STEAMSHIP MUTUAL

2018 Annual Report and Accounts

Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2018

Contents

Steamship Mutual
Underwriting Association Limited

Managers
Steamship P&I Management LLP
Aquatical House
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Telephone: +44 (0)20 7247 5490 & +44 (0)20 7895 8490

Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the One Hundred and Ninth Annual General Meeting of the Members of the Company will be held at the Windsor Court Hotel, New Orleans, Louisiana, United States, on Tuesday, 23 October 2018 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 2018, 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 Ahrenkiel and Ms I Grimaldi. Being eligible, they offer themselves for re-election. A Member of the Board appointed during the year who, in accordance with Article 11.9 of the Association, is obliged to retire at their first Annual General Meeting is Mr R Zagari. Being eligible, he offers himself for re-election.

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

4 To transact any other ordinary business of the Company.

By Order of the Board

A Thawani
Secretary

15 May 2018

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

Directors

Directors
A Pohan, NY Waterway (Chairman)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
C Bouch
I Grimaldi, Grimaldi Holdings SpA
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
G W F Rynsard, Steamship P&I Management LLP
A L Tung, Island Navigation Corp International Ltd
R Zagari, Augustea Group (appointed 14 December 2017)

Secretary
S A Ward, Steamship P&I Management LLP (resigned 20 February 2018)
A Thawani, Steamship P&I Management LLP (appointed 20 February 2018)

Managers
Steamship P&I Management LLP

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

Website: www.steamshipmutual.com

Registered number
00105461

Strategic Report

The Steamship Group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world. It maintained its A rating from Standard & Poor's, improved its free reserves, and returned 10% mutual premium to its Members for the second year in a row. It was also the fourth year of no standard increase for Members.

For Steamship Mutual Underwriting Association Limited ("Association"), owned entered tonnage increased by 1% to 85.1 million gross tons ("GT") during the year; total entered tonnage for owned and chartered entries increased by 4.8% to 158.6 million GT.

Gross premium written (excluding return of premium) in the year decreased to US$320.9 million from US$331.4 million last year, a 3.2% decrease, due to premium churn and reduced excess loss reinsurance premium being passed on to Members.

The Association's combined ratio (excluding return of premium) increased from 99.0% to 102.2% due to reduced premium and higher claims activity, offset partly by prior year releases.

The balance on the technical account for general business was a deficit of US$4.1 million for the financial year (2017: deficit US$2.0 million). Free reserves decreased from US$113.9 million to US$110.7 million.

After considering the strong current and projected capital position of the Association and the Group, the Directors decided to return 10% of mutual premium paid for the 2015/16 policy year (Class 1 – P&I) to Members. Accordingly US$25.6 million was credited to Members.

During the year, the Association was granted licences by the local regulators in Japan and Singapore. The Association continues its commitment to the region and has locally resourced offices in these territories. In response to the Brexit vote, the Association is applying for a licence in the Netherlands for its EU operation.

Strategy

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

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

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2017/18 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2017/18 policy year (Class 2 – FD&D).

The 2014/15 policy year was closed in May 2017.

The Directors have decided to review release call levels as part of the Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") will be set at 12.5% for the 2018/19 policy year, 2.5% for the 2017/18 policy year and 0% for the 2016/17 policy year.

Claims

During the policy year, through the Association's membership of the International Group ("the Group"), the Managers have been closely involved in issues involving the scope of cover for passenger excursion liabilities, specialist operations and accommodation vessels. Discussions continue regarding the consistent application of the CLC and Fund Conventions in the light of the ongoing "Prestige" litigation. In addition, work is under way to agree a Memorandum of Understanding between the Group and the Chinese Oil Pollution Compensation Fund whilst pollution prevention regulations generally continue to be monitored in both PRC and Taiwan. Sanctions regulations in a number of jurisdictions, in particular Iran, remain an issue.

The Association experienced three Pool claims during the policy year; one involving the loss of a large bulker and its crew in the South Atlantic, one involving the loss of a large number of containers during bad weather in Brazil, and one resulting from a serious collision resulting in fire, pollution and significant loss of life.

Strategic Report

continued

The 28th issue of Sea Venture was published in November 2017, and 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.

During 2017 the Managers supported and participated in The Nautical Institute's Command Series of seminars in Singapore, London, and Cyprus for which the theme was navigational accidents and their causes. In addition, the Managers also supported the conference on safe manning organised by the Hong Kong branch of The Nautical Institute.

In September 2017 the first module of a computer based training course on Safe Food Handling and Nutrition was released. This was produced in collaboration with Marine Catering Training Consultancy of Cyprus.

In January 2018, the Club's loss prevention DVD "Cyber Security – Smart, Safe Shipping" won the 2018 Smart4Sea Cyber Security Award.

Pooling and reinsurance

The Association's reinsurance programme for the 2017/18 policy year was arranged in conjunction with other members of the Group. The programme provided an ultimate limit of US$3,100 million in excess of US$10 million, except in relation to oil pollution claims, which were subject to an overall limit of US$1,000 million.

Pooling

For 2018/19, the individual Club retention, before Pooling with other members of the Group, remains at US$10 million, with the upper limit of the Pool increasing to US$100 million for each event. A Club bringing a claim to the Pool will bear a 7.5% retention within the layer of US$50 million to US$100 million, with the balance being divided amongst all Clubs in accordance with the Pooling Agreement.

Hydra Insurance Company Limited ("Hydra")

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

Excess Loss cover

The Group's Excess of Loss programme was renewed with a similar structure as for the expiring year. Therefore, the Group is reinsured for 70% of the excess of US$100 million up to US$600 million and 100% excess of the remainder up to US$3,100 million.

US oil pollution

There will be no surcharge again for 2018/19.

MLC cover

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

Charterers' cover

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

Non-Poolable covers

The Club continues to provide P&I cover for 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.

Risk management

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

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

Strategic Report

continued

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

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

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

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

The Steamship Mutual Trust ("Trust")

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

The Chairman of the Association is 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

London, United Kingdom
15 May 2018

Report of the Directors

The Directors have pleasure in presenting their Report and the Audited Accounts of the Association for the year ended 20 February 2018.

Principal activities

The Association is a company limited by guarantee incorporated in the United Kingdom. The principal activity of the Association was the insurance and reinsurance of P&I, and of Freight, Demurrage and Defence risks on behalf of Members.

The Association is a member of the International Group of Protection and Indemnity Associations ("Group") and is reinsured by The Steamship Mutual Underwriting Association (Bermuda) Limited for the 2015/16 policy year onwards and by The Steamship Mutual Trust for all earlier policy years.

Directors

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

In accordance with Article 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Mr C J Ahrenkiel and Ms I Grimaldi. Being eligible, they offer themselves for re-election. A Member of the Board appointed during the year who, in accordance with Article 11.9 of the Association, is obliged to retire at their first Annual General Meeting is Mr R Zagari. Being eligible, he offers himself for re-election.

Audit and Risk Committee

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

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

In discharging its responsibilities the Committee receives regular financial and management reports from the Managers including a quarterly report from the Risk and Compliance Director and the internal auditor. The Committee establishes the scope of the reporting, both to itself and the Board, and continually assesses the quality and adequacy of this information.

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

The Committee monitors the effectiveness of the Managers' activities with respect to their regulatory, audit and control responsibilities with a specific focus on any issues of enhanced strategic importance or which present a significant risk to the Association. The Committee reviews the judgment and control exercised by the Managers in the estimation of technical provisions and ensures that provisions are set in accordance with the Board's reserving risk appetite. The Committee's work in this area includes receiving and discussing the actuarial function's reports on reserving methodologies, estimates and key judgments throughout the year and at year end. The Committee receives reports on the Solvency II Technical Provisions and the bridge to those reported in the annual financial statements.

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

- Re-development of Directors' training schedule;
- Publication of the Solvency and Financial Condition Report;
- Assessment of the risks posed by the introduction of the Criminal Finances Act 2017;
- Critical or important outsourcing arrangements, including a review of IT outsourcing;
- Oversight of licensing applications in Singapore, Japan and Hong Kong;
- Implications of and compliance with the PRA's Statutory Audit Directive;
- Results of Audit and Risk Committee's effectiveness review.

Report of Directors

continued

Rules

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

Class 1 – Protection and Indemnity

Rule 25 iv – Life salvage

An amendment to clarify the availability of cover in respect of deviation and other expenses incurred by a Member in the event of an unsuccessful attempt to save life at sea of third parties such as crew missing from a non-entered vessel, provided they are reasonably incurred and are not recoverable from any other party.

Rule Nos 25 vi and 25 xiii proviso (xi) – Cover for liabilities caused by cargo and other property that is intended to be, being or has been carried on an entered ship.

The amendment to Rule 25 vi clarifies that cover in respect of pollution liabilities is not limited to pollution caused by escape of oil or any other substance directly from the entered ship, and that it may include those in respect of oil or any other substance, including cargo or other property, intended to be carried or which has been carried on the entered ship, provided they arise in connection with the operation of that vessel.

The amendment to Rule 25 xiii proviso xi (a) clarifies that the exclusion of pollution liabilities under the Cargo rule does not exclude liabilities which would otherwise be capable of cover under the Fixed and Floating Objects rule.

Management Highlights

The Management Highlights will be published in July 2018.

Directors' responsibilities statement

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

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

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

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

Disclosure of information to the auditor

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

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

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

A Pohan
Chairman

Managers
Steamship P&I Management LLP

London, United Kingdom
15 May 2018

Independent Auditor's Report

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of Steamship Mutual Underwriting Association Limited's (the 'Company') affairs as at 20th February 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis of opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was • Technical provision – valuation of IBNR for US and Non US injury claims
Materiality	The materiality that we used in the current year was \$4.2m which was determined on the basis of 3% of Solvency II Own Funds.
Scoping	The scope of our audit was determined by obtaining an understanding of the Company and its environment, including Company-wide controls, and assessing the risks of material misstatement at the Company level.

Independent Auditor's Report

continued

Conclusions relating to ongoing concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

Technical provision – valuation of IBNR for US and Non US injury claims	
Key audit matter description	*Refer to Note 1 - Accounting Policy disclosure (page 16 of financial statements) and Note 16 Risk Management for further information on this risk.* We have identified the valuation of the technical provision as one of our key audit matters since reserving inherently involves a great deal of uncertainty and judgement. The technical provisions also contain classes of US and Non US Injury claims. These classes include claims from members in respect of injury to crew, passengers and others. It is part of the Owned P&I (Protection and Indemnity) business, and mainly relates to bodily injury claims, which often present long tail risks and thus claims development is not as clearly visible for recent policy years, which increases uncertainty in reserving.

Independent Auditor's Report

continued

How the scope of our audit responded to the key audit matter	We gained a detailed understanding of the end-to-end reserving process, and assessed the design and implementation of key controls. We tested the operating effectiveness of controls on the reserving cycle and relied on these in the performance of our substantive procedures. In addition we performed further audit procedures on key inputs of the technical reserve balance; such as agreeing policy and claims data to underlying accounting records. Having performed this, we engaged our internal actuarial specialists to: • review the detailed reserving models of the Steamship reserves at a combined level, on a net of reinsurance basis; • challenge the approach and key judgements by graphical re-projections of the reserving estimates, reviewing prior year loss ratios, the claims inflation assumption, and choice of exposure measure; and • perform sensitivity testing of key assumptions.
Key observations	We have determined that the valuation and allocation of technical provisions (IBNR), in particular relating to the US and Non US Injury lines of business, was reasonable.

Our application of materiality

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

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

Materiality	$4.2m
Basis for determining materiality	3% of Solvency II Own Funds
Rationale for the benchmark applied	Solvency II Own Funds is a key metric used by the Members to determine whether the Club has sufficient capital to prevent supplementary calls and pay claims when due.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $214k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

Independent Auditor's Report

continued

An overview of the scope of our audit

The scope of our audit work was determined by obtaining an understanding of the Company and its environment, and assessing the risks of material misstatement at the Company level.

We have also assessed the design, implementation and operating effectiveness of the internal controls that exist at a Company level. From our risk assessment and testing of internal controls, we have determined the extent of our substantive audit procedures which forms scope of our audit.

Other information

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

We have nothing to report in respect of these matters.

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

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

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

Responsibilities of the directors

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

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

Independent Auditor's Report

continued

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors 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 or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Independent Auditor's Reports

continued

Other matters

Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board on 7th May 2017 to audit the financial statements for the year ending 20 February 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 20 February 2003 to 20 February 2018.

Consistency of the audit report with the additional report to the Audit and Risk Committee

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

Adam Addis (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London
United Kingdom
15 May 2018

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	320,533	333,611	325,626	**979,770**
Less:				
Group Excess Loss reinsurance premium	(31,516)	(35,829)	(38,178)	**(105,523)**
Other reinsurance premium	(29,192)	(48,646)	(52,410)	**(130,248)**
SMUAB reinsurance premium	(189,683)	(164,040)	(146,736)	**(500,459)**
Net premium	70,142	85,096	88,302	**243,540**
Allocated investment return transferred from the non-technical account	3,051	(2,118)	(1,759)	**(826)**
Gross claims paid				
Own claims paid	(37,731)	(77,530)	(218,160)	**(333,421)**
Claims administration expenses	(9,773)	(29,075)	(18,774)	**(57,622)**
Group Pool claims	(3,576)	(3,006)	(17,015)	**(23,597)**
	(51,080)	(109,611)	(253,949)	**(414,640)**
Less:				
Group Excess Loss recoveries	-	-	10,766	**10,766**
Group Pool recoveries	-	-	81,322	**81,322**
Other reinsurance recoveries	-	1,132	19,753	**20,885**
SMUAB reinsurance recoveries	37,176	71,464	111,000	**219,640**
Net claims paid	(13,904)	(37,015)	(31,108)	**(82,027)**
Claims outstanding including IBNR	(296,769)	(98,967)	(76,450)	**(472,186)**
Pool claims outstanding including IBNR	(32,698)	(14,284)	(16,590)	**(63,572)**
Estimated future claims handling costs	(12,014)	(2,697)	(1,212)	**(15,923)**
Less:				
Group Excess Loss recoveries	-	-	348	**348**
Group Pool recoveries	128,583	2,741	3,435	**134,759**
Other reinsurance recoveries	38,507	9,816	17,247	**65,570**
SMUAB reinsurance recoveries	156,952	93,052	65,900	**315,904**
Net provision for claims outstanding	(17,439)	(10,339)	(7,322)	**(35,100)**
Brokerage	(20,414)	(20,439)	(20,843)	**(61,696)**
Underwriting administration expenses	(7,831)	(7,582)	(8,378)	**(23,791)**
Other expenses	(10,992)	(9,773)	(10,251)	**(31,016)**
Balance on the technical account	2,613	(2,170)	8,641	**9,084**

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes continued	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Balance on the technical account	2,613	(2,170)	8,641	**9,084**
Investment income (including realised and unrealised)	1,011	385	108	**1,504**
Other income	109	16	27	**152**
Taxation	(225)	(77)	(26)	**(328)**
Open policy years funds available	3,508	(1,846)	8,750	**10,412**

Closed Policy Years – All Classes	**Total US$000**
Available balance as at 20 February 2017	102,440
Add:	
Balance of 2014/15 year as at 20 February 2017	(1,928)
Movements during financial year:	
Net premium	4,162
Net claims paid	(4,399)
Expenses	12
Available balance as at 20 February 2018	100,287
Claims outstanding	(279,144)
Less:	
Group Excess Loss recoveries	39,525
Group Pool recoveries	22,124
Other reinsurance recoveries	40,746
SMUAB reinsurance recoveries	-
The Trust reinsurance recoveries	176,749
Net provision for claims outstanding	-
Closed policy years funds available	**100,287**

Summary

Total open and closed years funds available	**110,699**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	293,574	300,530	289,861	**883,965**
Less:				
Group Excess Loss reinsurance premium	(31,516)	(35,829)	(38,178)	**(105,523)**
Other reinsurance premium	(21,769)	(39,555)	(42,630)	**(103,954)**
SMUAB reinsurance premium	(175,690)	(147,699)	(129,430)	**(452,819)**
Net premium	64,599	77,447	79,623	**221,669**
Allocated investment return transferred from the non-technical account	2,795	(1,911)	(1,578)	**(694)**
Gross claims paid				
Own claims paid	(33,145)	(72,377)	(205,657)	**(311,179)**
Claims administration expenses	(8,889)	(26,414)	(17,059)	**(52,362)**
Group Pool claims	(3,576)	(3,006)	(17,015)	**(23,597)**
	(45,610)	(101,797)	(239,731)	**(387,138)**
Less:				
Group Excess Loss recoveries	-	-	10,766	**10,766**
Group Pool recoveries	-	-	81,322	**81,322**
Other reinsurance recoveries	(404)	1,132	16,103	**16,831**
SMUAB reinsurance recoveries	33,412	66,826	103,032	**203,270**
Net claims paid	(12,602)	(33,839)	(28,508)	**(74,949)**
Claims outstanding including IBNR	(281,819)	(92,523)	(68,831)	**(443,173)**
Pool claims outstanding including IBNR	(32,698)	(14,284)	(16,590)	**(63,572)**
Future claims handling costs	(11,335)	(2,541)	(1,138)	**(15,014)**
Less:				
Group Excess Loss recoveries	-	-	348	**348**
Group Pool recoveries	128,583	2,741	3,435	**134,759**
Other reinsurance recoveries	34,378	9,566	14,627	**58,571**
SMUAB reinsurance recoveries	146,602	87,337	61,334	**295,273**
Net provision for claims outstanding	(16,289)	(9,704)	(6,815)	**(32,808)**
Brokerage	(18,907)	(18,969)	(19,326)	**(57,202)**
Underwriting administration expenses	(7,177)	(6,839)	(7,519)	**(21,535)**
Other expenses	(10,072)	(8,816)	(9,202)	**(28,090)**
Balance on the technical account	2,347	(2,631)	6,675	**6,391**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class continued	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Balance on the technical account	2,347	(2,631)	6,675	**6,391**
Investment income (including realised and unrealised)	926	348	97	**1,371**
Other income	100	14	24	**138**
Taxation	(206)	(70)	(22)	**(298)**
Open policy years funds available	3,167	(2,339)	6,774	7,602

Closed Policy Years – P&I Class	Total US$000
Available balance as at 20 February 2017	92,991
Add:	
Balance of 2014/15 year as at 20 February 2017	(2,367)
Movements during financial year:	
Net premium	3,407
Net claims paid	(3,592)
Expenses	6
Available balance as at 20 February 2018	90,445
Claims outstanding including IBNRs	(269,933)
Less:	
Group Excess Loss recoveries	39,525
Group Pool recoveries	22,124
Other reinsurance recoveries	36,689
SMUAB reinsurance recoveries	-
The Trust reinsurance recoveries	171,595
Net provision for claims outstanding	-
Closed policy years funds available	**90,445**

Summary	All Classes	FD&D	Others	P&I
Total open and closed years funds available	110,699	5,370	7,282	98,047

Income and Expenditure Account

for the year ended 20 February 2018

Technical Account	Note	2018 US$000	2017 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**295,318**	305,642
Outward reinsurance premium	3	**(216,626)**	(247,103)
Earned premium, net of reinsurance		**78,692**	58,539
Allocated investment return transferred from the non-technical account		**3,051**	(2,118)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**293,634**	309,163
Reinsurers' share	4	**(255,066)**	(278,829)
Net claims paid		**38,568**	30,334
Change in the provision for claims			
Gross amount	5	**65,440**	(142,642)
Reinsurers' share	5	**(57,427)**	132,996
Change in the net provision for claims	5	**8,013**	(9,646)
Claims incurred, net of reinsurance		**46,581**	20,688
Net operating expenses	6	**39,278**	37,703
Balance on the technical account for general business		**(4,116)**	(1,970)

Non-Technical Account	Note	2018 US$000	2017 US$000
Balance on the general business technical account		**(4,116)**	(1,970)
Investment income		**3,190**	(2,331)
Unrealised gains on investments		**871**	598
Allocated investment return transferred to the technical account		**(3,051)**	2,118
Other income		**109**	16
Deficit on ordinary activities before taxation		**(2,997)**	(1,569)
Taxation	7	**225**	77
Deficit for the financial year		**(3,222)**	(1,646)
Free reserves brought forward		**113,921**	115,567
Free reserves		**110,699**	113,921

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 2018

Assets	Note	2018 US$000	2017 US$000
Investments			
Other financial investments	8	**74,152**	75,534
Reinsurers' share of technical provisions			
Claims outstanding	5	**795,725**	738,298
Debtors			
Debtors arising out of direct insurance operations		**14,664**	16,617
Debtors arising out of reinsurance operations	9	**62,536**	68,285
Other debtors		**882**	2,009
Other assets			
Cash at bank and in hand		**23,321**	21,030
Prepayments and accrued income			
Deferred acquisition costs		**347**	253
Other prepayments and accrued income		**397**	3,618
Total assets		**972,024**	925,644
Liabilities			
Capital and reserves			
Free reserves	12	**110,699**	113,921
Technical provisions			
Provision for unearned premium		**2,265**	1,711
Claims outstanding	5	**830,826**	765,386
Provisions for other risks and charges			
Provision for taxation		**218**	77
Other provisions	11	**835**	-
Creditors			
Creditors arising out of direct insurance operations		**14,481**	10,688
Creditors arising out of reinsurance operations	10	**8,990**	27,857
Other creditors including taxation and social security		**3,710**	6,004
Total liabilities		**972,024**	925,644

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 15 May 2018.

A Pohan
Chairman

C J Ahrenkiel
Director

Managers:
Steamship P&I Management LLP

Cash Flow Statement

for the year ended 20 February 2018

Deficit on ordinary activities before tax	2018 US$000	2017 US$000
Operating deficit before taxation after interest	**(2,997)**	(1,569)
Increase/(decrease) in general insurance technical provisions	**8,567**	(9,686)
Increase in other provisions	**835**	-
Unrealised gains on investments	**(871)**	(598)
Decrease/(increase) in debtors	**11,956**	(13,339)
Decrease in creditors	**(17,368)**	(1,619)
	3,119	(25,242)
Net cash inflow/(outflow) from operating activities	**122**	(26,811)

Cash flow statement

Net cash inflow/(outflow) from operating activities	**122**	(26,811)
Taxation paid	**(84)**	(25)
	38	(26,836)

Cash flows were invested as follows:

Increase in cash holdings	**2,291**	3,143
Net portfolio investment		
Purchase of bonds and loans	**197**	15,739
Sale of money market instruments	**(2,451)**	(37,719)
Increase/(decrease) in cash on short term deposit	**1**	(7,999)
Cash generated by/(used in) investing activities	**38**	(26,836)
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	**2,291**	3,143
Portfolio investments	**(2,253)**	(29,979)
Movements arising from cash flows	**38**	(26,836)
Changes in market values and exchange rate effects	**871**	598
Total movement in portfolio investments net of financing	**909**	(26,238)
Portfolio investments net of financing at 20 February 2017	**96,564**	122,802
Portfolio investments net of financing at 20 February 2018	**97,473**	96,564

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 2018. 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:

		2018	2017
Euro	€	**0.807**	0.941
UK sterling	£	**0.715**	0.804

2. Gross premium written

	2018 US$000	2017 US$000
Mutual and fixed premium written	**320,980**	336,404
Return of premium	**(25,588)**	(25,780)
Release calls	**480**	(5,022)
Movement in unearned premium	**(554)**	40
	295,318	305,642

Gross premium by class of business

	2018 US$000	2017 US$000
Protection and Indemnity	**267,307**	272,460
Freight, Demurrage and Defence	**12,943**	14,050
Other	**15,068**	19,132
	295,318	305,642

Gross premium by Member location

	2018 US$000	2017 US$000
United States of America	**95,200**	103,249
South Korea	**21,919**	21,434
Germany	**14,804**	18,881
Netherlands	**14,793**	15,752
France	**13,065**	5,488
Taiwan	**11,904**	11,728
Brazil	**11,901**	15,005
Hong Kong	**11,155**	12,337
Italy	**10,412**	11,129
Switzerland	**9,604**	5,364
China	**8,242**	8,302
India	**8,153**	9,912
Chile	**7,868**	7,760
Cyprus	**7,546**	10,179
United Kingdom	**6,607**	9,360
Other countries	**42,145**	39,762
	295,318	305,642

Notes on the Accounts

continued

3. Reinsurance contracts

The Association has the following reinsurance arrangements:

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

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

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

4. Claims paid – gross amount	**2018 US$000**	2017 US$000
Claims and related expenses	**253,158**	265,316
Group Pool claims	**15,677**	20,310
Claims administration expenses	**24,799**	23,537
	293,634	309,163
Less reinsurers' share		
SMUAB	**123,924**	61,168
The Trust	**43,541**	114,347
Group Pool and other reinsurers	**87,601**	103,314
	255,066	278,829
Net claims paid	**38,568**	30,334

Notes on the Accounts

continued

5. Change in net provision for claims	2018 US$000	2017 US$000
Gross outstanding claims		
Provision brought forward	**(765,386)**	(908,028)
Provision carried forward	**830,826**	765,386
	65,440	(142,642)
The Trust's share of outstanding claims		
Provision brought forward	**242,238**	377,327
Provision carried forward	**(176,749)**	(242,238)
	65,489	135,089
SMUAB's share of outstanding claims		
Provision brought forward	**295,171**	200,090
Provision carried forward	**(384,504)**	(295,171)
	(89,333)	(95,081)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	**150,806**	248,188
Provision carried forward	**(196,757)**	(150,806)
	(45,951)	97,382
Other reinsurers' share of outstanding claims		
Provision brought forward	**50,083**	45,689
Provision carried forward	**(37,715)**	(50,083)
	12,368	(4,394)
Change in net provision for claims	**8,013**	(9,646)

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 the Association's share of other Group clubs' Pool claims. Provision is also made for claims incurred but not reported by the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

Gross outstanding claims carried forward are net of US$65.7 million of third party recoveries (2017: US$46.5 million).

Notes on the Accounts

continued

6. Net operating expenses

	2018 US$000	2017 US$000
Acquisition costs		
Brokerage	**20,372**	20,442
Underwriting administration expenses	**7,881**	7,525
	28,253	27,967
Administrative expenses		
Other administration expenses	**10,341**	9,134
Regulatory fees	**360**	359
Directors' remuneration	**19**	18
Auditor's remuneration	**305**	225
	11,025	9,736
	39,278	37,703

The Association had no employees in either financial year.

Transactions with related parties

The Association, which is limited by guarantee, has no share capital and is controlled by the Members who are also the insureds. The insurance transactions are deemed to be between related parties but these are the only transactions between the Association and the Members. The aggregate of these transactions is disclosed in these financial statements.

Steamship P&I Management LLP ("SPIM") provides management and administrative services to the Association. Under the terms of its management contract SPIM receives, as remuneration for its services, a fee which is based in part on premium payable by Members in each accounting year together with reimbursement of its office and administration expenses. For the financial year to 20 February 2018, these fees amounted to US$36.2 million (2017: US$35.6 million). US$0.3 million was due to SPIM at the year end (2017: due from SPIM US$1.0 million).

Steamship P&I Management (Singapore) PTE Ltd ("SPIM Singapore"), a subsidiary of SPIM, provides management and administrative services to the Association. SPIM Singapore receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses. For the financial year to 20 February 2018 these fees and expenses amounted to US$0.9 million (2017: US$0.3 million). US$0.4 million was due to SPIM Singapore at the year end (2017: US$0.3 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 2018 these fees and expenses amounted to US$3.1 million (2017: US$3.1 million). US$0.4 million was due from SMM(B) at the year end (2017: US$0.7 million).

Notes on the Accounts

continued

7. Taxation

The charge represents the estimated liability for the accounting year to 20 February 2018, of US$225,432 (2017: US$77,483) 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	2018 US$000	2017 US$000
United Kingdom corporation tax at 19.1% (2017: 20%) based on the deficit for the financial year	**225**	77
	225	77

Factors affecting tax charge for the current period

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

Deficit on ordinary activities before tax	**(2,997)**	(1,569)
Tax at 19.1% (2017: 20%) thereon	**(572)**	(314)
Effect of income not subject to corporation tax	**347**	391
Current tax charge for period	**225**	77

8. Other financial investments

	2018 US$000	2017 US$000
Market value		
Bonds and loans	**16,930**	16,802
Money market instruments	**34,722**	37,173
Deposits with credit institutions	**22,000**	22,000
Cash accounts	**1**	-
Derivative financial instruments	**499**	(441)
	74,152	75,534
Cost		
Bonds and loans	**17,088**	16,891
Money market instruments	**34,722**	37,173
Deposits with credit institutions	**22,000**	22,000
Cash accounts	**1**	-
	73,811	76,064

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

Notes on the Accounts

continued

9. Debtors arising out of reinsurance operations

	2018 US$000	2017 US$000
The Trust	**47,427**	59,237
SMUAB	**5,054**	-
Group Clubs	**208**	4,369
Other reinsurance debtors	**9,847**	4,679
	62,536	68,285

10. Creditors arising out of reinsurance operations

	2018 US$000	2017 US$000
SMUAB	**-**	21,014
Group Clubs	**-**	32
Other reinsurance creditors	**8,990**	6,811
	8,990	27,857

11. Other provisions

As described under Transactions with related parties in Note 6, the Association has an obligation to reimburse the office and administration expenses of SPIM which include the expenses of its subsidiary service company Steamship Insurance Management Services Limited ("SIMSL"). These expenses include the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. The Directors consider that the Association has a constructive obligation to provide funding to SIMSL for the scheme requiring a provision to be recognised if the scheme has an accounting deficit as calculated in accordance with International Accounting Standard 19 – Employee Benefits. On this basis there was a provision recognised of US$0.8 million in respect of the deficit at the balance sheet date (2017: surplus US$4,000). The Trustees of SIMSL's pension scheme meet regularly and report quarterly to the Directors on the management and performance of the Scheme's assets and liabilities and associated risks.

12. Free reserves

	2018 US$000	2017 US$000
Free reserves brought forward	**113,921**	115,567
Deficit for year	**(3,222)**	(1,646)
	110,699	113,921

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

13. Contingent liabilities

The Association provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provision. For uncovered claims, guarantees are issued when appropriate counter security is obtained. As at 20 February 2018 the total value of guarantees issued in respect of uncovered claims was US$10.5 million (2017: US$10.6 million).

Notes on the Accounts

continued

14. Security

A trust has been set up to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US$5.5 million (2017: US$5.4 million) had been allocated to the trust.

The Association deposits funds as required in the agreement between various members of the International Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited had a total value of US$11.5 million (2017: US$11.4 million).

15. Capital management

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

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

16. Risk management

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

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

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

Insurance risk

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

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

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

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

Notes on the Accounts

continued

16. Risk management continued

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.

		2018 US$000	2017 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(19,628)**	(12,297)
	net of reinsurance	**(1,127)**	(1,230)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	(2,000,000)
	net of reinsurance	**(1,527)**	(1,423)

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

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

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	314,336	208,834	114,390	282,635	341,688	244,772	392,561
One year later	630,373	184,502	230,254	214,463	338,016	225,559	
Two years later	823,866	315,281	211,471	209,479	348,201		
Three years later	975,234	294,626	203,609	203,073			
Four years later	948,138	277,820	199,147				
Five years later	916,159	272,397					
Six years later	911,738						
Current estimate of ultimate claims	911,738	272,397	199,147	203,073	348,201	225,559	392,561
Cumulative payments to date	845,957	245,953	154,034	161,669	253,949	109,611	51,080
Claims outstanding	65,781	26,444	45,113	41,404	94,252	115,948	341,481
Claims outstanding relating to last seven reporting years							730,423
Other claims liabilities							100,403
Total gross claims outstanding							830,826

Notes on the Accounts

continued

16. Risk management continued

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	9,399	8,927	13,574	30,972	34,778	41,936	31,343
One year later	9,443	8,945	16,612	30,817	33,005	47,354	
Two years later	9,451	10,106	16,589	20,158	38,430		
Three years later	10,538	10,108	11,606	21,339			
Four years later	10,538	9,191	12,714				
Five years later	9,830	9,617					
Six years later	10,527						
Current estimate of ultimate claims	10,527	9,617	12,714	21,339	38,430	47,354	31,343
Cumulative payments to date	10,527	9,617	12,714	21,339	31,108	37,015	13,903
Claims outstanding	-	-	-	-	7,322	10,339	17,440
Claims outstanding relating to last seven reporting years							35,101
Other claims liabilities							-
Total net claims outstanding							35,101

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

Credit risk

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

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

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

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

Notes on the Accounts

continued

16. Risk management continued

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

As at 20 February 2018

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	-	16,930	-	-	-	16,930
Money market instruments	34,722	-	-	-	-	34,722
Deposits with credit institutions	-	17,000	5,000	-	-	22,000
Cash accounts	-	-	1	-	-	1
Derivative financial instruments	-	-	-	-	499	499
Cash at bank and in hand	-	16,830	1,903	-	4,588	23,321
Reinsurers' share of technical provisions	-	8,236	761,783	25,296	410	795,725
Debtors arising out of reinsurance operations	-	17	62,389	35	95	62,536
Accrued interest	-	59	9	-	-	68
Total assets with credit ratings	34,722	59,072	831,085	25,331	5,592	955,802
Other assets	-	-	-	-	16,222	16,222
Total assets	34,722	59,072	831,085	25,331	21,814	972,024

As at 20 February 2017

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	-	16,802	-	-	-	16,802
Money market instruments	37,173	-	-	-	-	37,173
Deposits with credit institutions	-	12,000	10,000	-	-	22,000
Derivative financial instruments	-	-	(441)	-	-	(441)
Cash at bank and in hand	-	16,089	-	-	4,941	21,030
Reinsurers' share of technical provisions	-	22,800	713,617	1,763	118	738,298
Debtors arising out of reinsurance operations	-	17	67,068	843	357	68,285
Accrued interest	-	33	-	-	-	33
Total assets with credit ratings	37,173	67,741	790,244	2,606	5,416	903,180
Other assets	-	-	-	-	22,464	22,464
Total assets	37,173	67,741	790,244	2,606	27,880	925,644

Notes on the Accounts

continued

16. Risk management continued

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

As at 20 February 2018

	Not due US$000	0 - 30 days US$000	31 - 90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	5,658	2,307	2,482	3,497	720	14,664
Debtors arising out of reinsurance operations	52,481	9,992	40	6	17	62,536
Total	58,139	12,299	2,522	3,503	737	77,200

As at 20 February 2017

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

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.

Market risk

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

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

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

Notes on the Accounts

continued

16. Risk management continued

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

As at 20 February 2018

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Indian rupee US$000	Other US$000	Total US$000
Assets	746,447	35,347	133,902	16,889	8,808	30,631	972,024
Liabilities	(640,634)	(35,745)	(129,483)	(16,984)	(8,828)	(29,651)	(861,325)
	105,813	(398)	4,419	(95)	(20)	980	110,699

As at 20 February 2017

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

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

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

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

Operational risk

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

The Steamship Mutual Underwriting Association (Bermuda) Limited

Annual Report and Accounts 2018

Contents

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
PO Box HM 601
Hamilton HM CX
Bermuda
Telephone: +1 441 295 4502
Telefax: +1 441 292 8787

Managers' representatives

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39 Bell Lane
London E1 7LU
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Steamship Mutual Management (Hong Kong) Limited
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Representative office in Brazil
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Telephone: +55 21 2221 6074 & +55 21 2221 6461
Telefax: +55 21 2221 8747

Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the Forty Fourth Annual General Meeting of the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") will be held at the Windsor Court Hotel, New Orleans, Louisiana, United States, on Tuesday, 23 October 2018 at 09:00 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 2018.
4 To fix the number of Directors for the ensuing year.
5 To elect Directors retiring in rotation.
Under the Bye-laws of the Company, one-third of the Directors are required to retire annually by rotation. The Directors retiring by rotation are Mr C Bouch, Mr S M Edye, Mr M Frith, Ms D M Ho, Mr S J Martin, Mr G W F Rynsard, Ms M Sloan, Mr R Zagari and Ms S Zagury. Being eligible all Directors offer themselves for re-election.
6 To appoint the Auditor and to authorise the Directors to agree their remuneration.
7 Confirmation of acts.
8 To transact any other ordinary business of the Company.

By Order of the Board

C Murphy
Secretary

15 May 2018

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend, speak and vote in his or her place. The instrument appointing a proxy may be in the form enclosed and must be deposited with the Secretary at Clarendon House, 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 Edye, Sloman Neptun Schiffahrts AG (Chairman)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
A Albertini, Marfin Management SAM
M W Bayley, Royal Caribbean International
C Bouch
D S Farkas, Norwegian Cruise Line
M Frith, Conyers, Dill & Pearman
I Grimaldi, Grimaldi Holdings SpA
D M Ho, Magsaysay Maritime Corp
E Ide, Naviera Ultranav Ltda
W J Kim, Polaris Shipping Co. Ltd
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
B A McAllister, McAllister Towing
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
M Saeidi, Islamic Republic of Iran Shipping Line
(appointed 28 March 2017, resigned 20 February 2018)
B K Sheth, The Great Eastern Shipping Co Ltd
B B Sinha, The Shipping Corporation of India Ltd
(resigned 12 September 2017)
M Sloan, Carnival Corporation & plc
C Sommerhage, Columbia Shipmanagement (Germany) GmbH
Song, Chunfeng, China Shipowners Mutual Assurance Association
A L Tung, Island Navigation Corp International Ltd
E Veniamis, Golden Union Shipping Co SA
(appointed 21 November 2017)
A Zacchello, Seaarland Shipping Management BV
R Zagari, Augustea Group
S Zagury, Vale

Secretary

S H Davis, Conyers, Dill & Pearman (resigned 1 January 2018)

C Murphy, Conyers, Dill & Pearman (appointed 1 January 2018)

Managers

Steamship Mutual Management (Bermuda) Ltd

Registered office

Clarendon House
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Bermuda

Administrative office

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Report of the Directors

The Directors have pleasure in presenting their Report and the Audited Accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") for the year ended 20 February 2018.

Principal activities

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

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

Directors

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

In accordance with the Act of Incorporation, as amended on 18 April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in New Orleans, Louisiana, United States, on 23 October 2018:

Mr C Bouch, Mr S M Edye, Mr M Frith, Ms D M Ho, Mr S J Martin, Mr G W F Rynsard, Ms M Sloan, Mr R Zagari and Ms S Zagury.

Being eligible all Directors offer themselves for re-election.

Free reserves

The balance on the Technical Account was a deficit of US$9.3 million for the financial year.

The overall surplus for the financial year of US$0.1 million reflects a net investment gain of US$4.9 million and other comprehensive income of US$4.5 million.

Total capital and reserves amount to US$116.0 million.

Underwriting

Gross premium written was US$171.3 million compared to US$199.7 million last year.

Steamship Mutual Underwriting Association Limited ("SMUA")

All reinsurance arrangements with SMUA for the 2014/15 policy year and earlier were terminated with effect from 20 February 2015 following a corporate reorganisation. For the 2015/16 and subsequent policy years the Association entered into a reinsurance contract with SMUA under which, in return for a percentage of written premium ceded to the Association, SMUA is indemnified for 90% of its net underlying liabilities.
All Members of SMUA are automatically Members of the Association and thus beneficiaries of the Trust.

The Steamship Mutual Trust ("Trust")

The Association entered into a reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of The Trust, a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover all its liabilities in respect of the 2015/16 and subsequent policy years. The Chairman of the Association is 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

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

Investments

The total amount of cash and investments held by the Association, including land and buildings, decreased by 2.5% to US$139.7 million.

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 auditor in monitoring the quality of all reporting which contains material financial information, assessing the Association's internal control systems, and advising the Board on the effectiveness and objectivity of the internal and external auditors.

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

- Development and consideration of stress and reverse stress tests in support of the Group Solvency Self-Assessment ("GSSA");
- Development of the GSSA for submission to the BMA;
- Results of Audit and Risk Committee's effectiveness review;
- Re-development of Directors' training schedule.

Directors' responsibilities statement

The Directors have prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

S-M Edye
Chairman

London, United Kingdom
15 May 2018

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	204,151	191,547	174,647	**570,345**
Less:				
External reinsurance premium	(3,182)	(3,223)	(3,540)	**(9,945)**
The Trust reinsurance premium	(188,175)	(161,324)	(145,084)	**(494,583)**
Net premium	12,794	27,000	26,023	**65,817**
Allocated investment return transferred from the non-technical account	85	(86)	(181)	**(182)**
Gross claims paid				
Own claims paid	(37,176)	(71,465)	(127,048)	**(235,689)**
Claims administration expenses	(575)	(1,172)	(55)	**(1,802)**
	(37,751)	(72,637)	(127,103)	**(237,491)**
Less:				
External reinsurance recoveries	–	–	–	**–**
The Trust reinsurance recoveries	37,176	71,465	111,002	**219,643**
Net claims paid	(575)	(1,172)	(16,101)	**(17,848)**
Claims outstanding including IBNR	(190,214)	(99,772)	(76,045)	**(366,031)**
Less:				
Other reinsurance recoveries	4,276	–	616	**4,892**
The Trust reinsurance recoveries	156,951	93,053	65,900	**315,904**
Net provision for claims outstanding	(28,987)	(6,719)	(9,529)	**(45,235)**
Brokerage	–	–	–	**–**
Underwriting administration expenses	49	(110)	258	**197**
Other expenses	(1,222)	(1,072)	(2,087)	**(4,381)**
Balance on the technical account	(17,856)	17,841	(1,617)	**(1,632)**
Investment income (including realised and unrealised)	9,388	(1,339)	(1,055)	**6,994**
Other income	–	–	10	**10**
Open policy years funds available	(8,468)	16,502	(2,662)	**5,372**

Closed Policy Years – All Classes	Total US$000
Available balance as at 20 February 2017	117,782
Add:	
Balance of 2014/15 year as at 20 February 2017	9,733
Movements during financial year:	
Net premium	-
Net claims paid	(205)
Available balance as at 20 February 2018	127,310
Claims outstanding	(18,473)
Less:	
Other reinsurance recoveries	1,800
Net provision for claims outstanding	(16,673)
Closed policy years funds available	**110,637**

Summary

Total open and closed years funds available	**116,009**

Appendix II – Policy Year Statement – P&I Class

P&I Class

Open Policy Years – P&I Class	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	190,158	175,205	157,343	**522,706**
Less:				
External reinsurance premium	(3,182)	(3,223)	(3,540)	**(9,945)**
The Trust reinsurance premium	(174,329)	(145,212)	(127,973)	**(447,514)**
Net premium	12,647	26,770	25,830	**65,247**
Allocated investment return transferred from the non-technical account	78	(78)	(162)	**(162)**
Gross claims paid				
Own claims paid	(33,413)	(66,826)	(119,079)	**(219,318)**
Claims administration expenses	(526)	(1,058)	(50)	**(1,634)**
	(33,939)	(67,884)	(119,129)	**(220,952)**
Less:				
External reinsurance recoveries	–	–	–	**–**
The Trust reinsurance recoveries	33,412	66,827	103,033	**203,272**
Net claims paid	(527)	(1,057)	(16,096)	**(17,680)**
Claims outstanding including IBNR	(179,864)	(94,056)	(71,479)	**(345,399)**
Less:				
Other reinsurance recoveries	4,276	–	616	**4,892**
The Trust reinsurance recoveries	146,601	87,337	61,334	**295,272**
Net provision for claims outstanding	(28,987)	(6,719)	(9,529)	**(45,235)**
Brokerage	–	–	–	**–**
Underwriting administration expenses	45	(99)	232	**178**
Other expenses	(1,119)	(968)	(1,873)	**(3,960)**
Balance on the technical account	(17,863)	17,849	(1,598)	**(1,612)**
Investment income (including realised and unrealised)	8,598	(1,208)	(947)	**6,443**
Other income	–	–	9	**9**
Open policy years funds available	(9,265)	16,641	(2,536)	**4,840**

Closed Policy Years – P&I Class	Total US$000
Available balance as at 20 February 2017	**112,785**
Add:	
Balance of 2014/15 year as at 20 February 2017	**11,442**
Movements during financial year:	
Net premium	-
Net claims paid	**(205)**
Available balance as at 20 February 2018	**124,022**
Claims outstanding including IBNRs	**(18,473)**
Less:	
Other reinsurance recoveries	**1,801**
Net provision for claims outstanding	**(16,672)**
Closed policy years funds available	**107,350**

Summary	All Classes	FD&D	Others	P&I
Total open and closed years funds available	112,190	(8,207)	12,026	116,009

Consolidated Income and Expenditure Account

for the year ended 20 February 2018

Technical Account	Note	2018 US$000	2017 US$000
Earned premium, net of reinsurance			
Gross premium written		**171,321**	199,704
Outward reinsurance premium			
The Trust	2	**(155,738)**	(169,045)
Other reinsurers		**(3,135)**	(3,276)
Earned premium, net of reinsurance		**12,448**	27,383
Allocated investment return transferred from the non-technical account		**104**	(86)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	**131,968**	74,598
Reinsurers' share	3	**(123,735)**	(61,527)
Net claims paid		**8,233**	13,071
Change in the provision for claims			
Gross amount	4	**89,334**	95,081
Reinsurers' share	4	**(76,873)**	(87,832)
Change in the net provision for claims		**12,461**	7,249
Claims incurred, net of reinsurance		**20,694**	20,320
Net operating expenses	5	**1,173**	1,182
Balance on the technical account for general business		**(9,315)**	5,795
Non-Technical Account			
Balance on the general business technical account		**(9,315)**	5,795
Investment income	6	**1,523**	394
Unrealised (losses)/gains on investments	7	**(716)**	45
Investment management expenses		**(72)**	–
Allocated investment return transferred to the technical account		**(104)**	86
Other income	8	**4,265**	–
Other charges	9	**–**	(1,864)
(Deficit)/surplus for the financial year		**(4,419)**	4,456
Other comprehensive income			
Surplus above cost on revaluation of property	11	**4,472**	–
Total comprehensive income		**53**	4,456

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

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

Consolidated Statement of Changes in Equity

for the year ended 20 February 2018

	Profit and loss account US$000	Revaluation reserve US$000	Total US$000
As at 20 February 2016	**111,500**	**-**	**115,500**
Surplus for the financial year	4,456	-	4,456
As at 20 February 2017	**111,956**	**-**	**115,956**
Deficit for the financial year	(4,419)	-	(4,419)
Other comprehensive income	-	4,472	4,472
As at 20 February 2018	**111,537**	**4,472**	**116,009**

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

Consolidated Balance Sheet

as at 20 February 2018

Assets	Note	**2018 US$000**	2017 US$000
Investments			
Land and buildings	11	**21,424**	12,687
Other financial investments	12	**116,019**	127,129
Reinsurers’ share of technical provisions			
Claims outstanding	4	**322,597**	245,724
Debtors			
Debtors arising out of reinsurance operations	13	**40,575**	21,014
Other debtors		**2,551**	2,538
Other assets			
Cash at bank and in hand		**2,285**	3,524
Other prepayments and accrued income		**265**	228
Total assets		**505,716**	412,844
Liabilities			
Capital and reserves			
Free reserves		**111,537**	115,956
Revaluation reserve	11	**4,472**	–
Technical provisions			
Claims outstanding	4	**384,505**	295,171
Creditors			
Creditors arising out of reinsurance operations	14	**5,054**	1,659
Other creditors		**148**	58
Total liabilities		**505,716**	412,844

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 15 May 2018.

S-M Edye
Chairman

C J Ahrenkiel
Director

Managers:
Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20 February 2018

	2018 US$000	2017 US$000
(Deficit)/surplus on ordinary activities before tax		
Operating (deficit)/surplus before taxation after interest	**(4,419)**	4,456
Increase in general insurance technical provisions	**12,461**	7,249
Unrealised (gains)/losses on revaluation of property	**(4,265)**	1,864
Unrealised losses/(gains) on investments	**716**	(45)
(Increase)/decrease in debtors	**(19,611)**	4,304
Increase/(decrease) in creditors	**3,485**	(4,505)
	(7,214)	8,867
Net cash (outflow)/inflow from operating activities	**(11,633)**	13,323
Cash flows were invested as follows:		
Decrease in cash holdings	**(1,239)**	(1,175)
Net portfolio investment		
Purchase of bonds and loans	**866**	49,824
(Sale)/purchase of money market instruments	**(14,109)**	1,221
Increase/(decrease) in cash on short term deposit	**2,849**	(36,547)
	(10,394)	14,498
Net investment of cash flows	**(11,633)**	13,323
Movement in opening and closing portfolio investments net of financing		
Net cash outflow for the year	**(1,239)**	(1,175)
Portfolio investments	**(10,394)**	14,498
Movement arising from cash flows	**(11,633)**	13,323
Changes in market values and exchange rate effects	**(716)**	45
Total movement in portfolio investments net of financing	**(12,349)**	13,368
Portfolio investments net of financing at 20 February 2017	**130,653**	117,285
Portfolio investments net of financing at 20 February 2018	**118,304**	130,653

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 accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB") and its subsidiary undertaking Steamship Mutual Property Holdings Limited ("SMPH") and its share of Hydra Insurance Company Limited ("Hydra") at 20 February 2018.

(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 dollar losses or reversal of dollar losses arising upon revaluation are recognised in the income and expenditure account; any dollar surplus is recognised in other comprehensive income and credited to a revaluation reserve.

(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 2018. 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:

		2018	2017
Euro	€	**0.807**	0.941
UK sterling	£	**0.715**	0.804

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

(b) Under a contract dated 27 January 2015, the Association reinsured with the Trust all of its liabilities for the 2015/16, 2016/17 and 2017/18 policy years.

Notes on the Accounts

continued

3. Claims paid – gross amount	**2018 US$000**	2017 US$000
Claims and related expenses	**131,393**	73,426
Claims administration expenses	**575**	1,172
	131,968	74,598
Less reinsurers' share		
Other reinsurers	**(188)**	359
The Trust	**123,923**	61,168
	123,735	61,527
Net claims paid	**8,233**	13,071

4. Change in net provision for claims	**2018 US$000**	2017 US$000
Gross outstanding claims		
Provision brought forward	**(295,171)**	(200,090)
Provision carried forward	**384,505**	295,171
	89,334	95,081
The Trust's share of outstanding claims		
Provision brought forward	**243,785**	156,764
Provision carried forward	**(315,905)**	(243,785)
	(72,120)	(87,021)
Other reinsurers' share of outstanding claims		
Provision brought forward	**1,939**	1,128
Provision carried forward	**(6,692)**	(1,939)
	(4,753)	(811)
Change in net provision for claims	**12,461**	7,249

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. 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

	2018 US$000	2017 US$000
Acquisition costs		
Underwriting administration expenses	**(49)**	110
	(49)	110
Administrative expenses		
Other administration expenses	**736**	624
Directors' remuneration	**375**	350
Auditor's remuneration	**111**	98
	1,222	1,072
	1,173	1,182

Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Following the reorganisation, under the terms of its management contract SMM(B) receives as remuneration for its services, reimbursement of its office and administration expenses and those of its worldwide representatives from SMUA. At 20 February 2018 the Association owed SMM(B) US$0.3 million (2017: US$0.03 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 2018 a provision of US$2.5 million (2017: US$2.8 million) has been made. There were no other related parties transactions requiring disclosure under FRS 102 s33.

6. Investment income

	2018 US$000	2017 US$000
Dividends and interest	**1,438**	480
Realised losses		
Investments	**–**	–
Exchange	**85**	(86)
	85	(86)
	1,523	394

Notes on the Accounts

continued

7. Unrealised (losses)/gains on investments

	2018 US$000	2017 US$000
Investments	**(735)**	50
Exchange	**19**	(5)
	(716)	45

8. Other income

	2018 US$000	2017 US$000
Surplus on revaluation of property (see note 11)	**4,265**	-

9. Other charges

	2018 US$000	2017 US$000
Currency loss on revaluation of property	**-**	1,864

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 valued by CBRE Limited at £15.3 million (US$21.4 million) reflecting the market value at 20 February 2018. The original costs incurred when the property was purchased in 1987 amounted to US$17.0 million. The surplus of US$4.5 million has been credited to the revaluation reserve.

Notes on the Accounts

continued

12. Other financial investments

	2018 US$000	2017 US$000
Market value		
Bonds and loans	**59,792**	59,662
Equities	**138**	118
Money market instruments	**26,044**	40,153
Deposits with credit institutions	**30,026**	27,185
Cash accounts	**19**	11
	116,019	127,129
Cost		
Bonds and loans	**60,232**	59,366
Equities	**485**	485
Money market instruments	**26,044**	40,153
Deposits with credit institutions	**30,026**	27,185
Cash accounts	**19**	11
	116,806	127,200

Fair value determination

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

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

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

Level 3 Market data is unavailable for the asset.

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

As at 20 February 2018

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	**59,792**	–	–	**59,792**
Equities	–	–	**138**	**138**
Money market instruments	**26,044**	–	–	**26,044**
Deposits with credit institutions	**30,026**	–	–	**30,026**
Cash accounts	**19**	–	–	**19**
	115,881	–	**138**	**116,019**

Notes on the Accounts

continued

12. Other financial investments continued

As at 20 February 2017

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	59,662	–	–	59,662
Equities	–	–	118	118
Money market instruments	40,153	–	–	40,153
Deposits with credit institutions	27,185	–	–	27,185
Cash accounts	11	–	–	11
	127,011	–	118	127,129

13. Debtors arising out of reinsurance operations

	2018 US$000	2017 US$000
The Trust	**40,527**	–
SMUA	**–**	21,014
Excess Loss reinsurers	**48**	–
	40,575	21,014

14. Creditors arising out of reinsurance operations

	2018 US$000	2017 US$000
SMUA	**5,054**	–
The Trust	**–**	1,659
	5,054	1,659

15. Wholly-owned subsidiary companies

SMPH is a wholly-owned subsidiary of the Association.

16. Hydra Insurance Company Limited ("Hydra")

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

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$5.5 million (2017: US$5.4 million) had been allocated to the trust.

Notes on the Accounts

continued

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.

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 Group Solvency Self-Assessment ("GSSA") documents the Association's risk and capital management processes employed to identify, assess, manage and report the risks it may face and to determine the funds necessary to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

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

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium received from SMUA in the current policy year is insufficient to cover claims and other costs arising in that year. The Association's premium risk is calculated on net premiums written and is purely in relation to its exposure to Hydra claims as it bears no net liability on SMUA claims, as described under note 3 on the accounts.

Reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. The Association is exposed to the uncertainty surrounding the timing, frequency and severity of claims under its net claims exposure through Hydra. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

The key methods used by 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.

		2018 **US$000**	2017 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(10,146)**	(11,067)
	net of reinsurance	**(40)**	–
Single claim in SMUA of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(36,439)**	(35,256)
	net of reinsurance	**(17,788)**	(17,724)

Notes on the Accounts

continued

19. Risk management continued

Insurance risk continued

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

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

Insurance claims – gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	475,728	420,741	322,326	59,072	211,207	181,109	227,965
One year later	754,806	345,219	114,298	54,804	199,620	172,409	
Two years later	940,327	205,177	113,487	54,419	203,148		
Three years later	802,274	203,896	113,705	54,286			
Four years later	802,745	203,197	115,611				
Five years later	803,434	201,219					
Six years later	803,037						
Current estimate of ultimate claims	803,037	201,219	115,611	54,286	203,148	172,409	227,965
Cumulative payments to date	802,398	199,680	106,272	51,449	127,103	72,637	37,751
Claims outstanding	639	1,539	9,339	2,837	76,045	99,772	190,214
Claims outstanding relating to last seven reporting years							380,385
Other claims liabilities							4,120
Total gross claims outstanding							384,505

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	42,466	49,814	54,802	36,326	19,892	15,344	29,562
One year later	34,048	41,376	41,687	32,058	25,881	7,891	
Two years later	31,537	36,170	40,876	31,673	25,630		
Three years later	29,769	34,889	41,094	31,540			
Four years later	30,394	34,190	43,000				
Five years later	30,394	32,212					
Six years later	29,997						
Current estimate of ultimate claims	29,997	32,212	43,000	31,540	25,630	7,891	29,562
Cumulative payments to date	29,753	30,673	33,661	28,703	16,101	1,172	575
Claims outstanding	244	1,539	9,339	2,837	9,529	6,719	28,987
Claims outstanding relating to last seven reporting years							59,194
Other claims liabilities							2,714
Total net claims outstanding							61,908

The Association has elected to disclose only seven 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.

Notes on the Accounts

continued

19. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default and the debt has to be written off. The extensive reinsurance protection arranged by the Association effectively transforms a large proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. The credit risk arising from the reinsurance contract with The Trust is mitigated through the operation of a collateral agreement. External reinsurers are generally only used if their financial strength rating is higher or equal to an A- rating from Standard & Poor's or an equivalent from another rating agency.

Credit risk arises on operational balances and deposits held with banks. This is controlled by using a variety of banks aiming to limit individual exposures to US$10 million for banks rated AA by S&P, or an equivalent rating from another agency, and U$5 million for banks rated A by S&P, or an equivalent rating from another agency.

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

As at 20 February 2018

	AAA US$000	AA US$000	A US$000	NR US$000	Total US$000
Bonds and loans	4,219	53,717	1,856	–	59,792
Money market instruments	26,044	–	–	–	26,044
Deposits with credit institutions	–	30,026	–	–	30,026
Cash accounts	–	19	–	–	19
Cash at bank and in hand	–	1,871	414	–	2,285
Reinsurers' share of technical provisions	–	967	321,630	–	322,597
Debtors arising out of reinsurance operations	–	–	40,575	–	40,575
Accrued interest	–	155	–	–	155
Total assets with credit ratings	30,263	86,755	364,475	–	481,493
Other assets	–	–	–	24,223	24,223
Total assets	30,263	86,755	364,475	24,223	505,716

Notes on the Accounts

continued

19. Risk management continued

Credit risk continued

As at 20 February 2017

	AAA US$000	AA US$000	A US$000	NR US$000	Total US$000
Bonds and loans	4,456	53,334	1,872	–	59,662
Money market instruments	40,153	–	–	–	40,153
Deposits with credit institutions	–	27,185	–	–	27,185
Cash accounts	–	11	–	–	11
Cash at bank and in hand	–	2,993	531	–	3,524
Reinsurers' share of technical provisions	–	354	245,370	–	245,724
Debtors arising out of reinsurance operations	–	–	21,014	–	21,014
Accrued interest	–	196	2	–	198
Total assets with credit ratings	44,609	84,073	268,789	–	397,471
Other assets	–	–	–	15,373	15,373
Total assets	44,609	84,073	268,789	15,373	412,844

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.

Notes on the Accounts

continued

19. Risk management continued

Market risk continued

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

As at 20 February 2018

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	439,062	41,211	14,329	854	10,260	505,716
Liabilities	(345,341)	(19,112)	(14,148)	(854)	(10,252)	(389,707)
	93,721	22,099	181	–	8	116,009

As at 20 February 2017

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	372,048	26,010	8,247	245	6,294	412,844
Liabilities	(269,560)	(12,694)	(8,103)	(245)	(6,286)	(296,888)
	102,488	13,316	144	–	8	115,956

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.

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of Steamship Mutual Underwriting Association (Bermuda) Limited's (the 'company') affairs as at 20th February 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Report Standard 2013 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Bermudan Companies Act 1981.

We have audited the financial statements of the company which comprise:

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report

continued

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Bermudan Companies Act 1981

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

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors 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 Report of the Directors.

Matters on which we are required to report by exception

Under the Bermudan Companies Act 1981 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Adam Addis (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London
United Kingdom
15 May 2018

The Steamship Mutual Trust

Annual Report and Accounts 2018

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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
R Thompson (appointed 9 May 2017)
C C Tung, Orient Overseas (International) Ltd
A Pohan, NY Waterway – ex officio status
S-M Edye, Sloman Neptun, Schiffahrts, AG – ex officio status

Secretary of the Corporate Trustee
S H Davis, Conyers, Dill & Pearman (resigned 1 January 2018)
C Murphy, Conyers, Dill & Pearman (appointed 1 January 2018)

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Hamilton Investment Management Limited

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Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited ("Corporate Trustee") has pleasure in presenting its Report and the Audited Accounts of The Steamship Mutual Trust ("Trust") for the year ended 20 February 2018.

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 extended its current year contract, entered into on behalf of the Trust, with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), to cover the period from 20 February 2017 to 20 February 2018. The total premium receivable by the Trust in respect of all its reinsurance contracts during the accounting period amounted to US$152.1 million.

Accounts

The surplus of funds available to meet outstanding claims as at 20 February 2018 increased by US$8.8 million to US$289.3 million. Total investments of the Trust at the balance sheet date amounted to US$865.9 million, an increase of US$44.9 million on the previous year.

Policy year statements

The figures in Appendices I and II to this Report 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

The year began on a strong note which continued as markets climbed to record highs, defying predictions that the rally would peter out. Economic growth prevailed as rhetoric of rising interest rates, fiscal policy unwinding and political uncertainty threatened to derail it. US tax reforms were a big driver of US equity and bond markets.

For most of the year markets withstood frequent political pressures, rebounding quickly to upheavals caused by US immigration policies, travel bans and healthcare reform, tension between the US and North Korea and elections in Europe and Japan. Other disruptive factors included the triggering of Article 50 in the UK, signalling the formal start of the process to leave the EU, uncertainty over renegotiation of the North American Free Trade Agreement and US-China trade sanction tension.

Throughout the year, inflation remained elusive in most developed economies despite unemployment falling to very low levels. Solid corporate earnings, merger and acquisition activity, and strong economic growth were supportive to credit and equity markets. Stock market volatility was historically low, especially in the US.

Equity markets continued to surprise on the upside with returns for the year to 20 February 2018 for the S&P 500 and Nikkei 225 indices being 16.9% and 13.8% respectively.

During the year, two dominant and often opposing themes pushed and pulled on both equity and bond markets.

One theme was the reflation trade; market moves based on the view that the world economy is in synchronised economic expansion that will bring firming inflation and normalising monetary policy. Expectations for the reflation trade were enhanced in the US by expansionary fiscal policy. When this theme ruled in the latter part of the year, bond yields rose and cyclically-oriented equity sectors benefitted. Commodity based markets and emerging markets were beneficiaries of the reflation trade.

The second theme was the deflation trade. At times during the year when investors were concerned that economic growth would fade, inflation would remain low and fiscal stimulus policies would not encourage growth, bond yields fell. At these times investors looked for secular growth stories, usually in information technology and health care sectors.

Emerging markets benefited from both the synchronised global growth environment and the secular growth trade, having significant exposure to traditional cyclical sectors and innovative growth sectors. As a result, emerging market equities outperformed developed markets.

As central banks raised interest rates (0.25% in the UK and 0.75% in the US), bank shares continued to rally and bond spreads declined offsetting most of these interest rate rises. The U.S. Treasury yield curve flattened significantly this year, driven up in the short end by interest rate rises while long-term yields remain largely unchanged as expectations for growth and inflation waned.

Evidence of late cycle behaviour continues to mount as low rates and yield-seeking investors fuel asset price appreciation across financial markets. Despite weakening fundamentals and greater levels of risk, investors have largely ignored warning signs of stress as they search for any available yield, driving prices higher, compressing credit spreads and further stretching valuations.

Increased market volatility is common in the later stages of the market cycle and has been exacerbated in the last quarter by concerns over global trade and the path of US interest rate rises.

Report of the Corporate Trustee

continued

A profitable year and low interest rates has increased business confidence setting the stage for stronger capital investment and productivity growth to support economic activity. With consumer confidence at very high levels, consumer spending should continue to be supported by low unemployment and slightly stronger wage growth. The theme is lower for longer; low inflation and low interest rates for longer.

Investment performance

The Trust recorded an investment gain of 3.4% (3.3% net of fees). This excludes a currency gain of US$4.5 million that has been allocated to the Technical Account.

Risk management and asset allocation

The portfolio has remained largely static throughout the year with some rebalancing during the year and an allocation to emerging market debt in the fourth quarter. The matching portfolio, held to back the net claim liabilities of the Group, is comprised of highly rated government and corporate bonds, managed on a 'buy and maintain' basis, with management of overall portfolio duration. This portfolio is used to provide collateral for the reinsurance obligations of the Trust to SMUA and SMUAB.

The remaining surplus portfolio was principally invested in absolute return bond funds, global equities, hedge funds of funds and high quality debt instruments. This allocation aims to deliver appropriate risk-adjusted returns within the risk appetite set.

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

Claims

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

Trustee's responsibilities statement

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

London, United Kingdom
14 May 2018

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	188,175	161,324	145,085	**494,584**
Allocated investment return transferred from the non-technical account	1,339	477	(547)	**1,269**
Gross claims paid	(37,176)	(71,465)	(111,002)	**(219,643)**
Net provision for claims outstanding	(156,952)	(93,053)	(65,900)	**(315,905)**
Administration expenses	(119)	(332)	(156)	**(607)**
Balance on the technical account	(4,733)	(3,049)	(32,520)	**(40,302)**
Allocated net investment income	11,216	10,536	39,540	**61,292**
Non-technical account administration expenses	(2,336)	(2,146)	(1,940)	**(6,422)**
Open policy years funds available	4,147	5,341	5,080	**14,568**

Closed Policy Years – All Classes	Total US$000
Available balance as at 20 February 2017	194,277
Add:	
Balance of 2014/15 year as at 20 February 2017	57,617
Movements during financial year:	
Other net premium	(3,648)
Allocated investment return from non-technical account	1,617
Net claims paid	(43,541)
Movement in allocated Trust investment income	(29,573)
Available balance as at 20 February 2018	176,749
Net provision for claims outstanding	(176,749)
Closed policy years funds available	-
Summary	
Open and closed years funds available	14,568
Investment income available for allocation	274,692
Total projected funds available	**289,260**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class	2017/18 US$000	2016/17 US$000	2015/16 US$000	**Total US$000**
Gross premium	174,329	145,212	127,973	**447,514**
Allocated investment return transferred from the non-technical account	1,329	651	(7)	**1,973**
Gross claims paid	(33,413)	(66,826)	(103,033)	**(203,272)**
Net provision for claims outstanding	(146,601)	(87,337)	(61,334)	**(295,272)**
Administration expenses	(110)	(300)	(139)	**(549)**
Balance on the technical account	(4,466)	(8,600)	(36,540)	**(49,606)**
Allocated net investment income	6,605	10,536	38,281	**55,422**
Non-technical account administration expenses	(2,139)	(1,936)	(1,741)	**(5,816)**
Open policy years funds available	-	-	-	**-**

Closed Policy Years – P&I Class	Total US$000
Available balance as at 20 February 2017	186,005
Add:	
Balance of 2014/15 year as at 20 February 2017	46,587
Movements during financial year:	
Other net premium	(2,760)
Allocated investment return from non-technical account	1,324
Net claims paid	(35,521)
Movement in allocated Trust investment income	(24,041)
Available balance as at 20 February 2018	171,594
Net provision for claims outstanding	(171,594)
Closed policy years funds available	-

Summary	All Classes	FD&D	Others	P&I
Open and closed years funds available	14,568	13,476	1,092	-
Investment income available for allocation	274,692			
Total projected funds available	**289,260**			

Income and Expenditure Account

for the year ended 20 February 2018

Technical Account	Note	**2018 US$000**	2017 US$000
Earned premium, net of reinsurance			
Gross premium written	3	**152,089**	163,688
Allocated investment return transferred from the non-technical account		**4,460**	1,459
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**167,465**	175,515
Change in the provision for claims			
Gross amount	4	**6,630**	(48,068)
Claims incurred, net of reinsurance		**174,095**	127,447
Net operating expenses	5	**119**	334
Balance on the technical account for general business		**(17,665)**	37,366
Non-Technical Account			
Balance on the technical account for general business		**(17,665)**	37,366
Investment income	6	**16,082**	20,239
Unrealised gains on investments	7	**17,224**	13,158
Allocated investment return transferred to the technical account		**(4,460)**	(1,459)
Investment management expenses		**(2,335)**	(2,145)
Surplus for the financial year		**8,846**	67,159
Free reserves brought forward		**280,414**	213,255
Free reserves		**289,260**	280,414

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 2018

Assets	Note	2018 US$000	2017 US$000
Investments			
Other financial investments	8	**865,851**	820,914
Debtors			
Debtors arising out of reinsurance operations	9	**-**	1,659
Other debtors		**379**	-
Prepayments and accrued income			
Accrued interest		**4,233**	4,038
Total assets		**870,463**	826,611
Liabilities			
Capital and reserves			
Free reserves		**289,260**	280,414
Technical provisions			
Claims outstanding	4	**492,653**	486,023
Creditors			
Creditors arising out of reinsurance operations	10	**87,954**	59,237
Other creditors	11	**596**	937
Total liabilities		**870,463**	826,611

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

These financial statements were approved by the Corporate Trustee on 14 May 2018.

The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited

Cash Flow Statement

for the year ended 20 February 2018

	2018 US$000	2017 US$000
Surplus on ordinary activities before tax		
Operating surplus before taxation after interest	**8,846**	67,159
Increase/(decrease) in general insurance technical provisions	**6,630**	(48,068)
Unrealised gains on investments	**(17,224)**	(13,158)
Decrease in debtors	**1,085**	4,394
Increase in creditors	**28,376**	7,919
	18,867	(48,913)
Net cash inflow from operating activities	**27,713**	18,246
Cash flow statement		
Net cash inflow from operating activities	**27,713**	18,246
Cash flows were invested as follows:		
Movement in cash holdings	**-**	-
Net portfolio investment		
Net purchase/(sale) of bonds and loans	**72,941**	(30,109)
Net purchase of equities	**5,099**	16,463
Net (sale)/purchase of alternative investments	**(20,152)**	1,563
(Decrease)/increase in money market instruments	**(30,175)**	30,329
	27,713	18,246
Net investment of cash flows	**27,713**	18,246
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	**-**	-
Portfolio investments	**27,713**	18,246
Movement arising from cash flows	**27,713**	18,246
Changes in market values and exchange rate effects	**17,224**	13,158
Total movement in portfolio investments net of financing	**44,937**	31,404
Portfolio investments net of financing at 20 February 2017	**820,914**	789,510
Portfolio investments net of financing at 20 February 2018	**865,851**	820,914

Notes on the Accounts

1. Constitution

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

2. Accounting policies

(a) Accounting convention

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

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.

(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) 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:

		2018	2017
Euro	€	**0.807**	0.941
UK sterling	£	**0.715**	0.804
Brazilian real	R$	**3.233**	3.104

(e) Other financial investments

Investments and cash balances have been valued at their bid value as at the close of business on 19 February 2018. 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. Reinsurance contracts

Under a contract dated 27 January 2015, the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUAB under which, in return for a percentage of written premium, SMUAB is indemnified for 100% of its net underlying liabilities for the 2015/16, 2016/17 and 2017/18 policy years.

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

4. Change in the net provision for claims	**2018 US$000**	2017 US$000
Gross outstanding claims		
Provision brought forward	**(486,023)**	(534,091)
Provision carried forward	**492,653**	486,023
Change in the net provision for claims	**6,630**	(48,068)

A favourable net run-off deviation of US$9.5 million was experienced during the year (2017: US$47.7 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.

5. Net operating expenses	**2018 US$000**	2017 US$000
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	**34**	257
Auditor's remuneration	**85**	77
	119	334

6. Investment income	**2018 US$000**	2017 US$000
Dividends and interest	**18,105**	17,560
Realised (losses)/gains		
Investments	**(3,666)**	1,290
Exchange	**1,643**	1,389
	(2,023)	2,679
	16,082	20,239

Notes on the Accounts

continued

7. Unrealised gains on investments	**2018 US$000**	2017 US$000
Investments	**14,407**	13,088
Exchange	**2,817**	70
	17,224	13,158

8. Other financial investments	**2018 US$000**	2017 US$000
Market value		
Equities	**101,017**	80,335
Alternative investments	**68,885**	84,498
Bonds and loans	**685,727**	614,513
Money market instruments	**2,504**	35,994
Cash accounts	**8,788**	5,232
Derivative financial instruments	**(1,070)**	342
	865,851	820,914
Cost		
Equities	**67,568**	62,469
Alternative investments	**61,070**	81,222
Bonds and loans	**701,255**	628,314
Money market instruments	**2,504**	36,235
Cash accounts	**8,788**	5,232
	841,185	813,472

Fair value determination

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

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

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

Level 3 Market data is unavailable for the asset.

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

As at 20 February 2018

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities	-	101,017	-	101,017
Alternative investments	-	68,885	-	68,885
Bonds and loans	557,267	128,460	-	685,727
Money market instruments	2,504	-	-	2,504
Cash accounts	8,788	-	-	8,788
Derivative financial instruments	-	(1,070)	-	(1,070)
	568,559	297,292	-	865,851

Notes on the Accounts

continued

8. Other financial investments continued

As at 20 February 2017

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities	-	80,335	-	80,335
Alternative investments	-	84,498	-	84,498
Bonds and loans	538,498	76,015	-	614,513
Money market instruments	35,994	-	-	35,994
Cash accounts	5,232	-	-	5,232
Derivative financial instruments	-	342	-	342
	579,724	241,190	-	820,914

9. Debtors arising out of reinsurance operations

	2018 US$000	2017 US$000
SMUAB	**-**	1,659

10. Creditors arising out of reinsurance operations

	2018 US$000	2017 US$000
SMUA	**47,427**	59,237
SMUAB	**40,527**	-
	87,954	59,237

11. Other creditors

	2018 US$000	2017 US$000
Unsettled investment transactions	**-**	540
Other creditors	**596**	397
	596	937

12. 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.

13. 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 2018 this fee amounted to US$2.4 million (2017: US$2.5 million) of which US$0.5 million (2017: US$0.3 million) was outstanding at the balance sheet date.

Notes on the Accounts

continued

14. 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.

During the year 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.

15. 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 below.

	2018 US$000	2017 US$000
5% increase in claims incurred on current policy year		
Effect on Trust free reserves	**(10,106)**	(11,067)
Single claim in SMUA of US$2 billion in current policy year		
Effect on Trust free reserves	**(13,741)**	(12,809)

Notes on the Accounts

continued

15. Risk management continued

Insurance risk continued

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

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

Insurance claims – gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	227,979	224,996	198,320	172,086	191,315	165,765	194,128
One year later	230,003	211,455	172,634	151,737	173,739	164,518	
Two years later	213,473	208,812	166,309	153,976	176,902		
Three years later	211,876	200,590	164,844	149,281			
Four years later	206,522	192,482	157,984				
Five years later	202,079	192,499					
Six years later	200,031						
Current estimate of ultimate claims	200,031	192,499	157,984	149,281	176,902	164,518	194,128
Cumulative payments to date	183,262	170,176	125,741	117,757	111,002	71,465	37,176
Claims outstanding	16,769	22,323	32,243	31,524	65,900	93,053	156,952
Claims outstanding relating to last seven reporting years							418,764
Other claims liabilities							73,889
Total gross claims outstanding							492,653

Insurance claims – net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000
End of reporting year	212,081	221,771	198,320	172,086	191,315	165,765	194,128
One year later	209,673	203,542	172,634	151,737	173,739	164,518	
Two years later	202,063	208,812	166,309	153,976	176,902		
Three years later	205,769	200,590	164,844	149,281			
Four years later	200,415	192,482	157,984				
Five years later	195,971	192,499					
Six years later	193,923						
Current estimate of ultimate claims	193,923	192,499	157,984	149,281	176,902	164,518	194,128
Cumulative payments to date	177,154	170,176	125,741	117,757	111,002	71,465	37,176
Claims outstanding	16,769	22,323	32,243	31,524	65,900	93,053	156,952
Claims outstanding relating to last seven reporting years							418,764
Other claims liabilities							73,889
Total net claims outstanding							492,653

The Trust has elected to disclose only seven 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

15. 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. The Board's Investment Policy and specific guidelines in investment mandates control the amount of credit risk taken in pursuit of investment return and ensure that such credit risk is diversified thereby avoiding any concentration of exposure.

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

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

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

As at 20 February 2018

	AAA US$000	AA US$000	A US$000	BBB US$000	BB and below US$000	Not rated US$000	Total US$000
Bonds and loans	49,608	226,263	180,903	161,625	64,924	2,404	685,727
Money market instruments	2,504	-	-	-	-	-	2,504
Cash accounts	9	1,820	6,959	-	-	-	8,788
Derivative financial instruments	-	-	-	-	-	(1,070)	(1,070)
Debtors arising out of reinsurance operations	-	-	-	-	-	-	-
Accrued interest	178	1,282	1,356	1,244	173	-	4,233
Unsettled investment transactions	-	-	379	-	-	-	379
Total assets with credit ratings	52,299	229,365	189,597	162,869	65,097	1,334	700,561
Other assets	-	-	-	-	-	169,902	169,902
Total assets	52,299	229,365	189,597	162,869	65,097	171,236	870,463

Notes on the Accounts

continued

15. Risk management continued

Credit risk continued

As at 20 February 2017

	AAA US$000	AA US$000	A US$000	BBB US$000	BB and below US$000	Not rated US$000	Total US$000
Bonds and loans	42,707	232,961	155,902	156,981	24,208	1,754	614,513
Money market instruments	35,994	-	-	-	-	-	35,994
Cash accounts	-	-	5,232	-	-	-	5,232
Derivative financial instruments	-	-	309	-	-	33	342
Debtors arising out of reinsurance operations	-	-	1,659	-	-	-	1,659
Accrued interest	128	1,390	1,109	1,300	111	-	4,038
Total assets with credit ratings	78,829	234,351	164,211	158,281	24,319	1,787	661,778
Other assets	-	-	-	-	-	164,833	164,833
Total assets	78,829	234,351	164,211	158,281	24,319	166,620	826,611

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 UK sterling, the euro and Brazilian real. This exposure is mitigated by holding investments in UK sterling denominated assets and derivative positions held in respect of the euro and Brazilian real.

The following tables show the Trust's assets and liabilities by currency. The additional exposure to euro and Brazilian real through the derivative positions were US$19.9 million and US$13.8 million respectively at 20 February 2018 (US$14.4 million and US$11.1 million at 20 February 2017).

As at 20 February 2018

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	853,198	17,265	–	–	–	870,463
Liabilities	(485,401)	(26,221)	(26,014)	(15,727)	(27,840)	(581,203)
	367,797	(8,956)	(26,014)	(15,727)	(27,840)	289,260
Derivative position			19,949	13,813		

Notes on the Accounts

continued

15. Risk management continued

Market risk continued

As at 20 February 2017

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	809,215	17,396	–	–	–	826,611
Liabilities	(466,482)	(21,977)	(18,123)	(13,124)	(26,491)	(546,197)
	342,733	(4,581)	(18,123)	(13,124)	(26,491)	280,414
Derivative position			14,380	11,091		

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 2018	(10,299)
As at 20 February 2017	(10,365)

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.

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 SMUAB and SMUA. Most of the remaining assets in the surplus portfolio could be converted into cash in less than one month.

The following table shows the expected maturity of the Trust's assets. The tables below have 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.

As at 20 February 2018

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	587,246	87,786	140,589	50,230	865,851
Other assets	4,612	-	-	-	4,612
Total assets	591,858	87,786	140,589	50,230	870,463

Notes on the Accounts

continued

15. Risk management continued

Liquidity risk continued

As at 20 February 2017

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	353,677	240,649	213,247	13,341	820,914
Other assets	5,697	-	-	-	5,697
Total assets	359,374	240,649	213,247	13,341	826,611

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

As at 20 February 2018

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	171,120	105,059	142,033	74,441	492,653
Other liabilities	88,550	-	-	-	88,550
Total liabilities	259,670	105,059	142,033	74,441	581,203

As at 20 February 2017

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	162,461	102,945	149,773	70,844	486,023
Other liabilities	60,174	-	-	-	60,174
Total liabilities	222,635	102,945	149,773	70,844	546,197

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.

Independent Auditor's Report

To the Corporate Trustee of The Steamship Mutual Trust

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of Steamship Mutual Trust's (the 'company') affairs as at 20th February 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Bermudan Companies Act 1981.

We have audited the financial statements of the company which comprise:

- the income and expenditure account;
- the balance sheet;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 15.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Trustee's Responsibilities Statement, the Corporate Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporate Trustee determines is necessary to enable the preparation of financial

Independent Auditor's Report

continued

statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Corporate Trustee, as a body, in accordance with section 90 of the Bermudan 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 Trust and the Corporate Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters 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 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 company 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

Under the Bermudan Companies Act 1981 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Adam Addis (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
London
United Kingdom

14 May 2018