



## Financial Condition Report 2017

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## Introduction

The structure of the Financial Condition Report (FCR) follows the requirements of the Bermuda Monetary Authority's Insurance (Public Disclosure) Rules 2015 and those of the Solvency II regulations.

This is the first FCR that publishes the solvency positions of the Steamship regulatory group and each entity within that group as at 20 February 2017. Its purpose is to provide Members, their Brokers and other interested parties with an understanding of the risks taken by the Club and the capital that is maintained to protect against the consequences of those risks materialising.

### Definitions

<b>Steamship</b>	A collective term covering Steamship Mutual Underwriting Association Limited (SMUA), The Steamship Mutual Underwriting Association (Bermuda) Limited (SMUAB) and The Steamship Mutual Trust (SMUAT) subject to regulatory capital requirements, individually and collectively to the extent applicable in regulations.
<b>Regulators</b>	The Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA), the Bermuda Monetary Authority (BMA) and the European Insurance & Occupational Pensions Authority (EIOPA).

### Regulatory terminology

Term	BMA	PRA / EIOPA
Public disclosure document	<b>(FCR)</b> Financial Condition Report	<b>(SFCR)</b> Solvency & Financial Condition Report
Regulatory Group Level	<b>(GSSA)</b> Group Solvency Self-Assessment	<b>(Group ORSA)</b> Group Own Risk and Solvency Assessment
Solo entity level	<b>(CISSA)</b> Commercial Insurers' Solvency Self-Assessment	<b>(ORSA)</b> Own Risk and Solvency Assessment
Standard formula	<b>(BSCR)</b> Bermuda Solvency Capital Requirement	<b>(SCR)</b> Solvency Capital Requirement
Minimum capital requirement	<b>(MSM)</b> Minimum Solvency Margin	<b>(MCR)</b> Minimum Capital Requirement
Capital resources	Available Statutory Capital & Surplus	Own Funds

## Executive Summary

The Club manages its overall capital resources to maintain a financial strength rating of A from Standard & Poor's. In practice this is a higher capital requirement than is set by regulators. The Club also ensures that capital resources of individual Steamship companies are more than sufficient to meet the requirements set by local regulators.

The Solvency II system of regulation came into force on 1 January 2016. Under 'Pillar 3' of the Solvency II regime insurers are now required to publish an annual Solvency and Financial Condition Report (SFCR) to the market. The aim of this report is to enable readers to understand the amount and type of risk taken by an insurer, as reflected in its capital requirement, and to compare this with the amount and type of capital resources which the insurer has available to protect itself against those risks.

Under Solvency II Steamship Mutual is considered to be a regulatory group comprising Steamship Mutual Underwriting Association Limited, The Steamship Mutual Underwriting Association (Bermuda) Limited and The Steamship Mutual Trust. The supervisor for this group is the Bermuda Monetary Authority (BMA) and so Steamship calculates its group solvency capital requirement using the BMA's standard formula.

**At 20 February 2017 Steamship had a group capital requirement of US\$227.3 million and total capital resources of US\$610.9 million. The solvency ratio was therefore 269%.**

The following table shows the solvency positions of the Group and each entity in the Group.

US\$000	Entity	Group	SMUAT	SMUAB	SMUA
<b>Capital resources</b>		<b>610,887</b>	327,950	115,364	141,508
<b>Solvency Capital Requirement (SCR)</b>		<b>227,268</b>	114,686	16,752	76,511
<b>Solvency Ratio</b>		<b>269%</b>	286%	689%	185%

The following tables show the components of the group capital requirement and capital resources:

US\$000	Group
Underwriting risks	292,252
Counterparty default risks	5,971
Market risks	68,264
Operational risks	26,996
	393,483
Diversification between risk categories	(166,215)
Capital requirement	227,268

Consistent with the aims of a mutual insurer the majority of the capital requirement derives from underwriting risk. Market risk relates to the investments held by Steamship and reflects a conservative investment strategy.

## Executive Summary

US\$000	Group
Tier 1 capital - Free reserves on Solvency II basis	504,595
Tier 2 capital	
Steamship Hydra Cell	34,757
Allowance for ability to make additional calls	71,535
Capital resources	610,887

Tier 1 capital refers to resources which are on the balance sheet and are generally available to meet risks throughout the business. Tier 2 capital relates to resources which are either only available to meet particular risks or are additional funds that can be raised if required. Tier 2 capital can be used to make up a maximum of 50% of the SCR.

Solvency II requires that combined free reserves in the financial statements of US\$510.3 million be restated on an 'economic' basis. The main adjustments required are to the provision for outstanding claims where any prudence in provisions is removed, leaving a 'best or most likely estimate' of cost, a discount is then applied to reflect the time value of money and finally a 'risk margin' is added using a standard calculation. The aim of this adjustment is to make claim provisions and therefore free reserves more comparable across insurers.

Part of the capital held in the Steamship Hydra cell, US\$34.8 million, is considered to be only available to meet risks arising in the Hydra cell and is hence classified as Tier 2.

The regulator recognises that the Club can increase capital resources by making additional premium calls under its rules. Following an application to the regulator an allowance of US\$71.5 million has been approved as Tier 2 capital.

### Outlook for 2017

The shipping market continues to be depressed with subdued economic growth and overcapacity representing major headwinds for the Club's Members.

Steamship continues to perform strongly due to recent low levels of claims and improvements in the projected ultimate cost of claims on prior years.

The macro-economic background for 2017 remains challenging. As the process of the UK leaving the EU commences this year we anticipate continued uncertainty and elsewhere political instability is also likely to result in a subdued economic environment.

## Statement of Directors' Responsibilities

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Financial Condition Report (FCR) in accordance with the BMA's Insurance (Public Disclosure) Rules 2015, the PRA rules and Solvency II Regulations.

Each of the Directors, confirms that, to the best of their knowledge:

- (a) throughout the financial year in question, the Group and its solo insurance undertakings have complied in all material respects with the requirements of the BMA and PRA rules and applicable Solvency II regulations; and
- (b) it is reasonable to believe that, at the date of the publication of the Financial Condition Report (FCR), the Group and its solo insurance undertakings continue so to comply, and will continue so to comply in future.

The FCR has been authorised for issue by the Directors on 24 July 2017.

By Order of the Board

## A. Business & Performance

### A.1 Business

Steamship is a mutual Protection and Indemnity Association, otherwise known as a P&I Club, which operates as a non-profit making organisation providing cover for its shipowner and charterer Members against third party liabilities arising from the use and operation of ships.

The Club covers a wide range of liabilities, including loss of life and personal injury to crew, passengers and others on board, cargo loss and damage, pollution by oil and other hazardous substances, wreck removal, collision and damage to property. The Club also provides a wide range of services to its Members (policyholders) on claims handling, legal issues and loss prevention, and plays a leading role in coordinating the response to, and management of, maritime casualties involving Members' vessels.

Steamship is one of the largest and most diverse P&I Clubs in the world, and is a member of the International Group of P&I Clubs participating in the International Group Pool.

The thirteen principal underwriting associations which comprise the International Group collectively provide liability cover for shipowners which own approximately 90% of the world's ocean-going ships.

The Group Clubs provide cost-effective insurance to shipowners through a claims-sharing 'Pool' and collective purchase of the International Group excess loss reinsurance programme. These two arrangements provide a mechanism for sharing claims in excess of US\$ 10 million up to, currently, approximately US\$ 7.75 billion. The policy year of all P&I Clubs commences at noon Greenwich Mean Time on 20<sup>th</sup> February.

Three core agreements underpin the governance and functioning of the International Group, namely the Group Constitution, the International Group Agreement and the Pooling Agreement. More details on these agreements can be found on the International Group's website at <http://www.igpandi.org>.

Steamship's strategy is to be the best provider of the full range of marine protection and indemnity (P&I) and related insurances, on the mutual principle, delivering both first class service and security at a reasonable cost. Principles that underpin this strategy are:

1. advocacy of the principle of mutuality and the benefits of this for shipowners across the whole range of their insurance needs;
2. provision of technical expertise and a dedication to problem solving for the members;
3. a belief in the benefit of a diverse membership by geographical area and vessel type;
4. a prudent approach to investment policy resulting in financial security and stability; and
5. pre-eminence in loss prevention initiatives.

Guided by a clearly defined risk appetite statement, risk management is key to Steamship's strategy: diversification of members and vessels to reduce concentration of risk; a prudent investment approach focused on stable, secure returns, constraining market risk; a focus on loss prevention initiatives aiming to limit losses to members and reduce claims; and an internal culture that is sensitive to the requirements of risk management.

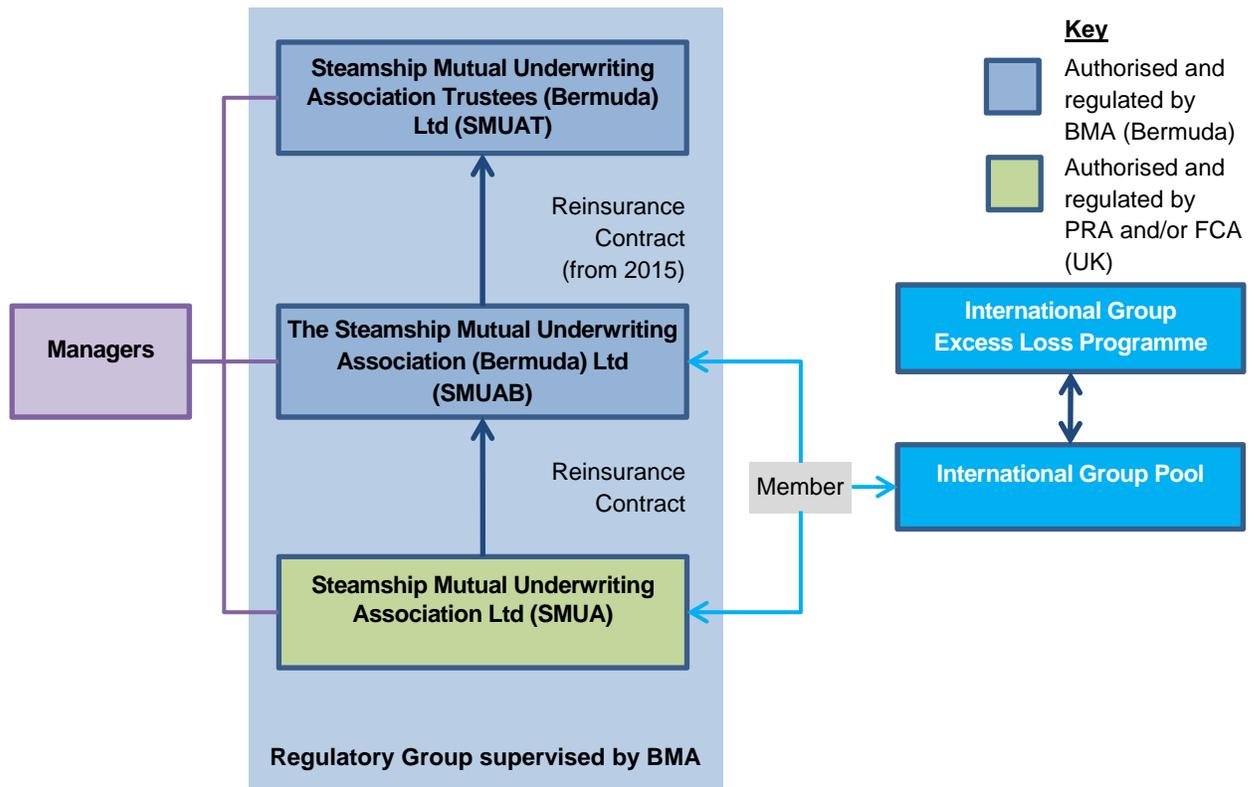
Steamship's strategy is to carefully grow its business organically, admitting new Members with high quality operations and a willingness to pay the premium required by the risk exposure which their business brings to Steamship.

Steamship's business model is therefore to maintain a sharp focus on serving its members and to have a well diversified portfolio by trade and geographical location.

## A. Business & Performance

The Boards have appointed Managers who are responsible for the day to day handling of underwriting, claims and the administration of the Club's business in accordance with the policies laid down by the Directors. The Managers have operations in London, Bermuda, Hong Kong, Rio de Janeiro and Piraeus.

The diagram below depicts the corporate structure which came into effect in February 2015.



## A. Business & Performance

### Steamship Mutual Underwriting Association Limited

Steamship Mutual Underwriting Association Limited (SMUA) was incorporated in the United Kingdom on 16 October 1909 and registered in England and Wales. SMUA is limited by guarantee and does not have share capital as it is owned by its Members (policyholders). The Members of SMUA comprise its Directors, SMUAB, shipowners and other entities who have ships insured by SMUA.

The day to day operations of the Association are managed by Steamship P&I Management LLP (SPIM) and therefore the Association does not have any employees. The Association is governed by a Board comprising a non-executive Chairman, five non-executive directors and two members of SPIM. The Board mainly consists of representatives of the Members.

The Association is regulated by the PRA and the FCA. Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks. The PRA is the lead supervisor for the purposes of Solvency II regulation.

### The Steamship Mutual Underwriting Association (Bermuda) Limited

The Steamship Mutual Underwriting Association (Bermuda) Limited (SMUAB) was established by an Act of the Parliament in Bermuda on 24 June 1974 and began underwriting with effect from 20 February 1975. SMUAB is also limited by guarantee and does not have share capital as it is owned by its Members (policyholders). The members of SMUAB comprise its Directors, shipowners and all members of SMUA.

The operations of the Association are managed by Steamship Mutual Management (Bermuda) Limited and therefore the Association does not have any employees. The Association is governed by a Board comprising a non-executive Chairman, 26 non-executive directors incorporating two Directors of the Manager's London representatives. The Board mainly consists of representatives of the Members.

Following the February 2015 restructure SMUAB ceased writing direct business but continued to operate as a reinsurer of SMUA.

The Association is supervised by the BMA and is classified as a 'Class 3A insurer' (Solvency II equivalent).

### Steamship Mutual Trust

The Steamship Mutual Trust and its Corporate Trustee, The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited (SMUAT) were established on 11 March 1983 in Bermuda.

SMUAT is a registered insurer under Bermudian law, and this enables the Trust to act as an independent insurer for the benefit of the beneficiaries set out in the Trust Deed. These are, in addition to a number of named charities, all the Members for the time being of SMUAB.

SMUAT is governed by a Board comprising a non-executive Chairman and five non-executive directors including the Chairmen of SMUA and SMUAB in an ex-officio capacity.

The operations of the Trust are managed by Hamilton Investment Management Limited and therefore the Trust and SMUAT do not have any employees. The Trust through SMUAT is supervised by the Bermuda Monetary Authority and is classified as a 'Class 3A insurer' (Solvency II equivalent).

Each year commencing 20 February the Trust enters into a reinsurance contract with SMUAB for the reinsurance of all risks accepted.

Following the implementation of Solvency II rules from 1 January 2016, the BMA became the supervisor of the regulatory group with SMUAT being named as the 'Designated Insurer' (and hence lead insurer) for group supervision purposes.

## A. Business & Performance

Steamship's registered offices and principal places of business and the contact details of its external auditors and supervisory authorities are shown below:

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

Registered Office	Managers	External Auditors	Group Supervisory Authority
Clarendon House 2 Church Street Hamilton HM 11 Bermuda	Hamilton Investment Management Limited Washington Mall II PO Box HM 601 Hamilton HM CX Bermuda +1 441 295 4502	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR +44 (0)20 7936 3000	Bermuda Monetary Authority BMA House 43 Victoria Street Hamilton Bermuda +1 441 295 5278

### The Steamship Mutual Underwriting Association (Bermuda) Limited

Registered Office	Managers	External Auditors	Supervisory Authority
Clarendon House 2 Church Street Hamilton HM 11 Bermuda	Steamship Mutual Management (Bermuda) Limited Washington Mall II PO Box HM 601 Hamilton HM CX Bermuda +1 441 295 4502	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR +44 (0)20 7936 3000	Bermuda Monetary Authority BMA House 43 Victoria Street Hamilton Bermuda +1 441 295 5278

### Steamship Mutual Underwriting Association Limited

Registered Office	Managers	External Auditors	Supervisory Authority
Aquatical House 39 Bell Lane London E1 7LU	Steamship P&I Management LLP Aquatical House 39 Bell Lane London E1 7LU +44 (0)20 7247 5490	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR +44 (0)20 7936 3000	Prudential Regulation Authority 20 Moorgate London EC2R 6DA +44 (0) 20 7601 4444
	Managers' London Representative Steamship Insurance Management Services Limited Aquatical House 39 Bell Lane London E1 7LU +44 (0)20 7247 5490		Financial Conduct Authority 25 The North Colonnade London E14 5HS +44(0)207 066 1000

## A. Business & Performance

Steamship writes insurance internationally. The largest markets by premium are shown in the table below.

### Gross premium written by Member location

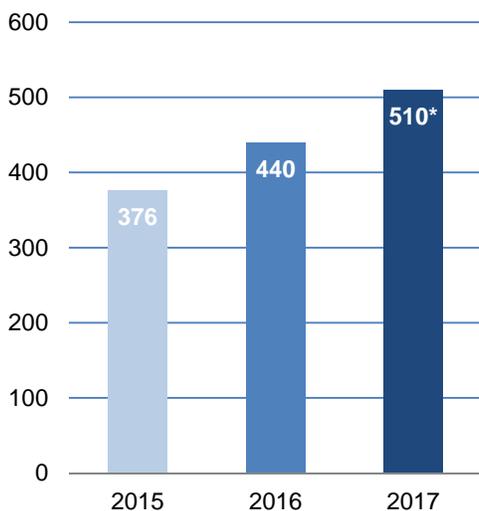
	2017 US\$000	2016 US\$000
United States of America	103,249	121,598
South Korea	21,434	25,910
Germany	18,881	24,162
Netherlands	15,752	14,617
Brazil	15,005	17,749
Hong Kong	12,337	15,377
Taiwan	11,728	13,556
Italy	11,129	11,557
Cyprus	10,179	11,410
India	9,912	11,821
United Kingdom	9,360	9,426
China	8,302	10,152
Chile	7,760	9,089
Other countries	50,614	53,905
	<b>305,642</b>	<b>350,329</b>

Gross premium, excluding the return of US\$25.8 million, decreased by US\$18.9 million or 5.4% to US\$331.4 million reflecting reduced Excess Loss reinsurance premium, increased premium churn, increased lay ups and reductions in premium agreed at renewal.

### A.2 Performance

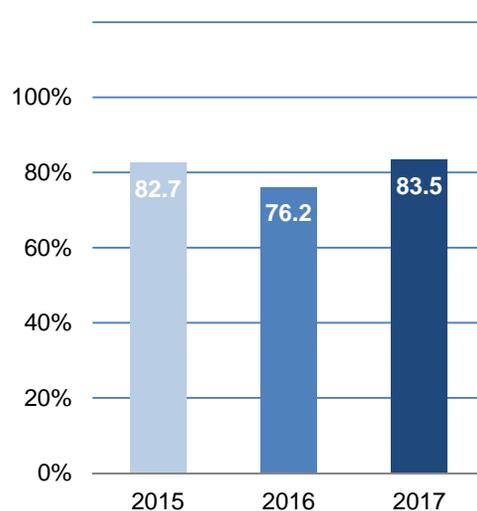
Steamship performed very strongly for a third year in succession in 2016/17 with free reserves increasing by US\$70.0 million to US\$510.3 million. This follows the two previous years which saw increases of US\$64 million and US\$75 million respectively. The combined ratio was 83.5% which follows the two previous years' combined ratios of 76% and 83% compared to a target of less than 100% on a rolling three year basis.

Free Reserves (US\$ Millions)



\* Net of US\$26 million return of premium to members

Combined Ratio



## A. Business & Performance

The combined ratio gave rise to an underwriting surplus of US\$41.2 million which was driven by an exceptionally low level of retained and Pool claims in the 2016/17 policy year.

For the 2016/17 policy year, when compared to the preceding year, the Club experienced a similar number of claims in the layers below US\$250,000 but the average cost of such claims was nearly 20% lower. Conversely the number of larger claims was even lower than was experienced last year but their average cost was similar to the average of recent policy years. Overall net estimated claims, including IBNR provision and after reinsurance recoveries, were US\$188.6 million or 14.7% below the figure for the 2015/16 policy year at the same point.

Prior policy years continued to develop favourably and broadly in line with the Board's expectations.

More information about the performance of Steamship can be found in the Management Highlights, in particular in the Chairman of the Board's Introduction on pages 2 to 3 or in the Report & Accounts of the individual entities.

### **2017 Renewal**

The Board decided that, for a third successive year, no general increase was to be applied at renewal. Including the projected value of higher deductibles and other changes in terms, premium for owned entries fell by 1.7% on a like for like basis.

### **Tonnage**

The level of entered tonnage grew by 8.5%, 11.9 million gross tons at renewal, much of which came from chartered vessels, and the overall total entered tonnage rose to 151.3 million gross tons (84.6 million gross tons of owned business and 66.7 million gross tons of chartered business).

### **Capital Strength**

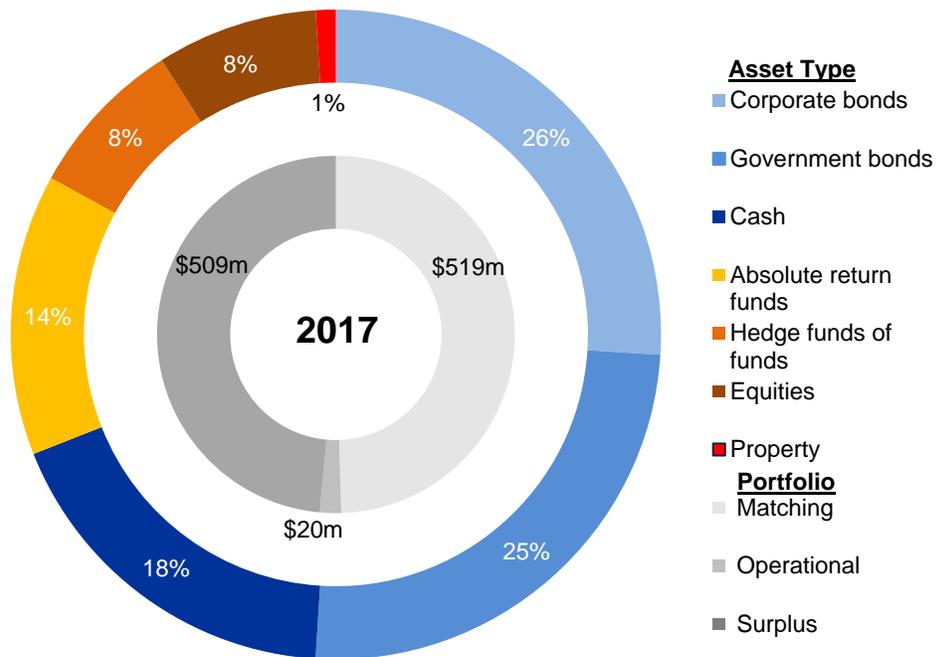
In October of this year, as part of its annual overall review of projected capital requirements and capital resources the Board will consider another return of premium to Members and the level of release calls.

## A. Business & Performance

### A.3 Investment Performance

One of Steamship's primary objectives is to have a prudent approach to investment policy in order to maintain financial security and stability.

Steamship splits its investments into 'operational', 'matching' and 'surplus' portfolios. The operational portfolio is the set of bank accounts and overnight deposits maintained to meet day to day liquidity requirements. The matching portfolio is designed to match the duration and currency of best estimate claims liabilities with highly rated government and corporate bonds. The surplus portfolio is the set of investments in excess of those required for the 'matching portfolio' and is invested to achieve a good risk-adjusted return net of fees.



The combined investment portfolio recorded an overall gain of US\$31.0 million before fees, a return of 2.8%, excluding US\$0.7 million of adverse currency movements which are included in the underwriting result. A 2.0% return on bonds, which form the majority of the portfolio, was supplemented by a 19.3% return on equities and an 8.5% return on hedge funds of funds. Total cash and investments increased by 1.6% to US\$1.06 billion.

The Trust recorded an investment gain of 4.0% compared to a loss of 0.1% in the previous year.

More information about the investment performance of Steamship can be found in the Management Highlights in the Investments section on pages 38 to 39.

The information presented in section A provides a true and fair view of the business and performance of Steamship during the period.

## B. System of Governance

### B.1 General information on the system of governance

Steamship has an effective system of governance in place which provides for sound and prudent management.

Steamship entities are governed by a Board comprising a non-executive Chairman and non-executive directors representing the Members.

The following table sets out the Board composition of each Steamship entity.

#### SMUAT Board

A L Marchisotto, Moran Holdings Inc (Chairman)	C C Tung, Orient Overseas (International) Ltd
J G Conyers	A Pohan, NY Waterway – ex officio status
A E Exel, Adara Advisors Pty Ltd (resigned 23 January 2017)	S-M Edey, Sloman Neptun, Schiffahrts, AG – ex officio status

#### SMUAB Board

S-M Edey, Sloman Neptun Schiffahrts AG (Chairman)	B A McAllister, McAllister Towing
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland	S Mehta, Essar Global
A Albertini, Marfin Management SAM	C K Ong, U-Ming Marine Transport Corp
M W Bayley, Royal Caribbean International	A Pohan, NY Waterway
C Bouch	G W F Rynsard, Steamship P&I Management LLP
D S Farkas, Norwegian Cruise Line	M Saeidi, Islamic Republic of Iran Shipping Line (appointed 28 March 2017)
M Frith, Conyers, Dill & Pearman	B K Sheth, The Great Eastern Shipping Co Ltd
I Grimaldi, Grimaldi Holdings SpA	B B Sinha, The Shipping Corporation of India Ltd
D M Ho, Magsaysay Maritime Corp	M Sloan, Carnival Corporation & plc
Hu, Jingwu, China Shipowners Mutual Assurance Association (retired 10 May 2016)	C Sommerhage, Columbia Shipmanagement (Germany) GmbH
E Ide, Naviera Ultrana Ltda	Song, Chunfeng, China Shipowners Mutual Assurance Association (appointed 28 October 2016)
H M Juniel, Reederei F Laeisz GmbH (retired 10 May 2016)	A L Tung, Island Navigation Corp International Ltd
W J Kim, Polaris Shipping Co. Ltd	A Zacchello, Seaarland Shipping Management BV
C J Madinabeitia, Tradewind Tankers SL	R Zagari, Augustea Group
S J Martin, Steamship P&I Management LLP	S Zagury, Vale (appointed 1 March 2016)

#### SMUA Board

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

## B. System of Governance

The Board of Directors has the ultimate responsibility for the business operating in accordance with applicable laws and regulations. The Board decides on Steamship's strategic business plan and establishes directives and instructions, as well as ensuring that appropriate internal instructions for risk management and risk control exist.

The Board continuously monitors the operations of the Club, its financial performance and stability.

The Audit and Risk Committee of the Board has responsibility for the detailed review of published financial reports, liaison with the internal, external auditors and regulators. The Finance and Nominations Committee of the Board has responsibility for reviewing the fees paid to the Managers and Directors.

### B.2 Fit and proper requirements

Steamship is committed to ensuring that all members of its Boards, the key control function holders, and other senior individuals within Steamship, behave with integrity, honesty and skill, and this commitment is documented in the Key Person policy. Steamship has processes in place to ensure that appropriate standards of fitness and propriety are met and maintained.

Steamship's fit and proper requirements are:

- Formal qualifications, knowledge and experience within the insurance sector, other financial sectors or other relevant sectors or businesses;
- For control functions within Steamship that require knowledge of accounting, actuarial, corporate management, business strategy, business models, system of governance and regulatory framework have the appropriate skills; and
- Honesty and financial soundness based on evidence regarding character, personal behaviour and business conduct including any criminal, financial and supervisory record.

The Managers maintain a governance map (see Appendix 1) which sets out how governance functions are fulfilled and devolved. This addresses the desire of BMA and EIOPA to ensure proper compliance with the requirement to devolve governance functions under Solvency II and the PRA and FCA's more detailed requirements under the Senior Insurance Managers Regime (SIMR).

Where a key control function is outsourced, Steamship ensures that the outsourcing firm carries out appropriate assessments of fitness and propriety for those responsible for the provision of the function and provides evidence of this.

In addition, the Board's 'Finance and Nomination Committee' regularly reviews the structure, size and composition of the Board, including skills, knowledge and experience, and makes recommendations to the Board with regard to any changes. When a new appointment is required, the Finance and Nominations Committee evaluates the balance of knowledge, skills and experience of the Board members and uses this evaluation to inform the selection of a suitable candidate.

Records are maintained, and notifications made to the regulators, as and when required.

### B.3 Risk management system (Including the GSSA)

The objective of Steamship's risk management system is to ensure that the business is carried out within the overall risk appetite set by the Board. The system is characterised by a holistic, integrated and top down driven enterprise risk management system, based on a shared risk culture.

Any consideration of culture at Steamship must begin with the understanding that it is an organisation owned by its members and run for its members. This distinguishes P&I Clubs from non-mutual insurers and is a major factor in Steamship's strategic thinking and decision-making, in turn reflected in its handling of matters ranging from premium setting and return of capital to the consideration of claims outside the standard rules of cover.

## B. System of Governance

The risk management system is executed through the risk management control cycle, which involves the systematic identification, valuation, monitoring and reporting of existing and emerging risks. The risk management function is responsible for monitoring Steamship's risk management system reporting to the Executive Chairman.

Steamship uses the three lines of defence assurance model which segregates business operations from oversight and monitoring activity to improve independence and assurance over business processes.



The first line of defence is carried out by the operational functions. The second and third lines of defence are independent of the operational functions. Risk and compliance, together with the Actuarial & Statistics function jointly constitute the second line of defence.

The third line of defence is the Internal Audit. This function is fully independent and appointed by the Board.

Risk owners self-assess risk ratings and the quality of underlying controls before Risk Management undertake independent design and operational effectiveness testing.

Risk profiles are considered on an inherent and residual (after controls) basis and are documented within Steamship's risk register, with aligned controls and risk categories for capital purposes. Steamship's risk profile draws on risk tolerance and trigger metrics; risk events; recommendations from internal and external sources; emerging risks & market developments; and current controls and mitigation techniques and their effectiveness. There is a high level of expertise and experience on the Board. In the course of Board meetings which generally take place over extended periods of 3 to 4 days three times a year, directors are able to bring their considerable industry knowledge and experience to bear on a range of both strategic and operational issues. Steamship's Managers are insurance professionals who engage on a day-to-day basis with market and regulatory developments that may affect either the Club's insurance activity or the wider maritime community whose liability risks it underwrites. Together, Directors and Managers are either members of or attendees at meetings of the Board's key decision-making bodies whose deliberations inform the current and forward-looking risk profile of the Club.

The strategic business plan, risk strategy, risk appetite statement and tolerance & triggers report are integral components of Steamship's Risk Management System and are reviewed at least once a year. In this way Steamship ensures that the risk management system is kept up to date.

### Group Solvency Self-Assessment (GSSA)

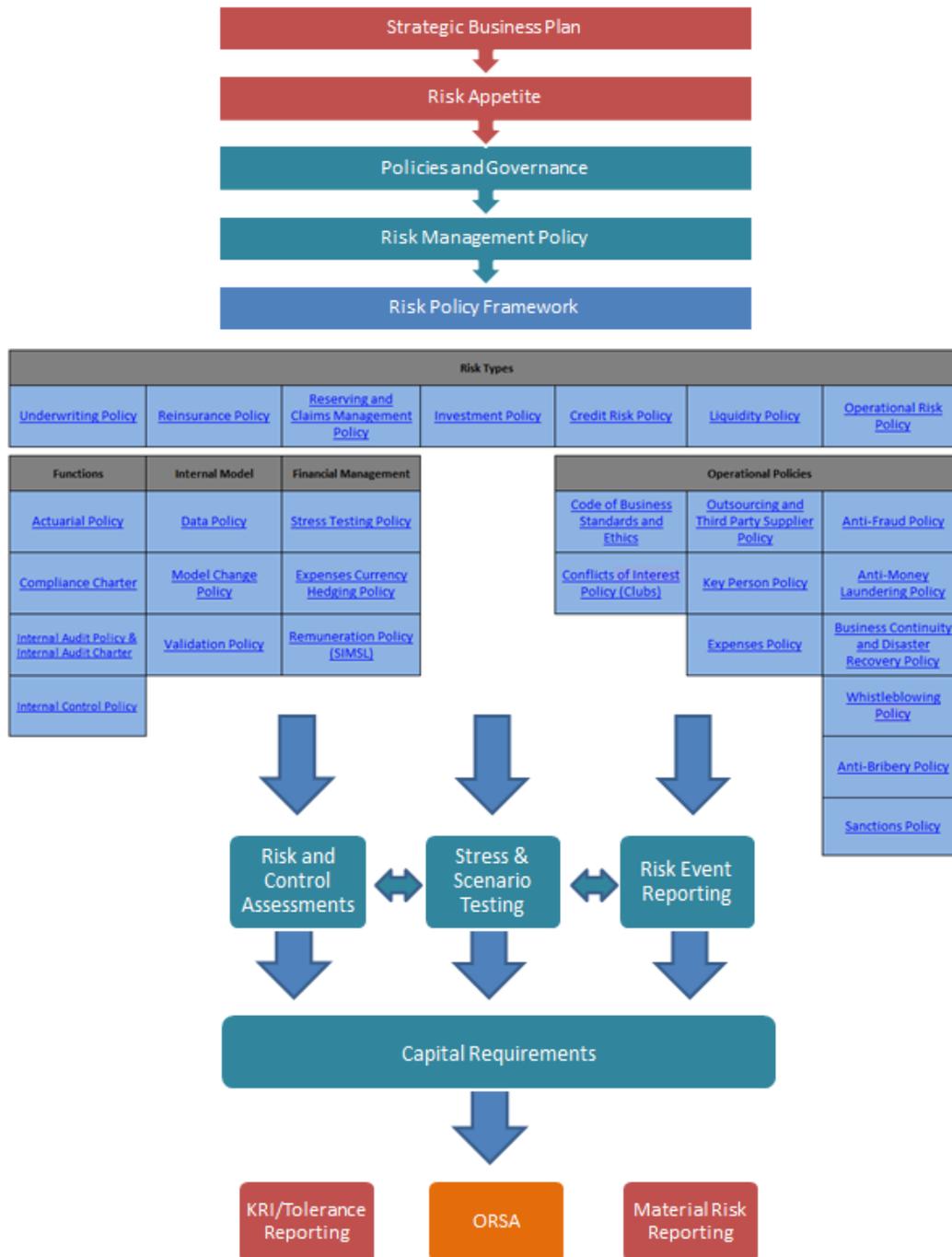
Steamship monitors and manages the risks relating to its operations through its fully documented risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment 'GSSA' report.

The GSSA has been carried out in accordance with the ORSA policy agreed by the Board in September 2015. The Policy states that the GSSA is performed at least annually (at the October Board meeting) when the Board considers the future capital requirements, capital levels and the standard increase.

The GSSA will be undertaken more frequently if specific conditions, which are set out in the Policy, are met. The Board has overall responsibility for the GSSA.

## B. System of Governance

The ORSA policy defines the steps that make up the overall ORSA process, which are summarized in the Chart below.



The Risk management and ORSA policies include a description of each process and an explanation as to how each has been completed in order to fulfil the objectives of the ORSA as a whole.

## B. System of Governance

The fourth GSSA was carried out in October 2016 and documents Steamship's risk and capital management processes employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA is an integral part of Steamship's business strategy, explaining how the strategy aligns to risk appetite and the current risk profile.

The GSSA includes both the economic capital position of the Group and the entity regulatory capital positions by reference to the Solvency Capital Requirement (SCR) and the Minimum Margin of Solvency (MMS) for the next five years.

To assist in this process Steamship has developed its own *fully* integrated financial capital model for the purpose of quantifying its own risks. The internal capital model uses stochastic simulations to generate financial projections which are calibrated to Steamship's own historical outcomes and relevant International Group and external data. Steamship uses an Economic Scenario Generator (ESG) for the calculation of market risk. The ESG is a simulation model that produces arbitrage-free economic scenarios. These scenarios include a variety of key variables, such as interest rates, credit spreads, equity and property returns and, foreign exchange rates.

### B.4 Internal control system

The internal control system is designed to provide reasonable assurance regarding the proper implementation of Steamship's business strategy and the achievement of operational and financial strategic objectives through:

- monitoring and control of all risks, particularly key risks and the relevant internal controls; and
- robust, proportionate compliance.

The internal controls are documented in Steamship's Internal Control Policy, which sets out the detailed processes for all aspects of the management of Steamship on a day to day basis.

### Compliance function

The compliance function consists of a Group Head of Compliance, Risk and Compliance Director and a compliance executive. The compliance function is responsible for providing general oversight of control effectiveness through the administration of an Internal Controls review programme and the provision of remedial advice and to monitor relevant legislation and changes in existing rules and regulations.

### Risk Management function

The risk management function is responsible for:

- identifying, managing, monitoring and reporting on current and emerging risks;
- setting the overall risk management and strategic framework; and
- monitoring and assisting in the effective operation of Steamship's risk management framework and maintaining an accurate view of Steamship's risk profile.

The Risk and Compliance Director acts as Chief Risk Officer to Steamship, assisted by risk management executive, manages the day to day risk monitoring, with the Chief Finance Officer and the Director of Capital Management reporting to the Board.

### B.5 Internal audit function

Steamship's Internal Audit function is outsourced to Moore Stephens. The function independently develops an internal audit plan based on its perception of risks to Steamship after consultation with Directors, Managers and the Risk Register. The scope of the plan is reviewed and approved by the Audit and Risk Committee. The segregation of Internal Audit's activities ensures independence and objectivity in the work that it undertakes.

## B. System of Governance

### B.6 Actuarial function

The actuarial function consists of a team of three including the Statistics Director who fulfills the function for SMUA as Chief Actuary. The Designated Actuary for the Group, SMUAB and SMUAT is fulfilled by Moore Stephens LLP.

The Actuarial Function resides in the Statistics Department of SIMSL and is responsible for the calculation of technical provisions (for both the financial reporting and for solvency calculations), maintaining Steamship's Business Plan, the maintenance of the Steamship's internal capital model and aids the effective running of the risk management system, production of the GSSA, and the opinions on underwriting policy and the adequacy of reinsurance arrangements.

### B.7 Outsourcing

Steamship has an outsourcing policy in place which is approved by the Board. The outsourcing policy ensures that outsourcing of critical or important functions or activities does not lead to any of the following:

- an undue increase in the operational risk;
- an impairment in the quality of Steamship's systems of governance;
- difficulties for supervisory authorities in monitoring compliance; and
- a deterioration in service to Members (policyholders)

Management assesses whether a function or activity is critical or important and reports to the Board whenever outsourcing of a critical or important function or activity is considered and also when an agreement has been entered into.

Steamship has identified four functions that are deemed Critical and Important for Solvency II purposes. These are:

1. Management services provided by Steamship P&I Management LLP (SPIM), FCA FRN 597046 (SPIM is the management company of the Steamship regulatory group entities covered by this document, which are SPIM's sole clients, so that SPIM's risks and controls are largely synonymous with those of Steamship);
2. Information Technology services provided by Timico Ltd;
3. Internal Audit services provided by Moore Stephens LLP; and
4. Underwriting activities on the Club's behalf by Post & Co, a Rotterdam-based broker, concerning the European Inland and Short Sea insurance Facility.

### B.8 Other information

There have been no material changes in the system of governance during the year, and Steamship believes it remains appropriate taking into account the nature, scale and complexity of the risk inherent in the business. In particular, the centralised approach reflects the highly integrated and inter-dependent nature of Steamship's activities.

## C. Risk Profile

Steamship monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risk. This is evidenced in the Group Solvency Self-Assessment (“GSSA”) report.

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

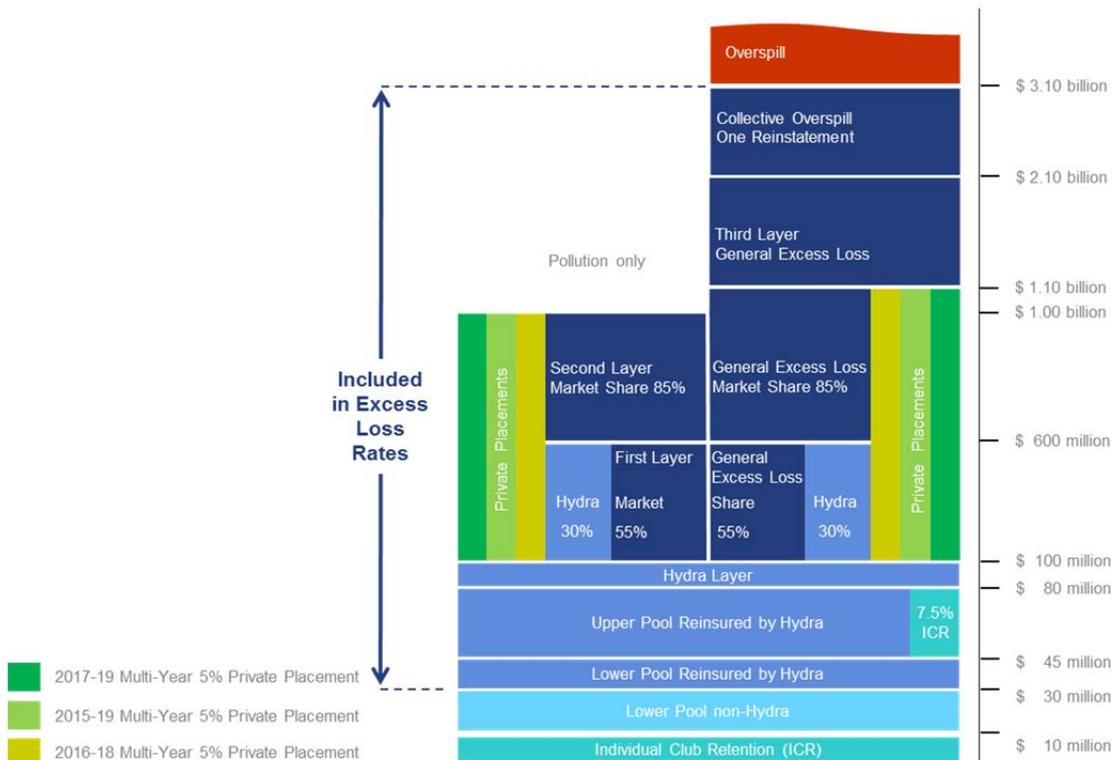
The principal risks faced by Steamship are insurance risk, market risk, credit risk, liquidity risk and operational risk.

### C.1 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. Steamship is exposed to the uncertainty surrounding the timing, frequency and severity of claims made under its insurance contracts.

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

Steamship transfers a substantial portion of its premium risk to its reinsurers through the provisions of the reinsurance arrangements and its membership of the International Group (Layers of the 2017/18 Reinsurance Programme).



## C. Risk Profile

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.

Steamship 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.

### C.2 Market risk

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

Steamship'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 SMUAT Board having consulted with the Boards of SMUAB and SMUA. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by independent investment consultants.

Steamship receives the majority of its premium income in US dollars, a significant amount in euro and small amounts in UK sterling and Canadian dollars. Claims liabilities arise in a number of currencies but predominantly in US dollars, euro, UK sterling and Brazilian reals. This exposure is mitigated by holding investments and derivatives in these currencies. To minimise currency translation costs operational bank balances in local currencies are maintained to fund expected short-term claim payments in those currencies.

### C.3 Credit risk

Credit risk is the risk that a counterparty owing money to Steamship may default causing a debt to be written off. The reinsurance protection arranged by Steamship effectively transforms a proportion of insurance risk into credit risk as the exposure becomes the risk of reinsurer default. External reinsurers are generally only used if their financial strength rating is at Standard & Poor's A- (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 International Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoveries and bonds in the investment portfolio.

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. Therefore in practice the impact of late premium payment and bad debt is immaterial. Credit risk arises on operational balances and deposits held with banks. Controls include the use of a variety of banks and the limitation of individual exposures to US\$10 million (S&P AA rated banks, or equivalent rating from other agencies), and US\$5 million (S&P A rated banks, equivalent rating from other agencies). The one exception is an unrated, privately capitalised bank which is monitored by reference to a specific capital ratio.

### C.4 Liquidity risk

Liquidity risk is the risk that Steamship cannot meet its financial obligations as they fall due. Steamship maintains a highly liquid portfolio of cash, government and corporate bonds with a maturity equivalent to the expected settlement period of claim liabilities. Most of the remaining assets in the surplus portfolio could be converted into cash in less than one month.

### C.5 Operational risk

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

## C. Risk Profile

### **C.6 Other material risks**

Steamship's Standard Formula Appropriateness Assessment identified the obligation to fund the SIMSL (Managers) defined benefit pension scheme was not being captured by the Standard Formula. As a result the operational risk incorporates a 'capital add-on' of US\$12.834 million for this risk as agreed with the PRA.

### **C.7 Other information - Stress and sensitivity tests**

Steamship has developed a suite of stress and sensitivity tests, including reverse stress tests, which are used to measure the robustness of the capital position.

## D. Valuation for Solvency Purposes

### D.1 Assets

In accordance with the BMA rules and of the Solvency II Directive, Steamship's assets and liabilities (other than technical provisions) are measured in accordance with principles of an arm length transaction between knowledgeable willing parties using market consistent valuation methods.

The following tables display the GAAP Balance Sheet as reported within the published report and accounts, the Solvency II adjustments made and the Solvency II valuation for the Group, SMUAT, SMUAB and SMUA.

#### Group

	<b>2017</b>	Adjustments	<b>2017</b>
	<b>GAAP</b>		<b>Solvency II</b>
	US\$000		US\$000
<b>Assets</b>			
Deferred acquisition costs	253	(253)	-
Investments	1,036,263	(64)	1,036,199
Reinsurers' share of technical provisions	202,829	6,749	209,578
Insurance & intermediaries receivables	25,665	(6,845)	18,820
Receivables (trade, not insurance)	4,547	-	4,547
Cash and cash equivalents	24,554	-	24,554
Any other assets, not elsewhere shown	7,884	-	7,884
<b>Total assets</b>	<b>1,301,995</b>	<b>(413)</b>	<b>1,301,582</b>
<b>Liabilities</b>			
Technical provisions			
Technical provisions calculated as a whole	767,097		
Best Estimate		(70,204)	696,893
Risk margin		42,977	42,977
Sub-total	<b>767,097</b>	<b>(27,227)</b>	<b>739,870</b>
Insurance & intermediaries payables	10,688	(6,168)	4,520
Reinsurance payables	6,843	-	6,843
Payables (trade, not insurance)	7,000	-	7,000
Any other liabilities, not elsewhere shown	77	-	77
<b>Total liabilities</b>	<b>791,705</b>	<b>(33,395)</b>	<b>758,310</b>
<b>Free reserves</b>	<b>510,290</b>	<b>32,982</b>	<b>543,272</b>

#### SMUAT

	<b>2017</b>	Adjustments	<b>2017</b>
	<b>GAAP</b>		<b>Solvency II</b>
	US\$000		US\$000
<b>Assets</b>			
Investments	820,914	-	820,914
Reinsurers' share of technical provisions	-	-	-
Insurance & intermediaries receivables	1,659	-	1,659
Receivables (trade, not insurance)	-	-	-
Cash and cash equivalents	-	-	-
Any other assets, not elsewhere shown	4,038	-	4,038
<b>Total assets</b>	<b>826,611</b>	<b>-</b>	<b>826,611</b>

## D. Valuation for Solvency Purposes

### Liabilities

Technical provisions			
Technical provisions calculated as a whole	486,023		
Best Estimate		(68,441)	417,582
Risk margin		20,904	20,904
Sub-total	486,023	(47,537)	438,486
Reinsurance payables	59,237	-	59,237
Payables (trade, not insurance)	937	-	937
<b>Total liabilities</b>	<b>546,197</b>	<b>(47,537)</b>	<b>498,660</b>
<b>Free reserves</b>	<b>280,414</b>	<b>47,537</b>	<b>327,951</b>

### SMUAB

	2017 GAAP US\$000	Adjustments	2017 Solvency II US\$000
<b>Assets</b>			
Investments	139,816	-	139,816
Reinsurers' share of technical provisions	245,724	(37,328)	208,396
Insurance & intermediaries receivables	21,014	-	21,014
Receivables (trade, not insurance)	2,538	-	2,538
Cash and cash equivalents	3,524	-	3,524
Any other assets, not elsewhere shown	228	-	228
<b>Total assets</b>	<b>412,844</b>	<b>(37,328)</b>	<b>375,516</b>
<b>Liabilities</b>			
Technical provisions			
Technical provisions calculated as a whole	295,171		
Best Estimate		(39,967)	255,204
Risk margin		3,201	3,201
Sub-total	295,171	(36,766)	258,405
Reinsurance payables	1,659	-	1,659
Payables (trade, not insurance)	58	-	58
<b>Total liabilities</b>	<b>296,888</b>	<b>(36,766)</b>	<b>260,122</b>
<b>Free reserves</b>	<b>115,956</b>	<b>(562)</b>	<b>115,394</b>

## D. Valuation for Solvency Purposes

### SMUA

	2017 GAAP US\$000	Adjustments	2017 Solvency II US\$000
<b>Assets</b>			
Deferred acquisition costs	253	(253)	-
Investments	75,534	(64)	75,470
Reinsurers' share of technical provisions	738,298	(74,142)	664,156
Insurance & intermediaries receivables	84,902	(6,845)	78,057
Receivables (trade, not insurance)	2,009	-	2,009
Cash and cash equivalents	21,030	-	21,030
Any other assets, not elsewhere shown	3,618	-	3,618
<b>Total assets</b>	<b>925,644</b>	<b>(81,304)</b>	<b>844,340</b>
<b>Liabilities</b>			
Technical provisions			
Technical provisions calculated as a whole	767,097		
Best Estimate		(78,560)	688,537
Risk margin		14,093	14,093
Sub-total	767,097	(64,467)	702,630
Insurance & intermediaries payables	10,688	-	10,688
Reinsurance payables	27,857	(6,168)	21,689
Payables (trade, not insurance)	6,004	-	6,004
Any other liabilities, not elsewhere shown	77	-	77
<b>Total liabilities</b>	<b>811,723</b>	<b>(70,635)</b>	<b>741,088</b>
<b>Free reserves</b>	<b>113,921</b>	<b>(10,669)</b>	<b>103,252</b>

The investments are valued for Solvency II purposes on the same basis as the annual financial statements, which follow UK GAAP, except for a minor difference in the valuation of forward currency contracts.

The reinsurance recoverables have, for Solvency II purposes, been discounted using the risk free rate term structure.

### D.2 Technical Provisions

The key change under Solvency II is the economic valuation of technical provisions, comprising:

- the best estimate of all cashflows, positive and negative, discounted to reflect the time value of money;
- provisions at market value (hence, a risk margin must be added reflecting the cost of the capital tied up in running the liabilities);
- inclusion of legally bound contracts (even if not yet incepted); and
- all future outcomes (including events not in [historical] data - or ENIDs - have to be considered).

### Reconciliation of Technical Provisions

Below is a reconciliation of technical provisions reported in the published report and accounts and on a Solvency II basis for the Group, SMUAT, SMUAB and SMUA.

## D. Valuation for Solvency Purposes

### Group

	<b>Gross</b>	<b>Reinsurers'</b>	<b>Net</b>
	US\$000	share	US\$000
	US\$000	US\$000	US\$000
<b>Published Technical Provisions</b>			
Unearned premium	1,711	-	1,711
Outstanding claims	765,386	202,829	562,557
<b>UK GAAP Published technical provisions (outstanding claims)</b>	<b>767,097</b>	<b>202,829</b>	<b>564,268</b>
<b>Adjustments</b>			
Remove unearned premium	(1,711)	-	(1,711)
Remove prudent margin	(64,841)	(6,205)	(58,636)
Add bound but not incepted - premium	(330,020)	(51,317)	(278,703)
Add bound but not incepted - claims and expenses	353,802	76,065	277,737
Add events not in data	10,000	-	10,000
Add provision for reinsurer default	-	(735)	735
Reclassification of (Re)Insurance debtors/creditors	(677)	-	(677)
Discount cash flows	(36,757)	(11,059)	(25,698)
Add risk margin	42,977	-	42,977
<b>Total adjustments</b>	<b>(27,227)</b>	<b>6,749</b>	<b>(33,976)</b>
<b>Regulatory technical provisions</b>	<b>739,870</b>	<b>209,578</b>	<b>530,292</b>

### SMUAT

	<b>Gross</b>
	US\$000
<b>Published Technical Provisions</b>	
<b>UK GAAP Published technical provisions (outstanding claims)</b>	<b>486,023</b>
<b>Adjustments</b>	
Remove prudent margin	(55,958)
Add bound but not incepted - premium	(166,622)
Add bound but not incepted - claims and expenses	166,421
Add events not in data	9,000
Reclassification of (Re)Insurance debtors/creditors	-
Discount cash flows	(21,281)
Add risk margin	20,904
<b>Total adjustments</b>	<b>(47,536)</b>
<b>Regulatory technical provisions</b>	<b>438,487</b>

## D. Valuation for Solvency Purposes

### SMUAB

	<b>Gross</b>	<b>Reinsurers'</b>	<b>Net</b>
	US\$000	US\$000	US\$000
<b>Published Technical Provisions</b>			
UK GAAP Published technical provisions (outstanding claims)	<b>295,171</b>	<b>245,724</b>	<b>49,447</b>
<b>Adjustments</b>			
Remove prudent margin	(24,106)	(24,106)	-
Add bound but not incepted - premium	(197,461)	(170,059)	(27,402)
Add bound but not incepted - claims and expenses	193,335	165,992	27,343
Add events not in data	4,500	4,500	-
Add provision for reinsurer default	-	(731)	731
Reclassification of (Re)Insurance debtors/creditors	-	-	-
Discount cash flows	(16,235)	(12,924)	(3,311)
Add risk margin	3,201	-	3,201
<b>Total adjustments</b>	<b>(36,766)</b>	<b>(37,328)</b>	<b>562</b>
<b>Regulatory technical provisions</b>	<b>258,405</b>	<b>208,396</b>	<b>50,009</b>

### SMUA

	<b>Gross</b>	<b>Reinsurers'</b>	<b>Net</b>
	US\$000	US\$000	US\$000
<b>Published Technical Provisions</b>			
Unearned premium	1,711	-	1,711
Outstanding claims	765,386	738,298	27,088
UK GAAP Published technical provisions (outstanding claims)	<b>767,097</b>	<b>738,298</b>	<b>28,799</b>
<b>Adjustments</b>			
Remove unearned premium	(1,711)	-	(1,711)
Remove prudent margin	(64,841)	(62,163)	(2,678)
Add bound but not incepted - premium	(330,020)	(245,341)	(84,679)
Add bound but not incepted - claims and expenses	351,614	267,434	84,180
Add events not in data	10,000	9,000	1,000
Add provision for reinsurer default	-	(2,330)	2,330
Reclassification of (Re)Insurance debtors/creditors	(6,845)	(6,168)	(677)
Discount cash flows	(36,757)	(34,574)	(2,183)
Add risk margin	14,093	-	14,093
<b>Total adjustments</b>	<b>(64,467)</b>	<b>(74,142)</b>	<b>9,675</b>
<b>Regulatory technical provisions</b>	<b>702,630</b>	<b>664,156</b>	<b>38,474</b>

## D. Valuation for Solvency Purposes

Steamship values technical provisions using the methodology prescribed by the Solvency II Directive. This methodology is documented in Steamship's paper *Solvency II - Basis of preparation*.

For UK GAAP the technical provisions are valued using undiscounted values.

For Solvency II purposes the technical provisions are the sum of the best estimate and the risk margin. The technical provisions are calculated separately for the premium provision and for the claims provision, both using a best estimate basis.

The best estimate is the probability weighted average of future cashflows discounted with the risk free term structure for US dollars provided by EIOPA. The probability weighted average future cashflows are calculated according to actuarial best practice, using several methods and techniques such as the development factor method (DFM) and the Bornhuetter-Ferguson technique for immature policy years.

Steamship uses one homogeneous risk group for the calculation of technical provisions as it is a monoline Protection & Indemnity insurer.

The risk margin is the cost of holding the SCR to run off, determined by multiplying each year's projected SCR by the prescribed cost of capital of 6% per annum.

The key source of uncertainty in the technical provisions is the randomness of claims both in terms of size and timing, and the impact on the ultimate cost of the unpaid claims.

### D.3 Other information

No other material information is applicable.

## E. Capital Management

Steamship is committed to maintain a strong capital position in order to be a robust insurer for its Members (policyholders). The objective is to maintain a solvency level that is within the limits defined in the risk appetite statement. Sensitivity tests for the principal risks are performed periodically and annual stress tests are performed to test Steamship's robustness to withstand moderate to severe scenarios. A key objective is to maintain a capital position and a risk profile that supports a Standard & Poor's 'A' rating.

Steamship's risk appetite statement requires that each regulated entity should hold Own Funds at least equal to 120% of the regulatory requirement.

Steamship undertakes a Group Solvency Self-Assessment (GSSA) annually and when the risk profile or business model changes. The GSSA exercise incorporates the business planning process which is typically considered over a five year time horizon. There have been no significant changes since 1 January 2016. Solvency ratios are regularly monitored by the Audit and Risk Committee and Boards.

### E.1 Own funds

The tables below detail the capital position of the individual entities and the regulatory group as at 20 February 2017. With respect to the capital position, the BMA rules and Solvency II regulations require insurers to categorize own funds into the following two tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of Free Reserves of the entities on a Solvency II economic basis (Basic Own funds 'Unrestricted'); and
- Tier 2 capital consists of ancillary own funds and encumbered assets relating to Steamship's Hydra cell which are only available to support the cell's liabilities.

Ancillary own funds consist of items other than basic own funds which can be used to absorb losses. Ancillary own fund items require the prior approval of the supervisory authority. Steamship has approved ancillary own fund items.

The rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise.

The following table shows the breakdown of eligible (Own Funds) as at 20 February 2017.

#### Eligible own funds to meet the SCR

Own Funds by Tiers US\$000	Entity Regulator	Group BMA	SMUAT BMA	SMUAB BMA	SMUA PRA
Tier 1 Basic Own funds (Unrestricted)		504,595	327,950	85,201	103,252
Tier 2 Ancillary own funds		71,535	-	-	38,256
Tier 2 Encumbered assets (Hydra Restricted)		34,757	-	30,163	-
<b>Total Eligible own funds to meet the SCR</b>		<b>610,887</b>	<b>327,950</b>	<b>115,364</b>	<b>141,508</b>

Steamship's Tier 1 Own Funds are made up 100% of free reserves which have arisen from past underwriting and investment surpluses. As such all capital is Tier 1 and there are no restrictions on the availability of Steamship's Tier 1 own funds to support the MMS or SCR.

Steamship also has approved Tier 2 ancillary own funds (AOF) of US\$71.535 million for the ability to make an additional premium call on Mutual Members.

## E. Capital Management

The BMA and PRA recognise that Steamship can increase own funds by making additional premium (also known as unbudgeted supplementary calls) calls under its rules in extreme circumstances. The BMA and PRA have granted approval for a method of calculation of ancillary own funds (AOF) and, subject to an annual confirmation by Steamship that key factors remain valid, the method is approved until 20 February 2020.

Under the BMA Rules and Solvency II regulations, up to 50% of the SCR may be supported by approved AOF funds.

The future risk profile of Steamship is anticipated to remain relatively stable.

### Eligible own funds to meet the Minimum Margin of Solvency

Own Funds by Tiers US\$000	Entity Regulator	Group BMA	SMUAT BMA	SMUAB BMA	SMUA PRA
Tier 1 Basic Own funds (Unrestricted)		504,595	327,950	85,201	103,252
Tier 2 Ancillary own funds		-	-	-	-
Tier 2 Encumbered assets (Hydra Restricted)		34,757	-	21,300	-
<b>Total Eligible own funds to meet the MMS</b>		<b>539,352</b>	<b>327,950</b>	<b>106,501</b>	<b>103,252</b>

### E.2 Solvency Capital Requirement and Minimum Margin of Solvency

The SCR and Minimum Margin of Solvency (MMS) for the regulatory group and the individual entities have been determined using the 'Standard Formula' approach as set out in the BMA's Rules and those of the Solvency II regulations.

No material simplified methods or undertaking specific parameters have been used in this assessment.

The Group and SMUAB assessments have been prepared using the Accounting Consolidation based method.

Risk Category US\$000	Entity Regulator	Group BMA	SMUAT BMA	SMUAB BMA	SMUA PRA
Non-life underwriting risks		292,252	140,938	17,096	33,831
Counterparty default risks		5,971	159	7,982	20,549
Market risks		68,264	65,546	3,901	4,323
Operational risks		26,996	1,136	166	27,529
Total before diversification between risks		393,483	207,779	29,145	86,262
Diversification between risk categories		(166,215)	(93,093)	(12,393)	(9,751)
<b>Solvency Capital Requirement (SCR)</b>		<b>227,268</b>	<b>114,686</b>	<b>16,752</b>	<b>76,511</b>
Minimum Margin of Solvency (MMS)		95,687	72,903	4,188	19,128

### Solvency ratio

As at 20 February 2017 the ratio of eligible own funds to Solvency Capital Requirement was:

Capital Ratio	Entity Regulator	Group BMA	SMUAT BMA	SMUAB BMA	SMUA PRA
		<b>269%</b>	286%	689%	185%

## E. Capital Management

### **E.3 Use of Duration based equity risk sub-module in the calculation of SCR**

The duration based equity risk sub-module has not been used in the calculation of the SCR for either the Group or the individual entities.

### **E.4 Difference between Standard Formula and any Internal Model used**

No internal or partial internal model has been used in the calculation of the SCR. However, Steamship's Standard Formula Appropriateness Assessment identified that the obligation to fund a defined benefit pension scheme operated by the Managers' service company (SIMSL) was not being captured by the Standard Formula. This resulted in a 'voluntary capital add-on' of US\$12.834million for this operational risk. Discussions are ongoing with the PRA relating to the appropriate approach to incorporate this risk possibly requiring a partial internal model application.

### **E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement**

Steamship has set out to be fully compliant with the Standard Formula calculation of MCR and SCR and is not aware of any non-compliance.

The Group and the individual entities have maintained Own Funds (Free Reserves) in excess of the MCR and SCR throughout the period.

### **E.6 Other information**

Steamship has an interactive Standard & Poor's rating of 'A' with a stable outlook.



## Appendix 2 – SMUA Quantitative Reporting Templates

### List of reported templates

- S.02.01.02 – Balance Sheet
- S.05.01.02 – Premium, claims and expenses by line of business
- S.05.02.01 – Premium, claims and expenses by country
- S.17.01.02 – Non-Life Technical Provisions
- S.19.01.21 – Non-Life insurance claims
- S.21.01.01 – Own Funds
- S.25.01.21 – Solvency Capital Requirement – for undertakings on standard formula
- S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

**S.02.01.02**

**Balance sheet**

	<b>Solvency II value</b>
	C0010
<b>Assets</b>	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	
Investments (other than assets held for index-linked and unit-linked contracts)	38,296,055
<i>Property (other than for own use)</i>	
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	-
<i>Equities - listed</i>	
<i>Equities - unlisted</i>	
<i>Bonds</i>	16,801,232
<i>Government Bonds</i>	16,801,232
<i>Corporate Bonds</i>	
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	
<i>Derivatives</i>	- 505,177
<i>Deposits other than cash equivalents</i>	22,000,000
<i>Other investments</i>	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	-
<i>Loans on policies</i>	
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	664,156,424
<i>Non-life and health similar to non-life</i>	664,156,424
<i>Non-life excluding health</i>	664,156,424
<i>Health similar to non-life</i>	
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	-
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	
Insurance and intermediaries receivables	9,772,390
Reinsurance receivables	68,284,613
Receivables (trade, not insurance)	2,008,551
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	58,203,632
Any other assets, not elsewhere shown	3,618,257
<b>Total assets</b>	<b>844,339,922</b>

## S.02.01.02

## Balance sheet

	<b>Solvency II value</b>
	C0010
<b>Liabilities</b>	
Technical provisions - non-life	702,629,450
<i>Technical provisions - non-life (excluding health)</i>	702,629,450
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	688,536,643
<i>Risk margin</i>	14,092,807
<i>Technical provisions - health (similar to non-life)</i>	-
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - life (excluding index-linked and unit-linked)	-
<i>Technical provisions - health (similar to life)</i>	-
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	-
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	-
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	
<i>Debts owed to credit institutions resident domestically</i>	
<i>Debts owed to credit institutions resident in the euro area other than domestic</i>	
<i>Debts owed to credit institutions resident in rest of the world</i>	
Financial liabilities other than debts owed to credit institutions	
<i>Debts owed to non-credit institutions</i>	-
<i>Debts owed to non-credit institutions resident domestically</i>	
<i>Debts owed to non-credit institutions resident in the euro area other than domestic</i>	
<i>Debts owed to non-credit institutions resident in rest of the world</i>	
<i>Other financial liabilities (debt securities issued)</i>	
Insurance & intermediaries payables	10,688,296
Reinsurance payables	21,689,107
Payables (trade, not insurance)	6,003,739
Subordinated liabilities	-
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	77,491
<b>Total liabilities</b>	<b>741,088,083</b>
<b>Excess of assets over liabilities</b>	<b>103,251,839</b>



**S.05.02.01**  
**Premiums, claims and expenses by country**

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Top 5 countries (by amount of gross premiums written) - non-life obligations						Total Top 5 and home country
Home Country	C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Non-life</b>							
<b>Premiums written</b>							
Gross - Direct Business	305,601,710						305,601,710
Gross - Proportional reinsurance accepted							-
Gross - Non-proportional reinsurance accepted	247,103,262						247,103,262
Reinsurers' share	58,498,448	-	-	-	-	-	58,498,448
Net							
<b>Premiums earned</b>							
Gross - Direct Business	305,641,842						305,641,842
Gross - Proportional reinsurance accepted							-
Gross - Non-proportional reinsurance accepted	247,103,262						247,103,262
Reinsurers' share	58,538,580	-	-	-	-	-	58,538,580
Net							
<b>Claims incurred</b>							
Gross - Direct Business	145,401,159						145,401,159
Gross - Proportional reinsurance accepted							-
Gross - Non-proportional reinsurance accepted	145,833,108						145,833,108
Reinsurers' share	-	-	-	-	-	-	431,949
Net							
<b>Changes in other technical provisions</b>							
Gross - Direct Business							-
Gross - Proportional reinsurance accepted							-
Gross - Non-proportional reinsurance accepted							-
Reinsurers' share							-
Net							-
<b>Expenses incurred</b>							
Other expenses	58,822,352						58,822,352
Total expenses							58,822,352





S.23.01.01  
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/55

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	-				
Share premium account related to ordinary share capital	-				
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-				
Subordinated mutual member accounts	103,251,839	103,251,839			
Surplus funds	-				
Preference shares	-				
Share premium account related to preference shares	-				
Reconciliation reserve	-				
Subordinated liabilities	-				
An amount equal to the value of net deferred tax assets	-				
Other own fund items approved by the supervisory authority as basic own funds not specified above	-				

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

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Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions	103,251,839

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Other ancillary own funds

Total ancillary own funds	71,535,000

Available and eligible own funds

Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

Total available own funds to meet the SCR	174,786,839	103,251,839	-	-	71,535,000
Total available own funds to meet the MCR	103,251,839	103,251,839	-	-	-
Total eligible own funds to meet the SCR	135,090,449	103,251,839	-	-	31,838,610
Total eligible own funds to meet the MCR	103,251,839	103,251,839	-	-	-

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

SCR	63,677,220
MCR	15,919,305
Ratio of Eligible own funds to SCR	212.15%
Ratio of Eligible own funds to MCR	648.60%

Reconciliation reserve

Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Total Reconciliation reserve	103,251,839
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Expected profits

Expected profits included in future premiums (EP/IFP) - Life business  
Expected profits included in future premiums (EP/IFP) - Non-life business

Total Expected profits included in future premiums (EP/IFP)	-
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S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	C0110	C0080	C0090
	Gross solvency capital requirement	USP	Simplications
Market risk	4,352,922		
Counterparty default risk	20,548,566		
Life underwriting risk			
Health underwriting risk			
Non-life underwriting risk	33,831,237		
Diversification	- 9,750,248		
Intangible asset risk			
<b>Basic Solvency Capital Requirement</b>	<b>48,982,477</b>		
<b>Calculation of Solvency Capital Requirement</b>	<b>C0100</b>		
Operational risk	14,694,743		
Loss-absorbing capacity of technical provisions	-		
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
<b>Solvency Capital Requirement excluding capital add-on</b>	<b>63,677,220</b>		
Capital add-ons already set			
<b>Solvency capital requirement</b>	<b>63,677,220</b>		
<b>Other information on SCR</b>			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			

