensitivity of the overall surplus to two factors, other assumptions being unchanged, is shown below.

	2017	2016
5% increase in claims incurred on current policy year	**US$000**	US$000
Overall surplus: gross of reinsurance	**(12,297)**	(17,084)
net of reinsurance	**(1,230)**	(1,708)
Single claim of US$2billion in current policy year		
Overall surplus: gross of reinsurance	**(2,000,000)**	(2,000,000)
net of reinsurance	**(1,423)**	(1,314)

The following tables show the development of claims over six years on both a gross and net of reinsurance basis.

The top half of each table shows how the estimates of total claims for each policy year have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet.

Insurance claims – gross policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000
End of reporting year	314,336	208,834	114,390	282,635	341,688	244,772
One year later	630,373	184,502	230,254	214,463	338,016	
Two years later	823,866	315,281	211,471	209,479		
Three years later	975,234	294,626	203,609			
Four years later	948,138	277,820				
Five years later	916,159					
Current estimate of ultimate claims	916,159	277,820	203,609	209,479	338,016	244,772
Cumulative payments to date	812,685	235,754	141,767	145,410	165,653	49,268
Claims outstanding	103,474	42,066	61,842	64,069	172,363	195,504
Claims outstanding relating to last six policy years						639,318
Other claims liabilities						126,068
Total gross outstanding claims						765,386

Insurance claims – net policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000
End of reporting year	9,399	8,927	13,574	30,972	34,778	41,936
One year later	9,443	8,945	16,612	30,817	33,005	
Two years later	9,451	10,106	16,589	20,158		
Three years later	10,538	10,108	11,606			
Four years later	10,538	9,191				
Five years later	9,830					
Current estimate of ultimate claims	9,830	9,191	11,606	20,158	33,005	41,936
Cumulative payments to date	9,830	9,191	11,606	20,158	21,761	26,092
Claims outstanding	—	—	—	—	11,244	15,844
Claims outstanding relating to last six policy years						27,088
Other claims liabilities						—
Total net outstanding claims						27,088

The Association has elected to disclose only six years of its experience in its claims development tables as permitted under the transitional provisions of FRS 102 and 103. One year will be added in each subsequent financial year until the disclosure covers ten years.

Notes on the Accounts

continued

16. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default causing a debt to be written off. The extensive reinsurance protection arranged by the Association effectively transforms a large proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. The credit risk arising from the reinsurance contracts with Steamship Mutual Trust and SMUAB is mitigated through the operation of a collateral agreement. External reinsurers are generally only used if their financial strength rating is at least A- from Standard & Poor's ("S&P") or an equivalent rating from another rating agency, except in the case of some members of the International Group and participants on reinsurance contracts placed through the Group.

Credit risk in respect of amounts due from Members is spread across diverse industries and geographical areas. Cover can be cancelled and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice therefore the Association experiences prompt payment of premium and bad debt experience is immaterial.

Credit risk arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting individual exposures to US$10 million for banks rated AA by S&P, or an equivalent rating from another agency, and U$5 million for banks rated A by S&P, or an equivalent rating from another agency. The credit risk of one unrated, privately capitalised bank is monitored by reference to a specific capital ratio.

Loans and receivables from Members, agents and intermediaries generally do not have a credit rating.

The following tables show the aggregated credit risk exposure for those assets with external credit ratings.

As at 20 February 2017	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	—	16,802	—	—	—	16,802
Money market instruments	37,173	—	—	—	—	37,173
Deposits with credit institutions	—	12,000	10,000	—	—	22,000
Derivative financial instruments	—	—	(441)	—	—	(441)
Cash at bank and in hand	—	16,089	—	—	4,941	21,030
Reinsurers' share of technical provisions	—	22,800	713,617	1,763	118	738,298
Debtors arising out of reinsurance operations	—	17	67,068	843	357	68,285
Total assets with credit ratings	37,173	67,708	790,244	2,606	5,416	903,147
Other assets	—	—	—	—	22,497	22,497
Total assets	37,173	67,708	790,244	2,606	27,913	925,644

As at 20 February 2016	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	—	1,129	—	—	—	1,129
Money market instruments	74,892	—	—	—	—	74,892
Deposits with credit institutions	—	20,000	9,999	—	—	29,999
Derivative financial instruments	—	—	(1,105)	—	—	(1,105)
Cash at bank and in hand	—	13,728	—	—	4,159	17,887
Reinsurers' share of technical provisions	—	11,749	831,464	27,993	88	871,294
Debtors arising out of reinsurance operations	—	—	53,793	1,321	—	55,114
Total assets with credit ratings	74,892	46,606	894,151	29,314	4,247	1,049,210
Other assets	—	—	—	—	22,329	22,329
Total assets	74,892	46,606	894,151	29,314	26,576	1,071,539

The following tables show the age analysis of debtors arising out of insurance operations and debtors arising out of reinsurance operations after deducting provisions for bad debt.

As at 20 February 2017	Not due US$000	0–30 days US$000	31–90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	6,845	2,966	3,191	2,680	935	16,617
Debtors arising out of reinsurance operations	59,237	8,694	301	36	17	68,285
Total	66,082	11,660	3,492	2,716	952	84,902

As at 20 February 2016	Not due US$000	0–30 days US$000	31–90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	10,326	4,208	1,675	701	820	17,730
Debtors arising out of reinsurance operations	51,533	3,581	—	—	—	55,114
Total	61,859	7,789	1,675	701	820	72,844

The Association’s exposure to liquidity risk is minimal given that its investments are cash and money market instruments and the terms of its reinsurance agreements provide for prompt payment.

Notes on the Accounts

continued

16. Risk management continued

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates and currency exchange rates. Market risk arises primarily from investment activities.

The Association holds no investments in equities or bonds. Its investments are in short term money market instruments and therefore it is not directly exposed to interest rate risk.

The Association receives the majority of its premium income in US dollars, a significant amount in euro and small amounts in UK sterling and Canadian dollars. Claim liabilities arise in a number of currencies but predominantly in US dollars, euro, UK sterling and Brazilian reals. To minimise currency translation costs operational bank balances in euro and UK sterling are maintained to fund expected short term claim payments in those currencies.

The following tables show the Association's foreign currency denominated assets and liabilities.

	US dollar	UK sterling	Euro	Brazilian real	Indian rupee	Other	Total
As at 20 February 2017	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Assets	811,201	32,163	32,420	14,268	8,709	26,883	925,644
Liabilities	(709,739)	(26,459)	(25,229)	(14,295)	(8,720)	(27,281)	(811,723)
	101,462	5,704	7,191	(27)	(11)	(398)	113,921

	US dollar	UK sterling	Euro	Brazilian real	Korean won	Other	Total
As at 20 February 2016	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Assets	933,628	27,455	32,932	16,590	19,411	41,523	1,071,539
Liabilities	(818,272)	(32,769)	(27,487)	(16,611)	(19,448)	(41,385)	(955,972)
	115,356	(5,314)	5,445	(21)	(37)	138	115,567

IBNR and reinsurers' share of IBNR are classified as US dollar.

As the Association's reinsurance arrangements with the Trust and SMUAB, as outlined under note 3, and with the International Group provide US dollar protection, at least 90% of currency exchange risk in relation to claims is transformed into reinsurer credit risk.

The majority of the operating expenses of the Association are the costs of SIMSL, the service company of SPIM. These expenses are payable in UK sterling giving rise to a currency exchange risk when compared to the Association's base currency of US dollars. The Association has a Hedging Policy which requires that a percentage of forward future costs be fixed in US dollar terms. This is achieved by entering into forward purchase contracts or other option based products with a bank under the terms of an ISDA agreement.

Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. The Association has identified its operational risks in a risk register and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. Appropriate controls are also in place to monitor the outsourcing of operations to the Managers and, through them, other service providers.

Report of the Independent Auditor

Independent Auditor's Report to the Members of Steamship Mutual Underwriting Association Limited

We have audited the financial statements of Steamship Mutual Underwriting Association Limited for the year ended 20 February 2017, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2017 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

David Rush (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London
United Kingdom
9 May 2017

STEAMSHIP MUTUAL