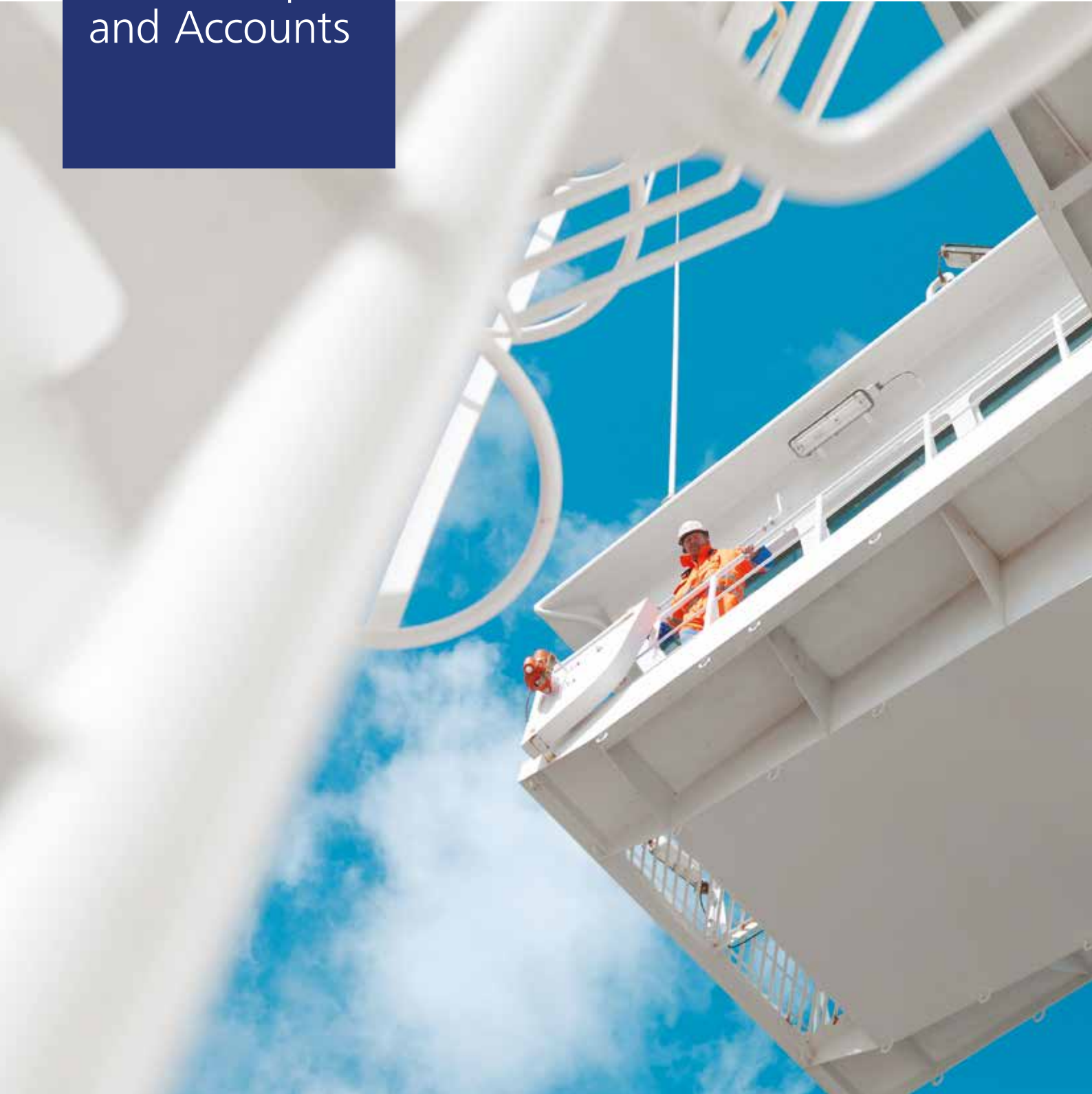


2016

Annual Report
and Accounts



Contents

02	Notice of Meeting
03	Directors
04	Strategic Report
08	Report of the Directors
10	Appendix I – Policy Year Statement – All Classes
12	Appendix II – Policy Year Statement – P&I Class
14	Income and Expenditure Account
15	Balance Sheet
16	Cash Flow Statement
17	Notes on the Accounts
29	Report of the Independent Auditor

Steamship Mutual Underwriting Association Limited

Managers

Steamship P&I Management LLP

Aquatical House

39 Bell Lane

London E1 7LU

Telephone: +44 (0)20 7247 5490 & +44 (0)20 7895 8490

www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the One Hundred and Seventh Annual General Meeting of the Members of the Company will be held at the Fairmont Olympic Hotel, Seattle, United States, on Tuesday, 25 October 2016 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 2016, 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 C J Madinabeitia and Mr S J Martin. Being eligible, they offer themselves for re-election.
- 3 To authorise the Managers to fix the remuneration of the Auditors. A Resolution proposing the appointment of Auditors to the Company will be put to the Meeting.
- 4 To transact any other ordinary business of the Company.
- 5 To pass the following resolution as a Special Resolution: that the proposed amendments to the Articles of Association, as set out in the table below, and as summarised and explained in the commentary, be adopted and the Articles of Association be amended accordingly. In the table below, the proposed new wording is underlined. Explanatory notes in italics have been provided for the proposed changes.

11	Appointment, Rotation and Removal of Directors	Explanatory Note
11.11 proviso 2)	<p>Notwithstanding the provisions of 1) above, where a Director of the Company holds that office by virtue of the application of the criteria in (B) above and:</p> <ol style="list-style-type: none">i. the Owner ceases to have any vessels entered in the Company; or,ii. the Member ceases to be a Member of the Company <p>in either case by reason of the application of Rule <u>47 i (Sanctions)</u> of the Rules <u>(as may be amended, substituted, renumbered or replaced from time to time)</u>, the Director shall cease to hold office with immediate effect upon <u>such</u> cessation of entry in accordance with <u>such</u> Rule <u>(as amended, substituted, renumbered or replaced from time to time)</u>.</p>	<p><i>An amendment to update the cross-referencing in this Article following changes to the Rules.</i></p>

By Order of the Board

S A Ward
Secretary

10 May 2016

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

Directors

Directors

A Pohan, NY Waterway (Chairman)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
C Bouch
I Grimaldi, Grimaldi Holdings SpA
H M Juniel, Reederei F Laeisz GmbH
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
G W F Rynsard, Steamship P&I Management LLP

Secretary

S A Ward, Steamship P&I Management LLP

Managers

Steamship P&I Management LLP

Registered office

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

www.steamshipmutual.com

Registered number

105461

Strategic Report

Free reserves

The balance on the technical account for general business was a surplus of US\$12.9 million for the financial year (2015: US\$23.8 million). Free reserves increased from US\$102.7 million to US\$115.6 million.

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 its reinsurance arrangements and that its investments are cash and money market instruments.

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

Corporate reorganisation

At the end of the previous financial year the insurance business of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB") was transferred to the Association under Part VII of the Financial Services and Markets Act 2000. This reorganisation improved operational efficiency and simplifies reporting requirements under the Solvency II regime.

In return for taking on the accumulated obligations of SMUAB the Association received a portfolio transfer premium of US\$44 million. The net effect of the reorganisation was to increase free reserves by US\$21.5 million in the previous financial year.

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2015/16 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2015/16 policy year (Class 2 – FD&D).

The 2012/13 policy year was closed in May 2015.

Gross premium written totalled US\$350.3 million compared to US\$290.8 million last year, a 20.5% increase. The combined ratio, a key financial performance indicator, increased from 73.1% to 85.6%.

The Directors have set the release call for both Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") at 12.5% of mutual premium for the 2016/17 policy year; 2.5% of mutual premium for the 2015/16 policy year and 0% of mutual premium for the 2014/15 policy year.

For the year under review, the Directors ordered a general increase of 0% in P&I premium. At the 2016 renewal the Directors again ordered a general increase of 0%.

Tonnage

Owned entered tonnage increased by 3.0 million gross tons ("GT") during the year. The 2016 renewal saw a net increase in owned entered tonnage of 0.5 million GT. Total entered tonnage for both owned and chartered entries rose to 129.0 million GT.

The Association's policy is to achieve diversity of vessel types and trades within its underwriting portfolio. Similarly, the Association seeks to keep a worldwide spread of owners. This policy of avoiding an over concentration in any one area minimises the adverse effects of market differences or economic difficulties in particular trades or regions. Analysis of gross tonnage by geographical area will be included within the Management Highlights published in July 2016.

Claims

Gross claims and related expenses, including Pool claims, paid during the financial year, decreased by 8.3% from US\$294.2 million to US\$269.9 million in respect of all policy years. Claims paid by the Association, net of all reinsurance recoveries but including claims handling costs, increased by US\$27.2 million to US\$36.8 million.

During the policy year, through the Association's membership of the International Group ("the Group"), the Managers have been closely engaged in issues involving the introduction of the Wreck Removal Convention and the new UK Insurance Act together with issues in the United States relating to vessel response planning, COFR requirements and responder immunity. Ballast water control regulations, both in the United States and internationally, were also considered. Discussions with the IOPC Fund regarding interim funding continued, as did the monitoring of China's developing pollution prevention regulations. Sanctions developed in the USA and the EU have continued to be an issue; particularly in relation to the partial lifting of sanctions relating to Iran. Discussions also took place on the level of cover provided in the offshore arena and in respect of electronic trading.

The Association experienced one Pool claim during the policy year involving the loss of an entered vessel and all her crew off the Bahamas.

The 25th issue of Sea Venture was published in November 2015, and in March 2016, the Club assisted in the publication of the book "Off-Hire: A Study" by John Weale. Throughout the year the Managers also published on the Association's website various circulars, Risk Alerts, articles and news bulletins on the issues described above and other matters of topical interest.

In September 2015 a further loss prevention DVD-ROM "Fit for Life" was released which focused on issues of crew health in order to address the growing cost of crew illness claims. This production has been shortlisted, in the Investment in People category, for the 2016 Seatrade Awards. Following the acquisition of Videotel Marine International by KVH Media Group in 2014, Videotel decided during the year that it no longer wished to produce any further safety training programmes jointly with the Managers. Regrettably, this cooperation which began in 1992 will cease once the final project, a series of programmes on crew health, is completed in 2016. Alternative loss prevention initiatives are being developed, and further information will be included in the Management Highlights.

Strategic Report

continued

Pooling and reinsurance

The Association's reinsurance programme for the 2015/16 policy year was arranged in conjunction with other members of the Group. The programme provided an ultimate limit of US\$3,071 million in excess of US\$9 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$1,000 million.

Pooling

For 2016/17, the individual Club retention, before Pooling with other members of the Group, has increased to US\$10 million from US\$9 million, with the upper limit of the Pool remaining at US\$80 million for each event. A Club bringing a claim to the Pool will bear a 7.5% retention within the layer of US\$45 million to US\$80 million, with the balance being divided amongst all Clubs in accordance with the Pooling Agreement.

Hydra Insurance Company Limited ("Hydra")

With effect from 20 February 2016, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US\$30 million to US\$80 million each event), for the Group's retention of 75% from US\$80 million to US\$100 million, for the Group's retention of 60% from US\$100 million to US\$120 million, and of 30% of the remainder of the first US\$500 million layer of the General Excess of Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

Excess Loss cover

The Group's Excess of Loss programme was renewed with a similar structure as for the expiring year, other than an additional 5% excess of US\$100 million up to US\$1,000 million. Therefore, the Group reinsured 25% of the excess of US\$80 million up to US\$120 million, 55% of the excess of US\$120 million up to US\$580 million, 15% of the excess of US\$100 million up to US\$1,100 million, and 100% excess of the remainder up to US\$3,080 million.

The limit of the supplementary pooled cover for a restricted range of risks covered by the "Bio-Chem" exclusions in War Risk policies remains at US\$30 million, any one event each vessel, for the 2016/17 policy year.

US oil pollution

There will be no surcharge again for 2016/17.

Charterers' cover

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

Non-Poolable covers

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

The Steamship Mutual Underwriting Association (Bermuda) Limited

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 in respect of the 2015/16 and 2016/17 policy years. All Members of the Association are automatically Members of SMUAB and thus beneficiaries of The Steamship Mutual Trust.

The Steamship Mutual Trust

As part of the corporate reorganisation last year 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 90% of its net retained liabilities in respect of open policy years, as at 20 February 2015, and 100% of its net retained liabilities in respect of closed policy years.

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

Policy year statements

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

A Pohan

Chairman

Managers

Steamship P&I Management LLP

Geneva, Switzerland

10 May 2016

Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20 February 2016.

Principal activities

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

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

Directors

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

In accordance with Article 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Mr C J Madinabeitia and Mr S J Martin. Being eligible, they offer themselves for re-election.

Audit and Risk Committee

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

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

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

a significant risk to the Association. Within the past year the Committee's work has included a review of the following matters:

- the capital position and the adoption of a new capital ratio based upon the S&P model AAA capital requirement;
- internal audit reports on the actuarial function, the claims payment system, claims management and estimation, outsourced IT arrangements, systems of governance and risk, international offices and reserving processes;
- the critical or important outsourcing arrangements;
- the sanctions policy and supporting procedures;
- the effectiveness of business continuity arrangements;
- the launch of an extranet facility and enhancements to a number of IT systems;
- the preparations for Solvency II including a high level review of existing project documentation and cross reference to Solvency II requirements;
- the introduction by the PRA of the Senior Insurance Managers Regime, the assignment of executive and key functions and the development of a governance map;
- the Own Risk and Solvency Assessment (ORSA) and level of standard increase required at the 2016 renewal to meet the Association's financial objectives; and
- the level of administration expenses in relation to business volumes and overall operational efficiency.

Rules

With the support of advice from the Association's lawyers, the Directors have approved Rule changes effective from 20 February 2016, to clarify and in some cases broaden the scope of existing cover. Details of the key changes are set out below.

Class 1 – Protection and Indemnity

Rule No 6 – Entry

Rule No 7 – Certificate of entry, and

Rule No 48 – Dispute resolution, adjudication

Amendments to comply with, and in certain respects, contract out of, the provisions of the UK Insurance Act 2015, which will enter into force on 12 August 2016 during the 2016/17 Policy Year. In accordance with a common position adopted by all Clubs in the International Group, the amendments to Rules 6, 7 and 48 operate to adopt the disclosure regime in the Act which is considered to provide clarity while contracting out of, inter alia, the default remedies provisions.

Rule No 17 – Recovery

An amendment to address the Club's entitlement to be repaid a reimbursement made to a Member or payment made directly by the Club to a third party, in respect of a liability for which the Member is subsequently exonerated.

Rule No 18 – General exceptions and limitations – charterers’ entry limit

Amendments to expressly state the limits applicable to charterers and owner-related charterer entries pursuant to the Pooling Agreement.

Rule No 18 – General exceptions and limitations – consortium liabilities

An amendment to incorporate cover (where so agreed) for consortium liabilities as provided for in paragraph 3.8 and Appendix XII of the Pooling Agreement.

Rule No 21 – War and bio-chem risks extensions

An amendment to include within the Rules the terms of cover for war and bio-chem risks which have hitherto been incorporated into cover by means of certificate of entry clauses.

Rule No 25 – Covered risks: cargo liabilities – discretionary claims – approved electronic trading systems

An amendment to reflect changes made to the current Pooling Agreement clarifying the treatment of claims in connection with approved electronic bills of lading.

Rule No 25 – Covered risks: cargo liabilities – livestock exclusion

An amendment to incorporate an express exclusion in respect of cargo liabilities arising from the carriage of live animals.

Rule No 47 – Sanctions

The consolidation into a stand-alone rule the sanctions provisions previously set out in Rules 17 and 35. (Rules 17 and 35 also appropriately amended).

Class 2 – Freight, Demurrage and Defence

Rule No 8 – Treatment of policy deductibles

An amendment to clarify that the policy limit is calculated from the ground up and inclusive of any applicable deductible.

Rule No 14 – Insurance premium tax

An amendment to incorporate Rule 49 of the Class 1 Rules so as to provide that where Insurance premium tax is payable on FDD insurance premium, the Member is obliged to reimburse or indemnify the Club in respect thereof.

Management Highlights

The Management Highlights will be published in July 2016.

Statement of Directors’ responsibilities

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

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

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

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

Disclosure of information to the auditor

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

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

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

A Pohan
Chairman

Managers
Steamship P&I Management LLP

Geneva, Switzerland
10 May 2016

Appendix I – Policy Year Statement

All Classes

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – All Classes				
Gross premium	351,461	366,013	341,772	1,059,246
Less:				
Group Excess Loss reinsurance premium	(38,387)	(39,416)	(33,662)	(111,465)
Other reinsurance premium	(53,368)	(30,945)	(27,991)	(112,304)
Portfolio transfer premium	–	14,068	4,259	18,327
SMUAB reinsurance premium	(171,452)	(63,175)	(57,573)	(292,200)
The Trust reinsurance premium	–	(180,977)	(152,591)	(333,568)
Net premium	88,254	65,568	74,214	228,036
Allocated investment return transferred from the non-technical account	(1,759)	–	–	(1,759)
Gross claims paid				
Own claims paid	(40,594)	(71,997)	(99,666)	(212,257)
Claims administration expenses	(13,521)	(14,597)	(5,595)	(33,713)
Group Pool claims	(1,136)	(10,927)	(17,966)	(30,029)
	(55,251)	(97,521)	(123,227)	(275,999)
Less:				
Group Excess Loss recoveries	–	–	–	–
Group Pool recoveries	3,286	12,248	5,449	20,983
Other reinsurance recoveries	54	3,775	6,568	10,397
SMUAB reinsurance recoveries	34,551	(8)	2,606	37,149
The Trust reinsurance recoveries	–	61,312	97,003	158,315
Net claims paid	(17,360)	(20,194)	(11,601)	(49,155)
Claims outstanding including IBNR	(243,894)	(102,778)	(67,655)	(414,327)
Pool claims outstanding including IBNR	(31,133)	(11,067)	(19,595)	(61,795)
Estimated future claims handling costs	(11,410)	(3,097)	(994)	(15,501)
Less:				
Group Excess Loss recoveries	–	–	–	–
Group Pool recoveries	77,954	10,133	1,421	89,508
Other reinsurance recoveries	34,301	5,760	12,532	52,593
SMUAB reinsurance recoveries	156,764	–	–	156,764
The Trust reinsurance recoveries	–	90,426	69,303	159,729
Net provision for claims outstanding	(17,418)	(10,623)	(4,988)	(33,029)
Brokerage	(20,826)	(22,613)	(22,496)	(65,935)
Underwriting administration expenses	(8,287)	(6,997)	(5,140)	(20,424)
Other expenses	(10,192)	(3,507)	(2,464)	(16,163)
Balance on the technical account	12,412	1,634	27,525	41,571

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – All Classes continued				
Balance on the technical account	12,412	1,634	27,525	41,571
Investment income (including realised and unrealised)	108	(751)	365	(278)
Other income	27	33	3	63
Taxation	(26)	(8)	(4)	(38)
Open policy years funds available	12,521	908	27,889	41,318

	Total
	US\$000
Closed Policy Years – All Classes	51,588
Available balance as at 20 February 2015	
Add:	
Balance of 2012/13 year as at 20 February 2015	28,142
Movements during financial year:	
Net premium	(72)
Net claims paid	(1,715)
Expenses	11
Available balance as at 20 February 2016	77,954
Claims outstanding	(416,405)
Less:	
Group Excess Loss recoveries	127,449
Group Pool recoveries	31,231
Other reinsurance recoveries	36,423
SMUAB reinsurance recoveries	–
The Trust reinsurance recoveries	217,597
Net provision for claims outstanding	(3,705)
Closed policy years funds available	74,249
Summary	
Total open and closed years funds available	115,567

This Statement has been produced as if the Association had written the policies transferred under the corporate reorganisation.

Appendix II – Policy Year Statement

P&I Class

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – P&I Class				
Gross premium	315,399	327,467	304,484	947,350
Less:				
Group Excess Loss reinsurance premium	(38,387)	(39,416)	(33,662)	(111,465)
Other reinsurance premium	(42,694)	(20,647)	(20,494)	(83,835)
Portfolio transfer premium	–	13,239	4,234	17,473
SMUAB reinsurance premium	(154,410)	(58,653)	(53,331)	(266,394)
The Trust reinsurance premium	–	(162,397)	(135,419)	(297,816)
Net premium	79,908	59,593	65,812	205,313
Allocated investment return transferred from the non-technical account	(1,578)	–	–	(1,578)
Gross claims paid				
Own claims paid	(39,190)	(66,143)	(92,934)	(198,267)
Claims administration expenses	(12,184)	(13,382)	(5,040)	(30,606)
Group Pool claims	(1,136)	(10,927)	(17,966)	(30,029)
	(52,510)	(90,452)	(115,940)	(258,902)
Less:				
Group Excess Loss recoveries	–	–	–	–
Group Pool recoveries	3,286	12,248	5,449	20,983
Other reinsurance recoveries	54	3,775	6,474	10,303
SMUAB reinsurance recoveries	33,287	(7)	2,606	35,886
The Trust reinsurance recoveries	–	55,997	90,813	146,810
Net claims paid	(15,883)	(18,439)	(10,598)	(44,920)
Claims outstanding including IBNR	(233,998)	(95,310)	(64,811)	(394,119)
Pool claims outstanding including IBNR	(31,133)	(11,067)	(19,595)	(61,795)
Future claims handling costs	(10,852)	(2,895)	(960)	(14,707)
Less:				
Group Excess Loss recoveries	–	–	–	–
Group Pool recoveries	77,954	10,133	1,421	89,508
Other reinsurance recoveries	33,330	4,998	12,402	50,730
SMUAB reinsurance recoveries	148,229	–	–	148,229
The Trust reinsurance recoveries	–	84,424	66,847	151,271
Net provision for claims outstanding	(16,470)	(9,717)	(4,696)	(30,883)
Brokerage	(19,278)	(20,926)	(20,870)	(61,074)
Underwriting administration expenses	(7,463)	(6,288)	(4,517)	(18,268)
Other expenses	(9,164)	(3,146)	(2,165)	(14,475)
Balance on the technical account	10,072	1,077	22,966	34,115

	2015/16 US\$000	2014/15 US\$000	2013/14 US\$000	Total US\$000
Open Policy Years – P&I Class continued				
Balance on the technical account	10,072	1,077	22,966	34,115
Investment income (including realised and unrealised)	97	(680)	322	(261)
Other income	24	33	3	60
Taxation	(22)	(7)	(4)	(33)
Open policy years funds available	10,171	423	23,287	33,881

	Total US\$000
Closed Policy Years – P&I Class	
Available balance as at 20 February 2015	49,864
Add:	
Balance of 2012/13 year as at 20 February 2015	24,744
Movements during financial year:	
Net premium	(83)
Net claims paid	(1,578)
Expenses	9
Portfolio transfer premium	–
Available balance as at 20 February 2016	72,956
Claims outstanding including IBNRs	(403,115)
Less:	
Group Excess Loss recoveries	127,449
Group Pool recoveries	31,231
Other reinsurance recoveries	34,131
SMUAB reinsurance recoveries	–
The Trust reinsurance recoveries	206,777
Net provision for claims outstanding	(3,527)
Closed policy years funds available	69,429

Summary	All Classes	FD&D	Others	P&I
Total open and closed years funds available	115,567	4,318	7,939	103,310

This Statement has been produced as if the Association had written the policies transferred under the corporate reorganisation.

Income and Expenditure Account

for the year ended 20 February 2016

	Note	2016 US\$000	2015 US\$000
Technical Account			
Earned premium, net of reinsurance			
Gross premium	2	350,329	290,813
Outward reinsurance premium	3	(261,786)	(202,399)
Earned premium, net of reinsurance		88,543	88,414
Allocated investment return transferred from the non-technical account		(1,759)	(790)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	269,889	294,189
Reinsurers' share	4	(233,104)	(284,590)
Net claims paid		36,785	9,599
Change in the provision for claims			
Gross amount	5	(116,680)	422,797
Reinsurers' share	5	114,495	(394,302)
Change in the net provision for claims	5	(2,185)	28,495
Claims incurred, net of reinsurance		34,600	38,094
Net operating expenses	6	39,411	25,746
Balance on the technical account for general business		12,773	23,784
Non-Technical Account			
Balance on the general business technical account		12,773	23,784
Investment income		(523)	(751)
Unrealised losses on investments		(1,128)	–
Allocated investment return transferred to the technical account		1,759	790
Other income		27	33
Surplus on ordinary activities before taxation		12,908	23,856
Taxation	7	25	8
Surplus for the financial year		12,883	23,848
Free reserves brought forward		102,684	78,836
Free reserves		115,567	102,684

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 2016

	Note	2016 US\$000	2015 US\$000
Assets			
Investments			
Other financial investments	8	104,915	95,941
Reinsurers' share of technical provisions			
Claims outstanding	5	871,294	985,789
Debtors			
Debtors arising out of direct insurance operations		17,730	18,949
Debtors arising out of reinsurance operations		55,114	44,355
Other debtors		969	612
Other assets			
Cash at bank and in hand		17,887	10,393
Prepayments and accrued income			
Deferred acquisition costs		248	491
Other prepayments and accrued income		3,382	15
Total assets		1,071,539	1,156,545
Liabilities			
Capital and reserves			
Free reserves	10	115,567	102,684
Technical provisions			
Provision for unearned premium		1,751	1,786
Claims outstanding	5	908,028	1,024,708
Provisions for other risks and charges			
Provision for taxation		25	8
Other provisions	9	–	1,387
Creditors			
Creditors arising out of direct insurance operations		4,329	6,518
Creditors arising out of reinsurance operations		35,773	14,307
Other creditors including taxation and social security		6,066	5,147
Total liabilities		1,071,539	1,156,545

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 10 May 2016.

A Pohan **H M Juniel** **Managers:**
Chairman Director Steamship P&I Management LLP

Cash Flow Statement

for the year ended 20 February 2016

	2016 US\$000	2015 US\$000
Surplus on ordinary activities before tax		
Operating surplus before taxation after interest	12,908	23,856
(Decrease)/increase in general insurance technical provisions	(2,220)	28,785
(Decrease)/increase in other provisions	(1,387)	1,387
Unrealised losses on investments	1,128	–
Increase in debtors	(13,021)	(57,108)
Increase in creditors	20,196	20,876
	4,696	(6,060)
Net cash inflow from operating activities	17,604	17,796
Cash flow statement		
Net cash inflow from operating activities	17,604	17,796
Taxation paid	(8)	(4)
	17,596	17,792
Cash flows were invested as follows:		
Increase in cash holdings	7,494	2,279
Net portfolio investment	–	–
Purchase of bonds and loans	1,152	–
Purchase/(sale) of money market instruments	8,936	(9,499)
Increase in cash on short term deposit	14	25,012
Net investment of cash flows	17,596	17,792
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	7,494	2,279
Portfolio investments	10,102	15,513
Movements arising from cash flows	17,596	17,792
Changes in market values and exchange rate effects	(1,128)	–
Total movement in portfolio investments net of financing	16,468	17,792
Portfolio investments net of financing at 20 February 2015	106,334	88,542
Portfolio investments net of financing at 20 February 2016	122,802	106,334

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

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

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

(b) Premium written

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

(c) Unearned premium

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

(d) Deferred acquisition costs

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

(e) Claims and related expenses

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

(f) Reinsurance premium and recoveries

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

(g) Investments

Quoted investments at their bid-value and cash at bank have been valued as at the close of business on 19 February 2016. Investment income consists of interest and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

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

(h) Allocation to policy years and classes

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

Notes on the Accounts

continued

1. Accounting policies continued

(i) Foreign currencies

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

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

		2016	2015
Euro	€	0.900	0.878
UK sterling	£	0.701	0.648

2. Gross premium

	2016	2015
	US\$000	US\$000
Mutual and fixed premium written	349,305	245,363
Portfolio transfer premium	–	44,000
Deferred premium and releases	989	1,740
Movement in unearned premium	35	(290)
	350,329	290,813

Gross premium by class of business

Protection and Indemnity	313,901	265,473
Freight, Demurrage and Defence	14,646	7,043
Other	21,782	18,297
	350,329	290,813

Gross premium by member location

United States of America	121,598	125,982
Korea	25,910	–
Germany	24,162	23,642
Brazil	17,749	17,584
Hong Kong	15,377	839
Netherlands	14,617	20,119
Taiwan	13,556	–
India	11,821	43
Italy	11,557	8,465
Cyprus	11,410	14,997
China	10,152	11
United Kingdom	9,426	11,036
Chile	9,089	–
Bermuda – portfolio transfer premium	–	44,000
Other countries	53,905	24,095
	350,329	290,813

3. Reinsurance contracts

The Association has the following reinsurance arrangements:

As of 20 February 2015, following the corporate reorganisation, 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 90% of its net retained liabilities which exceed US\$50 million for the 2012/13 policy year, US\$100 million for the 2013/14 policy year and US\$135 million for the 2014/15 policy year and 100% of its net retained liabilities in respect of closed policy years.

Since 20 February 2015 the Association receives the benefit of all Group Pool and other external reinsurance recoveries previously due to SMUAB and the Trust.

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

4. Claims paid – gross amount

	2016	2015
	US\$000	US\$000
Claims and related expenses	221,732	283,609
Group Pool claims	22,206	4,827
Claims administration expenses	25,951	5,753
	269,889	294,189
Less reinsurers' share		
SMUAB	34,551	284,501
The Trust	119,181	–
Other reinsurers	79,372	89
	233,104	284,590
Net claims paid	36,785	9,599

Notes on the Accounts

continued

	2016 US\$000	2015 US\$000
5. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	(1,024,708)	(601,911)
Provision carried forward	908,028	1,024,708
	(116,680)	422,797
The Trust's share of outstanding claims		
Provision brought forward	568,236	–
Provision carried forward	(377,327)	(568,236)
	190,909	(568,236)
SMUAB's share of outstanding claims		
Provision brought forward	46,519	562,489
Provision carried forward	(200,090)	(46,519)
	(153,571)	(515,970)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	328,701	26,569
Provision carried forward	(248,188)	(328,701)
	80,513	(302,132)
Other reinsurers' share of outstanding claims		
Provision brought forward	42,333	2,429
Provision carried forward	(45,689)	(42,333)
	(3,356)	(39,904)
Change in net provision for claims	(2,185)	28,495

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

	2016	2015
	US\$000	US\$000
6. Net operating expenses		
Acquisition costs		
Brokerage	20,763	15,411
Underwriting administration expenses	8,390	6,895
	29,153	22,306
Administrative expenses		
Other administration expenses	9,750	3,113
Regulatory fees	387	228
Directors' remuneration	20	23
Auditor's remuneration – audit fees	101	76
	10,258	3,440
	39,411	25,746

The Association had no employees in either financial year.

Transactions with related parties

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 2016, these fees amounted to US\$39.439 million (2015: US\$14.217 million). US\$0.341 million was due from SPIM at the year end (2015: amount due to SPIM US\$1.710 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 2016 these fees and expenses amounted to US\$2.901 million (2015: US\$Nil). US\$0.174 million was due from SMM(B) at the year end (2015: US\$Nil).

Notes on the Accounts

continued

7. Taxation

The charge represents the estimated liability for the accounting year to 20 February 2016, of US\$25,065 (2015: US\$7,564) based upon negotiations with the United Kingdom tax authorities, assessed on the investment income of the Association for the year.

Analysis of tax charge on ordinary activities

United Kingdom corporation tax at 20% (2015: 20%) based on the surplus for the financial year

2016	2015
US\$000	US\$000
25	8
25	8

Factors affecting tax charge for the current period

The tax assessed for the financial year is lower than that resulting from applying the standard rate of corporation tax in the United Kingdom.

The differences are explained below:

Surplus on ordinary activities before tax	12,908	23,856
Tax at 20% (2015: 20%) thereon	2,582	4,771
Effect of income not subject to corporation tax	(2,557)	(4,763)
Current tax charge for period	25	8

8. Other financial investments

Market value

	2016	2015
	US\$000	US\$000
Bonds and loans	1,129	–
Money market instruments	74,892	65,956
Deposits with credit institutions	29,999	29,985
Open forward foreign exchange contracts	(1,105)	–
	104,915	95,941

Cost

Bonds and loans	1,152	–
Money market instruments	74,892	65,956
Deposits with credit institutions	29,999	29,985
	106,043	95,941

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

9. Other provisions

As described under Transactions with related parties in Note 6, the Association has an obligation to reimburse the office and administration expenses of SPIM which include the expenses of its subsidiary service company Steamship Insurance Management Services Limited ("SIMSL"). These expenses include the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. The Directors consider that the Association has a constructive obligation to provide funding to SIMSL for the scheme requiring a provision to be recognised if the scheme has an accounting deficit as calculated in accordance with International Accounting Standard 19 – Employee Benefits. On this basis there was a surplus of US\$12.2 million at the balance sheet date (2015: deficit of US\$1.4 million).

10. Free reserves

Free reserves brought forward
Surplus for year

	2016	2015
	US\$000	US\$000
	102,684	78,836
	12,883	23,848
	115,567	102,684

The balance carried forward of US\$115.6 million together with any further additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

11. 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 2016 the total value of guarantees issued in respect of uncovered claims was US\$9.5 million (2015: US\$12.3 million).

12. Security

During the course of the year to 20 February 2014, the Directors authorised the setting up of a trust to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US\$5.4 million (2015: US\$5.4 million) had been allocated to the trust. During the course of the year to 20 February 2016 SMUA replaced SMUAB in fulfilling the requirements of 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\$12.3 million (2015: US\$Nil).

13. Capital management

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

On 1 January 2016 the regulatory requirement changed from the Capital Resources Requirement under the 'Solvency I' regime to the Solvency Capital Requirement (SCR) under the Solvency II regime. The Association was in compliance with the applicable regulatory capital requirements throughout the financial year.

Notes on the Accounts

continued

14. 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 its Own Risk and Solvency Assessment (ORSA) report.

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

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

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

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

	2016	2015
	US\$000	US\$000
5% increase in claims incurred on current policy year		
Overall surplus: gross of reinsurance	(17,084)	(14,132)
net of reinsurance	(1,708)	(1,413)
Single claim of US\$2billion in current policy year		
Overall surplus: gross of reinsurance	(2,000,000)	(2,000,000)
net of reinsurance	(1,314)	(1,315)

The following tables show the development of claims over five 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.

	2011/12	2012/13	2013/14	2014/15	2015/16
	US\$000	US\$000	US\$000	US\$000	US\$000
Insurance claims – gross policy year					
End of reporting year	314,336	208,834	114,390	282,635	341,688
One year later	630,373	184,502	230,254	214,463	
Two years later	823,866	315,281	211,471		
Three years later	975,234	294,626			
Four years later	948,138				
Current estimate of ultimate claims	948,138	294,626	211,471	214,463	341,688
Cumulative payments to date	778,522	209,602	123,227	97,521	55,251
Claims outstanding	169,616	85,024	88,244	116,942	286,437
Claims outstanding relating to last five policy years					746,263
Other claims liabilities					161,765
Total gross outstanding claims					908,028
Insurance claims – net policy year					
End of reporting year	9,399	8,927	13,574	30,972	34,778
One year later	9,443	8,945	16,612	30,817	
Two years later	9,451	10,106	16,589		
Three years later	10,538	10,108			
Four years later	10,538				
Current estimate of ultimate claims	10,538	10,108	16,589	30,817	34,778
Cumulative payments to date	9,830	9,202	11,601	20,194	17,360
Claims outstanding	708	906	4,988	10,623	17,418
Claims outstanding relating to last five policy years					34,643
Other claims liabilities					2,091
Total gross outstanding claims					36,734

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

Notes on the Accounts

continued

14. Risk management continued

Credit risk

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

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

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

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

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

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

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	Not rated US\$000	Total US\$000
As at 20 February 2015						
Money market instruments	65,955	–	1	–	–	65,956
Deposits with credit institutions	–	20,000	9,985	–	–	29,985
Cash at bank and in hand	–	7,019	–	–	3,374	10,393
Reinsurers' share of technical provisions	–	12,231	950,738	22,716	104	985,789
Debtors arising out of reinsurance operations	–	250	44,000	105	–	44,355
Total assets with credit ratings	65,955	39,500	1,004,724	22,821	3,478	1,136,478
Other assets	–	–	–	–	20,067	20,067
Total assets	65,955	39,500	1,004,724	22,821	23,545	1,156,545

The following table shows the age analysis of debtors arising out of insurance operations and debtors arising out of reinsurance operations after deducting provisions for bad debt:

	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
As at 20 February 2016						
Debtors arising out of direct insurance operations	10,326	4,208	1,675	701	820	17,730
Debtors arising out of reinsurance operations	51,533	3,581	–	–	–	55,114
Total	61,859	7,789	1,675	701	820	72,844

	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
As at 20 February 2015						
Debtors arising out of direct insurance operations	9,984	2,300	2,071	668	3,926	18,949
Debtors arising out of reinsurance operations	43,167	1,188	–	–	–	44,355
Total	53,151	3,488	2,071	668	3,926	63,304

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

Notes on the Accounts

continued

14. Risk management continued

Market risk

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

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

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

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

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Korean won US\$000	Other US\$000	Total US\$000
As at 20 February 2016							
Assets	933,628	27,455	32,932	16,590	19,411	41,523	1,071,539
Liabilities	(818,272)	(32,769)	(27,487)	(16,611)	(19,448)	(41,385)	(955,972)
	115,356	(5,314)	5,445	(21)	(37)	138	115,567
As at 20 February 2015							
Assets	983,569	15,132	31,030	73,584	21,789	31,441	1,156,545
Liabilities	(866,585)	(33,899)	(26,586)	(73,584)	(21,789)	(31,418)	(1,053,861)
	116,984	(18,767)	4,444	–	–	23	102,684

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

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

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

Operational risk

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

Report of the Independent Auditor

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

We have audited the financial statements of Steamship Mutual Underwriting Association Limited for the year ended 20 February 2016, 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Chartered Accountants and Statutory Auditor

London
10 May 2016

Contents

02	Notice of Meeting
03	Directors
04	Report of the Directors
06	Appendix I – Policy Year Statement – All Classes
08	Appendix II – Policy Year Statement – P&I Class
10	Consolidated Income and Expenditure Account
11	Consolidated Balance Sheet
12	Consolidated Cash Flow Statement
13	Notes on the Accounts
26	Report of the Independent Auditor

The Steamship Mutual Underwriting Association (Bermuda) Limited

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

Managers

[Steamship Mutual Management \(Bermuda\) Limited](#)

Washington Mall II
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Telephone: +1 441 295 4502
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Managers' representatives

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Notice of Meeting

Notice is hereby given that the Forty Second Annual General Meeting of the Members of the Association will be held at the Fairmont Olympic Hotel, Seattle, United States, on Tuesday, 25 October 2016 at 09:05 hours 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 2016.
- 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 M Bayley, Ms I Grimaldi, Mr Hu Jingwu, Mr E Ide, Mr C J Madinabeitia, Mr S Mehta, Mr B K Sheth, Capt B B Sinha and Mr A Tung. Being eligible all Directors offer themselves for re-election.
- 6 To review the remuneration of the Directors.
- 7 To appoint the Auditor and to authorise the Directors to agree their remuneration.
- 8 Confirmation of acts.
- 9 To transact any other ordinary business of the Company.

By Order of the Board

S H Davis
Secretary

10 May 2016

NB 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, Church Street West, 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 Edey, Sloman Neptun Schiffahrts AG
(Chairman appointed 12 May 2015)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
A Albertini, Marfin Management SAM
(appointed 27 October 2015)
A Marques de Almeida, Vale
(resigned 27 October 2015)
M W Bayley, Royal Caribbean International
C Bouch
D S Farkas, Norwegian Cruise Line
M Frith, Conyers, Dill & Pearman
I Grimaldi, Grimaldi Holdings SpA
D M Ho, Magsaysay Maritime Corp
Hu, Jingwu, China Shipowners Mutual
Assurance Association
E Ide, Naviera Ultrana Ltd
H M Juniel, Reederei F Laeisz GmbH
W J Kim, Polaris Shipping Co. Ltd
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
B B A McAllister, McAllister Towing
S Mehta, Essar Global
C K Ong, U-Ming Marine Transport Corp
A Pohan, NY Waterway
G W F Rynsard, Steamship P&I Management LLP
H L F Schoeller, Columbia Shipmanagement Ltd
(retired 12 May 2015)
B K Sheth, The Great Eastern Shipping Co Ltd
B B Sinha, The Shipping Corporation of India Ltd
M Sloan, Carnival Corporation & plc
C Sommerhage, Columbia Shipmanagement (Germany)
GmbH (appointed 12 May 2015)
A Tung, Island Navigation Corp International Ltd
A Zacchello, Seaarland Shipping Management BV
R Zagari, Augustea Group
S Zagury, Vale (appointed 1 March 2016)

Secretary

S H Davis, Conyers, Dill & Pearman

Managers

Steamship Mutual Management (Bermuda) Ltd

Registered office

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Hamilton HM 11
Bermuda

Administrative office

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Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20 February 2016.

Principal activities

The principal activities of the Association during the year were 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 Clubs ("the 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 Seattle, United States, on 25 October 2016:

Mr M W Bayley, Ms I Grimaldi, Mr Hu Jingwu, Mr E Ide, Mr C J Madinabeitia, Mr S Mehta, Mr B K Sheth, Capt B B Sinha and Mr A Tung.

Being eligible all Directors offer themselves for re-election.

Audit and Risk Committee

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

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

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

- the capital position and the adoption of a new capital ratio based upon the S&P model AAA capital requirement;
- internal audit reports on the actuarial function, the claims payment system, claims management and estimation, outsourced IT arrangements, systems of governance and risk, international offices and reserving processes;
- the critical or important outsourcing arrangements;
- the sanctions policy and supporting procedures;
- the effectiveness of business continuity arrangements;
- the launch of an extranet facility and enhancements to a number of IT systems;
- the preparations for Solvency II including a high level review of existing project documentation and cross reference to Solvency II requirements;
- the de-authorisation of SMUAB from oversight by the PRA and FCA and the potential for regulatory Group Supervision by the Bermuda Monetary Authority in the event that Bermuda is granted Solvency II equivalence; and
- the level of administration expenses in relation to business volumes and overall operational efficiency.

Free reserves

The balance on the Technical Account was a surplus of US\$10.9 million for the financial year.

The overall surplus for the financial year of US\$9.8 million reflects a net investment loss of US\$1.1 million.

Free reserves increased from US\$101.7 million to US\$111.5 million.

Corporate reorganisation

At the end of the previous financial year the Association transferred all of its insurance business to SMUA under Part VII of the Financial Services and Markets Act 2000 and a Scheme of Arrangement in Bermuda. This reorganisation improved operational efficiency and simplified regulatory reporting.

The Association paid a portfolio transfer premium of US\$44 million to SMUA to compensate it for the obligations transferred.

Underwriting

Gross premium written totalled US\$200.1 million compared to US\$276.9 million last year.

Pooling and reinsurance

The Association's reinsurance programme for the 2015/16 policy year was arranged in conjunction with other members of the Group. The programme provided an ultimate limit of US\$3,071 million in excess of US\$9 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$1,000 million.

Steamship Mutual Underwriting Association Limited ("SMUA")

All existing reinsurance arrangements with SMUA were terminated with effect from 20 February 2015 following the corporate reorganisation. For the 2015/16 policy year the Association entered into a new 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. All Members of SMUA are automatically Members of the Association and thus beneficiaries of the Trust.

The Steamship Mutual Trust

At the beginning of the financial year, the Association entered into a new reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of The Steamship Mutual Trust ("the Trust"), a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover all its liabilities in respect of the 2015/16 policy year. The Chairman of the Association is an ex-officio Director of the Corporate Trustee which administers the Trust.

The beneficiaries under the Trust are the Members of the Association. These arrangements performed satisfactorily during the year.

Claims

Net claims and related expenses paid decreased by 45.5% year on year to US\$15.6 million.

During the year the Association reviewed with the ultimate reassured the development of claims and the terms of its inward reinsurance contract. The Association is satisfied that the reassured 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 decreased by 11.1% to US\$131.8 million.

Statement of Directors' responsibilities

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-M Edge Chairman

Geneva, Switzerland
10 May 2016

Appendix I – Policy Year Statement

All Classes

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – All Classes				
Gross premium	199,446	274,727	251,120	725,293
Less:				
External reinsurance premium	(3,550)	(27,360)	(31,465)	(62,375)
Portfolio transfer premium	–	(14,068)	(4,259)	(18,327)
The Trust reinsurance premium	(169,801)	(176,709)	(153,804)	(500,314)
Net premium	26,095	56,590	61,592	144,277
Allocated investment return transferred from the non-technical account	(181)	–	–	(181)
Gross claims paid				
Own claims paid	(34,551)	(26,513)	(81,690)	(142,754)
Claims administration expenses	(55)	(23,501)	(24,118)	(47,674)
	(34,606)	(50,014)	(105,808)	(190,428)
Less:				
External reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	34,551	22,746	72,611	129,908
Net claims paid	(55)	(27,268)	(33,197)	(60,520)
Claims outstanding including IBNR	(176,601)	(4,790)	(7,679)	(189,070)
Less:				
Other reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	156,764	–	–	156,764
Net provision for claims outstanding	(19,837)	(4,790)	(7,679)	(32,306)
Brokerage	–	(7,483)	(7,974)	(15,457)
Underwriting administration expenses	258	(2,806)	(4,042)	(6,590)
Other expenses	(2,087)	(9,242)	(8,604)	(19,933)
Balance on the technical account	4,193	5,001	96	9,290
Investment income (including realised and unrealised)	(1,055)	1,293	(3,551)	(3,313)
Other income	10	2	23	35
Taxation	–	–	(4)	(4)
Open policy years funds available	3,148	6,296	(3,436)	6,008

	<u>Total</u>
	<u>US\$000</u>
Closed Policy Years – All Classes	
Available balance as at 20 February 2015	105,675
Add:	
Balance of 2012/13 year as at 20 February 2015	14,728
Movements during financial year:	
Net premium	239
Net claims paid	(5,258)
Available balance as at 20 February 2016	<u>115,384</u>
Claims outstanding	(11,020)
Less:	
Other reinsurance recoveries	1,128
Net provision for claims outstanding	<u>(9,892)</u>
Closed policy years funds available	<u>105,492</u>
Summary	
Total open and closed years funds available	<u>111,500</u>

Appendix II – Policy Year Statement

P&I Class

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – P&I Class				
Gross premium	182,405	250,001	226,333	658,739
Less:				
External reinsurance premium	(3,550)	(23,797)	(28,945)	(56,292)
Portfolio transfer premium	–	(13,239)	(4,234)	(17,473)
The Trust reinsurance premium	(152,953)	(160,773)	(136,503)	(450,229)
Net premium	25,902	52,192	56,651	134,745
Allocated investment return transferred from the non-technical account	(162)	–	–	(162)
Gross claims paid				
Own claims paid	(33,287)	(25,082)	(76,921)	(135,290)
Claims administration expenses	(50)	(19,127)	(19,600)	(38,777)
	(33,337)	(44,209)	(96,521)	(174,067)
Less:				
External reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	33,287	21,314	67,841	122,442
Net claims paid	(50)	(22,895)	(28,680)	(51,625)
Claims outstanding including IBNR	(168,066)	(4,790)	(7,679)	(180,535)
Less:				
Other reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	148,229	–	–	148,229
Net provision for claims outstanding	(19,837)	(4,790)	(7,679)	(32,306)
Brokerage	–	(6,778)	(7,250)	(14,028)
Underwriting administration expenses	232	(2,533)	(3,694)	(5,995)
Other expenses	(1,873)	(8,364)	(7,870)	(18,107)
Balance on the technical account	4,212	6,832	1,478	12,522
Investment income (including realised and unrealised)	(947)	1,171	(3,248)	(3,024)
Other income	9	2	23	34
Taxation	–	–	(4)	(4)
Open policy years funds available	3,274	8,005	(1,751)	9,528

	Total
	US\$000
Closed Policy Years – P&I Class	
Available balance as at 20 February 2015	98,793
Add:	
Balance of 2012/13 year as at 20 February 2015	14,928
Movements during financial year:	
Net premium	239
Net claims paid	(5,258)
Available balance as at 20 February 2016	108,702
Claims outstanding including IBNRs	(11,020)
Less:	
Other reinsurance recoveries	1,128
Net provision for claims outstanding	(9,892)
Closed policy years funds available	98,810

Summary

Total open and closed years funds available

All Classes	FD&D	Others	P&I
111,500	(8,524)	11,686	108,338

Consolidated Income and Expenditure Account

	Note	2016 US\$000	2015 US\$000
Technical Account			
Earned premium, net of reinsurance			
Gross premium		200,075	276,938
Outward reinsurance premium			
Group Excess Loss		–	(13,163)
The Trust	2	(169,801)	(179,945)
Other reinsurers		(3,636)	(13,179)
Portfolio transfer premium		–	(44,000)
Earned premium, net of reinsurance		26,638	26,651
Allocated investment return transferred from the non-technical account		(181)	(3,038)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	51,251	415,764
Reinsurers' share:	3	(35,688)	(387,206)
Net claims paid		15,563	28,558
Change in the provision for claims			
Gross amount	4	153,571	(1,119,216)
Reinsurers' share:	4	(155,391)	1,103,415
Change in the net provision for claims		(1,820)	(15,801)
Claims incurred, net of reinsurance		13,743	12,757
Net operating expenses	5	1,829	19,540
Balance on the technical account for general business		10,885	(8,684)
Non-Technical Account			
Balance on the general business technical account		10,885	(8,684)
Investment income	6	(855)	(2,504)
Unrealised gains/(losses) on investments	7	810	(442)
Allocated investment return transferred to the technical account		181	3,038
Investment management expenses		–	(506)
Other income	8	10	4,746
Other charges	9	(1,190)	–
Surplus/(deficit) for the financial year		9,841	(4,352)
Free reserves brought forward		101,659	106,011
Free reserves		111,500	101,659

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.

Consolidated Balance Sheet

as at 20 February 2016

	Note	2016 US\$000	2015 US\$000
Assets			
Investments			
Land and buildings	11	14,551	15,741
Other financial investments	12	112,586	125,570
Reinsurers' share of technical provisions			
Claims outstanding	4	157,892	2,501
Debtors			
Debtors arising out of reinsurance operations	13	24,434	35,855
Other debtors		3,506	6,076
Other assets			
Cash at bank and in hand		4,699	7,026
Other prepayments and accrued income		144	61
Total assets		317,812	192,830
Liabilities			
Capital and reserves			
Free reserves		111,500	101,659
Technical provisions			
Claims outstanding	4	200,090	46,519
Creditors			
Creditors arising out of reinsurance operations	14	5,825	42,958
Other creditors		397	1,694
Total liabilities		317,812	192,830

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 10 May 2016.

S-M Edye
Chairman

H M Juniel
Director

Managers:
Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20 February 2016

	2016 US\$000	2015 US\$000
Surplus/(deficit) on ordinary activities before tax		
Operating surplus/(deficit) before taxation after interest	9,841	(4,352)
Decrease in general insurance technical provisions	(1,820)	(16,061)
Unrealised losses/(gains) on revaluation of property	1,190	(4,744)
Unrealised (gains)/losses on investments	(810)	442
Decrease in debtors	13,908	19,093
(Decrease)/increase in creditors	(38,430)	26,801
	(25,962)	25,531
Net cash (outflow)/inflow from operating activities	(16,121)	21,179
Cash flow statement		
Net cash (outflow)/inflow from operating activities	(16,121)	21,179
Taxation paid	–	(5)
	(16,121)	21,174
Cash flows were invested as follows:		
Decrease in cash holdings	(2,327)	(4,062)
Net portfolio investment		
Sale of bonds and loans	(1,491)	–
(Sale)/purchase of money market instruments	(21,715)	9,533
Increase in cash on short term deposit	9,412	15,703
	(13,794)	25,236
Net investment of cash flows	(16,121)	21,174
Movement in opening and closing portfolio investments net of financing		
Net cash outflow for the period	(2,327)	(4,062)
Portfolio investments	(13,794)	25,236
Movement arising from cash flows	(16,121)	21,174
Changes in market values and exchange rate effects	810	(442)
Total movement in portfolio investments net of financing	(15,311)	20,732
Portfolio investments net of financing at 20 February 2015	132,596	111,864
Portfolio investments net of financing at 20 February 2016	117,285	132,596

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 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.

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 Group accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB") and its subsidiary undertakings The Steamship Mutual Underwriting Association (Reinsurance) Limited ("SMUARI"), Steamship Mutual Property Holdings Limited ("SMPH") and its share of Hydra Insurance Company Limited ("Hydra") at 20 February 2016.

(c) 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.

(d) 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.

(e) Reinsurance premiums and recoveries

Other reinsurance premiums are recognised on an accruals basis.

(f) Land and buildings

Land and buildings are revalued in UK sterling every three years on an existing use basis, revalued to the current US dollar exchange rate each year end and held at the revalued amount. Any losses or reversal of losses arising upon revaluation are recognised in the income and expenditure account.

(g) Other financial investments

Quoted investments at their bid value and cash at bank have been valued as at the close of business on 19 February 2016. 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.

(h) Debtors

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

Notes on the Accounts

continued

(i) Foreign currencies

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

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

		2016	2015
Euro	€	0.900	0.878
UK sterling	£	0.701	0.648

(j) 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) Under contracts dated 11 March 1983, the Association, through its subsidiary company, SMUARI (note 15), reinsured with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of the Trust all of its P&I and FD&D risks for the period up to 20 February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20 February 1984 through to 20 February 2015 when the corporate reorganisation came into effect with SMUA replacing the Association as the reinsured.
- (b) The Association indemnified SMUA in respect of 90% of the first US\$100 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$100 million for the 2013/14 policy year and in respect of 90% of SMUA's net underlying liabilities for the 2014/15 policy year. As part of the corporate reorganisation this contract was novated on 20 February 2015.
- (c) For 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.
- (d) Under a contract dated 27 January 2015, the Association reinsured with the Trust all of its liabilities for the 2015/16 policy year.

	2016 US\$000	2015 US\$000
3. Claims paid – gross amount		
Claims and related expenses	51,195	360,556
Group Pool claims	–	31,712
Claims administration expenses	56	23,496
	51,251	415,764
Less reinsurers' share		
Group Pool	–	10,464
Group Excess Loss	–	184,717
Other reinsurers	1,137	2,189
The Trust	34,551	189,836
	35,688	387,206
Net claims paid	15,563	28,558
4. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	(46,519)	(1,165,735)
Provision carried forward	200,090	46,519
	153,571	(1,119,216)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	–	437,687
Provision carried forward	–	–
	–	437,687
The Trust's share of outstanding claims		
Provision brought forward	–	657,297
Provision carried forward	(156,764)	–
	(156,764)	657,297
Other reinsurers' share of outstanding claims		
Provision brought forward	2,501	10,932
Provision carried forward	(1,128)	(2,501)
	1,373	8,431
Change in net provision for claims	(1,820)	(15,801)

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

Notes on the Accounts

continued

5. Net operating expenses

Acquisition costs

Brokerage	–	7,496
Underwriting administration expenses	(258)	2,803
	(258)	10,299

Administrative expenses

Other administration expenses	1,629	8,765
Directors' remuneration	362	344
Auditor's remuneration – audit fees	96	132
	2,087	9,241
	1,829	19,540

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, a fee which in the prior year was based in part on premiums payable by Members in each accounting year together with reimbursement of its office and administration expenses and those of its worldwide representatives. Following the reorganisation, this fee is now payable by SMUA.

For the financial year to 20 February 2016 these fees and expenses amounted to US\$Nil (2015: US\$28.3 million). US\$Nil was prepaid at the year end (2015: US\$4.3 million). Since 21 February 2000 the Association has provided SMM(B) with an unsecured, indefinite long term loan amounting to 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 2016 a provision of US\$2.2 million (2015: US\$3.6 million) has been made. There were no other related parties transactions requiring disclosure under FRS 8.

6. Investment income

Dividends and interest	66	92
	(304)	–
Realised losses	(617)	(2,596)
Investments	(921)	(2,596)
Exchange	(855)	(2,504)

Realised exchange losses amounting to US\$Nil (2015: US\$1.7 million) arose on forward currency contracts taken out to offset the Association's claims exposure to movements in the Brazilian real exchange rate.

7. Unrealised gains/(losses) on investments

Investments
Exchange

2016	2015
US\$000	US\$000
374	–
436	(442)
810	(442)

8. Other income

Surplus on revaluation of property (see note 11)
Sundry income

2016	2015
US\$000	US\$000
–	4,744
10	2
10	4,746

9. Other charges

Currency loss on revaluation of property (see note 11)

2016	2015
US\$000	US\$000
1,190	–

10. Taxation

At the present time, no income, profit, capital or capital gains taxes are levied in Bermuda. Accordingly no provision for such taxes has been recorded by the Association. In the event that such taxes are levied, the Association has received an undertaking from the Bermuda government exempting it from all such taxes until 31 March 2035.

11. 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 £10,200,000 (US\$15,740,741) reflecting the market value at 20 February 2015. The currency loss reflects the movement in the US dollar equivalent of £10,200,000 (US\$14,550,642) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US\$16,952,226.

Notes on the Accounts

continued

12. Other financial investments

Market value

	2016 US\$000	2015 US\$000
Bonds and loans	9,787	10,901
Equities	124	127
Money market instruments	38,932	60,647
Deposits with credit institutions	63,743	54,331
Open forward exchange contracts	–	(436)
	112,586	125,570

Cost

Bonds and loans	9,542	11,033
Equities	485	485
Money market instruments	38,932	60,647
Deposits with credit institutions	63,743	54,331
	112,702	126,496

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:

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
As at 20 February 2016				
Bonds and loans	9,787	–	–	9,787
Equities	–	–	124	124
Money market instruments	38,932	–	–	38,932
Deposits with credit institutions	63,743	–	–	63,743
Open forward foreign exchange contracts	–	–	–	–
	112,462	–	124	112,586

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
12. Other financial investments continued				
As at 20 February 2015				
Bonds and loans	10,901	–	–	10,901
Equities	–	–	127	127
Money market instruments	60,647	–	–	60,647
Deposits with credit institutions	54,331	–	–	54,331
Open forward foreign exchange contracts	–	(436)	–	(436)
	125,879	(436)	127	125,570

13. Debtors arising out of reinsurance operations

	2016 US\$000	2015 US\$000
The Trust	–	35,855
SMUA	24,434	–
	24,434	35,855

14. Creditors arising out of reinsurance operations

	2016 US\$000	2015 US\$000
The Trust	5,825	–
SMUA	–	42,958
	5,825	42,958

15. Wholly-owned subsidiary companies

SMUARI is a wholly-owned subsidiary company which in turn holds 100% of the share capital of SMPH.

16. Hydra Insurance Company Limited (“Hydra”)

Hydra is a reinsurance captive created by the members of the 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 this cell has been classified as a quasi-subsiary and has been consolidated.

Notes on the Accounts

continued

17. Security

During the course of the year to 20 February 1997, the Directors authorised the setting up of a trust to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US\$5.4 million (2015: US\$5.4 million) had been allocated to the trust.

18. 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.

After the year end the BMA approved the Association's application to be categorised as a Class 3A insurer and made this effective from 1 January 2016. The Association was in compliance with the applicable regulatory capital requirements throughout the financial year.

19. 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 combined ORSA 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 funds necessary to ensure that its overall solvency needs are met at all times. The ORSA 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 SMUA for the ceded claims to the Association and by the Hydra actuaries to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

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 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:

		2016	2015
		US\$000	US\$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	(15,376)	–
	net of reinsurance	–	–
Single claim in SMUA of US\$2billion in current policy year			
Overall surplus	gross of reinsurance	(33,216)	(18,574)
	net of reinsurance	(21,393)	(18,574)

Notes on the Accounts

continued

19. Risk management continued

Insurance risk continued

The following tables show the development of claims over five 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.

	2011/12	2012/13	2013/14	2014/15	2015/16
	US\$000	US\$000	US\$000	US\$000	US\$000
Insurance claims – gross policy year					
End of reporting year	475,728	420,741	322,326	59,072	211,207
One year later	754,806	345,219	114,298	54,804	
Two years later	940,327	205,177	113,487		
Three years later	802,274	203,896			
Four years later	802,745				
Current estimate of ultimate claims	802,745	203,896	113,487	54,804	211,207
Cumulative payments to date	801,995	198,938	105,808	50,014	34,606
Current outstanding	750	4,958	7,679	4,790	176,601
Claims outstanding relating to last five policy years					194,778
Other claims liabilities					5,312
Total gross outstanding claims					200,090

	2011/12	2012/13	2013/14	2014/15	2015/16
	US\$000	US\$000	US\$000	US\$000	US\$000
Insurance claims – net policy year					
End of reporting year	42,466	49,814	54,802	36,326	19,892
One year later	34,048	41,376	41,687	32,058	
Two years later	31,537	36,170	40,876		
Three years later	29,769	34,889			
Four years later	30,394				
Current estimate of ultimate claims	30,394	34,889	40,876	32,058	19,892
Cumulative payments to date	29,753	29,931	33,197	27,268	55
Current outstanding	641	4,958	7,679	4,790	19,837
Claims outstanding relating to last five policy years					37,905
Other claims liabilities					4,293
Total net outstanding claims					42,198

The Association has elected to disclose only five 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 and limiting individual exposures to US\$10 million for banks rated AA by S&P, or an equivalent rating from another agency, and US\$5 million for banks rated A by S&P, or an equivalent rating from another agency.

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

	AAA	AA	A	BBB	NR	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
As at 20 February 2016						
Bonds and loans	–	9,787	–	–	–	9,787
Equities	–	–	–	–	124	124
Money market instruments	13,209	5,401	20,322	–	–	38,932
Deposits with credit institutions	–	63,743	–	–	–	63,743
Cash at bank and in hand	334	3,942	423	–	–	4,699
Reinsurers' share of technical provisions	–	200	157,692	–	–	157,892
Debtors arising out of reinsurance operations	–	–	24,434	–	–	24,434
Accrued interest	–	10	3	–	–	13
Total assets with credit ratings	13,543	83,083	202,874	–	124	299,624
Other assets	–	–	–	–	18,188	18,188
Total assets	13,543	83,083	202,874	–	18,312	317,812

Notes on the Accounts

continued

19. Risk management continued

Credit risk continued

As at 20 February 2015

	AAA	AA	A	BBB	NR	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Bonds and loans	1,171	9,730	–	–	–	10,901
Equities	–	–	–	–	127	127
Money market instruments	34,872	11,043	14,732	–	–	60,647
Deposits with credit institutions	–	54,331	–	–	–	54,331
Open forward exchange contracts	–	–	(436)	–	–	(436)
Cash at bank and in hand	334	5,108	633	–	951	7,026
Reinsurers' share of technical provisions	–	492	2,009	–	–	2,501
Debtors arising out of reinsurance operations	–	–	35,855	–	–	35,855
Total assets with credit ratings	36,377	80,704	52,793	–	1,078	170,952
Other assets	–	–	–	–	21,878	21,878
Total assets	36,377	80,704	52,793	–	22,956	192,830

The Association's exposure to liquidity risk is minimal given that the majority of its investments are cash and money market instruments 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 and money market instruments and therefore its exposure to interest rate risk is minimal.

The Association is exposed to currency risk in its freehold property in the UK (see note 11) otherwise its exposure is minimal since any currency exposure in claims from SMUA is passed on to the Trust.

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

	US dollar	UK sterling	Euro	Brazilian real	Other	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
As at 20 February 2016						
Assets	280,124	26,759	5,984	188	4,757	317,812
Liabilities	(183,774)	(11,580)	(6,020)	(188)	(4,750)	(206,312)
	96,350	15,179	(36)	–	7	111,500

Market risk continued
As at 20 February 2015

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Other US\$000	Total US\$000
Assets	176,210	15,620	794	–	206	192,830
Liabilities	(89,816)	(16)	(50)	–	(1,289)	(91,171)
	86,394	15,604	744	–	(1,083)	101,659

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.

Report of the Independent Auditor

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

We have audited the financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited for the year ended 20 February 2016 which comprise the consolidated income and expenditure account, 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the company's Members, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Bermuda Companies Act 1981.

Opinion on other matter prescribed by the Bermuda Companies Act 1981

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.
- In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Bermuda Companies Act 1981 requires us to report to you if, in our opinion:

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

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

Chartered Accountants and Statutory Auditor

London
10 May 2016

Contents

01	Directors of the Corporate Trustee
02	Report of the Corporate Trustee
06	Appendix I – Policy Year Statement – All Classes
08	Appendix II – Policy Year Statement – P&I Class
10	Income and Expenditure Account
11	Balance Sheet
12	Cash Flow Statement
13	Notes on the Accounts
23	Report of the Independent Auditor

The Steamship Mutual Trust

Directors of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

A L Marchisotto, Moran Holdings Inc (Chairman)

J G Conyers

A E Exel, Adara Advisors Pty Ltd

C C Tung, Orient Overseas (International) Ltd

A Pohan, NY Waterway – ex officio status

S-M Edey, Sloman Neptun Schiffahrts AG – ex officio status
(appointed 12 May 2015)

Secretary of the Corporate Trustee

S H Davis, Conyers, Dill & Pearman

Manager of the Corporate Trustee

Hamilton Investment Management Limited

Registered office of the Corporate Trustee

Clarendon House 2 Church Street

Hamilton HM 11

Bermuda

Administrative offices of the Corporate Trustee

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Bermuda

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Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited has pleasure in presenting its Report and the Accounts of The Steamship Mutual Trust ("the Trust") for the year ended 20 February 2016.

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 accounting period, the Corporate Trustee entered into a reinsurance contract on behalf of the Trust, with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), to cover the period from 20 February 2015 to 20 February 2016. The total premium receivable by the Trust in respect of all its reinsurance contracts during the accounting period amounted to US\$170.3 million.

Accounts

The surplus of funds available to meet outstanding claims as at 20 February 2016 increased by US\$41.4 million to US\$213.3 million. No transfers to the capital reserve of the Trust were made during the year. Total investments of the Trust at the balance sheet date amounted to US\$789.5 million, an increase of US\$2.3 million on the previous year.

Corporate reorganisation

At the end of the previous financial year, SMUAB transferred all of its insurance business to Steamship Mutual Underwriting Association Limited ("SMUA") under Part VII of the Financial Services and Markets Act 2000 and a Scheme of Arrangement in Bermuda. As part of the reorganisation the Trust entered into a new reinsurance contract with SMUA, to cover SMUA's net retained liabilities as at 20 February 2015.

Policy year statements

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

Markets

Two themes have been consistent as the year has evolved; the uncertainty over when and how quickly the US Federal Reserve would raise interest rates, and concern over the impact of global economic instability on markets. While much of the year was dominated by interest rate discussions, financial market volatility was heavily influenced by accommodative monetary policy, weakness in Asian economies and oil prices.

In the first half of the year markets entered an unsettled period triggered by financial problems in Greece, potentially precipitating an exit from the euro, fears over currency devaluations, a possible default by Puerto Rico and a 20% sell-off in the Chinese equity market following a gain of more than 60% in the previous six months. These events overshadowed rising expectations of an increase in US interest rates sometime in 2015. The market pushed long-term bond yields up and fears of challenging liquidity conditions across bond markets increased yields further pushing returns into negative territory. Though equity markets largely shrugged off these developments and the economic progress of most developed countries continued to improve, there were signs that volatility and risk aversion were rising.

In August, a surprise devaluation of the Chinese yuan and collapse of the Chinese stock market stoked fears that China's economic slowdown was more severe than feared. The knock on effect of waning demand from the largest importer of oil, iron ore, and industrial metals caused concern in global markets. The S&P 500 index lost 10% in one week, the oil price fell by 25%, closing near to US\$45 a barrel in September, and other commodity prices followed. Expectations for the first US interest rate increase declined and ebbed further on stubbornly low US inflation. While volatility picked up in global equity and commodity markets, a flight to quality ensued with bonds generally posting positive returns.

Stresses emerged in the corporate bond markets in the latter part of the year, particularly in the energy sector. The renewed fall in oil to below US\$40 a barrel and Russia's response by maximizing output from easy to reach resources impacted energy and other commodity-related bonds as investors worried about overleveraged producers. High yield bonds were particularly hard hit and deteriorating fundamentals resulted in corporate bonds as a whole underperforming government bonds. In December the US announced its long awaited 0.25% increase in interest rates, further depressing overall bond returns.

Financial markets experienced a volatile start to 2016 as soft economic data from China and the ensuing rout in the Chinese stock market weighed on global sentiment and put pressure on emerging market currencies and commodity prices. Oil prices plummeted to a multi-year low of US\$27 while the S&P 500 Index endured its second 10% correction in just over four months. The Bank of Japan moved to negative deposit rates and China continued to make liquidity injections while the European Central Bank hinted at more easing given stubbornly low inflation. In a flight to quality even investment grade corporate bonds suffered as spreads widened further. By mid-February markets had begun to reverse course. A potential production cap agreement helped the oil price to stabilise and volatility subsided. Rising expectations that US interest rates would remain on hold resulted in falling bond yields helping bonds to post positive total returns. Looking forward, central bank policy remains the most important driver of market stability. Many asset prices depend on a continuation of this policy and are arguably not supported by economic fundamentals. There are negative short term interest rates in an increasing number of countries and for most traditional asset classes there is little prospective return for risk taken by investors.

Although the economic performance of most developed countries continued to improve, global investment markets did not perform as many would have expected. The S&P 500 fell by 9.1% in the year to 20 February 2016, while Japanese and European equity indices fell by 12.6% and 15.7% in local currency and 7.4% and 17.7% in US dollar terms. In contrast the Barclays Global Aggregate index, which represents global bond markets, returned 2.0% over the year in US dollar terms. Heightened risk of default, especially on bonds issued by energy and mining companies, lead government bonds to outperform corporate and high-yield bonds. The strong US dollar significantly reduced returns from overseas assets.

Report of the Corporate Trustee

continued

Investment performance

The Trust recorded an overall investment loss of 0.9% before fees. This includes a currency loss of 0.8% on assets held to match the currency exposure in claims liabilities. The currency loss of US\$6.3 million has been allocated to the underwriting section of the Income and Expenditure Account.

Net of the currency loss on the matching assets the portfolio recorded a loss of 0.1%. The minimal loss reflects the impact of a conservative asset allocation in a volatile and unfavourable market. A return of 1.3% on bonds, which form the majority of the portfolio, was offset by an 11.1% loss on equities and a 3.5% loss on hedge fund of funds.

Risk management and asset allocation

Having repositioned the portfolio to reduce interest risk at the beginning of the year the allocation has remained unchanged for the remainder of the period. The matching portfolio, held to back combined net claim liabilities and comprising a mixture of highly rated government and corporate bonds, continues to be managed on a 'buy and maintain' basis, holding individual bonds to maturity, with dynamic management of overall portfolio duration and hence interest risk. This portfolio is used to provide collateral for the reinsurance obligation of the Trust to SMUA.

The remaining surplus portfolio is principally invested in two absolute return bond funds run by Wellington and TCW, both of whom have managed bond investments for the Trust for a number of years. These funds are complemented by a small investment in a global equity index fund and investments in two hedge funds of funds which have a strong record of superior risk-adjusted performance. This allocation aims to deliver an appropriate return while carefully managing interest rate risk and maintaining a comfortable margin of capital above the requirements for a Standard & Poor's financial strength rating of A.

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

Claims

Net claims and related expenses paid decreased by 15.9% year on year to US\$153.7 million.

During the year the Corporate Trustee reviewed with the ultimate reassured the development of prior year claims and the terms of its inward reinsurance contract. The Corporate Trustee remains satisfied that the reassured is taking appropriate steps to ensure that a prudent underwriting policy is maintained.

Statement of Corporate Trustee's responsibilities

The Corporate Trustee has 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 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.

A L Marchisotto

Chairman

The Steamship Mutual Underwriting Association Trustees
(Bermuda) Limited

Geneva, Switzerland
9 May 2016

Appendix I – Policy Year Statement

All Classes

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open policy years – All Classes				
Gross premium	169,801	180,977	152,591	503,369
Less:				
Reinsurance premium	–	–	–	–
Net premium	169,801	180,977	152,591	503,369
Allocated investment return transferred from the non-technical account	30	(543)	(581)	(1,094)
Gross claims paid				
Own claims and related expenses	(34,551)	(61,311)	(97,004)	(192,866)
Less:				
Reinsurance recoveries	–	–	–	–
Net claims paid	(34,551)	(61,311)	(97,004)	(192,866)
Claims outstanding including IBNR	(156,764)	(90,426)	(69,305)	(316,495)
Less:				
Other reinsurance recoveries	–	–	–	–
Net provision for claims outstanding	(156,764)	(90,426)	(69,305)	(316,495)
Administration expenses	(155)	(137)	(104)	(396)
Balance on the technical account	(21,639)	28,560	(14,403)	(7,482)
Allocated net investment income	30,349	–	24,648	54,997
Non-technical account administration expenses	(1,940)	(1,573)	(2,130)	(5,643)
Open policy years funds available	6,770	26,987	8,115	41,872

	<u>Total</u>
	<u>US\$000</u>
Closed policy years – All Classes	
Available balance as at 20 February 2015	241,578
Add:	
Balance of 2012/13 year as at 20 February 2015	79,010
Movements during financial year:	
Other net premium	(2,537)
Allocated investment return transferred from the non-technical account	(5,244)
Net claims paid	(56,224)
Movement in allocated Trust investment income	(38,986)
Available balance as at 20 February 2016	<u>217,597</u>
Claims outstanding including IBNR	(217,597)
Less:	
Other reinsurance recoveries	–
Net provision for claims outstanding	<u>(217,597)</u>
Closed policy years funds available	<u>–</u>
Summary	
Open and closed years funds available	41,872
Investment income available for allocation	<u>171,383</u>
Total projected funds available	<u>213,255</u>

Appendix II – Policy Year Statement

P&I Class

	2015/16	2014/15	2013/14	Total
	US\$000	US\$000	US\$000	US\$000
Open Policy Years – P&I Class				
Gross premium	152,953	162,397	135,419	450,769
Less:				
Reinsurance premium	–	–	–	–
Net premium	152,953	162,397	135,419	450,769
Allocated investment return transferred from the non-technical account	95	(478)	(400)	(783)
Gross claims paid				
Own claims paid and related expenses	(33,287)	(55,996)	(90,813)	(180,096)
Less:				
Reinsurance recoveries	–	–	–	–
Net claims paid	(33,287)	(55,996)	(90,813)	(180,096)
Claims outstanding including IBNR	(148,229)	(84,425)	(66,848)	(299,502)
Less:				
Other reinsurance recoveries	–	–	–	–
Net provision for claims outstanding	(148,229)	(84,425)	(66,848)	(299,502)
Administration expenses	(140)	(124)	(95)	(359)
Balance on the technical account	(28,608)	21,374	(22,737)	(29,971)
Allocated net investment income	30,349	–	24,648	54,997
Non-technical account administration expenses	(1,741)	(1,424)	(1,911)	(5,076)
Open policy years funds available	–	19,950	–	19,950

	Total
	US\$000
Closed Policy Years – P&I Class	
Available balance as at 20 February 2015	226,972
Add:	
Balance of 2012/13 year as at 20 February 2015	72,612
Movements during financial year:	
Other net premium	(2,692)
Allocated investment return transferred from the non-technical account	(4,182)
Net claims paid	(53,385)
Movement in allocated Trust investment income	(32,549)
Available balance as at 20 February 2016	206,776
Claims outstanding including IBNR	(206,776)
Less:	
Other reinsurance recoveries	–
Net provision for claims outstanding	(206,776)
Closed policy years funds available	–

Summary

	All Classes	FD&D	Others	P&I
Open and closed years funds available	41,872	16,987	4,935	19,950
Investment income available for allocation	171,383			
Total projected funds available	213,255			

Income and Expenditure Account

for the year ended 20 February 2016

	Note	2016 US\$000	2015 US\$000
Technical Account			
Earned premium, net of reinsurance			
Gross premium written	3	170,317	179,945
Outward reinsurance premium		–	1,328
		170,317	181,273
Allocated investment return transferred from the non-technical account		(6,337)	(8,265)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		153,732	189,835
Reinsurers' share		–	(7,050)
Net claims paid		153,732	182,785
Change in the provision for claims			
Gross amount		(34,145)	(89,061)
Reinsurers' share		–	43,037
Change in the net provision for claims	4	(34,145)	(46,024)
Claims incurred, net of reinsurance		119,587	136,761
Net operating expenses	5	156	136
Balance on the technical account for general business		44,237	36,111
Non-Technical Account			
Balance on the technical account for general business		44,237	36,111
Investment income	6	9,414	26,340
Unrealised losses on investments	7	(16,638)	(13,651)
Allocated investment return transferred to the technical account		6,337	8,265
Investment management expenses		(1,940)	(1,572)
Surplus for the financial year		41,410	55,493
Free reserves brought forward		171,845	116,352
Free reserves		213,255	171,845

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 2016

	Note	2016 US\$000	2015 US\$000
Assets			
Investments			
Other financial investments	8	789,510	787,193
Reinsurers' share of technical provisions			
Claims outstanding	4	–	–
Debtors			
Debtors arising out of reinsurance operations	9	5,825	–
Prepayments and accrued income			
Accrued interest		4,266	3,259
Total assets		799,601	790,452
Liabilities			
Capital and reserves			
Free reserves	10	213,255	171,845
Technical provisions			
Claims outstanding	4	534,091	568,236
Creditors			
Creditors arising out of reinsurance operations	11	51,533	35,855
Other creditors	12	722	14,516
Total liabilities		799,601	790,452

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

These financial statements were approved by the Corporate Trustee on 9 May 2016.

**The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited**

Cash Flow Statement

for the year ended 20 February 2016

	2016	2015
	US\$000	US\$000
Surplus on ordinary activities before tax		
Operating surplus before taxation after interest	41,410	55,493
Decrease in general insurance technical provisions	(34,145)	(46,024)
Unrealised losses on investments	16,638	13,651
(Increase)/decrease in debtors	(6,832)	2,453
Increase in creditors	1,884	12,833
	(22,455)	(17,087)
Net cash inflow from operating activities	18,955	38,406
Cash flow statement		
Net cash inflow from operating activities	18,955	38,406
Cash flows were invested as follows:		
Movement in cash holdings	–	–
Net portfolio investment		
Net purchase of bonds and loans	37,520	375,562
Net purchase of equities	61	20,816
Net purchase of alternative investments	–	11,196
Decrease in money market instruments	(18,626)	(369,168)
	18,955	38,406
Net investment of cash flows	18,955	38,406
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	–	–
Portfolio investments	18,955	38,406
Movements arising from cash flows	18,955	38,406
Changes in market values and exchange rate effects	(16,638)	(13,651)
Total movement in portfolio investments net of financing	2,317	24,755
Portfolio investments net of financing at 20 February 2015	787,193	762,438
Portfolio investments net of financing at 20 February 2016	789,510	787,193

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 per Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and applicable United Kingdom Financial Reporting Standards ("FRS") 102 and 103.

After making enquiries, the 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) Premium written

Premium comprises the total premium receivable for the whole period of cover provided by contracts incepting during the financial year. Business is ceded from SMUA and SMUAB.

(c) 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.

(d) Reinsurance premium and recoveries

Reinsurance premium and recoveries are recognised in the income and expenditure account on an accruals basis.

(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 rate of exchange ruling at the balance sheet date. Income and expenditure items including foreign exchange transactions are converted to US dollars at the rate of exchange ruling 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:

		2016	2015
Euro	€	0.900	0.878
UK sterling	£	0.701	0.648
Brazilian real	R\$	4.051	2.859

(f) Other financial investments

Investments and cash balances have been valued at their bid value as at the close of business on 19 February 2016. 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 all realised and unrealised exchange differences arising on foreign currency investments held to hedge technical provisions in the same currencies.

Notes on the Accounts

continued

3. Gross premium written

Premium receivable under reinsurance contracts

2016	2015
US\$000	US\$000
170,317	179,945

Under contracts dated 11 March 1983, as amended, the Corporate Trustee, on behalf of the Trust, accepted reinsurance business in respect of all the P&I risks and FD&D risks of SMUARI for the period up to 20 February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20 February 1984 through to 20 February 2015.

At 20 February 2015, following the corporate reorganisation, the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUA, to cover 90% of SMUA's net retained liabilities which exceed US\$50 million for the 2012/13 policy year, US\$100 million for the 2013/14 policy year and US\$135 million for the 2014/15 policy year and 100% of SMUA's net retained liabilities in respect of earlier policy years. Under the terms of this contract SMUA receives the benefit of external reinsurance arrangements previously entered into by the Trust.

Under a contract dated 27 January 2015, the Corporate Trustee, on behalf of the Trust, accepted reinsurance business in respect of all the liabilities of SMUAB for the 2015/16 policy year.

4. Change in the net provision for claims

Gross outstanding claims

Provision brought forward

Provision carried forward

2016	2015
US\$000	US\$000
(568,236)	(657,297)
534,091	568,236
(34,145)	(89,061)

Reinsurers' share

Provision brought forward

Provision carried forward

–	43,037
–	–
–	43,037

Change in the net provision for claims

(34,145)	(46,024)
-----------------	----------

A favourable net run-off deviation of US\$71.7 million was experienced during the year (2015: US\$36.4 million).

The estimates for known outstanding claims are based on the best 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 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.

	2016	2015
	US\$000	US\$000
5. Net operating expenses		
<i>Administrative expenses</i>		
Non-investment management expenses payable to Corporate Trustee	104	84
Auditor's remuneration – audit fees	52	52
	156	136
6. Investment income		
Dividends and interest	16,113	5,269
<i>Realised (losses)/gains</i>		
Investments	(1,030)	23,887
Exchange	(5,669)	(2,816)
	(6,699)	21,071
	9,414	26,340
7. Unrealised losses on investments		
Investments	(15,970)	(8,202)
Exchange	(668)	(5,449)
	(16,638)	(13,651)

Notes on the Accounts

continued

8. Other financial investments

Market value

	2016 US\$000	2015 US\$000
Equities	52,249	58,708
Alternative investments	77,625	80,476
Bonds and loans	648,496	618,288
Money market instruments	4,829	50
Cash accounts	6,253	29,714
Open forward foreign exchange contracts	58	(43)
	789,510	787,193

Cost

Equities	46,006	45,945
Alternative investments	79,659	79,659
Bonds and loans	658,423	620,903
Money market instruments	4,885	50
Cash accounts	6,253	29,714
	795,226	776,271

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:

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
As at 20 February 2016				
Equities	–	52,249	–	52,249
Alternative investments	–	77,625	–	77,625
Bonds and loans	572,585	75,911	–	648,496
Money market instruments	4,829	–	–	4,829
Cash accounts	6,253	–	–	6,253
Open forward foreign exchange contracts	–	58	–	58
	583,667	205,843	–	789,510

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
As at 20 February 2015				
Equities	–	58,708	–	58,708
Alternative investments	–	80,476	–	80,476
Bonds and loans	543,679	74,609	–	618,288
Money market instruments	50	–	–	50
Cash accounts	29,714	–	–	29,714
Open forward foreign exchange contracts	–	(43)	–	(43)
	573,443	213,750	–	787,193

9. Debtors arising out of reinsurance operations

SMUAB

2016 US\$000	2015 US\$000
5,825	–

10. Free reserves

Capital reserve

Accumulated fund brought forward

Surplus for year

2016 US\$000	2015 US\$000
33,827	33,827
138,018	82,525
41,410	55,493
213,255	171,845

11. Creditors arising out of reinsurance operations

SMUA

SMUAB

2016 US\$000	2015 US\$000
51,533	–
–	35,855
51,533	35,855

12. Other creditors

Unsettled investment transactions

Other creditors

2016 US\$000	2015 US\$000
482	13,704
240	812
722	14,516

Notes on the Accounts

continued

13. Taxation

At the present time, no income, profit, capital or capital gains taxes are levied in Bermuda. Accordingly no provision for such taxes has been recorded by the Trust. In the event that such taxes are levied the Trust has received an undertaking from the Bermuda government exempting it from all such taxes until 31 March 2035.

14. Transactions with related parties

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited is the Corporate Trustee of the Trust. It receives a fee for investment management costs and related expenses. For the financial year to 20 February 2016 this fee amounted to US\$2.1 million (2015: US\$1.7 million) of which US\$0.2 million (2015: US\$0.4 million) was outstanding at the balance sheet date.

15. 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.

After the year end the BMA approved the Corporate Trustee's application to be categorised as a Class 3A insurer and made this effective from 1 January 2016. The BMA also designated the Corporate Trustee as the designated insurer of the Steamship insurance group for regulatory purposes also effective from 1 January 2016.

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

16. 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. 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 opposite:

	2016 US\$000	2015 US\$000
5% increase in claims incurred on current policy year		
Effect on Trust free reserves	(15,376)	(12,719)
Single claim in SMUA of US\$2 billion in current policy year		
Effect on Trust free reserves	(11,823)	(11,836)

The following tables show the development of claims over five 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.

	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000
Insurance claims – gross policy year					
End of reporting year	227,979	224,996	198,320	172,086	191,315
One year later	230,003	211,455	172,634	151,737	
Two years later	213,473	208,812	166,309		
Three years later	211,876	200,590			
Four years later	206,522				
Current estimate of ultimate claims	206,522	200,590	166,309	151,737	191,315
Cumulative payments to date	163,702	149,934	97,004	61,311	34,551
Claims outstanding	42,820	50,656	69,305	90,426	156,764
Claims outstanding relating to last five policy years					409,971
Other claims liabilities					124,120
Total gross outstanding claims					534,091

	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000
Insurance claims – net policy year					
End of reporting year	212,081	221,771	198,320	172,086	191,315
One year later	209,673	203,542	172,634	151,737	
Two years later	202,063	208,812	166,309		
Three years later	205,769	200,590			
Four years later	200,415				
Current estimate of ultimate claims	200,415	200,590	166,309	151,737	191,315
Cumulative payments to date	157,595	149,934	97,004	61,311	34,551
Claims outstanding	42,820	50,656	69,305	90,426	156,764
Claims outstanding relating to last five policy years					409,971
Other claims liabilities					124,120
Total net outstanding claims					534,091

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

Notes on the Accounts

continued

16. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to the 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.

Credit risk also arises on deposits held with banks. This is controlled by using a variety of banks and limiting individual exposures to US\$10 million for banks rated AA by S&P, or an equivalent rating from another agency, and no more than US\$5 million for banks rated A by S&P, or an equivalent rating from another agency.

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

	AAA	AA	A	BBB	BB & below	Not rated	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
As at 20 February 2016							
Equities	–	–	–	–	–	52,249	52,249
Alternative investments	–	–	–	–	–	77,625	77,625
Bonds and loans	65,822	254,647	161,124	134,687	29,842	2,374	648,496
Money market instruments	4,829	–	–	–	–	–	4,829
Cash accounts	–	–	6,253	–	–	–	6,253
Foreign exchange contracts	–	–	58	–	–	–	58
Debtors arising out of reinsurance operations	–	–	5,825	–	–	–	5,825
Accrued interest	162	1,528	1,210	1,226	140	–	4,266
	70,813	256,175	174,470	135,913	29,982	132,248	799,601
As at 20 February 2015							
Equities	–	–	–	–	–	58,708	58,708
Alternative investments	–	–	–	–	–	80,476	80,476
Bonds and loans	64,055	298,119	131,685	113,106	9,935	1,388	618,288
Money market instruments	50	–	–	–	–	–	50
Cash accounts	3,333	–	26,378	–	–	3	29,714
Foreign exchange contracts	–	–	(43)	–	–	–	(43)
Accrued interest	87	890	962	1,282	38	–	3,259
	67,525	299,009	158,982	114,388	9,973	140,575	790,452

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates, currency 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 Board of the reinsured. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by independent investment consultants.

The Trust is exposed to currency risk in relation to claim liabilities in a number of non US dollar currencies, predominantly the euro, UK sterling and Brazilian real. This exposure is mitigated by holding investments in euro and UK sterling denominated assets and a derivative position held in respect of the Brazilian real.

The following table show the Trust's assets and liabilities by currency:

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Other US\$000	Total US\$000
As at 20 February 2016						
Assets	749,368	19,852	30,381	–	–	799,601
Liabilities	(490,742)	(21,355)	(22,483)	(15,471)	(36,295)	(586,346)
	258,626	(1,503)	7,898	(15,471)	(36,295)	213,255
Derivative position				12,000		
As at 20 February 2015						
Assets	759,793	12,642	18,017	–	–	790,452
Liabilities	(528,166)	(12,988)	(18,249)	(23,219)	(35,985)	(618,607)
	231,627	(346)	(232)	(23,219)	(35,985)	171,845
Derivative position				20,000		

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. The table below shows the change in fair value of the investments assuming a 1% increase in the interest rate:

	Effect on investment valuation US\$000
As at 20 February 2016	(14,765)
As at 20 February 2015	(15,433)

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

Notes on the Accounts

continued

16. 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 highly liquid portfolio of cash, government and corporate bonds with a maturity equivalent to the expected settlement period of claim liabilities. The Trust therefore has sufficient access to funds to cover reinsurance claims from SMUA and SMUAB. Most of the remaining assets in the surplus portfolio could be converted in to cash in less than one month.

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

	0–1 years US\$000	1–2 years US\$000	2–5 years US\$000	Over 5 years US\$000	Total US\$000
As at 20 February 2016					
Claims outstanding	183,829	120,083	162,017	68,162	534,091
Other liabilities	52,255	–	–	–	52,255
Total liabilities	236,084	120,083	162,017	68,162	586,346

	0–1 years US\$000	1–2 years US\$000	2–5 years US\$000	Over 5 years US\$000	Total US\$000
As at 20 February 2015					
Claims outstanding	183,279	117,936	172,532	94,489	568,236
Other liabilities	50,371	–	–	–	50,371
Total liabilities	233,650	117,936	172,532	94,489	618,607

The following table shows the expected maturity of the Trust's assets. The table below has been drawn up based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where The Trust anticipates that the cash flow will occur in a different period:

	0–1 years US\$000	1–2 years US\$000	2–5 years US\$000	Over 5 years US\$000	Total US\$000
As at 20 February 2016					
Investments	272,604	34,190	452,281	30,435	789,510
Other assets	10,091	–	–	–	10,091
Total assets	282,695	34,190	452,281	30,435	799,601

	0–1 years US\$000	1–2 years US\$000	2–5 years US\$000	Over 5 years US\$000	Total US\$000
As at 20 February 2015					
Investments	288,058	161,692	230,551	106,892	787,193
Other assets	3,259	–	–	–	3,259
Total assets	291,317	161,692	230,551	106,892	790,452

Operational risk

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

Report of the Independent Auditor

To the Corporate Trustee of The Steamship Mutual Trust

We have audited the financial statements of The Steamship Mutual Trust for the year ended 20 February 2016, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the Corporate Trustee in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Corporate Trustee those matters we are required to state to them in an independent 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 Trust and the Corporate Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Trust's affairs as at 20 February 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Bermuda Companies Act 1981.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Report of the Corporate Trustee for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Corporate Trustee has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Trust and its environment obtained in the course of the audit, we have not identified any material misstatements in the Report of the Corporate Trustee.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Bermuda Companies Act 1981 requires us to report to you if, in our opinion:

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

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

Chartered Accountants and Statutory Auditor

London
9 May 2016

