STEAMSHIP MUTUAL
REPORT AND ACCOUNTS 2020

Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2020

Contents

Steamship Mutual
Underwriting Association Limited

Managers

Steamship P&I Management LLP
Aquatical House
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London E1 7LU
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Notice of Meeting

Notice is hereby given that the One Hundred and Eleventh Annual General Meeting of the Members of the Company will be held at the St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 20 October 2020 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 2020, 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 S Martin, Mr A Tung and Mr R Zagari. Being eligible, they offer themselves 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

A Thawani
Secretary

2 June 2020

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 distributed to Members along with the financial statements 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 (Chairman)	NY Waterway (Chairman)
C B Adams	Steamship P&I Management LLP (appointed 20 February 2019)
C J Ahrenkiel	C J Ahrenkiel Consulting Switzerland
C Bouch	
I Grimaldi	Grimaldi Holdings SpA
C J Madinabeitia	Tradewind Tankers SL
S J Martin	Steamship P&I Management LLP
A L Tung	Island Navigation Corp International Ltd
R Zagari	Augustea Group

Secretary

A Thawani	Steamship P&I Management LLP

Managers

Steamship P&I Management LLP

Registered office

Aquatical House
39 Bell Lane
London E1 7LU
Telephone: +44 (0)20 7247 5490 & +44 (0)20 7895 8490

Website: www.steamshipmutual.com

Registered number

00105461

Strategic Report

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintains an A (stable) rating from Standard & Poor's. It returned the equivalent of 7.5% of mutual premium to its current Members, the fourth year in a row. For the first time in six years, a general increase was applied to the 2020/21 policy year to support long term underwriting balance.

For Steamship Mutual Underwriting Association Limited ("Association"), owned entered tonnage increased by 3.4% to 88.4 million gross tons ("GT") during the year. At renewal, 28.6 million GT of owned European business chose to enter their tonnage in Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE") in response to the UK leaving the EU. Total entered tonnage for owned and chartered entries therefore stood at 104.2 million GT.

Gross premium written in the year increased to US$308.7 million from US$306.7 million last year, a 0.6% increase, reflecting a fifth successive renewal of no general increase, lower levels of premium churn and modest growth in the entered fleet.

The Association's combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium decreased from 107.4% to 101.2% due to increased premium and lower claims incurred.

The balance on the technical account for general business was a deficit of US$1.0 million for the financial year (2019: deficit US$6.4 million). Free reserves increased from US$105.4 million to US$105.5 million.

The Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), after considering the strong current and projected capital position of Steamship, declared a capital distribution to all its Members who renewed at 20 February 2020 equivalent to 7.5% of mutual premium paid for the 2019/20 policy year (Class 1 – P&I). Accordingly, US$16.3 million has been credited to Members since year end.

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected, as have Members. This has introduced uncertainty and volatility across all aspects of the business. The Directors and Managers have been focused on ensuring the safety of its staff and operational continuity so that Members continue to receive the service they expect from Steamship in these unprecedented times. The financial strength and operational resilience of Steamship are there for such events, which we will work through.

The Managers rolled out the business continuity plan, enabling all staff to work remotely with no disruption to the services provided to Members, and maintaining regulatory compliance.

From 20 February 2020, following Brexit, Members whose place of management is within the EEA and certain other jurisdictions, can have their entries accepted by SMUAE which is incorporated in Cyprus. The Rules, the scope and types of cover, the levels of service, and the financial security of SMUAE are the same as those of the Association. In line with the Association, SMUAE has an S&P "A" rating, reflecting Steamship's continued financial strength. SMUA intends to transfer its EEA liabilities to SMUAE under a Part VII of the Financial Services and Markets Act 2000. It is intended that the transfer of relevant assets and liabilities will be completed by 31 December 2020.

Strategy

Steamship's central purpose is to be the best provider of the full range of marine Protection and Indemnity and related insurances, on the mutual principle, delivering both first class service and security at a reasonable cost. Steamship aims to distinguish itself from its competitors by embodying the following principles:

- Advocacy of the principle of mutuality and the benefits of this for shipowners in a range of their insurance needs;
- A belief in the benefit of a diverse membership by geographical area and vessel type;
- A prudent approach to investment policy resulting in financial security and stability;
- Provision of technical expertise and a dedication to problem solving for the Members; and
- Pre-eminence in loss prevention initiatives.

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2019/20 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2019/20 policy year (Class 2 – FD&D).

The 2016/17 policy year was closed in May 2019.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") will be set at 10% for the 2020/21 policy year and 0% for both the 2019/20 and 2018/19 policy years.

Strategic Report

Claims

On 1 January 2020 the revised MARPOL Annex VI Regulation relating to sulphur content of vessels' bunkers came into force. Prior to the commencement date the Managers had conducted seminars and published guidance to assist Members in preparing for implementation. The proposal for a Unified Interpretation of the test for breaking an owner's right to limit liability received strong support from the IMO Legal Committee and is being progressed. Discussions are continuing on various initiatives relating to pollution issues, including the agreement of Memoranda of Understanding with appropriate State organisations. The Managers have participated with the International Group in the ongoing engagement with the US authorities regarding the enforcement of US sanctions. In particular the US continues to press for enhanced due diligence procedures including AIS monitoring. The Managers have been actively considering how and the extent to which their expectations can be met. The Association experienced three Pool claims in excess of its retention during the policy year. One was in respect of a propulsion failure, one an FFO claim and the third a serious personal injury.

The 31st edition of Sea Venture was published in June 2019. The Managers published on the Association's website a variety of circulars, risk alerts, articles and news items of topical interest.

During 2019 the Managers supported and participated in The Nautical Institute's AGM and seminar in Hong Kong which had a focus on ship-handling. The Association's 6th Residential Training Course for Members took place in London and Southampton in June and was attended by 24 delegates from 11 countries. In association with the International Seafarers Welfare Association Network (ISWAN) several publications were produced to provide seafarers with resources to aid mental well-being.

Pooling and reinsurance

The Association's reinsurance programme for the 2019/20 policy year was arranged in conjunction with other members of the Group. The programme provided an ultimate limit of US$3,100 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 2020/21, the individual Club retention, before Pooling with other members of the Group, remains at US$10 million, with an upper limit of US$100 million for each event. A Club bringing a claim to the Pool bears a 7.5% retention within the layer of US$50 million to US$100 million, with the balance being divided amongst all Clubs in accordance with the Pooling Agreement.

Excess Loss cover

Following the structural changes made in the 2019/20 year, the Group decided not to make any significant changes this year allowing time for the new structure to bed in and produce results. However, for 2020/21 there was a modest adjustment with the two expiring 5% private placements being replaced by two new 10% multi-year private placements in the first layer. This will therefore see three 10% private placements for the 2020/21 policy year, with the remaining 70% placed in the market. The first layer will provide cover from US$100 million to an increased upper limit of US$750 million, the second layer will cover from US$750 million to US$1.5 billion, and the third layer from US$1.5 billion to US$2.1 billion. There is no change to the Collective Overspill layer of US$1 billion excess US$2.1 billion.

Hydra Insurance Company Limited ("Hydra")

For 2020/21, following the changes to the Excess Loss cover outlined above, Hydra will continue to retain 100% of the pool layer US$30 million to US$50 million and 92.5% of the pool layer US$50 million to US$100 million. In addition, Hydra will retain the US$100 million annual aggregate deductible in the 70% market share of the first layer of the Excess Loss programme. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

US oil pollution

There will be no surcharge again for 2020/21.

MLC cover

The Group's reinsurance cover to meet shipowners' certification requirements under the financial security provisions of the Maritime Labour Convention were renewed with expiring limit of US$200 million excess US$10 million.

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 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

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, money market instruments and short term US government bonds.

The external auditor identified the degree of estimation and judgement in respect of the valuation of IBNR for long-tail crew and injury claims as a significant risk. The Directors are aware of the volatility in this class and the risks associated with it; they are embedded within the reserving process.

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

Section 172 statement

The Board of Directors, in line with their duties under s172(1) of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Association for the benefit of its members as a whole as set out in this report under Strategy.

Key decisions and matters that are of strategic importance to the Association include s172 factors examples of which are:

Consequences of decisions in the long-term

The Board ordered a general increase for the first time since the 2014 policy year renewal as a result of the need to achieve underwriting balance without dependence upon positive investment returns or use of surplus capital.

Need to foster the Association's relationships with members, suppliers and others

The Association's members comprise the majority of its Board as evidenced on page 3. Decisions are taken with the impact on Members in mind. A residential training course for members was held. The relationships with key suppliers are monitored by the Board in accordance with the Association's Outsourcing and Third Party Supplier Policy. An open relationship is maintained with all regulators in the jurisdictions in which licences are held.

Impact of the Association's activities on the community and the environment

A focus on sulphur regulations, pollution issues, the mental well-being of seafarers and detailed loss prevention measures is set out in this report under Claims.

Maintain a reputation for high standards of business conduct

The Board monitors compliance with sanctions legislation to avoid the consequences of breaching such requirements. It also monitors the numbers of complaints received and whether they are resolved satisfactorily

Need to act fairly between members of the Association

In addition to any general increase the Board expects the rating for individual members to be corrected where appropriate to ensure fairness. As set out in the section on Underwriting the Board assesses the level or release calls for open years to protect its current members.

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 ("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 a Director of the Corporate Trustee which administers the Trust.

S Martin
Director

Managers
Steamship P&I Management LLP

2 June 2020

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 2020.

Principal activities

The Association is a company limited by guarantee incorporated in the United Kingdom. The principal activity of the Association was 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 Associations ("Group") and is reinsured by The Steamship Mutual Underwriting Association (Bermuda) Limited for the 2015/16 and subsequent policy years and by The Steamship Mutual 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 S Martin, Mr A Tung and Mr R Zagari. Being eligible, they offer themselves for re-election.

Audit and Risk Committee ("Committee")

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

The Committee meets three times a year and is currently comprised of the following Directors: Mr C J Madinabeitia (Chairman), Mr C Bouch and Mr R Zagari. Mr A Pohan is invited to attend the meeting in his capacity as Chairman of the Association and two representatives of the Managers, who are also Directors of the Association, namely Mr S J Martin and Mr C B Adams, are also invited to attend.

In discharging its responsibilities, the Committee receives financial and management reports from the Managers including reports from 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 external auditor meets with the Managers who, having liaised with the Committee Chairman, review their audit approach and the key risks identified. The audit plan is submitted to and reviewed by the Committee and Board. The audit partner presents their audit findings to the Committee and Board. The Committee reviews the performance of the external auditor on a regular basis and challenges it on proportionality and efficiency.

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. The Committee reviews the judgment and control exercised by the Managers in the estimation of technical provisions and ensures that provisions are set in accordance with the Board's reserving risk appetite. The Committee's work in this area includes receiving and discussing the actuarial function's reports on reserving methodologies, estimates and key judgments throughout the year and at year end. The Committee receives reports on the Solvency II Technical Provisions and the bridge to those reported in the annual financial statements.

Within the past year the Committee's work has included a review of the following matters:

- Oversight of the establishment of a European entity; and
- Oversight of a new internal auditor taking office.

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, as explained below:

- Changes to the pollution rule to remove the need for imminent danger of pollution so that, for instance, costs incurred in complying with valid orders or directions may be covered;
- Changes to the repatriation rule to expand cover for repatriation in all reasonable circumstances;
- Changes to the Condition Surveys rule providing that where a deficiency is found in respect of a ship or its equipment, and where that deficiency may affect other entered ships in the same ownership, the Managers may exercise rights to terminate, limit or vary the terms of cover in respect of all ships entered by that member to which the findings of deficiency may apply;

Report of the Directors

- Changes to the Specialist Operations rule to reflect a new exclusion in the Pooling Agreement in respect of power generation and decommissioning work;
- A new provision reflecting amendments to the Pooling Agreement excluding cover for non-marine personnel on accommodation vessels when within 500 metres of an oil or gas production or exploration facility; and
- A change to the P&I War Risks cover arising from the International Group's War reinsurers increasing the deemed proper value of an entered vessel to reflect the increasing number of large vessels with values excess of $100m.

Management Highlights

The Management Highlights will be published in July 2020.

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.

S Martin
Director

Managers
Steamship P&I Management LLP

2 June 2020

Independent Auditor's Reports

Independent Auditor's Report to the Members of Steamship Mutual Underwriting Association Limited
Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Steamship Mutual Underwriting Association Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 20 February 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and Financial Reporting Standard 103 "Insurance Contracts"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income and expenditure account;
- the consolidated and company balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Financial Report Standard 103 "Insurance Contracts".

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Technical provision – valuation of IBNR for US and Non US injury claims; and • Impact of COVID-19 on subsequent events and Going Concern.

Independent Auditor’s Reports

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	Within this report, key audit matters are identified as follows: Newly identified Similar level of risk
Materiality	The materiality that we used for the group financial statements was $4.03m which was determined on the basis of 3% of Solvency II Own Funds.
Scoping	The Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	There were no changes to our audit approach when compared to the prior year except that due to COVID-19 pandemic, which has severely impacted the global economy, we have identified the Impact of COVID-19 subsequent event as a key audit matter in the current year.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Technical Provisions – valuation of IBNR for US and Non US Injury Claims

Key audit matter description	*Refer to Note 1 and Note 17 to the financial statements for further information on this key audit matter.* We have identified the valuation of the technical provision as one of our key audit matters since reserving inherently involves a great deal of uncertainty and judgement in the selection of key methodologies and assumptions. The technical provisions also contain classes of US and Non US Injury claims. These classes includes claims from members in respect of injury to crew, passengers and others. It is part of the Owned P&I (Protection and Indemnity) business, and mainly relates to bodily injury claims, which

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	often present long tail risks and thus claims development is not as clearly visible for recent policy years, which increases uncertainty in reserving.

How the scope of our audit responded to the key audit matter	We have performed a number of key procedures to address this key audit matter:
	• We obtained an understanding of the relevant controls over the end-to-end reserving process.
	• We involved our internal actuarial specialists in performing the below procedures:
	  ○ Reviewed the detailed reserving models;
	  ○ Met with Steamship Management to further understand and challenge the approach and key judgements;
	  ○ Performed a graphical review using in-house reserving software;
	  ○ Performed sensitivity testing on key assumptions; and
	  ○ Assessed the impact of COVID-19 on IBNR reserves and reviewed the adjustments made to IBNR reserves in respect of COVID-19 claims.
	• We performed further audit procedures on key inputs of the technical reserve balance, such as agreeing policy and claims data to underlying accounting records.

Key observations	Based on the work performed, we have determined that the valuation of IBNR for US and Non US Injury Claims was reasonable.

5.2. Impact of COVID-19 on subsequent events and Going Concern

Key audit matter description	*Refer to the Directors Report, Note 18 and Note 17 to the financial statements for further information on this key audit matter.* As per the Post Balance Sheet Event disclosure in note 18 to the financial statements, subsequent to the balance sheet date and up to the point of reporting, the outbreak of the new strain of Coronavirus (COVID-19) has caused significant economic and social disruption and impacted IBNR reserves. In the case of the impact on IBNR reserves, the matter is judged to be an adjusting event in accordance with accounting standards, since information in relation to claims affected by the outbreak which became known after the balance sheet date was judged to be indicative of conditions that arose before the reporting period. The impact of COVID-19 is therefore reflected in the measurement of IBNR to the extent that conditions existed at the balance sheet date. In the case of the significant economic and social disruption caused by COVID-19, the matter is judged to be a non-adjusting event, in accordance with accounting standards as such the measurement of all assets and liabilities other than IBNR, reflects only conditions that existed at the balance sheet date. In light of the economic and social disruption and impact on IBNR reserves management has assessed the impact on going concern. Management's response includes the following key actions:

Independent Auditor's Reports

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	• Frequent monitoring of the group's operations and its ability to continue to serve members; and • Monitoring the group's capital and liquidity position, considering access to capital, running stress testing and performing enhanced sensitivity analysis, as well as updating forecasts. The assessment of the impact of COVID-19 on the group requires management judgement and consideration of a range of factors. Having considered the results of the activities described above, management believes the group continues to be a going concern.
How the scope of our audit responded to the key audit matter	We have performed a number of key procedures to address this key audit matter: • We assessed management's approach to the impact of COVID-19 on the group and the financial statements; • We have involved our actuarial specialists in assessing the impact of COVID-19 on IBNR reserves and reviewed adjustments to IBNR in respect of COVID-19; • We evaluated management's stress and scenario testing and challenged management's key assumptions and forecasts. We reviewed data and assumptions included in the assessment and considered its consistency with other available information and our understanding of the business; • We evaluated management's assessment of the risks facing the group including liquidity risk, asset valuation risk and operational matters; • We attended the Audit Committee meeting which considered COVID-19 in advance of reporting; and • We assessed the disclosures made by management in the financial statements against applicable accounting standards, assessed management's judgments on the impact of COVID-19 and evaluated the consistency of the disclosures with our knowledge of the group.
Key observations	Based on the work performed, we consider the management's assessment of going concern and the impact of COVID-19 to be reasonable, and the related disclosures to be appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	\$4.03m (2019: \$4.14m)	\$3.99m (2019: \$4.10m)

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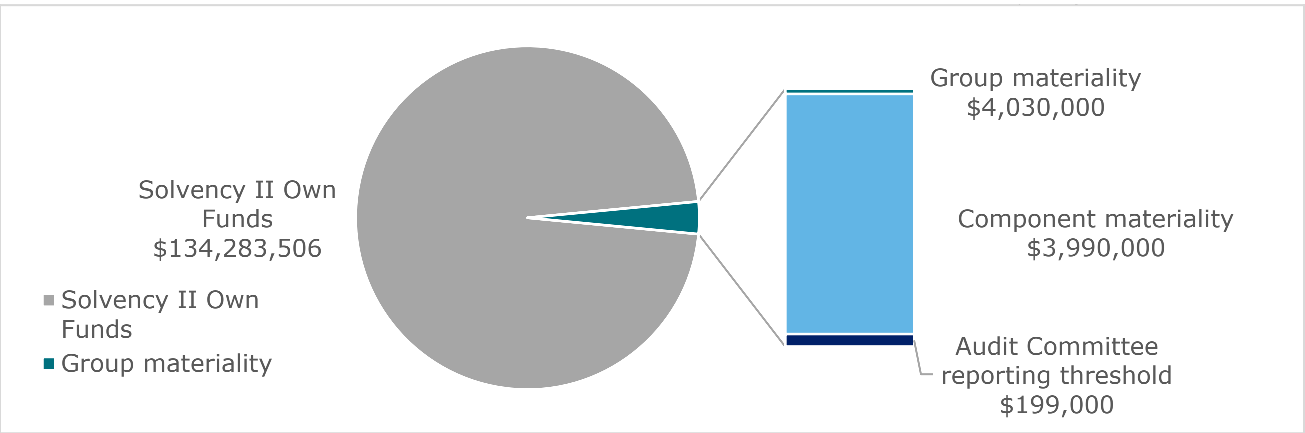
Basis for determining materiality	3% of Solvency II Own funds (This is consistent with prior year)	3% of Solvency II Own Funds capped at 99% of group materiality (This is consistent with prior year)
Rationale for the benchmark applied	Solvency II Own Funds is a key metric used by the Members to determine whether the Club has sufficient capital to prevent supplementary calls and pay claims when due.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $199,000 (2019: $207,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The scope of our audit work was determined by obtaining an understanding of the group and its environment, and assessing the risks of material misstatement at the group level. The Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Independent Auditor's Reports

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8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

Independent Auditor's Reports

continued

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management , internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including pensions, IT, actuarial and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: Technical provision - valuation of IBNR for US and Non US injury claims. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legisation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulatory solvency requirements and insurance regulation.

11.2. Audit response to risks identified

As a result of performing the above, we identified the Technical provision - valuation of IBNR for US and Non US injury claims as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to this key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC / PRA and FCA;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Independent Auditor's Reports

continued

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 23 July 2002 to audit the financial statements for the year ending 20 February 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 20 February 2003 to 20 February 2020.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Independent Auditor's Reports

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15. Use of our report

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.

Adam Addis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
02 June 2020

Consolidated Income and Expenditure Account

for the year ended 20 February 2020

Technical Account	Note	**2020 US$000**	2019 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**308,725**	306,661
Outward reinsurance premium	3	**(228,431)**	(220,291)
Earned premium, net of reinsurance		**80,294**	86,370
Allocated investment return transferred from the non-technical account		**(732)**	(5,502)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**252,595**	299,890
Reinsurers' share	4	**(210,988)**	(259,029)
Net claims paid		**41,607**	40,861
Change in the provision for claims			
Gross amount	5	**(6,204)**	(3,418)
Reinsurers' share	5	**6,262**	9,683
Change in the net provision for claims	5	**58**	6,265
Claims incurred, net of reinsurance		**41,665**	47,126
Net operating expenses	6	**38,880**	40,130
Balance on the technical account for general business		**(983)**	(6,388)

Non-Technical Account	Note	**2020 US$000**	2019 US$000
Balance on the general business technical account		**(983)**	(6,388)
Investment income		**482**	(3,704)
Unrealised gains/(losses) on investments		**133**	(473)
Allocated investment return transferred to the technical account		**732**	5,502
Other income		**36**	9
Surplus/(deficit) on ordinary activities before taxation		**400**	(5,054)
Taxation	7	**330**	236
Surplus/(deficit) for the financial year		**70**	(5,290)
Free reserves brought forward		**105,409**	110,699
Free reserves		**105,479**	105,409

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 2020

Assets	Note	2020 Consolidated US$000	2020 Company US$000	2019 Consolidated US$000	2019 Company US$000
Investments					
Other financial investments	8	**56,408**	**56,408**	63,732	60,732
Investment in group undertaking	9	**–**	**17**	–	25
Reinsurers' share of technical provisions					
Claims outstanding	5	**779,780**	**779,780**	786,042	786,042
Debtors					
Debtors arising out of direct insurance operations		**16,253**	**16,253**	15,860	15,860
Debtors arising out of reinsurance operations	10	**73,526**	**73,526**	43,590	43,590
Other debtors		**1,303**	**1,387**	4,185	7,244
Other assets					
Cash at bank and in hand		**24,137**	**24,036**	53,943	53,862
Prepayments and accrued income					
Deferred acquisition costs		**601**	**601**	468	468
Other prepayments and accrued income		**512**	**512**	383	380
Total assets		**952,520**	**952,520**	968,203	968,203
Liabilities					
Capital and reserves					
Free reserves	13	**105,479**	**105,479**	105,409	105,409
Technical provisions					
Provision for unearned premium		**3,685**	**3,685**	2,979	2,979
Claims outstanding	5	**821,204**	**821,204**	827,408	827,408
Provisions for other risks and charges					
Provision for taxation		**214**	**214**	236	236
Other provisions	12	**1,277**	**1,277**	629	629
Creditors					
Creditors arising out of direct insurance operations		**7,099**	**7,099**	8,993	8,993
Creditors arising out of reinsurance operations	11	**9,650**	**9,650**	19,682	19,682
Other creditors including taxation and social security		**3,912**	**3,912**	2,867	2,867
Total liabilities		**952,520**	**952,520**	968,203	968,203

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 2 June 2020.

S Martin
Director

C Adams
Director

Managers:
Steamship P&I Management LLP

Consolidated Cash Flow Statement

for the year ended 20 February 2020

	2020 US$000	As restated 2019 US$000
Cash flows from operating activities		
Operating surplus/(deficit) before taxation after interest	**400**	(5,054)
Increase in general insurance technical provisions	**764**	6,979
Increase(decrease) in other provisions	**648**	(206)
Unrealised (gains)/losses on investments	**(133)**	473
(Increase)/decrease in debtors	**(27,710)**	14,340
(Decrease)/increase in creditors	**(10,880)**	4,361
Taxation paid	**(352)**	(218)
	(37,663)	25,729
Net cash (outflow)/inflow from operating activities	**(37,263)**	20,675
Cash flow from investment activities		
Net portfolio investment		
Sale/(purchase) of bonds and loans	**348**	(277)
Sale of money market instruments	**4,570**	16,890
Decrease/(increase) in cash on short term deposit	**2,539**	(6,666)
Cash generated by investing activities	**7,457**	9,947
Movement in opening and closing cash and cash equivalents		
Net cash (outflow)/inflow for the period	**(29,806)**	30,622
Cash and cash equivalents at 20 February 2019	**53,943**	23,321
Cash and cash equivalents at 20 February 2020	**24,137**	53,943

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

The consolidated 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.

The 2019 comparatives in the cash flow statement have been restated due to a classification and presentational error following the incorrect application of FRS 102 and the recognition of cash and cash equivalents. The restatement has corrected the presentation of operating and investment activities and replaced Portfolio Investments with just Cash and Cash Equivalents.

The adjustments to the Cash Flow Statement are presentational and the amount of cash reconciles to the cash in the Balance Sheet. No correction is needed at the beginning of the earliest prior period presented, as there has been no change to the free reserves following this change.

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) Basis of consolidation

The accounts consolidate the accounts of Steamship Mutual Underwriting Association Limited and its wholly owned subsidiary undertaking Steamship (Germany) GmbH at 20 February 2020.

(c) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail under note 17.

(d) 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.

(e) Unearned premium

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

(f) Deferred acquisition costs

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

(g) 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.

(h) 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.

Notes on the Accounts

continued

1. Accounting policies continued

(i) Investments

Quoted investments at their bid-value and cash at bank have been valued as at the close of business on 19 February 2020. 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.

(j) 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.

(k) 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 to US dollars at the exchange rate at the date of the transaction. 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:

		2020	2019
Euro	€	**0.927**	0.882
UK sterling	£	**0.772**	0.767

Notes on the Accounts

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2. Gross premium written	2020 US$000	2019 US$000
Mutual and fixed premium written	**309,246**	307,533
Return of premium	**(73)**	–
Release calls	**258**	(158)
Movement in unearned premium	**(706)**	(714)
	308,725	306,661
Gross premium by class of business		
Protection and Indemnity	**282,720**	281,233
Freight, Demurrage and Defence	**10,648**	11,304
Other	**15,357**	14,124
	308,725	306,661
Gross premium by Member location		
United States of America	**120,403**	111,347
Switzerland	**23,988**	19,350
South Korea	**18,195**	22,131
Netherlands	**13,713**	16,393
France	**13,014**	10,986
Taiwan	**10,903**	12,647
Hong Kong	**10,432**	10,800
China	**8,876**	9,207
Brazil	**8,538**	8,910
Italy	**8,191**	8,725
Chile	**8,144**	8,100
United Kingdom	**7,750**	6,415
Greece	**7,114**	6,684
India	**6,768**	7,660
Germany	**6,369**	9,111
Cyprus	**5,878**	6,418
Other countries	**30,449**	31,777
	308,725	306,661

Notes on the Accounts

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3. Reinsurance contracts

The Association has the following reinsurance arrangements:

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.

The Association entered into 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.

4. Claims paid – gross amount

	2020 US$000	2019 US$000
Claims and related expenses	**193,822**	256,140
Group Pool claims	**34,565**	18,868
Claims administration expenses	**24,208**	24,882
	252,595	299,890
Less reinsurers' share		
SMUAB	**156,594**	143,813
The Trust	**21,780**	30,696
Group Pool and other reinsurers	**32,614**	84,520
	210,988	259,029
Net claims paid	**41,607**	40,861

Notes on the Accounts

continued

5. Change in net provision for claims	**2020 US$000**	2019 US$000
Gross outstanding claims		
Provision brought forward	**(827,408)**	(830,826)
Provision carried forward	**821,204**	827,408
	(6,204)	(3,418)
The Trust's share of outstanding claims		
Provision brought forward	**126,041**	176,749
Provision carried forward	**(96,120)**	(126,041)
	29,921	50,708
SMUAB's share of outstanding claims		
Provision brought forward	**441,312**	384,504
Provision carried forward	**(455,949)**	(441,312)
	(14,637)	(56,808)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	**151,118**	196,757
Provision carried forward	**(169,090)**	(151,118)
	(17,972)	45,639
Other reinsurers' share of outstanding claims		
Provision brought forward	**67,571**	37,715
Provision carried forward	**(58,621)**	(67,571)
	8,950	(29,856)
Change in net provision for claims	**58**	6,265

The estimates for known outstanding claims are based on the 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 the Association's share of other Group clubs' 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$83.2 million of third party recoveries (2019: US$77.4 million).

Notes on the Accounts

continued

6. Net operating expenses	**2020 US$000**	2019 US$000
Acquisition costs		
Brokerage	**18,133**	18,295
Underwriting administration expenses	**9,976**	9,921
	28,109	28,216
Administrative expenses		
Other administration expenses	**10,135**	11,232
Regulatory fees	**324**	367
Directors' remuneration	**22**	19
Auditor's remuneration	**290**	296
	10,771	11,914
	38,880	40,130

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 insureds. 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 2020, these fees amounted to US$36.8 million (2019: US$39.3 million). US$0.4 million was due from SPIM at the year end (2019: US$2.9 million).

Steamship P&I Management (Singapore) PTE Ltd ("SPIM Singapore"), a subsidiary of SPIM, 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 and administration expenses. For the financial year to 20 February 2020 these fees and expenses amounted to US$0.8 million (2019: US$1.0 million). US$0.5 million was due to SPIM Singapore at the year end (2019: US$0.4 million).

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 2020 these fees and expenses amounted to US$0.3 million (2019: US$3.0 million). US$0.3 million was due from SMM(B) at the year end (2019: US$0.6 million).

Steamship Mutual Management (Hong Kong) Limited ("SMM(HK)") provides management and administrative services to the Association. Under the terms of its management contract SMM(HK) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses. For the financial year to 20 February 2020 these fees and expenses amounted to US$1.4 million (2019: US$nil). US$33,659 was due to SMM(HK) at the year end (2019: US$nil).

Notes on the Accounts

continued

7. Taxation

The charge includes an estimated liability for the accounting year to 20 February 2020, of US$226,120 (2019: US$236,271) based upon an agreement with the United Kingdom tax authorities, assessed on the investment income of the Association for the year, along with an estimated liability of US$91,995 based on the results of the Association's overseas branches.

Analysis of tax charge on ordinary activities	**2020 US$000**	2019 US$000
United Kingdom corporation tax at 19% (2019: 19%) based on the surplus/(deficit) for the financial year	**330**	236
	330	236

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.

Surplus/(deficit) on ordinary activities before tax	**400**	(5,054)
Tax at 19% (2019: 19%) thereon	**76**	(960)
Effect of tax on overseas branches	**91**	–
Effect of income not subject to corporation tax	**163**	1,196
Current tax charge for period	**330**	236

8. Other financial investments

	2020 US$000	2019 US$000
Market value		
Bonds and loans	**17,018**	17,233
Money market instruments	**13,262**	17,832
Deposits with credit institutions	**26,127**	28,629
Cash accounts	**1**	38
	56,408	63,732
Cost		
Bonds and loans	**17,017**	17,365
Money market instruments	**13,262**	17,832
Deposits with credit institutions	**26,127**	28,629
Cash accounts	**1**	38
	56,407	63,864

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.

Notes on the Accounts

continued

9. Investment in group undertaking	2020 US$000	2019 US$000
Cost	**29**	29
Impairment	**(12)**	(4)
	17	25

The Association owns 100% of Steamship (Germany) GmbH. Its registered address is Marburger Strasse 2, 10789, Berlin, Germany. The company provides banking services to the Association.

10. Debtors arising out of reinsurance operations	2020 US$000	2019 US$000
The Trust	**59,056**	35,751
SMUAB	**13,204**	–
Group clubs	**232**	5,679
Other reinsurance debtors	**1,034**	2,160
	73,526	43,590

11. Creditors arising out of reinsurance operations	2020 US$000	2019 US$000
SMUAB	**–**	9,508
Group Clubs	**–**	1,489
Other reinsurance creditors	**9,650**	8,685
	9,650	19,682

Notes on the Accounts

continued

12. 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 provision recognised of US$1.3million in respect of the deficit at the balance sheet date (2019: US$0.6 million). The Trustees of SIMSL's pension scheme meet regularly and report to the Board on the management and performance of the scheme's assets and liabilities and associated risks.

13. Free reserves

	2020 US$000	2019 US$000
Free reserves brought forward	**105,409**	110,699
Surplus/(deficit) for year	**70**	(5,290)
	105,479	105,409

The balance carried forward 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.

14. 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 2020 the total value of guarantees issued in respect of uncovered claims was US$10.7 million (2019: US$10.9 million).

15. 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$5.6 million (2019: US$5.6 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 (2019: US$11.7 million).

Notes on the Accounts

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16. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirements of the Prudential Regulation Authority (PRA) and the regulators of its branch offices in Hong Kong, Japan and Singapore. Capital resources for regulatory purposes for the Association consist of free reserves on a regulatory economic basis and an allowance for the ability to levy additional premium on Members.

The Association and its branches were in compliance with their regulatory capital requirements throughout the financial year.

17. 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 having regard to variations in the nature of current business accepted and its underlying terms and conditions. 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.

Notes on the Accounts

continued

17. Risk management continued

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

		2020 US$000	2019 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(15,748)**	(16,051)
	net of reinsurance	**(1,067)**	(1,138)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	(2,000,000)
	net of reinsurance	**(3,351)**	(1,551)

The following tables show the development of claims over nine 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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	314,336	208,834	114,390	282,635	341,688	244,772	392,561	321,014	314,958
One year later	630,373	184,502	230,254	214,463	338,016	225,559	356,725	286,572	
Two years later	823,866	315,281	211,471	209,479	348,201	243,215	337,286		
Three years later	975,234	294,626	203,609	203,073	353,779	240,089			
Four years later	948,138	277,820	199,147	196,730	361,286				
Five years later	916,159	272,397	195,629	193,371					
Six years later	911,738	267,633	196,203						
Seven years later	916,476	262,945							
Eight years later	911,236								
Current estimate of ultimate claims	911,236	262,945	196,203	193,371	361,286	240,089	337,286	286,572	314,958
Cumulative payments to date	874,096	257,241	175,926	177,150	317,900	189,239	212,773	98,116	55,842
Claims outstanding	37,140	5,704	20,277	16,221	43,386	50,850	124,513	188,456	259,116
Claims outstanding relating to last nine reporting years									745,663
Other claims liabilities									75,541
Total gross claims outstanding									821,204

Notes on the Accounts

continued

17. Risk management continued

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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	9,399	8,927	13,574	30,972	34,778	41,936	31,343	29,950	31,090
One year later	9,443	8,945	16,612	30,817	33,005	47,354	37,756	33,254	
Two years later	9,451	10,106	16,589	20,158	38,430	52,722	39,176		
Three years later	10,538	10,108	11,606	21,339	40,704	54,895			
Four years later	10,538	9,191	12,714	22,065	42,409				
Five years later	9,830	9,617	13,552	22,457					
Six years later	10,527	10,035	14,354						
Seven years later	11,558	10,486							
Eight years later	11,532								
Current estimate of ultimate claims	11,532	10,486	14,354	22,457	42,409	54,895	39,176	33,254	31,090
Cumulative payments to date	11,532	10,486	14,354	22,457	39,860	50,199	33,137	21,093	15,111
Claims outstanding	–	–	–	–	2,549	4,696	6,039	12,161	15,979
Claims outstanding relating to last nine reporting years									41,424
Other claims liabilities									–
Total net claims outstanding									41,424

The Association has elected to disclose only nine 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.

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 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 managed by using a variety of banks and aiming to limit individual exposures to US$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and US$10 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. Credit risk also arises where the Association is in receipt of letters of credit issued by banks. This exposure is monitored on a continuous basis.

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

Notes on the Accounts

continued

17. Risk management continued

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

As at 20 February 2020

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	–	17,018	–	–	–	17,018
Money market instruments	13,262	–	–	–	–	13,262
Deposits with credit institutions	–	5,000	21,127	–	–	26,127
Cash accounts	–	1	–	–	–	1
Cash at bank and in hand	–	20,590	1,934	–	1,613	24,137
Reinsurers' share of technical provisions	–	12,050	753,021	14,627	82	779,780
Debtors arising out of reinsurance operations	–	17	73,471	38	–	73,526
Accrued interest	12	97	52	–	–	161
Total assets with credit ratings	13,274	54,773	849,605	14,665	1,695	934,012
Other assets	–	–	–	–	18,508	18,508
Total assets	13,274	54,773	849,605	14,665	20,203	952,520

As at 20 February 2019

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	–	17,233	–	–	–	17,233
Money market instruments	17,832	–	–	–	–	17,832
Deposits with credit institutions	–	8,000	20,629	–	–	28,629
Cash accounts	–	–	38	–	–	38
Cash at bank and in hand	–	51,414	1,864	–	665	53,943
Reinsurers' share of technical provisions	–	4,842	764,645	15,334	1,221	786,042
Debtors arising out of reinsurance operations	–	17	42,213	48	1,312	43,590
Accrued interest	–	14	36	–	–	50
Total assets with credit ratings	17,832	81,520	829,425	15,382	3,198	947,357
Other assets	–	–	–	–	20,846	20,846
Total assets	17,832	81,520	829,425	15,382	24,044	968,203

Notes on the Accounts

continued

17. Risk management continued

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 2020

	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	2,923	6,971	2,568	3,093	698	16,253
Debtors arising out of reinsurance operations	72,260	1,209	20	12	25	73,526
Total	75,183	8,180	2,588	3,105	723	89,779

As at 20 February 2019

	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	4,720	5,776	2,611	2,061	692	15,860
Debtors arising out of reinsurance operations	35,751	2,409	1,248	4,165	17	43,590
Total	40,471	8,185	3,859	6,226	709	59,450

The Association's exposure to liquidity risk is minimal given that its investments are cash, money market instruments and short term US government bonds and the terms of its reinsurance agreements provide for prompt payment.

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's investments are in short term money market instruments and US government bonds and therefore has limited direct exposure 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.

Notes on the Accounts

continued

17. Risk management continued

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

As at 20 February 2020

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Korean Won US$000	Other US$000	Total US$000
Assets	804,641	32,579	77,533	18,056	3,577	16,134	952,520
Liabilities	(708,347)	(24,993)	(80,303)	(18,117)	(3,655)	(11,626)	(847,041)
	96,294	7,586	(2,770)	(61)	(78)	4,508	105,479

As at 20 February 2019

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Indian rupee US$000	Other US$000	Total US$000
Assets	772,705	47,723	102,452	22,580	3,612	19,131	968,203
Liabilities	(714,113)	(31,303)	(76,839)	(22,645)	(3,730)	(14,164)	(862,794)
	58,592	16,420	25,613	(65)	(118)	4,967	105,409

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 recharged to it by 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 functional 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 buying currency in advance, entering into forward purchase contracts or entering into other option-based products with a bank.

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.

18. Post balance sheet events

The financial year end coincided with the rapid escalation of the COVID-19 outbreak, which at the balance sheet date was affecting some operating locations more than others. All industries and parts of society have now been affected, as have Members. This has introduced uncertainty and volatility across all aspects of the business. The financial strength and operational resilience of the Association are there for such events.

The slowdown in global trade is inevitably having an impact on Members, some more than others, with several vessels going into lay-up. The Board does not consider that this will lead to a significant impact on the prospective operating performance of the Association because the likelihood, as with prior global economic recessions, is that there will be a corresponding reduction in net incurred claims costs. The pandemic is also having an impact on expected claims, particularly in passenger vessels. Reinsurance and other counterparty security is being more closely monitored, with no significant risks currently emerging. As the duration of the impact of COVID-19 is unknown it is not possible to reliably estimate its impact on prospective operating performance.

The Steamship Mutual Underwriting Association (Bermuda) Limited

Annual Report and Accounts 2020

Contents

The Steamship Mutual Underwriting Association (Bermuda) Limited

(Incorporated under the laws of Bermuda) and its subsidiary companies

Managers

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Telephone: +1 441 295 4502

Managers' representatives

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Representative office in Brazil
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Telephone: +55 21 2221 6074 & +55 21 2221 6461

Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the Forty Sixth Annual General Meeting of the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") will be held at The St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 20 October 2020 at 09:00 for the following purposes:

1 The Secretary to confirm that Notice of the Meeting has been given.
2 To approve the Minutes of the last Meeting of the Members.
3 To receive the Directors' Report and Accounts for the year ended 20 February 2020.
4 To fix the number of Directors for the ensuing year.
5 To elect Directors retiring in rotation.
Under the Bye-laws of the Company, one-third of the Directors are required to retire annually by rotation.
The Directors retiring by rotation are Mr C Bouch, Mr D Farkas, Ms D Ho, Mr W J Kim, Mr B McAllister, Mr C K Ong, Mr C Sommerhage, Mr E Veniamis, Mr A Zacchello and Ms S Zagury. Being eligible all these Directors offer themselves for re-election.
6 To appoint the Auditor and to authorise the Directors to agree their remuneration.
7 Confirmation of acts.
8 To transact any other ordinary business of the Company.

By Order of the Board

K L McCullough
Secretary

2 June 2020

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 Clarendon House, 2 Church Street, PO Box HM 666, Hamilton HM CX, Bermuda, not less than 48 hours before the time specified for the holding of the Meeting.

Directors

Directors

S-M Edye, Sloman Neptun Schiffahrts AG (Chairman)
C B Adams, Steamship P&I Management LLP
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
A Albertini, Marfin Management SAM
M W Bayley, Royal Caribbean International
C Bouch
D S Farkas, Norwegian Cruise Line
M Frith
I Grimaldi, Grimaldi Holdings SpA
D M Ho, Magsaysay Maritime Corp
E Ide, Naviera Ultranav Ltda
W J Kim, Polaris Shipping Co. Ltd
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
B A McAllister, McAllister Towing
C K Ong, U-Ming Marine Transport Corp
A Pohan, NY Waterway
B K Sheth, The Great Eastern Shipping Co Ltd
M Sloan, Carnival Corporation & plc
C Sommerhage, Columbia Shipmanagement (Germany) GmbH
Song, Chunfeng, China Shipowners Mutual Assurance Association
A L Tung, Island Navigation Corp International Ltd
E Veniamis, Golden Union Shipping Co SA
E Yao, Orient Overseas Container Line Ltd (appointed 4 March 2019)
A Zacchello, Seaarland Shipping Management BV
R Zagari, Augustea Group
S Zagury, Vale

Secretary

K L McCullough, Conyers Corporate Services (Bermuda)

Managers

Steamship Mutual Management (Bermuda) Limited

Registered office

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Hamilton HM 11
Bermuda

Administrative office

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Telephone: +1 441 295 4502
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Report of the Directors

The Directors have pleasure in presenting their Report and Audited Accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") for the year ended 20 February 2020.

Principal activities

The principal activity of the Association during the year was the reinsurance of Protection and Indemnity ("P&I") risks, and of Freight, Demurrage and Defence ("FD&D") risks written by Steamship Mutual Underwriting Association Limited ("SMUA").

The Association is a member of the International Group of Protection and Indemnity Associations ("Group").

Directors

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

In accordance with the Act of Incorporation, as amended on 18 April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in New York, USA on 20 October 2020:

Mr C Bouch, Mr D Farkas, Ms D Ho, Mr W J Kim, Mr B McAllister, Mr C K Ong, Mr C Sommerhage, Mr E Veniamis, Mr A Zacchello and Ms S Zagury.

Being eligible all these Directors offer themselves for re-election.

Free reserves

The balance on the Technical Account was a surplus of US$6.3 million for the financial year.

The overall surplus for the financial year of US$9.2 million reflects a surplus in the Hydra cell of US$9.3 million.

After considering the strong current and projected capital position of the Association and the Steamship group (which consists of SMUA, the Association, Steamship Mutual Underwriting Association Limited (Europe) Limited ("SMUAE"), and The Steamship Mutual Trust ("the Trust")), the Directors declared a capital distribution to its Members who renewed at 20 February 2020, equivalent to 7.5% of mutual premium paid for the 2019/20 policy year (Class 1 – P&I). Accordingly, US$16.3 million has been credited to Members since year end. Total capital and reserves amount to US$65.6 million.

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected. This has introduced uncertainty and volatility across all aspects of the business. The Directors and Managers have been focused on ensuring operational continuity in these unprecedented times. The financial strength and operational resilience of the Association is there for such events

Underwriting

Gross premium written was US$181.6 million compared to US$175.5 million last year.

SMUA

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

SMUAE

In September 2019 the Association agreed a deed of capitalisation with SMUAE, a company incorporated in Cyprus, which required it to make a capital contribution of US$30 million. This was done to facilitate the continued insurance of certain Members of SMUA whose place of management is within the EEA and certain other jurisdictions from 20 February 2020, following Brexit. The Rules, the scope and types of cover, the levels of service, and the financial security of SMUAE are the same as those of SMUA.

For the 2020/21 policy year the Association entered into a reinsurance contract with SMUAE under which, in return for a percentage of written premium ceded to the Association, SMUAE is indemnified for 90% of its net underlying liabilities.

All Members of SMUA and SMUAE are automatically Members of the Association and thus beneficiaries of the Trust.

The Trust

The Association entered into 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 all its liabilities in respect of the 2015/16 and subsequent policy years. The Chairman of the Association is a Director of the Corporate Trustee which administers the Trust.

The Members of the Association are beneficiaries of the Trust.

Report of the Directors

Claims
During the year the Association reviewed with SMUA the development of claims and the terms of its inward reinsurance contract. The Association is satisfied that SMUA is taking appropriate steps to ensure that a prudent underwriting policy is maintained.

Investments
The total amount of cash and investments held by the Association, including land and buildings, increased by 24.7% to US$141.7 million.

Audit and Risk Committee ("Committee")
The Committee acts on behalf of the Board in considering the Association's financial statements, its external and internal audit activities and its risk management. In so doing the Committee liaises with the Managers and external auditor 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 three times a year and is currently comprised of the following Directors: Mr C J Madinabeitia (Chairman), Mr M W Bayley, Mr C Bouch, Mr A Pohan, Mr B B A McAllister, Mr R Zagari and Ms S Zagury. Mr S-M Edye is invited to attend the meeting in his capacity as Chairman of the Association and two representatives of the Managers, who are also Directors of the Association, namely Mr S J Martin and Mr C B Adams, are also invited to attend.

In discharging its responsibilities, the Committee receives financial and management reports from the Managers including reports from the internal and external auditors. 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 the following matters:

- Oversight of the establishment of a European entity;
- Oversight of a new internal auditor taking office;
- In-depth review of the risk register;
- Review of the Bermuda Economic Substance Act 2018 and its potential impact.

Directors' responsibilities statement
The Directors have prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through 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 United Kingdom accounting principles applicable to insurers.

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, subject to any material departures disclosed and explained in the financial statements; 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. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

S Martin
Director

2 June 2020

Consolidated Income and Expenditure Account

for the year ended 20 February 2020

Technical Account	Note	2020 US$000	2019 US$000
Earned premium, net of reinsurance			
Gross premium written		**181,556**	175,511
Outward reinsurance premium			
The Trust	2	**(148,434)**	(143,641)
Other reinsurers		**12**	(3,173)
Earned premium, net of reinsurance		**33,134**	28,697
Allocated investment return transferred from the non-technical account		**(9)**	(52)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	**166,926**	157,110
Reinsurers' share	3	**(156,591)**	(143,916)
Net claims paid		**10,335**	13,194
Change in the provision for claims			
Gross amount	4	**14,637**	56,807
Reinsurers' share	4	**200**	(50,955)
Change in the net provision for claims		**14,837**	5,852
Claims incurred, net of reinsurance		**25,172**	19,046
Net operating expenses	5	**1,646**	1,409
Balance on the technical account for general business		**6,307**	8,190
Non-Technical Account			
Balance on the general business technical account		**6,307**	8,190
Investment income	6	**2,028**	1,486
Unrealised gains on investments	7	**1,105**	442
Investment management expenses		**(109)**	(61)
Allocated investment return transferred to the technical account		**9**	52
Other income	8	**–**	–
Surplus for the financial year		**9,340**	10,109
Other comprehensive loss			
Decrease in surplus above cost on revaluation of property	10	**(122)**	(1,473)
Total comprehensive income		**9,218**	8,636

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

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

Consolidated Statement of Changes in Equity

for the year ended 20 February 2020

	Profit and loss account US$000	Revaluation reserve US$000	Total US$000
As at 20 February 2018	**111,537**	**4,472**	**116,009**
Surplus for the financial year	10,109	–	10,109
Other comprehensive loss	–	(1,473)	(1,473)
Capital distribution	(21,917)	–	(21,917)
As at 20 February 2019	**99,729**	**2,999**	**102,728**
Surplus for the financial year	9,340	–	9,340
Other comprehensive loss	–	(122)	(122)
Capital contribution and distribution	(46,324)	–	(46,324)
As at 20 February 2020	**62,745**	**2,877**	**65,622**

The accompanying notes to these accounts form an integral part of this statement of changes in equity.

Consolidated Balance Sheet

as at 20 February 2020

Assets	Note	2020 US$000	2019 US$000
Investments			
Land and buildings	10	**19,829**	19,951
Other financial investments	11	**119,185**	92,902
Reinsurers' share of technical provisions			
Claims outstanding	4	**373,352**	373,552
Debtors			
Debtors arising out of reinsurance operations	12	**33,102**	76,387
Other debtors		**2,653**	2,440
Other assets			
Cash at bank and in hand		**2,657**	766
Other prepayments and accrued income		**517**	294
Total assets		**551,295**	566,292
Liabilities			
Capital and reserves			
Free reserves		**62,745**	99,729
Revaluation reserve	10	**2,877**	2,999
Technical provisions			
Claims outstanding	4	**455,949**	441,312
Creditors			
Creditors arising out of reinsurance operations	13	**13,204**	–
Other creditors	14	**16,520**	22,252
Total liabilities		**551,295**	566,292

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 2 June 2020.

S Martin
Director

C Adams
Director

Managers:
Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20 February 2020

	2020 US$000	As restated 2019 US$000
Cash flows from operating activities		
Operating surplus before taxation after interest	**9,340**	10,109
Increase in general insurance technical provisions	**14,837**	5,852
Unrealised gains on investments	**(1,105)**	(442)
Decrease/(increase) in debtors	**42,849**	(35,730)
Decrease in creditors	**(8,852)**	(4,867)
	47,729	(35,187)
Cash inflow/(outflow) from operating activities	**57,069**	(25,078)
Capital contribution paid to SMUAE	**(30,000)**	–
Net cash inflow/(outflow) from operating activities	**27,069**	(25,078)
Cash flow from investment activities		
Net portfolio investment		
(Purchase)/sale of bonds and loans	**(37,128)**	4,977
Sale/(purchase) of money market instruments	**11,730**	(11,072)
Decrease in cash on short term deposit	**220**	29,654
Cash (used in)/generated by investing activities	**(25,178)**	23,559
Movement in opening and closing cash and cash equivalents		
Net cash inflow/(outflow) for the year	**1,891**	(1,519)
Cash and cash equivalents at 20 February 2019	**766**	2,285
Cash and cash equivalents at 20 February 2020	**2,657**	766

Notes on the Accounts

continued

1. Accounting policies

(a) Accounting convention

The consolidated accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91 /674/EEC) as adopted in the United Kingdom through 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.

The 2019 comparatives in the cash flow statement have been restated due to a classification and presentational error following the incorrect application of FRS 102 and the recognition of cash and cash equivalents. The restatement has corrected the presentation of operating and investment activities and replaced Portfolio Investments with just Cash and Cash Equivalents.

The adjustments to the Cash Flow Statement are presentational and the amount of cash reconciles to the cash in the Balance Sheet. No correction is needed at the beginning of the earliest prior period presented, as there has been no change to the free reserves following this change.

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) Basis of consolidation

The accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), its subsidiary undertaking Steamship Mutual Property Holdings Limited ("SMPH"), and its share of Hydra Insurance Company Limited ("Hydra") at 20 February 2020.

(c) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail as reserving risk under note 18.

(d) Calls and premiums written

Calls and premiums, less returns, comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial year. All premiums are shown gross of commission payable to intermediaries.

(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. 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 premiums and recoveries

Other reinsurance premiums are recognised on an accruals basis.

Notes on the Accounts

continued

1. Accounting policies continued

(g) Land and buildings

Land and buildings in the UK are independently valued every three years on an existing use basis and converted to US dollars at the balance sheet date. Any dollar losses or reversal of dollar losses arising upon revaluation are recognised in the income and expenditure account; any dollar surplus is recognised in other comprehensive income and credited to a revaluation reserve.

(h) Other financial investments

Quoted investments at their market value and cash at bank have been valued as at the close of business on 19 February 2020. Investment income consists of interest, dividends 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 assets.

(i) Debtors

Receivables arising from reinsurance operations are reviewed for impairment throughout the financial year and as at the balance sheet date.

(j) Foreign currencies

The functional currency is US dollars. All assets and liabilities, including land and buildings, are converted to US dollars at the exchange rate at the balance sheet date. Income and expenditure items are translated to US dollars at the exchange rate at the date of the transaction. All exchange differences are included in the income and expenditure account.

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

		2020	2019
Euro	€	**0.927**	0.807
UK sterling	£	**0.772**	0.715

(k) Allocation to policy years and classes

Premium, reinsurance premium payable, claims and reinsurance recoveries are allocated to the policy years and classes to which they relate. Administration expenses, investment income and exchange gains or losses are allocated to the current policy year in line with total premium income.

2. Reinsurance contracts

(a) From the commencement of the 2015/16 policy year the Association entered into a reinsurance contract with SMUA under which, in return for a percentage of written premium, SMUA is indemnified for 90% of its net underlying liabilities.

(b) Under a contract dated 27 January 2015, the Association reinsured with the Trust all of its liabilities for the 2015/16 and subsequent policy years.

Notes on the Accounts

continued

3. Claims paid – gross amount	**2020 US$000**	2019 US$000
Claims and related expenses	**166,130**	156,112
Claims administration expenses	**796**	998
	166,926	157,110
Less reinsurers' share		
Other reinsurers	**(3)**	103
The Trust	**156,594**	143,813
	156,591	143,916
Net claims paid	**10,335**	13,194

4. Change in net provision for claims	**2020 US$000**	2019 US$000
Gross outstanding claims		
Provision brought forward	**(441,312)**	(384,505)
Provision carried forward	**455,949**	441,312
	14,637	56,807
The Trust's share of outstanding claims		
Provision brought forward	**372,288**	315,905
Provision carried forward	**(372,814)**	(372,288)
	(526)	(56,383)
Other reinsurers' share of outstanding claims		
Provision brought forward	**1,264**	6,692
Provision carried forward	**(538)**	(1,264)
	726	5,428
Change in net provision for claims	**14,837**	5,852

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") 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.

Notes on the Accounts

continued

5. Net operating expenses	**2020 US$000**	2019 US$000
Acquisition costs		
Underwriting administration expenses	**21**	18
	21	18
Administrative expenses		
Other administration expenses	**1,161**	913
Directors' remuneration	**356**	364
Auditor's remuneration	**108**	114
	1,625	1,391
	1,646	1,409

Transactions with related parties

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, reimbursement of its local office and administration expenses. At 20 February 2020 the Association was owed US$33,707 by SMM(B) (2019: owed to SMM(B) US$0.3 million).

Since 21 February 2000 the Association has provided SMM(B) with an unsecured, indefinite, long term loan of US$2.0 million. This loan was increased to US$5.3 million during the year ending 20 February 2014, for which as at 20 February 2020 a provision of US$2.7 million (2019: US$2.6 million) has been made. There were no other related party transactions requiring disclosure under FRS 102 s33.

6. Investment income	**2020 US$000**	2019 US$000
Dividends and interest	**1,310**	1,526
Realised gains/(losses)		
Investments	**721**	–
Foreign exchange	**(3)**	(40)
	718	(40)
	2,028	1,486

Notes on the Accounts

continued

7. Unrealised gains/(losses) on investments	**2020 US$000**	2019 US$000
Investments	**1,111**	454
Foreign exchange	**(6)**	(12)
	1,105	442

8. Other income	**2020 US$000**	2019 US$000
Surplus on revaluation of property (see note 10)	**–**	–

9. Taxation

The Association has received an undertaking from the Bermuda government exempting it from tax on income, profit, capital or capital gains until 31 March 2035, should it be enacted. Accordingly, no provision for such taxes has been recorded by the Association.

10. Land and buildings

The freehold property consists of office premises in London. It is occupied under licence, free of rent, by the London representatives of the Managers. The property was last valued by CBRE Limited at £15.3 million (US$21.4 million) reflecting the market value at 20 February 2018. The other comprehensive loss shown in the consolidated statement of changes in equity reflects the movement in the US dollar equivalent of £15.3 million (US$19.8 million) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US$17.0 million. The surplus of US$2.9 million has been credited to the revaluation reserve.

Notes on the Accounts

continued

11. Other financial investments

	2020 US$000	2019 US$000
Market value		
Bonds and loans	**93,508**	55,269
Equities	**120**	126
Money market instruments	**25,386**	37,116
Cash accounts	**171**	391
	119,185	92,902
Cost		
Bonds and loans	**92,383**	55,255
Equities	**485**	485
Money market instruments	**25,386**	37,116
Cash accounts	**171**	391
	118,425	93,247

Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 The unadjusted quoted price for an identical asset in an active market at the reporting date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Market data is unavailable for the asset.

The Association's investment assets have been fair valued using the above hierarchy categories as follows:

As at 20 February 2020

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	93,508	–	–	93,508
Equities	–	–	120	120
Money market instruments	25,386	–	–	25,386
Cash accounts	171	–	–	171
	119,065	–	120	119,185

Notes on the Accounts

continued

11. Other financial investments continued

As at 20 February 2019

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	55,269	–	–	55,269
Equities	–	–	126	126
Money market instruments	37,116	–	–	37,116
Cash accounts	391	–	–	391
	92,776	–	126	92,902

12. Debtors arising out of reinsurance operations

	2020 US$000	2019 US$000
The Trust	**33,102**	66,879
SMUA	**–**	9,508
	33,102	76,387

13. Creditors arising out of reinsurance operations

	2020 US$000	2019 US$000
SMUA	**13,204**	–

14. Other creditors

	2020 US$000	2019 US$000
Capital distribution payable to Members	**16,324**	21,917
Accruals and other payables	**196**	335
	16,520	22,252

15. Wholly-owned subsidiary companies

SMPH is a wholly-owned subsidiary of the Association.

16. Hydra Insurance Company Limited (“Hydra”)

Hydra is a reinsurance captive created by the members of the International Group. Each member has its own cell which is legally separate from the liabilities of the other cells. Under the provisions of FRS 102 and 103 Steamship’s cell has been classified as a quasi-subsidiary and has been consolidated.

Notes on the Accounts

continued

17. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirement of the Bermuda Monetary Authority (BMA). Capital resources for regulatory purposes consist of free reserves on a regulatory economic basis. The BMA categorised the Association as a Class 3A insurer effective from 1 January 2016 and the Association was in compliance with the applicable regulatory capital requirements throughout the financial year.

18. 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.

The Group Solvency Self-Assessment (“GSSA”) documents Steamship’s and the Association’s risk and capital management policies employed to identify, assess, manage and report the risks it may face and to determine the funds necessary 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 received from SMUA in the current policy year is insufficient to cover claims and other costs arising in that year. The Association’s premium risk is calculated on net premiums written and is purely in relation to its exposure to Hydra claims as it bears no net liability on SMUA claims, as described under note 3 on the accounts.

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 under its net claims exposure through Hydra. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

The key methods used by the Managers for the ceded claims to the Association and the Hydra claims 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 having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

The Board 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 potential settlement costs. Actual experience will differ from the expected outcome but this prudent basis is expected to result in there being releases of prior year claim reserves.

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

		2020 US$000	2019 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(9,601)**	(10,242)
	net of reinsurance	**(1,067)**	(553)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(29,839)**	(31,539)
	net of reinsurance	**(17,710)**	(17,583)

Notes on the Accounts

continued

18. Risk management continued

Insurance risk continued

The following tables show the development of claims over nine 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 develop over time. The lower half of each table reconciles the 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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	475,728	420,741	322,326	59,072	211,207	181,109	227,965	231,523	215,790
One year later	754,806	345,219	114,298	54,804	199,620	172,409	212,674	214,952	
Two years later	940,327	205,177	113,487	54,419	203,148	178,014	200,221		
Three years later	802,274	203,896	113,705	54,286	200,372	179,347			
Four years later	802,745	203,197	115,611	53,110	197,453				
Five years later	803,434	201,219	113,429	52,348					
Six years later	803,037	200,978	112,973						
Seven years later	802,872	199,349							
Eight years later	802,824								
Current estimate of ultimate claims	802,824	199,349	112,973	52,348	197,453	179,347	200,221	214,952	215,790
Cumulative payments to date	802,549	200,805	108,648	50,833	170,493	135,210	133,787	78,020	39,263
Claims outstanding	275	(1,456)	4,325	1,515	26,960	44,137	66,434	136,932	176,527
Claims outstanding relating to last nine reporting years									455,649
Other claims liabilities									300
Total gross claims outstanding									455,949

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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	42,466	49,814	54,802	36,326	19,892	15,344	29,562	33,874	33,517
One year later	34,048	41,376	41,687	32,058	25,881	7,891	24,475	32,805	
Two years later	31,537	36,170	40,876	31,673	25,630	4,385	22,283		
Three years later	29,769	34,889	41,094	31,540	24,105	3,501			
Four years later	30,394	34,190	43,000	30,364	22,793				
Five years later	30,394	32,212	40,818	29,602					
Six years later	29,997	31,971	40,362						
Seven years later	29,832	30,342							
Eight years later	29,791								
Current estimate of ultimate claims	29,791	30,342	40,362	29,602	22,793	3,501	22,283	32,805	33,517
Cumulative payments to date	29,753	31,798	36,037	28,087	18,773	1,633	10,200	5,323	795
Claims outstanding	38	(1,456)	4,325	1,515	4,020	1,868	12,083	27,482	32,722
Claims outstanding relating to last nine reporting years									82,597
Other claims liabilities									–
Total net claims outstanding									82,597

Notes on the Accounts

continued

18. Risk management continued

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

Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default and the debt has 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 contract with The Trust is mitigated through the operation of a collateral agreement. External reinsurers are generally only used if their financial strength rating is higher or equal to an A- rating from Standard & Poor's or an equivalent from another rating agency.

Credit risk arises on operational balances and deposits held with banks. This is controlled by using a variety of banks aiming to limit individual exposures to US$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and U$10 million for banks rated A by S&P, or an equivalent rating from another agency.

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

As at 20 February 2020	AAA US$000	AA US$000	A US$000	NR US$000	Total US$000
Bonds and loans	–	93,508	–	–	93,508
Money market instruments	25,386	–	–	–	25,386
Cash accounts	–	171	–	–	171
Cash at bank and in hand	–	2,553	104	–	2,657
Reinsurers' share of technical provisions	–	538	372,814	–	373,352
Debtors arising out of reinsurance operations	–	–	33,102	–	33,102
Accrued interest	–	346	–	–	346
Total assets with credit ratings	25,386	97,116	406,020	–	528,522
Other assets	–	–	–	22,773	22,773
Total assets	25,386	97,116	406,020	22,773	551,295

Notes on the Accounts

continued

18. Risk management continued

Credit risk continued

As at 20 February 2019

	AAA US$000	AA US$000	A US$000	NR US$000	Total US$000
Bonds and loans	1,440	52,959	870	–	55,269
Money market instruments	8,128	28,988	–	–	37,116
Cash accounts	–	391	–	–	391
Cash at bank and in hand	–	373	393	–	766
Reinsurers' share of technical provisions	–	238	373,314	–	373,552
Debtors arising out of reinsurance operations	–	–	76,387	–	76,387
Accrued interest	–	149	–	–	149
Total assets with credit ratings	9,568	83,098	450,964	–	543,630
Other assets	–	–	–	22,662	22,662
Total assets	9,568	83,098	450,964	22,662	566,292

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

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 majority of the Association’s investments are in short term cash deposits, money market instruments and US government bonds and therefore has limited exposure to interest rate risk.

The Association is exposed to currency risk in its freehold property in the UK (see note 10) otherwise its exposure is minimal since any currency exposure in claims from SMUA is passed on to the Trust.

Notes on the Accounts

continued

18. Risk management continued

Market risk continued

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

As at 20 February 2020

	US dollar US$000	UK sterling US$000	Euro US$000	Other US$000	Total US$000
Assets	486,261	36,065	23,209	5,760	551,295
Liabilities	(440,556)	(16,064)	(23,227)	(5,826)	(485,673)
	45,705	20,001	(18)	(66)	65,622

As at 20 February 2019

	US dollar US$000	UK sterling US$000	Euro US$000	Other US$000	Total US$000
Assets	499,977	40,388	17,913	8,014	566,292
Liabilities	(417,058)	(20,180)	(17,938)	(8,388)	(463,564)
	82,919	20,208	(25)	(374)	102,728

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

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.

19. Post balance sheet events

The financial year end coincided with the rapid escalation of the COVID-19 outbreak, which at the balance sheet date was affecting some operating locations more than others. All industries and parts of society have now been affected. This has introduced uncertainty and volatility across all aspects of the business. The financial strength and operational resilience of the Association are there for such events. Reinsurance and other counterparty security is being more closely monitored, with no significant risks currently emerging.

Independent Auditor's Report

To the directors of The Steamship Mutual Underwriting Association (Bermuda) Limited

Report on the audit of the non-statutory financial statements

Opinion

In our opinion the non-statutory financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 20th February 2020 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Report Standard 103 "Insurance Contracts".

We have audited the non-statutory financial statements of the company which comprise:

- the consolidated income and expenditure account;
- the consolidated statement of changes in equity;
- the consolidated balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the non-statutory financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the non-statutory financial statements is not appropriate; or
- the directors have not disclosed in the non-statutory financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's Report

continued

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

In preparing the non-statutory financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

The engagement partner on the audit resulting in this independent auditor's report is Adam Addis.

Deloitte LLP
London, United Kingdom
2 June 2020

Steamship Mutual Underwriting Association (Europe) Limited

Report and Financial Statements

For the Period From 04 September 2019 (Date of Registration) to 20 February 2020

Notice of Meeting

Notice is hereby given that the First Annual General Meeting of the Members of the Company will be held at the St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 20 October 2020 at 09:15 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 2020, 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 81.8 of the Articles of Association are Mr C. Klerides and Mr R. Ahlquist. Being eligible, they offer themselves 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

Cyproman Services Limited
Secretary

2 June 2020

Directors and Officers

Board of Directors

C Sommerhage (Chairman)	Columbia Shipmanagement (Deutschland) GmbH	(Appointed on 04/09/2019)
C Bouch		(Appointed on 04/09/2019)
R W Harris	Steamship P&I Management LLP	(Appointed on 04/09/2019)
C J Mandinabeitia	Tradewind Tankers SL	(Appointed on 04/09/2019)
G W F Rynsard	Steamship P&I Management LLP	(Appointed on 04/09/2019, resigned on 20/02/2020)
C Klerides		(Appointed on 16/01/2020)
R Ahlquist	Tufton Oceanic	(Appointed on 10/03/2020)

Secretary

Cyproman Services Limited (Appointed on 04/09/2019)

Managers

Steamship P&I Management LLP

Independent Auditors

Deloitte Limited

Registered Office

Esperidon 5,
Floor 4,
Strovolos, 2001
Nicosia, Cyprus

Website: www.steamshipmutual.com

Management Report

The Board of Directors of Steamship Mutual Underwriting Association (Europe) Limited ("Association"), submits to the Members of the Association their Management Report together with the audited financial statements for the period ended 20 February 2020.

Principal Activities

The Association is a company limited by guarantee incorporated in Cyprus. The principal activity of the Association is the insurance and reinsurance of Protection and Indemnity ("P&I"), and of Freight, Demurrage and Defence ("FD&D") risks on behalf of Members.

The Association is a member of the International Group of Protection and Indemnity Associations ("Group") and is reinsured by the Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB") for the 2020/21 policy year.

Strategic review

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintains an A (stable) rating from Standard & Poor's. It returned the equivalent of 7.5% of mutual premium to its current Members, the fourth year in a row. For the first time in six years, a general increase was applied to the 2020/21 policy year to support long term underwriting balance.

In response to Brexit, the Association was established in Cyprus to enable Steamship to operate in the EU. The Association benefits from Steamship's A (stable) rating from Standard & Poor's.

Steamship's central purpose is to be the best provider of the full range of marine Protection and Indemnity and related insurances, on the mutual principle, delivering both first class service and security at a reasonable cost. Steamship aims to distinguish itself from its competitors by embodying the following principles:

- Advocacy of the principle of mutuality and the benefits of this for shipowners in a range of their insurance needs;
- A belief in the benefit of a diverse membership by geographical area and vessel type;
- A prudent approach to investment policy resulting in financial security and stability;
- Provision of technical expertise and a dedication to problem solving for the Members;
- Pre-eminence in loss prevention initiatives.

Review of development and performance of the Association

On 25 October 2019, the Association obtained an insurance license from the Insurance Companies Control Service for exercising insurance activities for classes 1,2,6,7,12,13 and 17.

The result for the period was a deficit of USD$11k representing the excess of management expenses over other gains and losses.

No insurance activities were performed in the period ended 20 February 2020.

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%. All Members of the Association are automatically Members of SMUAB and thus beneficiaries of The Steamship Mutual Trust.

Share Capital

The Association is limited by guarantee without share capital.

Risk and uncertainties

The main risks the Association is exposed to are described in note 16.

Profit allocation, loss absorption and creation of reserves

The Directors decided to transfer the deficit of the period to the free reserves of the Association.

Branches

The Association does not operate any branches.

Contracts with Directors and other related parties

Transactions with the Directors and their emoluments are disclosed in note 14. The agreements, transactions and balances with related parties are disclosed in note 14.

Management Report

Research and development
There were no research and development activities by the Association.

Events after the reporting period
The events after the reporting period are disclosed in note 18 of the financial statements.

Financial risk management and use of financial instruments
The main financial risks and uncertainties to which the Association is exposed are disclosed and analyzed in note 16.

Board of Directors
The members of the Board of Directors at the date of this report are presented on page 2. On 20th February 2020, Mr. G W F Rynsard retired and resigned from the Board of Directors. Mr. R Ahlquist was appointed on 10th March 2020.

Independent auditors
The independent auditors of the Association, Deloitte Ltd, expressed their interest to continue offer their services. A resolution which will authorize the Board of Directors to determine the independent auditor's emoluments will be filed at the Annual General Meeting.

With the instructions of the Board of Directors of
Steamship Mutual Underwriting Association (Europe) Limited.

Cyproman Services Limited
Secretary of the Association

Limassol, 2 June 2020

Independent Auditor's Report

To the Members of Steamship Mutual Underwriting Association (Europe) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Steamship Mutual Underwriting Association (Europe) Limited (the "Association"), which are presented in pages 9 to 35 and comprise the statement of financial position as at 20 February 2020, the income statement and statement of comprehensive income and the statements of changes in equity and cash flows for the period from 4 September 2019 to 20 February 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Association as at 20 February 2020, and of its financial performance and its cash flows for the period from 4 September 2019 to 20 February 2020 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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 remained independent of the Association throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report since the Association had not commenced underwriting activities until noon of the 20th February 2020.

Independent Auditor's Report

To the Members of Steamship Mutual Underwriting Association (Europe) Limited

Reporting on other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Financial Statements
The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors 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 financial statements, the Board of Directors 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 the Board of Directors either intends to liquidate the company 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 Financial Statements

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

Independent Auditor's Report

To the Members of Steamship Mutual Underwriting Association (Europe) Limited

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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 cast significant doubt on the Association'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 Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Association to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Independent Auditor's Report

To the Members of Steamship Mutual Underwriting Association (Europe) Limited

Report on Other Legal and Regulatory Requirements
Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement
We were first appointed as auditors of the Association on 14 October 2019 by the Board of Directors.

Consistency of the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Association, which we issued on 21st of May 2020 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Association and which have not been disclosed in the financial statements or the management report.

Other Legal Requirements
Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.

- In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other Matter
This report, including the opinion, has been prepared for and only for the Association's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Andreas Andreou.

Andreas Andreou
Certified Public Accountant and Registered Auditor
For and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors
24 Spyrou Kyprianou Avenue
CY 1075, Nicosia, Cyprus

2 June 2020

Income Statement and Statement of Comprehensive Income

For the period from 4 September 2019 (date of registration) to 20 February 2020

	Note	2020 US$000
Net operating expenses	4	**171**
Other gains and losses	5	**159**
Deficit before tax		**(12)**
Income tax income	6	**1**
Deficit for the period		**(11)**
Other comprehensive income		**-**
Total comprehensive loss for the period		**(11)**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Financial Position

As at 20 February 2020

Assets	Note	2020 US$000
Financial assets at fair value through profit or loss	8	**30,030**
Other financial assets at amortised cost	10	**165**
Cash at bank and in hand	11	**2,289**
Total assets		**32,484**
Liabilities		
Trade and other payables	12	**2,495**
Total liabilities		**2,495**
Net assets		**29,989**
Equity		
Other reserves	13	**30,000**
Free reserves - accumulated losses		**(11)**
Total Free Reserves		**29,989**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements. The financial statements were approved by the Board of Directors on 2 June 2020:

Christakis Klerides

Director

Roine Ahlqvist

Director

Statement of Changes in Equity

For the period from 04 September 2019 (date of registration) to 20 February 2020

	Capital contribution	Accumulated losses	Total - Free reserves
	US$000	US$000	US$000
Balance as at 4 September 2019	**-**	**-**	**-**
Transactions with Members			
Capital contribution (Note 13)	30,000	-	30,000
Total comprehensive loss for the period	-	(11)	(11)
Balance as at 20 February 2020	**30,000**	**(11)**	**29,989**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Cash Flows

For the period from 04 September 2019 (date of registration) to 20 February 2020

	2020 US$000
Cash flows from operating activities	
Deficit before taxation after interest	**(12)**
Adjustments for:	
Foreign exchange differences	**2**
Net gains from mutual funds	**(161)**
Operating cash flows before movements in working capital	**(171)**
Increase in other financial assets at amortised cost	**(165)**
Increase in trade and other payables	**2,495**
Cash generated by operating activities	**2,159**
Taxation paid	**-**
Net cash generated by operating activities	**2,159**
Cash flows from investing activities	
Redemptions (Note 8)	**131**
Net cash flows generated from investing activities	**131**
Net cash inflow for the period	**2,290**
Cash and cash equivalents as at 4 September 2019	**-**
Effect of foreign exchange rate changes	**(1)**
Cash and cash equivalents as at 20 February 2020 (Note 11)	**2,289**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

1. General

Steamship Mutual Underwriting Association (Europe) Limited ("Association") was registered in Cyprus on 4 September 2019 as a Company limited by guarantee pursuant the requirements of Cyprus Companies Law, Cap. 113. The registered office of the Association is at Esperidon 5, 4TH Floor, Strovolos, 2001, Nicosia, Cyprus.

The Association obtained an insurance licence from the Insurance Companies Control Service (the "ICCS") on 25 October 2019 and its principal activity is the insurance and reinsurance of Protection and Indemnity risks (P&I), and of Freight, Demurrage and Defence (FD&D) risks on behalf of its Members.

From noon of 20 February 2020, Members of Steamship Mutual Underwriting Association Limited ("SMUA"), whose place of management is within the EEA and certain other jurisdictions, could have their entries accepted by the Association. As the Association did not commence underwriting activities until noon 20th February 2020, no written premiums were recognised in the financial statements for the period.

2. Basis of preparation

(a) Declaration of conformity

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113 and the Insurance and Reinsurance Business and Other Related Matters Law of 2016.

(b) Basis of presentation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss ("FVTPL").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Association takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date.

(c) Going concern assumption

The Directors have made an assessment of the Association's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Directors believe that the Association is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. Based on the projections of the Association, it is expected that the Association will maintain compliance with the Solvency Capital and Minimum Capital requirements for the period of the going concern assessment.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

2. Basis of preparation (continued)

(d) Adoption of new and revised standards

At the date of approval of these financial statements, new standards, amendments to standards and interpretations were issued by the International Accounting Standards Board which were not effective for the period ended 20 February 2020. Some of them were adopted by the European Union and others not yet. With the exception of IFRS 17, the Board of Directors expects that the adoption of these accounting standards in future periods will have an insignificant effect on the financial statements of the Association.

(e) New standards, amendments and interpretations which are not effective for the current year and have been endorsed by the European Union.

Amendments to IAS 1 and IAS 8, regarding definition of "Material" (Effective for annual reporting periods beginning on or after 1 January 2020).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Earlier adoption is permitted.

Amendments to References to the Conceptual Framework in IFRS Standards. (Effective for annual reporting periods beginning on or after 1 January 2020).

Amendments to specific standards so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (Effective for annual reporting periods beginning on or after 1 January 2020)

In September 2019, the International Accounting Standards Board (Board) issued Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7. The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform. The amendments are to be applied retrospectively. Early application is permitted.

Amendments to IFRS 3 *Business Combinations* (Effective for annual reporting periods beginning on or after 1 January 2020).

The amendments provide guidance to help entities determine whether an acquisition made meets the definition of a business. The amended definition emphasizes that the output of a business is to provide goods and services to customers. The amendment also provides supplementary guidance. The amendments are effective for acquisitions that occur on or after 1 January 2020, however earlier application is permitted.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

2. Basis of preparation (continued)

(f) New standards and amendments, which are not effective for current year and have not yet been endorsed by the European Union.

IFRS *17 Insurance Contracts* (Effective for annual reporting periods beginning on or after 1 January 2023).

The Association management anticipates that the initial application of the IFRS 17 will result in changes to the accounting policies relating to insurance contracts. Additional disclosures will also be made with respect of insurance contracts, including any significant judgement and estimation made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the Association management has yet to complete its detailed assessment. The Association management do not plan to early adopt the new IFRS 17.

Amendments to IAS 1 regarding classification of Liabilities as Current or Non-Current (Effective for annual reporting periods beginning on or after 1 January 2022

The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the Statement of Financial Position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability;
- and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are to be applied retrospectively. Earlier application is permitted.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Association's accounting policies, which are described in note 19, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Classification and measurement of financial assets

Classification and measurement of financial assets depends on the assessment of the contractual terms of the financial assets and the business model test (please see financial assets sections of note 19).

More specifically the following assessments are relevant:

- whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding or not.

- the assessment of the business model which determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

4. Net operating expenses

	2020 US$000
Administrative expenses	
Administrative expenses charged by Steamship P&I Management LLP ("SPIM") (Note 14)	**92**
Lease expenses (1)	**14**
Office expenses	**19**
Auditor's remuneration for the statutory audit of accounts	**11**
Auditor's remuneration for other assurance services	**3**
Directors' fees (Note 14)	**6**
Stamp duties	**24**
Bank charges	**2**
	171

(1) The lease qualifies as a short-term lease as the duration of the lease term is from 1 November 2019 to 30 April 2020. The lease cost is recognised on a straight line in the profit or loss.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

5. Other gains and losses	2020 US$000
Net gains from mutual funds	161
Unrealised exchange losses	(2)
	159

6. Income tax expense

The tax credit represents:

	2020 US$000
Current	1

The total charge for the financial period can be reconciled to the deficit before tax as follows:

	2020 US$000
Deficit before tax	(12)
Tax at 12.5%	1
Effect of income not subject to income tax	-
Effect of expenses that are not deductible for corporation tax purposes	-
Current tax charge for period	1

The profits of the Association are subject to a corporation tax of 12.5%.

Based on the relevant tax legislation, tax losses are eligible to offset against future profits of the next five years.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

7. Investments in financial assets

The Association holds the following financial instruments:

	2020
Financial assets	**US$000**
Financial assets at fair value through profit or loss (Note 8)	**30,030**
Financial assets at amortised cost:	
Other financial assets at amortised cost (Note 10)	**165**
Cash at bank and in hand (Note 11)	**2,289**
	32,484
Financial liabilities	
Financial liabilities at amortised cost	
Trade and other payables (Note 12)	**2,495**
	2,495

The Association's exposure to various risks associated with the financial instruments is discussed in Note 16. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of the financial assets mentioned above.

8. Financial assets at fair value through profit or loss

	Current 2020 US$000	Non-Current 2020 US$000
Financial assets measured at FVTPL		
Money Market Funds	**30,030**	**-**
	30,030	**-**

	2020 $000
Balance at 04/09/2019	**-**
Capitalisation (see note 13)	**30,000**
Fair value revaluation	**23**
Additions from reinvestments	**138**
Redemptions	**(131)**
Balance as at 20/02/2020	**30,030**

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

8. Financial assets at fair value through profit or loss (continued)

Money Market Funds are measured at fair value, hence, there is no need for recognising impairment losses as these are already reflected in the fair value.

The valuation methodology for these investments is disclosed in (Note 9).

9. Fair value measurement

The Association uses the following hierarchy to determine and disclose the fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Carrying amount
	Financial assets
	2020
	US$000
Financial assets at FVTPL (Note 8)	30,030
	30,030

The carrying amount of all financial assets measured at amortised cost approximates to their fair value.

Fair value of the Association's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Association's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship and sensitivity of unobservable inputs to fair value**
Money Market Funds (Note 8)	Quoted bid prices in an active market – Level 1	N/A	N/A

There were no transfers between Level 1 and 2 during the current period.

There were no transfers into or out of the Level 3 category, hence no reconciliation of Level 3 fair value measurements of financial instruments is presented.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

10. Other financial assets at amortised cost

	20/02/2020 US$000		
	Current	Non-Current	Total
Other receivables	165	-	165
	165	-	165

11. Cash at bank and in hand

	2020 US$000
Current accounts with banks	2,289
	2,289

The bank balances are repayable on demand and carry variable interest rate.

12. Trade and other payables

	2020 US$000
Prepaid insurance premium	2,390
Accruals	38
Amounts payable to related parties (Note 14)	67
	2,495

The Board of Directors consider that the carrying amount of trade and other payables approximates to their fair value.

13. Reserves – Capital contribution

	2020 US$000
Balance as at 4 September 2019	-
Capital contribution (1)	30,000
Balance as at 20 February 2020	30,000

(1) In September 2019, the Association entered a capitalisation agreement SMUAB. Pursuant the terms of this agreement, SMUAB transferred investments with a market value of $30,000k in the form of a capital contribution to the Association (Note 14).

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

14. Transactions and balances with related parties

Controlling Entity

The Association, is limited by guarantee, has no share capital and is controlled by the Members who are also the insureds. The only member of the Association as at 20 February 2020, was SMUAB. All new policyholders become member of the Association. Insurance transactions are deemed to be between related parties but these are the only transactions between the Association, and the Members. No insurance activities occurred during this reporting period.

Remuneration of Board members and other key executives

Non-Executive Directors	**2020 US$000**
Emoluments	*6*

Transactions with related parties

Related Party	**Nature of transaction**	**2020 US$000**
SPIM	Reimbursement of expenses	92

Balances with related parties

Related Party	**As at 2020 US$000**
SPIM	(59)
SMUAB	(4)
Non-Executive Directors	(4)

With effect from 18th September 2019, the Association entered into a management agreement with SPIM for the provision of management services to the Association. In exchange of the management services, SPIM will receive a fixed percentage of the Association's gross premium, and reimbursement of expenses.

In September 2019, the Association entered into a capitalisation agreement with SMUAB for an amount of US$30,000k (Note 13).

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

15. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirements of the Insurance Companies Control Service ("ICCS"), in accordance with Solvency II.

Regulatory capital resources ("Eligible Own Funds") for the Association consist of free reserves on a Solvency II basis and an allowance for the ability to levy additional premium on Members.

Solvency II Capital Adequacy:	**20 February 2020**
Minimum Capital Requirements ("MCR")	US$ 4,179k
Solvency Capital Requirements ("SCR")	US$ 16,716k
Ratio of Eligible Own Funds to MCR	587%
Ratio of Eligible Own Funds to SCR	197%

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 ICCS and Bermudian regulators.

The GSSA documents the Association's risk and capital management policies 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 a 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 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 by careful selection and implementation of underwriting strategy guidelines including the screening of new Members.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

16. Risk management (continued)

Insurance risk (continued)

The Association transfers a substantial portion of its insurance risk to its reinsurers through the provisions of its reinsurance arrangements with SMUAB 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 the reporting date. 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 period claim reserves.

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 contract with 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 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. 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. The Association limits individual exposures to US$15 million for banks rated AA by S&P, or an equivalent rating from another agency, US$10 million for banks rated A by S&P, or an equivalent rating from another agency and US$5 million for not rated banks.

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

The following table shows the aggregated credit risk exposure by rating.

As at 20 February 2020

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Cash at bank and in hand	-	-	-	-	2,289	2,289
Other financial assets at amortised cost		-	152	-	13	165
Total assets with credit ratings	-	-	152	-	2,302	2,454

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

16. Risk management (continued)

Credit risk (continued)

The Association's exposure to liquidity risk is minimal given that its assets are mainly held in money market instruments and cash at bank.

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's investments are in short term money market instruments and therefore it is not directly exposed to interest rate risk.

The carrying amount of the Association's foreign currency denominated monetary assets and liabilities are denominated as follows:

As at February 2020 at

	Euro US$000	Total US$000
Assets	68	68

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.

17 Comparative figures
These financial statements cover the period from 4 September 2019 (date of incorporation) to noon 20 February 2020. Accordingly, there are no comparative figures.

18 Events after the reporting period
Members of SMUA prior to 20 February 2020, whose place of management was within the EEA and certain other jurisdictions, have had their entries accepted by the Association with effect from noon on 20 February 2020.

In response to Brexit, and the anticipated abolishment of existing freedom of services passporting rights, to ensure ongoing service continuity in respect of EU liabilities, SMUA intends to transfer its EEA liabilities to the Association under a Part VII of the Financial Services and Markets Act 2000 of the United Kingdom. It is intended that the transfer of relevant assets and liabilities will be completed by 31 December 2020 based upon the latest transitional period.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

18 Events after the reporting period (continued)

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected, as have Members. This has introduced uncertainty and volatility across all aspects of the business. The financial strength and operational resilience of the Association are there for such events. The slowdown in global trade is inevitably having an impact on Members, some more than others, with several vessels going into lay-up. The Board does not consider that this will lead to a material impact on the prospective operating performance of the Association because the likelihood, as with prior global economic recessions, is that there will be a corresponding reduction in net incurred claims costs. The pandemic is also having an impact on expected claims, particularly in passenger vessels. Reinsurance and other counterparty security is being more closely monitored, with no significant risks currently emerging. The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 20 February 2020.

19. Principal accounting policies

Cash and cash equivalents in the statement of cash flows

Cash and cash equivalents in the statement of cash flows comprise demand deposits with an original maturity of three months or less and cash on hand that are subject to an insignificant risk of changes in value. The carrying amounts of these assets approximate their fair values.

Foreign currencies

The functional and presentation currency is US dollars. Assets and liabilities are converted at the exchange rate at the reporting date. Income and expenditure items are translated to US dollars at the exchange rate at the date of the transaction. All exchange differences are included in the income statement. The exchange rate on the reporting date and used for the purpose of preparing the accounts is as follows:

	2020
EUR/USD	**1.079**
GBP/USD	**1.295**

Financial instruments

Financial assets and financial liabilities are recognised in the Association's Statement of Financial Position when the Association becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(i) Amortised cost and effective interest method (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the ‘finance income’ line item.

(ii) Debt instruments classified as at FVTOCI

Such debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Specifically:

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Association has not designated any debt instruments as at FVTPL.

- Investments in equity instruments are classified as at FVTPL, unless the Association designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(iii) Financial assets at FVTPL (continued)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item`. Fair value is determined in the manner described in note 9.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost or at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item.

Impairment of financial assets

The Association recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI and trade and other receivables.

Expected credit losses are recognised and measured according to one of two approaches: general approach or simplified approach.

For trade receivables the Association applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The ECL on these financial assets are estimated using a provision matrix based on the Association's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial asset that are subject to impairment under IFRS 9, the Association applies the general approach - three stage model for impairment based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Association identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Association determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Association compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Association considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Association's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Association's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Association presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Association has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Association assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;

2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

The Association considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Association regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Association in accordance with the contract and all the cash flows that the Association expects to receive, discounted at the original effective interest rate.

If the Association has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Association measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Association recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

(iii) Write-off policy

The Association writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Association's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(vi) Definition of default

For amounts receivable from its members the Association considers that an event of default occurs only when the legal department believe there remain no legal avenue, or it is not cost effective, to pursue recovery of a debt.

For all other assets, the Association considers that default has occurred when a financial asset is more than 90 days past due unless the Association has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(v) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event (see (ii) above);

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Derecognition of financial assets

The Association derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Association are recognised at the proceeds received, net of direct issue costs.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Association derecognises financial liabilities when, and only when, the Association's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Events after the reporting date

Assets and liabilities are adjusted for material events after the reporting period until the date of approval of the financial statements by the Board of Directors if those events offer additional information for conditions which existed at the end of the year. Non-adjusting events, are material events after the reporting period which are indicative of conditions that arose after the end of the reporting period, are disclosed if of such importance that non-disclosure would affect the ability of the users to make proper evaluations and decisions.

Leases

The Association as lessee

The Association assesses whether a contract is or contains a lease, at inception of the contract. The Association recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones).

For these leases, the Association recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Association uses its incremental borrowing rate.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Leases (continued)

The Association as lessee (continued)

Lease payments included in the measurement of the lease liability comprise:

• Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

• Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

• The amount expected to be payable by the lessee under residual value guarantees;

• The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

• Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Association remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Association did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Association incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Association expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the Statement of Financial Position. The Association applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax. The tax expense or income is recognised in Profit or Loss except in the cases that relate to items that recognised directly in equity or other comprehensive Income.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Association's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Association expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Association intends to settle its current tax assets and liabilities on a net basis.

Notes to accounts

For the period from 04 September 2019 (date of registration) to 20 February 2020

19. Principal accounting policies (continued)

Insurance business

At the reporting date the Association is able and committed to offer cover for insurance policies with commencement date of the coverage period being immediately after the Statement of Financial Position date.

Premium written

Premium 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.

Unearned premium

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

Deferred acquisition costs

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

Claims and related expenses

Claims and related expenses are charged to the profit or loss statement 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 ("IBNR") 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. Further details of actuarial methodologies for claims incurred but not reported are described in note 17.

Reinsurance premium and recoveries

Payments made to and recoveries from other Associations under the International 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.

20. Deemed dividend distribution

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the period of the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special Contribution for Defence of 17% will be payable on such deemed dividends to the extent that the shareholders at the end of the period of the two years from the end of the year of assessment to which the profits refer are Cyprus tax residents and Cyprus domiciled. The amount of deemed dividend distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Association for the account of the shareholders.

The Steamship Mutual Trust

Annual Report and Accounts 2020

Contents

The Steamship Mutual Trust

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Report of the Corporate Trustee

Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited ("Corporate Trustee") has pleasure in presenting its Report and Audited Accounts of The Steamship Mutual Trust ("Trust") for the year ended 20 February 2020.

Principal activities

The Trust's principal activity during the year was the reinsurance of Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") risks. At the beginning of the financial year, the Corporate Trustee extended its current year reinsurance contract, entered into on behalf of the Trust, with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), to cover the period from 20 February 2019 to 20 February 2020. Total premium receivable by the Trust in respect of all its reinsurance contracts during the financial year amounted to US$146.9 million.

Accounts

Free reserves as at 20 February 2020 increased by US$55.3million to US$314.3million. Total investments of the Trust at the balance sheet date amounted to US$871.3 million, an increase of US$14.7 million on the previous year.

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected. This has introduced uncertainty and volatility across all aspects of the business. The Trustees and Managers have been focused on ensuring operational continuity in these unprecedented times. The financial strength and operational resilience of the Trust is there for such events.

Investment performance

All asset classes performed well during the year. Equity returns kept pace with global markets, and fixed income benefited from reducing US interest rates. The Trust recorded an investment gain of 6.9% (6.8% net of fees). This excludes a currency loss of US$2.5 million that has been allocated to the Technical Account.

Risk management and asset allocation

The investment strategy aims to deliver appropriate risk-adjusted returns within the risk appetite set.

The asset allocation within the investment portfolio has remained largely consistent throughout the year with the majority of assets invested in high quality diversified fixed income, and a conservative allocation to global equities and hedge funds. A new allocation to Private Debt was introduced through the year. Consideration is given to the amount of claims liabilities to ensure these are suitably matched with highly rated government and corporate bonds. These matching assets are also used to provide collateral for the reinsurance obligations of the Trust to Steamship Mutual Underwriting Association Limited ("SMUA").

The Corporate Trustee has continued to consult regularly with the Board of SMUAB, whose Members are the ultimate reinsured and beneficiaries of the Trust. The SMUAB Board receives regular updates on the utilisation of the agreed risk budget, investment performance and asset allocation.

Claims

During the year the Corporate Trustee reviewed with the ultimate reinsured the development of prior year claims and the terms of its inward reinsurance contract.

Report of the Corporate Trustee

continued

Trustee's responsibilities statement

The Corporate Trustee has prepared financial statements in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through 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 United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Corporate Trustee is 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in business.

The Corporate Trustee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust.
It is responsible for the system of internal control, for safeguarding the assets of the Trust and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

J G Conyers

Director

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

1 June 2020

Income and Expenditure Account

for the year ended 20 February 2020

Technical Account	Note	2020 US$000	2019 US$000
Earned premium, net of reinsurance			
Gross premium written	3	**146,908**	141,071
Allocated investment return transferred from the non-technical account		**(2,469)**	(3,936)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**178,374**	174,509
Change in the provision for claims			
Gross amount	4	**(29,396)**	5,677
Claims incurred, net of reinsurance		**148,978**	180,186
Net operating expenses	5	**85**	83
Balance on the technical account for general business		**(4,624)**	(43,134)

Non-Technical Account	Note	2020 US$000	2019 US$000
Balance on the technical account for general business		**(4,624)**	(43,134)
Investment income	6	**17,690**	17,843
Unrealised gains/(losses) on investments	7	**42,071**	(6,281)
Allocated investment return transferred to the technical account		**2,469**	3,936
Investment management expenses		**(2,267)**	(2,712)
Surplus/(deficit) for the financial year		**55,339**	(30,348)
Free reserves brought forward		**258,912**	289,260
Free reserves		**314,251**	258,912

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 2020

	Note	2020 US$000	2019 US$000
Assets			
Investments			
Other financial investments	8	**871,299**	856,610
Debtors			
Other debtors		**146**	108
Prepayments and accrued income			
Accrued interest		**4,370**	3,688
Total assets		**875,815**	860,406
Liabilities			
Capital and reserves			
Free reserves		**314,251**	258,912
Technical provisions			
Claims outstanding	4	**468,934**	498,330
Creditors			
Creditors arising out of reinsurance operations	9	**92,158**	102,630
Other creditors		**472**	534
Total liabilities		**875,815**	860,406

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Corporate Trustee on 1 June 2020.

The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited

Cash Flow Statement

for the year ended 20 February 2020

	2020 US$000	As restated 2019 US$000
Cash flows from operating activities		
Operating surplus/(deficit) before taxation after interest	**55,339**	(30,348)
(Decrease)/increase in general insurance technical provisions	**(29,396)**	5,677
Unrealised (gains)/losses on investments	**(42,071)**	6,281
(Increase)/decrease in debtors	**(720)**	816
(Decrease)/increase in creditors	**(10,534)**	14,614
	(82,721)	27,388
Net cash outflow from operating activities	**(27,382)**	(2,960)
Cash flows from investment activities		
Net portfolio investment		
Net (purchase)/sale of bonds and loans	**(51,723)**	83,599
Net (purchase)/sale of equities	**(253)**	18,241
Net purchase of alternative investments	**(9,475)**	(11,747)
Decrease/(increase) in money market instruments	**88,833**	(87,133)
Cash generated by investing activities	**27,382**	2,960
Movement in opening and closing cash and cash equivalents		
Net cash inflow for the period	**–**	–
Cash and cash equivalents at 20 February 2019	**–**	–
Cash and cash equivalents at 20 February 2020	**–**	–

Notes on the Accounts

1. Constitution

The Trust was created by a settlement under Bermudian law. The Corporate Trustee is The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited, a company incorporated under the laws of Bermuda and registered as an insurer under the Bermuda Insurance Act 1978, so enabling the Trust to undertake reinsurance business.

2. 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 through 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.

The 2019 comparatives in the cash flow statement have been restated due to a classification and presentational error following the incorrect application of FRS 102 and the recognition of cash and cash equivalents. The restatement has corrected the presentation of operating and investment activities and replaced Portfolio Investments with just Cash and Cash Equivalents.

The adjustments to the Cash Flow Statement are presentational and the amount of cash reconciles to the cash in the Balance Sheet. No correction is needed at the beginning of the earliest prior period presented, as there has been no change to the free reserves following this change.

After making enquiries, the Trustees have a reasonable expectation that the Trust 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) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail under note 13.

(c) Premium written

Premium comprises the total premium receivable for the whole period of cover provided by contracts incepting during the financial year.

(d) Claims and related expenses

Full provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. 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.

(e) Foreign currencies

The functional currency is US dollars. Assets and liabilities including investments and bank balances have been converted to US dollars at the exchange rate at the balance sheet date. Income and expenditure items including foreign exchange transactions are converted to US dollars at the exchange rate at the date of the transaction. All exchange differences are included in the income and expenditure account.

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

		2020	2019
Euro	€	**0.927**	0.807
UK sterling	£	**0.772**	0.715
Brazilian real	R$	**4.374**	3.233

Notes on the Accounts

continued

2. Accounting policies continued

(f) Other financial investments

Investments and cash balances have been valued at their market value as at the close of business on 19 February 2020. Investment income consists of interest, dividends and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the fair value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of all realised and unrealised exchange differences arising on foreign currency investments held to hedge technical provisions in the same currencies.

3. Reinsurance contracts

Under a contract dated 27 January 2015, the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUAB under which, in return for a percentage of written premium, SMUAB is indemnified for 100% of its net underlying liabilities for the 2015/16 and subsequent policy years.

At 20 February 2015 the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUA which covers 100% of SMUA's net retained liabilities up to and including the 2014/15 policy year.

4. Change in the net provision for claims

	2020 US$000	2019 US$000
Gross outstanding claims		
Provision brought forward	**(498,330)**	(492,653)
Provision carried forward	**468,934**	498,330
Change in the net provision for claims	**(29,396)**	5,677

A favourable movement in the prior year net claims provision of US$22.4 million was experienced during the year (2019: favourable US$8.2 million).

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of SMUA of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") at 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.

5. Net operating expenses

	2020 US$000	2019 US$000
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	**5**	5
Auditor's remuneration	**80**	78
	85	83

6. Investment income

	2020 US$000	2019 US$000
Dividends and interest	**23,500**	19,674
Realised (losses)/gains		
Investments	**(4,623)**	1,585
Exchange	**(1,187)**	(3,416)
	(5,810)	(1,831)
	17,690	17,843

Notes on the Accounts

continued

7. Unrealised gains/(losses) on investments

	2020 US$000	2019 US$000
Investments	**43,352**	(5,761)
Foreign exchange	**(1,281)**	(520)
	42,071	(6,281)

8. Other financial investments

	2020 US$000	2019 US$000
Fair value		
Equities	**87,054**	72,894
Alternative investments	**95,626**	80,292
Bonds and loans	**679,696**	604,932
Money market instruments	**4,539**	88,557
Cash accounts	**5,053**	9,868
Derivative financial instruments	**(669)**	67
	871,299	856,610
Cost		
Equities	**49,580**	49,327
Alternative investments	**82,292**	72,817
Bonds and loans	**669,379**	617,656
Money market instruments	**4,539**	88,557
Cash accounts	**5,053**	9,868
	810,843	838,225

Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 The unadjusted quoted price for an identical asset in an active market at the reporting date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Market data is unavailable for the asset.

The Trust's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

As at 20 February 2020

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities	87,054	–	–	87,054
Alternative investments	–	86,142	9,484	95,626
Bonds and loans	679,696	–	–	679,696
Money market instruments	4,539	–	–	4,539
Cash accounts	5,053	–	–	5,053
Derivative financial instruments	–	(669)	–	(669)
	776,342	85,473	9,484	871,299

Notes on the Accounts

continued

8. Other financial investments continued

As at 20 February 2019

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities	72,894	–	–	72,894
Alternative investments	–	80,292	–	80,292
Bonds and loans	604,932	–	–	604,932
Money market instruments	88,557	–	–	88,557
Cash accounts	9,868	–	–	9,868
Derivative financial instruments	–	67	–	67
	776,251	80,359	–	856,610

9. Creditors arising out of reinsurance operations

	2020 US$000	2019 US$000
SMUA	**59,056**	35,751
SMUAB	**33,102**	66,879
	92,158	102,630

10. Taxation

The Trust has received an undertaking from the Bermuda government exempting it from tax on income, profit, capital or capital gains until 31 March 2035, should it be enacted. Accordingly, no provision for such taxes has been recorded by the Trust.

11. Transactions with related parties

The Corporate Trustee receives a fee for investment management costs and related expenses. For the financial year to 20 February 2020 this fee amounted to US$2.3 million (2019: US$2.8 million) of which US$0.4 million (2019: US$0.5 million) was outstanding at the balance sheet date.

12. Capital management

The Trust aims to maintain capital resources at a level which provides a comfortable margin above the requirement of the Bermuda Monetary Authority (BMA). Capital resources for regulatory purposes consist of free reserves on a regulatory economic basis.

The BMA categorised the Corporate Trustee as a Class 3A insurer and the designated insurer of the Steamship group for regulatory purposes effective from 1 January 2016.

The Trust was in compliance with the applicable regulatory capital requirements throughout the financial year.

Notes on the Accounts

continued

13. Risk management

The Trust monitors and manages the risks relating to its operations through a risk management programme comprising a series of policies, risk tolerances and regular stress and scenario testing. The Corporate Trustee regularly consults with the Board of the reinsured on the performance and risks inherent in the insurance business and on the appropriate level of risk to be taken in the investment portfolio.

The principal risks faced by the Trust are insurance risk, market risk, credit 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 received from SMUA via SMUAB in the current policy year is insufficient to cover claims and other costs arising in that year. The Trust's premium risk is calculated on net premiums written and is in relation to its exposure to SMUA and SMUAB claims, as described under note 3 on the accounts.

Reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. The Trust is exposed to the uncertainty surrounding the timing, frequency and severity of claims under the reinsurance contract with SMUAB, and those held in relation to the 2014/15 policy year and prior with SMUA. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA which are then combined taking account of diversification effects.

The Trust ultimately relies on SMUA which projects claims liabilities using the Bornhuetter-Ferguson method 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 having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee of SMUA compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

SMUA 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 there being releases of prior year claim reserves in most years.

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

	2020 US$000	2019 US$000
5% increase in claims incurred on current policy year		
Effect on Trust free reserves	**(8,632)**	(9,689)
Single claim in SMUA of US$2 billion in current policy year		
Effect on Trust free reserves	**(12,130)**	(13,956)

Notes on the Accounts

continued

13. Risk management continued

Insurance risk continued

The following tables show the development of claims over nine 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 develop over time. The lower half of each table reconciles the 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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	227,979	224,996	198,320	172,086	191,315	165,765	194,128	197,649	182,273
One year later	230,003	211,455	172,634	151,737	173,739	164,518	188,199	182,148	
Two years later	213,473	208,812	166,309	153,976	176,902	173,629	177,939		
Three years later	211,876	200,590	164,844	149,281	176,267	175,845			
Four years later	206,522	192,482	157,984	145,871	174,660				
Five years later	202,079	192,499	155,166	144,181					
Six years later	200,031	187,437	156,089						
Seven years later	198,017	184,552							
Eight years later	196,868								
Current estimate of ultimate claims	196,868	184,552	156,089	144,181	174,660	175,845	177,939	182,148	182,273
Cumulative payments to date	193,569	179,017	142,063	130,807	151,720	133,577	123,588	72,698	38,467
Claims outstanding	3,299	5,535	14,026	13,374	22,940	42,268	54,351	109,450	143,806
Claims outstanding relating to last nine reporting years									409,049
Other claims liabilities									59,885
Total gross claims outstanding									468,934

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	2017/18 US$000	2018/19 US$000	2019/20 US$000
End of reporting year	212,081	221,771	198,320	172,086	191,315	165,765	194,128	197,649	182,273
One year later	209,673	203,542	172,634	151,737	173,739	164,518	188,199	182,148	
Two years later	202,063	208,812	166,309	153,976	176,902	173,629	177,939		
Three years later	205,769	200,590	164,844	149,281	176,267	175,845			
Four years later	200,415	192,482	157,984	145,871	174,660				
Five years later	195,971	192,499	155,166	144,181					
Six years later	193,923	187,437	156,089						
Seven years later	191,909	184,552							
Eight years later	190,760								
Current estimate of ultimate claims	190,760	184,552	156,089	144,181	174,660	175,845	177,939	182,148	182,273
Cumulative payments to date	187,461	179,017	142,063	130,807	151,720	133,577	123,588	72,698	38,467
Claims outstanding	3,299	5,535	14,026	13,374	22,940	42,268	54,351	109,450	143,806
Claims outstanding relating to last nine reporting years									409,049
Other claims liabilities									59,885
Total net claims outstanding									468,934

Notes on the Accounts

continued

13. Risk management continued

The Trust has elected to disclose only nine 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.

Credit risk

Credit risk is the risk that a counterparty owing money to The Trust may default causing a debt to be written off. The key area of exposure to credit risk for The Trust is in relation to its investment portfolio. The Board's Investment Policy and specific guidelines in investment mandates control the amount of credit risk taken in pursuit of investment return and ensure that such credit risk is diversified thereby reducing any concentration of exposure.

Credit risk also arises on deposits held with banks. This is controlled by using a variety of banks and aiming to limit individual exposures to US$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and no more than U$10 million for banks rated A by S&P, or an equivalent rating from another agency.

Equities and alternative investments have been included within Other assets with no credit rating.

The following table shows the aggregated credit risk exposure for those assets with external credit ratings.

As at 20 February 2020

	AAA US$000	AA US$000	A US$000	BBB US$000	BB and below US$000	Not rated US$000	Total US$000
Bonds and loans	109,442	124,937	265,260	164,991	15,066	–	679,696
Money market instruments	4,539	–	–	–	–	–	4,539
Cash accounts	–	–	5,053	–	–	–	5,053
Derivative financial instruments	–	–	(669)	–	–	–	(669)
Accrued interest	233	594	1,976	1,394	173	–	4,370
Unsettled investment transactions	–	–	146	–	–	–	146
Total assets with credit ratings	114,214	125,531	271,766	166,385	15,239	–	693,135
Other assets	–	–	–	–	–	182,680	182,680
Total assets	114,214	125,531	271,766	166,385	15,239	182,680	875,815

Notes on the Accounts

continued

13. Risk management continued

Credit risk continued

As at 20 February 2019

	AAA US$000	AA US$000	A US$000	BBB US$000	BB and below US$000	Not rated US$000	Total US$000
Bonds and loans	10,318	257,938	188,477	137,266	10,933	–	604,932
Money market instruments	88,557	–	–	–	–	–	88,557
Cash accounts	2,292	–	7,576	–	–	–	9,868
Derivative financial instruments	–	–	67	–	–	–	67
Accrued interest	216	382	1,739	1,255	96	–	3,688
Unsettled investment transactions	–	–	108	–	–	–	108
Total assets with credit ratings	101,383	258,320	197,967	138,521	11,029	–	707,220
Other assets	–	–	–	–	–	153,186	153,186
Total assets	101,383	258,320	200,533	138,430	8,554	153,186	860,406

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates, foreign exchange rates and other price changes.

The Trust's exposure to changes in interest rates and market prices is concentrated in the investment portfolio. The risk appetite, asset allocation and tolerance ranges are set by the Board of the Corporate Trustee having consulted with the Boards of the reinsured. Compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

The Trust is exposed to currency risk in relation to claim liabilities in a number of non-US dollar currencies, predominantly UK sterling, euro and Brazilian real. This exposure is managed by holding investments and derivative positions in each of these currencies.

The following tables show the Trust's assets and liabilities by currency. The exposure to euro and Brazilian real through derivative positions was US$4.9 million and US$6.8 million respectively at 20 February 2020 (US$nil and US$12.1 million respectively at 20 February 2019).

As at 20 February 2020

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	837,748	12,686	25,381	–	–	875,815
Liabilities	(489,805)	(19,941)	(31,956)	(7,083)	(12,779)	(561,564)
	347,943	(7,255)	(6,575)	(7,083)	(12,779)	314,251
Of which held in derivatives			4,865	6,849		

Notes on the Accounts

continued

13. Risk management continued

Market risk continued

As at 20 February 2019

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	860,406	–	–	–	–	860,406
Liabilities	(523,119)	(25,661)	(27,949)	(9,395)	(15,370)	(601,494)
	337,287	(25,661)	(27,949)	(9,395)	(15,370)	258,912
Of which held in derivatives				12,094		

IBNR is classified as US dollar.

The Trust's interest rate risk is in relation to the fluctuation in the fair value of future cash flows of bonds due to changes in interest rates and spreads. The table below shows the change in fair value of the investments assuming a 200 basis points increase in spreads and/or increase in interest rates:

	Effect on investment valuation US$000
As at 20 February 2020	(44,819)
As at 20 February 2019	(26,290)

The Trust's equity price risk is in relation to the fluctuation in the fair value of equities due to changes in market conditions. The table below shows the change in fair value of the investments assuming a 35% decrease in equities:

	Effect on investment valuation US$000
As at 20 February 2020	(30,469)
As at 20 February 2019	(25,513)

The table below shows the change in fair value of the investments assuming a 15% decrease in alternative investment pricing:

	Effect on investment valuation US$000
As at 20 February 2020	(14,344)
As at 20 February 2019	(12,044)

The above sensitivities assume that all other key market variables are held constant and that the percentage rate change is instantaneous, which is rarely the case.

Notes on the Accounts

continued

13. Risk management continued

Liquidity risk

Liquidity risk is the risk that the Trust cannot meet its financial obligations as they fall due. The Trust maintains a high quality portfolio of cash, government and corporate bonds with an average maturity equivalent to the expected settlement period of claim liabilities, albeit with some differences on some years. The Trust therefore has sufficient access to funds to cover reinsurance claims from SMUAB and SMUA. In the absence of a material market event, investment grade assets and equities can be converted into cash in less than one month.

The following table shows the expected maturity of the Trust's assets, based on the undiscounted contractual maturities of the assets, except where the Corporate Trustee anticipates that the cash flow will occur in a different period.

As at 20 February 2020

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	282,517	73,210	261,096	254,476	871,299
Other assets	4,516	–	–	–	4,516
Total assets	287,033	73,210	261,096	254,476	875,815

As at 20 February 2019

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	502,423	92,313	125,210	136,664	856,610
Other assets	3,796	–	–	–	3,796
Total assets	506,219	92,313	125,210	136,664	860,406

The following table shows the expected maturity profile of the Trust's undiscounted obligations with respect to its reinsurance contract liabilities and other liabilities.

As at 20 February 2020

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	169,887	97,572	133,643	67,832	468,934
Creditors arising out of reinsurance operations	92,158	–	–	–	92,158
Other liabilities	472	–	–	–	472
Total liabilities	262,517	97,572	133,643	67,832	561,564

As at 20 February 2019

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	176,875	108,102	138,269	75,084	498,330
Creditors arising out of reinsurance operations	102,630	–	–	–	102,630
Other liabilities	532	–	–	–	532
Total liabilities	280,039	108,102	138,269	75,084	601,494

Notes on the Accounts

continued

13. Risk management continued

Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. The Corporate Trustee 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.

14. Post balance sheet events

The financial year end coincided with the rapid escalation of the COVID-19 outbreak, which at the balance sheet date was affecting some operating locations more than others. All industries and parts of society have now been affected. This has introduced uncertainty and volatility across all aspects of the business. The resulting downturn in financial markets has had an adverse impact on the investment portfolio of the Trust. The conservative investment strategy exercised by the Trustees has kept these losses to an acceptable level, and within risk appetite; these losses have moderated significantly since the end of March, but uncertainty still remains.

Independent Auditor's Report

To the Corporate Trustee of The Steamship Mutual Trust

Report on the audit of the non-statutory financial statements

Opinion

In our opinion the non-statutory financial statements of The Steamship Mutual Trust (the 'company'):

- give a true and fair view of the state of the company's affairs as at 20th February 2020 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

We have audited the non-statutory financial statements of the company which comprise:

- the income and expenditure account;
- the balance sheet;
- the cash flow statement; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the non-statutory financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the non-statutory financial statements is not appropriate; or
- the directors have not disclosed in the non-statutory financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the audited accounts, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent Auditor's Report

continued

Responsibilities of directors

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

In preparing the non-statutory financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the non-statutory financial statements

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

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Use of our report

This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

The engagement partner on the audit resulting in this independent auditor's report is Adam Addis.

Deloitte LLP
London, United Kingdom
1 June 2020