STEAMSHIP MUTUAL
REPORT AND ACCOUNTS 2019

Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2019

Contents

Steamship Mutual
Underwriting Association Limited

Managers
Steamship P&I Management LLP
Aquatical House
39 Bell Lane
London E1 7LU
Telephone: +44 (0)20 7247 5490 & +44 (0)20 7895 8490

Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the One Hundred and Tenth Annual General Meeting of the Members of the Company will be held at the Fairmont Southampton Hotel, Southampton, Bermuda, on Tuesday, 22 October 2019 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 2019, 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 Bouch and Mr C J Madinabeitia. 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 C B Adams. 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

14 May 2019

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

Directors

Directors

A Pohan, NY Waterway (Chairman)
C B Adams, Steamship P&I Management LLP (appointed 20 February 2019)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
C Bouch
I Grimaldi, Grimaldi Holdings SpA
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
G W F Rynsard, Steamship P&I Management LLP (resigned 20 February 2019)
A L Tung, Island Navigation Corp International Ltd
R Zagari, Augustea Group

Secretary

A Thawani, Steamship P&I Management LLP

Managers

Steamship P&I Management LLP

Registered office

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

Website: www.steamshipmutual.com

Registered number

00105461

Strategic Report

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintained its A (stable) rating from Standard & Poor's. It returned the equivalent of 10% mutual premium to its current Members for the third year in a row and it was also the fifth year of no standard increase for Members.

For Steamship Mutual Underwriting Association Limited ("Association"), owned entered tonnage increased by 1% to 85.6 million gross tons ("GT") during the year; total entered tonnage for owned and chartered entries increased by 1.3% to 160.1 million GT.

Gross premium written (excluding return of premium) in the year decreased to US$306.7 million from US$320.9 million last year, a 4.4% decrease, reflecting improved Members' records, cancellations due to sanctions and some losses at renewal.

The Association's combined ratio (excluding return of premium in 2017/18) increased from 101.9% to 107.4% due to reduced premium and higher claims and higher pool costs.

The balance on the technical account for general business was a deficit of US$6.4 million for the financial year (2018: US$4.1 million). Free reserves decreased from US$110.7 million to US$105.4 million.

The Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), after considering the strong current and projected capital position of Steamship, declared a capital distribution to all its Members who renewed at 20 February 2019 equivalent to 10% of mutual premium paid for the 2018/19 policy year (Class 1 – P&I). Accordingly US$21.9 million has been credited to Members since year end.

During the year, the Association was granted a licence by the local regulator in Hong Kong. The Association continues its commitment to the region and now has three locally licensed and resourced offices in Asia.

In response to the Brexit vote, an insurance licence application has been submitted for a new Steamship entity in Cyprus to operate in the EU. It is anticipated that EU based Members' business will be renewed in this entity, and arrangements with relevant third parties will also be transferred. The Managers continue to monitor any additional arrangements that may be required after Brexit, and act accordingly to ensure existing business is serviced seamlessly.

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 2018/19 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2018/19 policy year (Class 2 – FD&D).

The 2015/16 policy year was closed in May 2018.

The Directors have decided to review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") will be set at 10% for the 2019/20 policy year and 0% for both the 2018/19 and 2017/18 policy years.

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 specialist operations, accommodation vessels and non-marine personnel. Discussions continue regarding the forthcoming MARPOL Annex VI regulations relating to the Sulphur content of vessels' bunkers, and the consistent application of the CLC and Fund Conventions in the light of the recent decisions of the Spanish courts in the "Prestige" litigation. In addition, a Memorandum of Understanding between the Group and the Chinese Oil Pollution Compensation Fund is close to agreement whilst pollution prevention regulations generally continue to be discussed with both the PRC and Taiwanese governments. Sanctions regulations in a number of jurisdictions, notably, Iran, Venezuela, North Korea, Syria and Russia, remain an issue.

Strategic Report

The Association experienced no Pool claims that exceeded Pool retention during the policy year.

The 29th and 30th editions of Sea Venture were published in July 2018 and January 2019 respectively. Throughout the year the Managers also published on the Association's website various circulars, risk alerts, articles and news bulletins on matters of topical interest.

During 2018 the Managers supported and participated in The Nautical Institute's AGM and seminar in Malta, which had a focus on refugees and migrants at sea, and the Safety4Sea Conference in Athens. In collaboration with Marine Media Enterprises a video programme was produced to raise awareness of the requirements for compliance with the EU General Data Protection Regulation (GDPR).

Pooling and reinsurance

The Association's reinsurance programme for the 2018/19 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 2019/20, the individual Club retention, before Pooling with other members of the Group, remains at US$10 million, with an upper limit of US$100 million for each event. A Club bringing a claim to the Pool bears a 7.5% retention within the layer of US$50 million to US$100 million, with the balance being divided amongst all Clubs in accordance with the Pooling Agreement.

Excess Loss cover

The Group's Excess of Loss programme has a different structure to the expiring year. The main changes to the programme structure for 2019/20 involved adjustment of the second and third layer attachment points, the introduction of a new multi-year private placement, and the introduction of a US$100 million annual aggregate deductible within the 80% market share in the first layer of the programme. The first layer will provide cover from US$100 million to an increased upper limit of US$650 million, the second layer will cover from US$750 million to US$1.5 billion, and the third layer from US$1.5 billion to US$2.1 billion. There will be no change to the Collective Overspill layer of US$1 billion excess US$2.1 billion.

Hydra Insurance Company Limited ("Hydra")

For 2019/20, following the changes to the Excess Loss cover outlined above, Hydra will continue to retain 100% of the pool layer US$30 million to US$50 million and 92.5% of the pool layer US$50 million to US$100 million. In addition, Hydra will retain the US$100 million annual aggregate deductible in the 80% market share of the first layer of the Excess Loss programme. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

US oil pollution

There will be no surcharge again for 2019/20.

MLC cover

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

Charterers' cover

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

Non-Poolable covers

The Club continues to provide P&I cover for 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, money market instruments and short term US government bonds.

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

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

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 are prepared under the accounting policies and in the format used within the financial statements providing a 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

Amsterdam, Netherlands
14 May 2019

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 2019.

Principal activities

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

The Association is a member of the International Group of Protection and Indemnity Associations ("Group") and is reinsured by The Steamship Mutual Underwriting Association (Bermuda) Limited for the 2015/16 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 Bouch and Mr C J Madinabeitia. 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 C B Adams. Being eligible, he offers himself for re-election.

Audit and Risk Committee ("Committee")

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

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

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

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

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

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

- Solvency and Financial Condition Report;
- Critical or important outsourcing arrangements, including a review of the internal audit function and succession planning;
- Oversight of the establishment of a European entity.

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.

Report of the Directors

Class 2 – Freight demurrage and defence

Revised Rules for Class 2 (Freight, demurrage and defence) were introduced with effect from 20 February 2019 for the 2019/20 policy year. The Rules had been in their previous form for over 25 years, subject only to relatively minor updates. It was agreed to update the Rules to provide greater clarity as to their scope, availability and how they operate, with the overall objective being to enhance the cover available to Members. An omnibus rule is retained enabling cover to be provided in respect of categories not specifically provided for in the Directors' discretion.

Management Highlights

The Management Highlights will be published in July 2019.

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

Amsterdam, Netherlands
14 May 2019

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 of Steamship Mutual Underwriting Association Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 20 February 2019 and of the group's loss for the year then ended;**
- **the group and parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and Financial Reporting Standard 103 "Insurance Contracts"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated income and expenditure account;
- the consolidated and company balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 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) and Financial Report Standard 103 "Insurance Contracts".

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report

continued

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 22 of financial statements) and Note 16 Risk Management for further information on this risk.* We have identified the valuation of the technical provision as our key audit matter since reserving inherently involves a great deal of uncertainty and judgement in the selection of key methodologies and assumptions. The technical provisions also contain classes of US and Non US Injury claims. These classes includes claims from members in respect of injury to crew, passengers and others. It is part of the Owned P&I (Protection and Indemnity) business, and mainly relates to bodily injury claims, which often present long tail risks and thus claims development is not as clearly visible for recent policy years, which increases uncertainty in reserving.
How the scope of our audit responded to the key audit matter	We gained a detailed understanding of the end-to-end reserving process, and assessed the design and implementation of key controls. In performing our testing over the US and non-US injury classes, the internal actuaries have: • Reviewed the detailed reserving models; • Met with Steamship Management to further understand and challenge the approach and key judgements; • Performed a graphical review using in-house reserving software; and • Performed sensitivity testing on key assumptions. 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.
Key observations	We have determined that the valuation of technical provisions (IBNR), in particular relating to the US and Non US Injury lines of business, was reasonable.

Independent Auditor's Report

continued

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:

	Group financial statements	Parent company financial statements
Materiality	$4.14m (2018:$4.25m)	$4.10m
Basis for determining materiality	3% of Solvency II Own Funds (PY same basis)	3% of Solvency II Own Funds capped at 99% of group materiality
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 $207k (2018:$213k), 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.

An overview of the scope of our audit

The scope of our audit work was determined by obtaining an understanding of the group and its environment, and assessing the risks of material misstatement at the group level. It was determined through our group scoping that the subsidiary undertaking was not material to the group.

We have also assessed the design, implementation and operating effectiveness of the internal controls that exist at a group 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.

Independent Auditor's Report

continued

Other information

We have nothing to report in respect of these matters.

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

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

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

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

Responsibilities of the directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Independent Auditor's Report

continued

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management; including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including valuations, pensions, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in valuation of US and non US IBNR; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions and tax legislation.

Audit response to risks identified

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

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

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

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

Independent Auditor's Report

continued

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

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

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

We have nothing to report in respect of these matters.

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 Report

continued

Other matters

Auditor tenure
Following the recommendation of the Audit and Risk Committee, we were appointed by the Board on 23 July 2002 to audit the financial statements for the year ending 20 February 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 20 February 2003 to 20 February 2019.

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

Use of our report

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

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

Statutory Auditor

London
United Kingdom
14 May 2019

Appendix I – Policy Year Statement (unaudited)

All Classes

Open Policy Years – All Classes	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	306,536	320,756	333,583	**960,875**
Less:				
Group Excess Loss reinsurance premium	(33,420)	(34,056)	(35,829)	**(103,305)**
Other reinsurance premium	(43,175)	(26,193)	(49,728)	**(119,096)**
SMUAB reinsurance premium	(158,687)	(183,838)	(159,114)	**(501,639)**
Net premium	71,254	76,669	88,912	**236,835**
Allocated investment return transferred from the non-technical account	(5,502)	3,051	(2,118)	**(4,569)**
Gross claims paid				
Own claims paid	(22,023)	(146,270)	(121,066)	**(289,359)**
Claims administration expenses	(7,989)	(16,845)	(33,431)	**(58,265)**
Group Pool claims	(4,192)	(12,331)	(6,008)	**(22,531)**
	(34,204)	(175,446)	(160,505)	**(370,155)**
Less:				
Group Excess Loss recoveries	–	–	–	**–**
Group Pool recoveries	–	43,394	1,025	**44,419**
Other reinsurance recoveries	–	8,634	1,525	**10,159**
SMUAB reinsurance recoveries	23,594	95,915	112,072	**231,581**
Net claims paid	(10,610)	(27,503)	(45,883)	**(83,996)**
Claims outstanding including IBNR	(223,708)	(160,697)	(73,965)	**(458,370)**
Pool claims outstanding including IBNR	(51,192)	(17,331)	(7,761)	**(76,284)**
Estimated future claims handling costs	(11,910)	(3,251)	(984)	**(16,145)**
Less:				
Group Excess Loss recoveries	–	1,620	–	**1,620**
Group Pool recoveries	27,160	55,685	3,829	**86,674**
Other reinsurance recoveries	66,255	21,437	10,486	**98,178**
SMUAB reinsurance recoveries	174,055	92,284	61,556	**327,895**
Net provision for claims outstanding	(19,340)	(10,253)	(6,839)	**(36,432)**
Brokerage	(18,299)	(20,515)	(20,447)	**(59,261)**
Underwriting administration expenses	(9,920)	(7,833)	(7,582)	**(25,335)**
Other expenses	(11,913)	(10,993)	(9,773)	**(32,679)**
Balance on the technical account	(4,330)	2,623	(3,730)	**(5,437)**

Appendix I – Policy Year Statement

All Classes

Open Policy Years – All Classes continued	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Balance on the technical account	(4,330)	2,623	(3,730)	**(5,437)**
Investment income (including realised and unrealised)	1,325	1,011	385	**2,721**
Other income	9	109	16	**134**
Taxation	(236)	(225)	(77)	**(538)**
Open policy years funds available	(3,232)	3,518	(3,406)	**(3,120)**

Closed Policy Years – All Classes	**Total US$000**
Available balance as at 20 February 2018	100,287
Add:	
Balance of 2015/16 year as at 20 February 2018	16,073
Movements during financial year:	
Net premium	4,773
Net claims paid	(7,784)
Expenses	114
Available balance as at 20 February 2019	113,463
Claims outstanding	(276,608)
Less:	
Group Excess Loss recoveries	25,948
Group Pool recoveries	36,876
Other reinsurance recoveries	38,416
SMUAB reinsurance recoveries	44,393
The Trust reinsurance recoveries	126,041
Net provision for claims outstanding	(4,934)
Closed policy years funds available	**108,529**

Summary

Total open and closed years funds available	**105,409**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	281,253	294,125	300,492	**875,870**
Less:				
Group Excess Loss reinsurance premium	(33,420)	(34,056)	(35,829)	**(103,305)**
Other reinsurance premium	(35,092)	(18,682)	(40,646)	**(94,420)**
SMUAB reinsurance premium	(147,031)	(170,511)	(142,944)	**(460,486)**
Net premium	65,710	70,876	81,073	**217,659**
Allocated investment return transferred from the non-technical account	(5,048)	2,795	(1,911)	**(4,164)**
Gross claims paid				
Own claims paid	(20,309)	(138,030)	(113,737)	**(272,076)**
Claims administration expenses	(7,373)	(15,623)	(30,561)	**(53,557)**
Group Pool claims	(4,192)	(12,331)	(6,008)	**(22,531)**
	(31,874)	(165,984)	(150,306)	**(348,164)**
Less:				
Group Excess Loss recoveries	–	–	–	**–**
Group Pool recoveries	–	43,394	1,025	**44,419**
Other reinsurance recoveries	–	8,173	1,525	**9,698**
SMUAB reinsurance recoveries	22,051	88,914	105,475	**216,440**
Net claims paid	(9,823)	(25,503)	(42,281)	**(77,607)**
Claims outstanding including IBNR	(209,853)	(149,127)	(71,129)	**(430,109)**
Pool claims outstanding including IBNR	(51,192)	(17,331)	(7,761)	**(76,284)**
Future claims handling costs	(11,176)	(3,078)	(945)	**(15,199)**
Less:				
Group Excess Loss recoveries	–	1,620	–	**1,620**
Group Pool recoveries	27,160	55,685	3,829	**86,674**
Other reinsurance recoveries	65,609	15,944	10,442	**91,995**
SMUAB reinsurance recoveries	161,507	86,658	59,008	**307,173**
Net provision for claims outstanding	(17,945)	(9,629)	(6,556)	**(34,130)**
Brokerage	(16,920)	(19,017)	(18,976)	**(54,913)**
Underwriting administration expenses	(9,102)	(7,182)	(6,839)	**(23,123)**
Other expenses	(10,931)	(10,075)	(8,816)	**(29,822)**
Balance on the technical account	(4,059)	2,265	(4,306)	**(6,100)**

Appendix II – Policy Year Statement

P&I Class

Open Policy Years – P&I Class continued	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Balance on the technical account	(4,059)	2,265	(4,306)	**(6,100)**
Investment income (including realised and unrealised)	1,216	926	348	**2,490**
Other income	9	100	14	**123**
Taxation	(217)	(206)	(70)	**(493)**
Open policy years funds available	(3,051)	3,085	(4,014)	(3,980)

Closed Policy Years – P&I Class	Total US$000
Available balance as at 20 February 2018	90,445
Add:	
Balance of 2015/16 year as at 20 February 2018	13,589
Movements during financial year:	
Net premium	4,522
Net claims paid	(7,235)
Expenses	98
Available balance as at 20 February 2019	101,419
Claims outstanding including IBNRs	(266,674)
Less:	
Group Excess Loss recoveries	25,948
Group Pool recoveries	36,876
Other reinsurance recoveries	36,869
SMUAB reinsurance recoveries	41,525
The Trust reinsurance recoveries	120,843
Net provision for claims outstanding	(4,613)
Closed policy years funds available	**96,806**

Summary	All Classes	FD&D	Others	P&I
Total open and closed years funds available	105,409	5,466	7,117	92,826

Consolidated Income and Expenditure Account

for the year ended 20 February 2019

Technical Account	Note	2019 US$000	2018 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**306,661**	295,318
Outward reinsurance premium	3	**(220,291)**	(216,626)
Earned premium, net of reinsurance		**86,370**	78,692
Allocated investment return transferred from the non-technical account		**(5,502)**	3,051
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**299,890**	293,634
Reinsurers' share	4	**(259,029)**	(255,066)
Net claims paid		**40,861**	38,568
Change in the provision for claims			
Gross amount	5	**(3,418)**	65,440
Reinsurers' share	5	**9,683**	(57,427)
Change in the net provision for claims	5	**6,265**	8,013
Claims incurred, net of reinsurance		**47,126**	46,581
Net operating expenses	6	**40,130**	39,278
Balance on the technical account for general business		**(6,388)**	(4,116)

Non-Technical Account	Note	2019 US$000	2018 US$000
Balance on the general business technical account		**(6,388)**	(4,116)
Investment income		**(3,704)**	3,190
Unrealised (losses)/gains on investments		**(473)**	871
Allocated investment return transferred to the technical account		**5,502**	(3,051)
Other income		**9**	109
Deficit on ordinary activities before taxation		**(5,054)**	(2,997)
Taxation	7	**236**	225
Deficit for the financial year		**(5,290)**	(3,222)
Free reserves brought forward		**110,699**	113,921
Free reserves		**105,409**	110,699

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 2019

Assets	Note	2019 Consolidated US$000	2019 Company US$000	2018 Company US$000
Investments				
Other financial investments	8	**63,732**	**60,732**	74,152
Investment in group undertaking	9	**–**	**25**	–
Reinsurers' share of technical provisions				
Claims outstanding	5	**786,042**	**786,042**	795,725
Debtors				
Debtors arising out of direct insurance operations		**15,860**	**15,860**	14,664
Debtors arising out of reinsurance operations	10	**43,590**	**43,590**	62,536
Other debtors		**4,185**	**7,244**	882
Other assets				
Cash at bank and in hand		**53,943**	**53,862**	23,321
Prepayments and accrued income				
Deferred acquisition costs		**468**	**468**	347
Other prepayments and accrued income		**383**	**380**	397
Total assets		**968,203**	**968,203**	972,024
Liabilities				
Capital and reserves				
Free reserves	13	**105,409**	**105,409**	110,699
Technical provisions				
Provision for unearned premium		**2,979**	**2,979**	2,265
Claims outstanding	5	**827,408**	**827,408**	830,826
Provisions for other risks and charges				
Provision for taxation		**236**	**236**	218
Other provisions	12	**629**	**629**	835
Creditors				
Creditors arising out of direct insurance operations		**8,993**	**8,993**	14,481
Creditors arising out of reinsurance operations	11	**19,682**	**19,682**	8,990
Other creditors including taxation and social security		**2,867**	**2,867**	3,710
Total liabilities		**968,203**	**968,203**	972,024

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 14 May 2019.

A Pohan
Chairman

C J Ahrenkiel
Director

Managers:
Steamship P&I Management LLP

Consolidated Cash Flow Statement

for the year ended 20 February 2019

	2019 US$000	2018 US$000
Deficit on ordinary activities before tax		
Operating deficit before taxation after interest	**(5,054)**	(2,997)
Increase in general insurance technical provisions	**6,979**	8,567
(Decrease)/increase in other provisions	**(206)**	835
Unrealised losses/(gains) on investments	**473**	(871)
Decrease in debtors	**14,340**	11,956
Increase/(decrease) in creditors	**4,361**	(17,368)
	25,947	3,119
Net cash inflow from operating activities	**20,893**	122
Cash flow statement		
Net cash inflow from operating activities	**20,893**	122
Taxation paid	**(218)**	(84)
	20,675	38
Cash flows were invested as follows:		
Increase in cash holdings	**30,622**	2,291
Net portfolio investment		
Purchase of bonds and loans	**277**	197
Sale of money market instruments	**(16,890)**	(2,451)
Increase in cash on short term deposit	**6,666**	1
Cash generated by investing activities	**20,675**	38
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	**30,622**	2,291
Portfolio investments	**(9,947)**	(2,253)
Movements arising from cash flows	**20,675**	38
Changes in market values and exchange rate effects	**(473)**	871
Total movement in portfolio investments net of financing	**20,202**	909
Portfolio investments net of financing at 20 February 2018	**97,473**	96,564
Portfolio investments net of financing at 20 February 2019	**117,675**	97,473

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

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

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.

(c) Basis of consolidation

The accounts consolidate the accounts of Steamship Mutual Underwriting Association Limited and its wholly owned subsidiary undertaking Steamship (Germany) GmbH at 20 February 2019.

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

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

(d) Premium written

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

(e) Unearned premium

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

(f) Deferred acquisition costs

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

(g) Claims and related expenses

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

(h) Reinsurance premium and recoveries

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

(i) Investments

Quoted investments at their bid-value and cash at bank have been valued as at the close of business on 19 February 2019. Investment income consists of interest and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

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

(j) Allocation to policy years and classes

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

Notes on the Accounts

continued

1. Accounting policies continued

(k) Foreign currencies

The functional currency is US dollars. Assets and liabilities are converted at the rate of exchange ruling at the balance sheet date. Income and expenditure items are translated 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:

		2019	2018
Euro	€	**0.882**	0.807
UK sterling	£	**0.767**	0.715

2. Gross premium written

	2019 US$000	2018 US$000
Mutual and fixed premium written	**307,533**	320,980
Return of premium	**–**	(25,588)
Release calls	**(158)**	480
Movement in unearned premium	**(714)**	(554)
	306,661	295,318

Gross premium by class of business

	2019 US$000	2018 US$000
Protection and Indemnity	**281,233**	267,307
Freight, Demurrage and Defence	**11,304**	12,943
Other	**14,124**	15,068
	306,661	295,318

Gross premium by Member location

	2019 US$000	2018 US$000
United States of America	**111,347**	95,200
South Korea	**22,131**	21,919
Switzerland	**19,350**	9,604
Netherlands	**16,393**	14,793
Taiwan	**12,647**	11,904
France	**10,986**	13,065
Hong Kong	**10,800**	11,155
China	**9,207**	8,242
Germany	**9,111**	14,804
Brazil	**8,910**	11,901
Italy	**8,725**	10,412
Chile	**8,100**	7,868
India	**7,660**	8,153
Greece	**6,684**	5,961
Cyprus	**6,418**	7,546
United Kingdom	**6,415**	6,607
Other countries	**31,777**	36,184
	306,661	295,318

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

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

4. Claims paid – gross amount

	2019 US$000	2018 US$000
Claims and related expenses	**256,140**	253,158
Group Pool claims	**18,868**	15,677
Claims administration expenses	**24,882**	24,799
	299,890	293,634
Less reinsurers' share		
SMUAB	**143,813**	123,924
The Trust	**30,696**	43,541
Group Pool and other reinsurers	**84,520**	87,601
	259,029	255,066
Net claims paid	**40,861**	38,568

Notes on the Accounts

continued

5. Change in net provision for claims	2019 US$000	2018 US$000
Gross outstanding claims		
Provision brought forward	**(830,826)**	(765,386)
Provision carried forward	**827,408**	830,826
	(3,418)	65,440
The Trust's share of outstanding claims		
Provision brought forward	**176,749**	242,238
Provision carried forward	**(126,041)**	(176,749)
	50,708	65,489
SMUAB's share of outstanding claims		
Provision brought forward	**384,504**	295,171
Provision carried forward	**(441,312)**	(384,504)
	(56,808)	(89,333)
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	**196,757**	150,806
Provision carried forward	**(151,118)**	(196,757)
	45,639	(45,951)
Other reinsurers' share of outstanding claims		
Provision brought forward	**37,715**	50,083
Provision carried forward	**(67,571)**	(37,715)
	(29,856)	12,368
Change in net provision for claims	**6,265**	8,013

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$77.4 million of third party recoveries (2018: US$65.7 million).

Notes on the Accounts

continued

6. Net operating expenses

	2019 US$000	2018 US$000
Acquisition costs		
Brokerage	**18,295**	20,372
Underwriting administration expenses	**9,921**	7,881
	28,216	28,253
Administrative expenses		
Other administration expenses	**11,232**	10,341
Regulatory fees	**367**	360
Directors' remuneration	**19**	19
Auditor's remuneration	**296**	305
	11,914	11,025
	40,130	39,278

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 2019, these fees amounted to US$39.3 million (2018: US$36.2 million). US$2.9 million was due from SPIM at the year end (2018: due to SPIM US$0.3 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 2019 these fees and expenses amounted to US$1.0 million (2018: US$0.9 million). US$0.4 million was due to SPIM Singapore at the year end (2018: US$0.4 million).

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses and those of its worldwide representatives. For the financial year to 20 February 2019 these fees and expenses amounted to US$3.0 million (2018: US$3.1 million). US$0.6 million was due from SMM(B) at the year end (2018: US$0.4 million).

Notes on the Accounts

continued

7. Taxation

The charge represents the estimated liability for the accounting year to 20 February 2019, of US$236,271 (2018: US$225,432) based upon an agreement with the United Kingdom tax authorities, assessed on the investment income of the Association for the year.

Analysis of tax charge on ordinary activities	**2019 US$000**	2018 US$000
United Kingdom corporation tax at 19% (2018: 19.1%) based on the deficit for the financial year	**236**	225
	236	225

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	**(5,054)**	(2,997)
Tax at 19% (2018: 19.1%) thereon	**(960)**	(572)
Effect of income not subject to corporation tax	**1,196**	797
Current tax charge for period	**236**	225

8. Other financial investments

	2019 US$000	2018 US$000
Market value		
Bonds and loans	**17,233**	16,930
Money market instruments	**17,832**	34,722
Deposits with credit institutions	**28,629**	22,000
Cash accounts	**38**	1
Derivative financial instruments	**–**	499
	63,732	74,152
Cost		
Bonds and loans	**17,365**	17,088
Money market instruments	**17,832**	34,722
Deposits with credit institutions	**28,629**	22,000
Cash accounts	**38**	1
	63,864	73,811

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

Notes on the Accounts

continued

9. Investment in group undertaking

	2019 US$000	2018 US$000
Cost	**29**	-
Impairment	**(4)**	-
	25	-

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

10. Debtors arising out of reinsurance operations

	2019 US$000	2018 US$000
The Trust	**35,751**	47,427
SMUAB	**–**	5,054
Group clubs	**5,679**	208
Other reinsurance debtors	**2,160**	9,847
	43,590	62,536

11. Creditors arising out of reinsurance operations

	2019 US$000	2018 US$000
SMUAB	**9,508**	–
Group Clubs	**1,489**	–
Other reinsurance creditors	**8,685**	8,990
	19,682	8,990

Notes on the Accounts

continued

12. Other provisions

As described under Transactions with related parties in Note 6, the Association has an obligation to reimburse the office and administration expenses of SPIM which include the expenses of its subsidiary service company Steamship Insurance Management Services Limited ("SIMSL"). These expenses include the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. The Directors consider that the Association has a constructive obligation to provide funding to SIMSL for the scheme requiring a provision to be recognised if the scheme has an accounting deficit as calculated in accordance with International Accounting Standard 19 – Employee Benefits. On this basis there was a provision recognised of US$0.6 million in respect of the deficit at the balance sheet date (2018: US$0.8 million). The Trustees of SIMSL's pension scheme meet regularly and report regularly to the Board on the management and performance of the scheme's assets and liabilities and associated risks.

13. Free reserves

	2019 US$000	2018 US$000
Free reserves brought forward	**110,699**	113,921
Deficit for year	**(5,290)**	(3,222)
	105,409	110,699

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

14. Contingent liabilities

The Association provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provision. For uncovered claims, guarantees are issued when appropriate counter security is obtained. As at 20 February 2019 the total value of guarantees issued in respect of uncovered claims was US$10.9 million (2018: US$10.5 million).

15. Security

A trust has been set up to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US$5.6 million (2018: US$5.5 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$11.7 million (2018: US$11.5 million).

Notes on the Accounts

continued

16. Capital management

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

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

17. Risk management

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

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

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

Insurance risk

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

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

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

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

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

Notes on the Accounts

continued

17. Risk management continued

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

		2019 US$000	2018 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(16,051)**	(19,628)
	net of reinsurance	**(1,138)**	(1,127)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	(2,000,000)
	net of reinsurance	**(1,551)**	(1,527)

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

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

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	314,336	208,834	114,390	282,635	341,688	244,772	392,561	321,014
One year later	630,373	184,502	230,254	214,463	338,016	225,559	356,725	
Two years later	823,866	315,281	211,471	209,479	348,201	243,215		
Three years later	975,234	294,626	203,609	203,073	353,779			
Four years later	948,138	277,820	199,147	196,730				
Five years later	916,159	272,397	195,629					
Six years later	911,738	267,633						
Seven years later	916,476							
Current estimate of ultimate claims	916,476	267,633	195,629	196,730	353,779	243,215	356,725	321,014
Cumulative payments to date	870,212	250,961	164,888	170,100	285,791	160,505	175,446	34,204
Claims outstanding	46,264	16,672	30,741	26,630	67,988	82,710	181,279	286,810
Claims outstanding relating to last eight reporting years								739,094
Other claims liabilities								88,314
Total gross claims outstanding								827,408

Notes on the Accounts

continued

17. Risk management continued

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	9,399	8,927	13,574	30,972	34,778	41,936	31,343	29,950
One year later	9,443	8,945	16,612	30,817	33,005	47,354	37,756	
Two years later	9,451	10,106	16,589	20,158	38,430	52,722		
Three years later	10,538	10,108	11,606	21,339	40,704			
Four years later	10,538	9,191	12,714	22,065				
Five years later	9,830	9,617	13,552					
Six years later	10,527	10,035						
Seven years later	11,558							
Current estimate of ultimate claims	11,558	10,035	13,552	22,065	40,704	52,722	37,756	29,950
Cumulative payments to date	11,558	10,035	13,552	22,065	35,772	45,883	27,503	10,608
Claims outstanding	-	-	-	-	4,932	6,839	10,253	19,342
Claims outstanding relating to last eight reporting years								41,366
Other claims liabilities								-
Total net claims outstanding								41,366

The Association has elected to disclose only eight 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$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and US$10 million for banks rated A by S&P, or an equivalent rating from another agency. The credit risk of one unrated, privately capitalised bank is monitored by reference to a specific capital ratio.

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

Notes on the Accounts

continued

17. Risk management continued

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

As at 20 February 2019

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

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

Notes on the Accounts

continued

17. Risk management continued

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

As at 20 February 2019

	Not due US$000	0 - 30 days US$000	31 - 90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	4,720	5,776	2,611	2,061	692	15,860
Debtors arising out of reinsurance operations	35,751	2,409	1,248	4,165	17	43,590
Total	40,471	8,185	3,859	6,226	709	59,450

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

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

Market risk

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

The Association’s investments are in short term money market instruments and US government bonds and therefore has limited direct exposure to interest rate risk.

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

Notes on the Accounts

continued

17. Risk management continued

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

As at 20 February 2019

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

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

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

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

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

Operational risk

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

The Steamship Mutual Underwriting Association (Bermuda) Limited

Annual Report and Accounts 2019

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

Managers' representatives

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

Steamship Mutual Management (Hong Kong) Limited
Room 1901-02, Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong
Telephone: +852 2838 2722 & +852 2838 2873

Representative office in Brazil
Avenida Rio Branco, 151/1305–1307
Centro
Rio de Janeiro
RJ CEP 20040-006
Brazil
Telephone: +55 21 2221 6074 & +55 21 2221 6461

Website: www.steamshipmutual.com

Notice of Meeting

Notice is hereby given that the Forty Fifth Annual General Meeting of the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") will be held at the Fairmont Southampton Hotel, Southampton, Bermuda, on Tuesday, 22 October 2019 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 2019.
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 J Ahrenkiel, Mr A Albertini, Mr M W Bayley, Ms I Grimaldi, Mr E Ide, Mr C J Madinabeitia, Mr A Pohan, Mr B K Sheth and Mr A L Tung. Being eligible all these Directors offer themselves for re-election.
6 To appoint the Auditor and to authorise the Directors to agree their remuneration.
7 Confirmation of acts.
8 To transact any other ordinary business of the Company.

By Order of the Board

K L McCullough
Secretary

14 May 2019

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 B Adams, Steamship P&I Management LLP (appointed 20 February 2019)
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 (resigned 23 July 2018)
C K Ong, U-Ming Marine Transport Corp
A Pohan, NY Waterway
G W F Rynsard, Steamship P&I Management LLP (resigned 20 February 2019)
B K Sheth, The Great Eastern Shipping Co Ltd
M Sloan, Carnival Corporation & plc
C Sommerhage, Columbia Shipmanagement (Germany) GmbH
Song, Chunfeng, China Shipowners Mutual Assurance Association
A L Tung, Island Navigation Corp International Ltd
E Veniamis, Golden Union Shipping Co SA
E Yao, Orient Overseas Container Line Ltd (appointed 4 March 2019)
A Zacchello, Seaarland Shipping Management BV
R Zagari, Augustea Group
S Zagury, Vale

Secretary
C Murphy, Conyers, Dill & Pearman
(resigned 7 December 2018)

K L McCullough, Conyers, Dill & Pearman
(appointed 7 December 2018)

Managers
Steamship Mutual Management (Bermuda) Ltd

Registered office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Administrative office
Washington Mall II
PO Box HM 601
Hamilton HM CX
Bermuda
Telephone: +1 441 295 4502
Telefax: +1 441 292 8787

Report of the Directors

The Directors have pleasure in presenting their Report and Audited Accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited (“Association”) for the year ended 20 February 2019.

Principal activities

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

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

Directors

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

In accordance with the Act of Incorporation, as amended on 18 April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in Southampton, Bermuda, on 22 October 2019:

Mr C J Ahrenkiel, Mr A Albertini, Mr M W Bayley, Ms I Grimaldi, Mr E Ide, Mr C J Madinabeitia, Mr A Pohan, Mr B K Sheth and Mr A L Tung.

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

Free reserves

The balance on the Technical Account was a surplus of US$8.2 million for the financial year.

The overall surplus for the financial year of US$8.6 million reflects predominantly a surplus in the Hydra cell of US$10.0 million offset by an exchange loss on the revaluation of property of US$1.5 million.

After considering the strong current and projected capital position of the Association and the Steamship group, the Directors declared a capital distribution to its Members who renewed at 20 February 2019, equivalent to 10% of mutual premium paid for the 2018/19 policy year (Class 1 – P&I). Accordingly US$21.9 million has been credited to Members since year end.

Total capital and reserves amount to US$102.7 million.

Underwriting

Gross premium written was US$175.5 million compared to US$171.3 million last year.

Steamship Mutual Underwriting Association Limited (“SMUA”)

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

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.

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 18.7% to US$113.6 million.

Audit and Risk Committee (“Committee”)

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

The Committee meets three times a year and is currently comprised of the following Directors: Mr C J Madinabeitia

(Chairman), Mr M W Bayley, Mr C Bouch, Mr A Pohan, Mr B B A McAllister, Mr R Zagari and Ms S Zagury. Mr S-M Edye is invited to attend the meeting in his capacity as Chairman of the Association and two representatives of the Managers, who are also Directors of the Association, namely Mr S J Martin and Mr C B Adams, are also invited to attend.

In discharging its responsibilities, the Committee receives financial and management reports from the Managers including reports from the internal 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;
- Bermuda Economic Substance Act 2018 and its potential impact on the Steamship group.

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

Amsterdam, Netherlands
14 May 2019

Appendix I – Policy Year Statement (unaudited)

All Classes

Open Policy Years – All Classes	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	188,445	198,152	186,621	**573,218**
Less:				
External reinsurance premium	(3,191)	(3,165)	(3,223)	**(9,579)**
The Trust reinsurance premium	(156,421)	(182,330)	(156,398)	**(495,149)**
Net premium	28,833	12,657	27,000	**68,490**
Allocated investment return transferred from the non-technical account	(52)	85	(86)	**(53)**
Gross claims paid				
Own claims paid	(23,594)	(104,492)	(112,466)	**(240,552)**
Claims administration expenses	(997)	(575)	(1,172)	**(2,744)**
	(24,591)	(105,067)	(113,638)	**(243,296)**
Less:				
External reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	23,594	95,915	112,073	**231,582**
Net claims paid	(997)	(9,152)	(1,565)	**(11,714)**
Claims outstanding including IBNR	(206,932)	(107,607)	(64,376)	**(378,915)**
Less:				
Other reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	174,055	92,284	61,556	**327,895**
Net provision for claims outstanding	(32,877)	(15,323)	(2,820)	**(51,020)**
Brokerage	–	–	–	–
Underwriting administration expenses	(18)	49	(110)	**(79)**
Other expenses	(1,391)	(1,222)	(1,073)	**(3,686)**
Balance on the technical account	(6,502)	(12,906)	21,346	**1,938**
Investment income (including realised and unrealised)	446	9,388	(1,339)	**8,495**
Other income	–	–	–	–
Open policy years funds available	(6,056)	(3,518)	20,007	**10,433**

Closed Policy Years – All Classes	Total US$000
Available balance as at 20 February 2018	127,310
Add:	
Balance of 2015/16 year as at 20 February 2018	6,868
Movements during financial year:	
Net premium	–
Net claims paid	(3,227)
Capital distribution	(21,917)
Available balance as at 20 February 2019	109,034
Claims outstanding	(62,397)
Less:	
Other reinsurance recoveries	1,264
The Trust reinsurance recoveries	44,394
Net provision for claims outstanding	(16,739)
Closed policy years funds available	**92,295**

Summary

Total open and closed years funds available	**102,728**

Appendix II – Policy Year Statement – P&I Class (unaudited)

P&I Class

Open Policy Years – P&I Class	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	176,790	184,825	170,450	**532,065**
Less:				
External reinsurance premium	(3,191)	(3,165)	(3,223)	**(9,579)**
The Trust reinsurance premium	(144,963)	(169,150)	(140,457)	**(454,570)**
Net premium	28,636	12,510	26,770	**67,916**
Allocated investment return transferred from the non-technical account	(48)	78	(78)	**(48)**
Gross claims paid				
Own claims paid	(22,051)	(97,493)	(105,868)	**(225,412)**
Claims administration expenses	(916)	(526)	(1,058)	**(2,500)**
	(22,967)	(98,019)	(106,926)	**(227,912)**
Less:				
External reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	22,052	88,915	105,476	**216,443**
Net claims paid	(915)	(9,104)	(1,450)	**(11,469)**
Claims outstanding including IBNR	(194,384)	(101,983)	(61,828)	**(358,195)**
Less:				
Other reinsurance recoveries	–	–	–	–
The Trust reinsurance recoveries	161,507	86,660	59,008	**307,125**
Net provision for claims outstanding	(32,877)	(15,323)	(2,820)	**(51,020)**
Underwriting administration expenses	(17)	45	(99)	**(71)**
Other expenses	(1,276)	(1,119)	(969)	**(3,364)**
Balance on the technical account	(6,497)	(12,913)	21,354	**1,944**
Investment income (including realised and unrealised)	410	8,598	(1,208)	**7,800**
Open policy years funds available	(6,087)	(4,315)	20,146	**9,744**

Closed Policy Years – P&I Class

	Total US$000
Available balance as at 20 February 2018	**124,022**
Add:	
Balance of 2015/16 year as at 20 February 2018	**6,993**
Movements during financial year:	
Net premium	–
Net claims paid	**(3,226)**
Capital distribution	**(21,917)**
Available balance as at 20 February 2019	**105,872**
Claims outstanding including IBNRs	**(59,529)**
Less:	
Other reinsurance recoveries	**1,264**
The Trust reinsurance recoveries	**41,526**
Net provision for claims outstanding	**(16,739)**
Closed policy years funds available	**89,133**

Summary

	All Classes	FD&D	Others	P&I
Total open and closed years funds available	102,728	(8,193)	12,044	98,877

Consolidated Income and Expenditure Account

for the year ended 20 February 2019

Technical Account	Note	2019 US$000	2018 US$000
Earned premium, net of reinsurance			
Gross premium written		**175,511**	171,321
Outward reinsurance premium			
The Trust	2	**(143,641)**	(155,738)
Other reinsurers		**(3,173)**	(3,135)
Earned premium, net of reinsurance		**28,697**	12,448
Allocated investment return transferred from the non-technical account		**(52)**	104
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	**157,110**	131,968
Reinsurers' share	3	**(143,916)**	(123,735)
Net claims paid		**13,194**	8,233
Change in the provision for claims			
Gross amount	4	**56,807**	89,334
Reinsurers' share	4	**(50,955)**	(76,873)
Change in the net provision for claims		**5,852**	12,461
Claims incurred, net of reinsurance		**19,046**	20,694
Net operating expenses	5	**1,409**	1,173
Balance on the technical account for general business		**8,190**	(9,315)
Non-Technical Account			
Balance on the general business technical account		**8,190**	(9,315)
Investment income	6	**1,486**	1,523
Unrealised (losses)/gains on investments	7	**442**	(716)
Investment management expenses		**(61)**	(72)
Allocated investment return transferred to the technical account		**52**	(104)
Other income	8	**–**	4,265
Surplus/(deficit) for the financial year		**10,109**	(4,419)
Other comprehensive (loss)/income			
Movement above cost on revaluation of property	10	**(1,473)**	4,472
Total comprehensive income		**8,636**	53

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 2019

	Profit and loss account US$000	Revaluation reserve US$000	Total US$000
As at 20 February 2017	115,956	–	**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**
Surplus for the financial year	10,109	–	10,109
Other comprehensive loss	–	(1,473)	(1,473)
Capital distribution	(21,917)	–	(21,917)
As at 20 February 2019	**99,729**	**2,999**	**102,728**

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

Consolidated Balance Sheet

as at 20 February 2019

	Note	**2019 US$000**	2018 US$000
Assets			
Investments			
Land and buildings	10	**19,951**	21,424
Other financial investments	11	**92,902**	116,019
Reinsurers' share of technical provisions			
Claims outstanding	4	**373,552**	322,597
Debtors			
Debtors arising out of reinsurance operations	12	**76,387**	40,575
Other debtors		**2,440**	2,551
Other assets			
Cash at bank and in hand		**766**	2,285
Other prepayments and accrued income		**294**	265
Total assets		**566,292**	505,716
Liabilities			
Capital and reserves			
Free reserves		**99,729**	111,537
Revaluation reserve	10	**2,999**	4,472
Technical provisions			
Claims outstanding	4	**441,312**	384,505
Creditors			
Creditors arising out of reinsurance operations	13	**–**	5,054
Other creditors	14	**22,252**	148
Total liabilities		**566,292**	505,716

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 14 May 2019.

S-M Edye
Chairman

C J Ahrenkiel
Director

Managers:
Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20 February 2019

	2019 US$000	2018 US$000
Surplus/(deficit) on ordinary activities before tax		
Operating surplus/(deficit) before taxation after interest	**10,109**	(4,419)
Increase in general insurance technical provisions	**5,852**	12,461
Unrealised gains on revaluation of property	**–**	(4,265)
Unrealised (gains)/losses on investments	**(442)**	716
Increase in debtors	**(35,730)**	(19,611)
(Decrease)/increase in creditors	**(4,867)**	3,485
	(35,187)	(7,214)
Net cash outflow from operating activities	**(25,078)**	(11,633)
Cash flows were invested as follows:		
Decrease in cash holdings	**(1,519)**	(1,239)
Net portfolio investment		
(Sale)/purchase of bonds and loans	**(4,977)**	866
Purchase/(sale) of money market instruments	**11,072**	(14,109)
(Decrease)/increase in cash on short term deposit	**(29,654)**	2,849
	(23,559)	(10,394)
Net investment of cash flows	**(25,078)**	(11,633)
Movement in opening and closing portfolio investments net of financing		
Net cash outflow for the year	**(1,519)**	(1,239)
Portfolio investments	**(23,559)**	(10,394)
Movement arising from cash flows	**(25,078)**	(11,633)
Changes in market values and exchange rate effects	**442**	(716)
Total movement in portfolio investments net of financing	**(24,636)**	(12,349)
Portfolio investments net of financing at 20 February 2018	**118,304**	130,653
Portfolio investments net of financing at 20 February 2019	**93,668**	118,304

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 2019.

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

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

(d) Calls and premiums written

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

(e) Claims and related expenses

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

(f) Reinsurance premiums and recoveries

Other reinsurance premiums are recognised on an accruals basis.

(g) 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.

(h) 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 2019. Investment income consists of interest, dividends and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of realised and unrealised exchange differences arising on the conversion of transactions on non-dollar denominated assets.

(i) Debtors

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

(j) Foreign currencies

The functional currency is US dollars. All assets and liabilities, including land and buildings, are converted to US dollars at the 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:

		2019	2018
Euro	€	**0.882**	0.807
UK sterling	£	**0.767**	0.715

(k) Allocation to policy years and classes

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

2. Reinsurance contracts

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

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

Notes on the Accounts

continued

3. Claims paid – gross amount	**2019 US$000**	2018 US$000
Claims and related expenses	**156,112**	131,393
Claims administration expenses	**998**	575
	157,110	131,968
Less reinsurers' share		
Other reinsurers	**103**	(188)
The Trust	**143,813**	123,923
	143,916	123,735
Net claims paid	**13,194**	8,233

4. Change in net provision for claims	**2019 US$000**	2018 US$000
Gross outstanding claims		
Provision brought forward	**(384,505)**	(295,171)
Provision carried forward	**441,312**	384,505
	56,807	89,334
The Trust's share of outstanding claims		
Provision brought forward	**315,905**	243,785
Provision carried forward	**(372,288)**	(315,905)
	(56,383)	(72,120)
Other reinsurers' share of outstanding claims		
Provision brought forward	**6,692**	1,939
Provision carried forward	**(1,264)**	(6,692)
	5,428	(4,753)
Change in net provision for claims	**5,852**	12,461

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.

5. Net operating expenses

	2019 US$000	2018 US$000
Acquisition costs		
Underwriting administration expenses	**18**	(49)
	18	(49)
Administrative expenses		
Other administration expenses	**913**	736
Directors' remuneration	**364**	375
Auditor's remuneration	**114**	111
	1,391	1,222
	1,409	1,173

Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, reimbursement of its office and administration expenses and those of its worldwide representatives from SMUA. At 20 February 2019 the Association owed SMM(B) US$0.3 million (2018: US$0.3 million).

Since 21 February 2000 the Association has provided SMM(B) with an unsecured, indefinite, long term loan amounting to US$2.0 million. This loan was increased to US$5.3 million during the year ending 20 February 2014, for which as at 20 February 2019 a provision of US$2.6 million (2018: US$2.5 million) has been made. There were no other related party transactions requiring disclosure under FRS 102 s33.

6. Investment income

	2019 US$000	2018 US$000
Dividends and interest	**1,526**	1,438
Realised (losses)/gains		
Investments	**–**	–
Foreign exchange	**(40)**	85
	(40)	85
	1,486	1,523

Notes on the Accounts

continued

7. Unrealised gains/(losses) on investments	**2019 US$000**	2018 US$000
Investments	**454**	(735)
Foreign exchange	**(12)**	19
	442	(716)

8. Other income	**2019 US$000**	2018 US$000
Surplus on revaluation of property (see note 11)	**–**	4,265

9. 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.

10. Land and buildings

The freehold property consists of office premises in London. It is occupied under licence, free of rent, by the London representatives of the Managers. The property was last valued by CBRE Limited at £15.3 million (US$21.4 million) reflecting the market value at 20 February 2018. The other comprehensive loss shown in the consolidated statement of changes in equity reflects the movement in the US dollar equivalent of £15.3 million (US$20.0 million) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US$17.0 million. The surplus of US$3.0 million has been credited to the revaluation reserve.

11. Other financial investments

	2019 US$000	2018 US$000
Market value		
Bonds and loans	**55,269**	59,792
Equities	**126**	138
Money market instruments	**37,116**	26,044
Deposits with credit institutions	**–**	30,026
Cash accounts	**391**	19
	92,902	116,019
Cost		
Bonds and loans	**55,255**	60,232
Equities	**485**	485
Money market instruments	**37,116**	26,044
Deposits with credit institutions	**–**	30,026
Cash accounts	**391**	19
	93,247	116,806

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 2019

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

Notes on the Accounts

continued

11. Other financial investments continued

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

12. Debtors arising out of reinsurance operations

	2019 US$000	2018 US$000
The Trust	**66,879**	40,527
SMUA	**9,508**	–
Excess Loss reinsurers	**–**	48
	76,387	40,575

13. Creditors arising out of reinsurance operations

	2019 US$000	2018 US$000
SMUA	**–**	5,054
	–	5,054

14. Other creditors

	2019 US$000	2018 US$000
Capital distribution payable to members	**21,917**	–
Accruals and other payables	**335**	148
	22,252	148

15. Wholly-owned subsidiary companies

SMPH is a wholly-owned subsidiary of the Association.

16. Hydra Insurance Company Limited (“Hydra”)

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

17. Capital management

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

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

18. Risk management

The Association monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks.

The Group Solvency Self-Assessment ("GSSA") documents 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 having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

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.

		2019 US$000	2018 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(10,242)**	(10,146)
	net of reinsurance	**(553)**	(40)
Single claim in SMUA of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(31,539)**	(36,439)
	net of reinsurance	**(17,583)**	(17,788)

Notes on the Accounts

continued

18. Risk management continued

Insurance risk continued

The following tables show the development of claims over eight years on both a gross and net of reinsurance basis. The top half of each table shows how the estimates of total claims for each policy year develop over time. The lower half of each table reconciles the cumulative claims to the amount appearing in the balance sheet.

Insurance claims – gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	475,728	420,741	322,326	59,072	211,207	181,109	227,965	231,523
One year later	754,806	345,219	114,298	54,804	199,620	172,409	212,674	
Two years later	940,327	205,177	113,487	54,419	203,148	178,014		
Three years later	802,274	203,896	113,705	54,286	200,372			
Four years later	802,745	203,197	115,611	53,110				
Five years later	803,434	201,219	113,429					
Six years later	803,037	200,978						
Seven years later	802,872							
Current estimate of ultimate claims	802,872	200,978	113,429	53,110	200,372	178,014	212,674	231,523
Cumulative payments to date	802,408	199,958	106,574	51,005	149,298	113,638	105,067	24,591
Claims outstanding	464	1,020	6,855	2,105	51,074	64,376	107,607	206,932
Claims outstanding relating to last eight reporting years								440,433
Other claims liabilities								879
Total gross claims outstanding								441,312

Insurance claims – net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	42,466	49,814	54,802	36,326	19,892	15,344	29,562	33,874
One year later	34,048	41,376	41,687	32,058	25,881	7,891	24,475	
Two years later	31,537	36,170	40,876	31,673	25,630	4,385		
Three years later	29,769	34,889	41,094	31,540	24,105			
Four years later	30,394	34,190	43,000	30,364				
Five years later	30,394	32,212	40,818					
Six years later	29,997	31,971						
Seven years later	29,832							
Current estimate of ultimate claims	29,832	31,971	40,818	30,364	24,105	4,385	24,475	33,874
Cumulative payments to date	29,753	30,951	33,963	28,259	17,424	1,565	9,152	997
Claims outstanding	79	1,020	6,855	2,105	6,681	2,820	15,323	32,877
Claims outstanding relating to last eight reporting years								67,760
Other claims liabilities								-
Total net claims outstanding								67,760

The Association has elected to disclose only eight 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.

18. 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$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and U$10 million for banks rated A by S&P, or an equivalent rating from another agency.

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

As at 20 February 2019

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

Notes on the Accounts

continued

18. Risk management continued

Credit risk continued

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

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

Market risk

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

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

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

18. Risk management continued

Market risk continued

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

As at 20 February 2019

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

As at 20 February 2018

	US dollar US$000	UK sterling US$000	Euro US$000	Other US$000	Total US$000
Assets	439,062	41,211	14,329	11,114	505,716
Liabilities	(345,341)	(19,112)	(14,148)	(11,106)	(389,707)
	93,721	22,099	181	8	116,009

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 non-statutory financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 20th February 2019 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 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Bermuda Companies Act 1981.

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

- the consolidated income and expenditure account;
- the consolidated statement of changes in equity;
- the consolidated balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 18.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report

Responsibilities of directors

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

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

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

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

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

Report on other legal and regulatory requirements

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 Directors for the financial year for which the non-statutory financial statements are prepared is consistent with the non-statutory 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 Bermuda 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 non-statutory financial statements are not in agreement with the accounting records and returns; 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.

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.

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

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

Statutory Auditor

London
United Kingdom
14 May 2019

The Steamship Mutual Trust

Annual Report and Accounts 2019

Contents

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
S Mehta (appointed 23 July 2018)
R Thompson
C C Tung, Orient Overseas (International) Ltd
(retired 15 May 2018)
A Pohan, NY Waterway – ex officio status
S-M Edye, Sloman Neptun, Schiffahrts, AG – ex officio status

Secretary of the Corporate Trustee
K L McCullough, Conyers, Dill & Pearman (appointed 7 December 2018)
C Murphy, Conyers, Dill & Pearman (resigned 7 December 2018)

Manager of the Corporate Trustee
Hamilton Investment Management Limited

Registered office of the Corporate Trustee
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Administrative offices of the Corporate Trustee
Washington Mall II
PO Box HM 601
Hamilton HM CX
Bermuda

Telephone: +1 441 295 4502

Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited ("Corporate Trustee") has pleasure in presenting its Report and Audited Accounts of The Steamship Mutual Trust ("Trust") for the year ended 20 February 2019.

Principal activities

The Trust's principal activity during the year was the reinsurance of Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") risks. At the beginning of the financial year, the Corporate Trustee extended its current year reinsurance contract, entered into on behalf of the Trust, with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), to cover the period from 20 February 2018 to 20 February 2019. Total premium receivable by the Trust in respect of all its reinsurance contracts during the financial year amounted to US$141.1 million.

Accounts

Free reserves as at 20 February 2019 decreased by US$30.3 million to US$258.9 million. Total investments of the Trust at the balance sheet date amounted to US$856.6 million, a decrease of US$9.2 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 breakdown by both class of business and underwriting year. No allowance has been made for the allocation of any future investment income.

Investment performance

Equities were generally flat while interest rates increased around 1% during the year. The Trust recorded an investment gain of 1.8% (1.7% net of fees). This excludes a currency loss of US$3.9 million that has been allocated to the Technical Account.

Risk management and asset allocation

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

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

The Corporate Trustee has continued to consult regularly with the Board of SMUAB, whose Members are the ultimate reinsured and beneficiaries of the Trust. 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.

Report of the Corporate Trustee

continued

Trustee's responsibilities statement

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

In preparing those financial statements the Corporate Trustee is required to:

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

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

A L Marchisotto
Chairman

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

Amsterdam, Netherlands
13 May 2019

Appendix I – Policy Year Statement (unaudited)

All Classes

Open Policy Years – All Classes	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	156,421	182,330	156,398	**495,149**
Allocated investment return transferred from the non-technical account	(528)	151	294	**(83)**
Gross claims paid	(23,594)	(95,915)	(112,073)	**(231,582)**
Net provision for claims outstanding	(174,055)	(92,284)	(61,556)	**(327,895)**
Administration expenses	(85)	(120)	(333)	**(538)**
Balance on the technical account	(41,841)	(5,838)	(17,270)	**(64,949)**
Allocated net investment income	15,498	28,847	31,938	**76,283**
Non-technical account administration expenses	(2,712)	(2,336)	(2,146)	**(7,194)**
Open policy years funds available	(29,055)	20,673	12,522	**4,140**

Closed Policy Years – All Classes	Total US$000
Available balance as at 20 February 2018	176,749
Add:	
Balance of 2015/16 year as at 20 February 2018	70,980
Movements during financial year:	
Other net premium	(4,578)
Allocated investment return from non-technical account	(2,035)
Net claims paid	(51,568)
Available balance as at 20 February 2019	189,548
Net provision for claims outstanding	(170,434)
Closed policy years funds available	19,114
Summary	
Open and closed years funds available	23,254
Investment income available for allocation	235,658
Total projected funds available	**258,912**

Appendix II – Policy Year Statement (unaudited)

P&I Class

Open Policy Years – P&I Class	2018/19 US$000	2017/18 US$000	2016/17 US$000	**Total US$000**
Gross premium	144,963	169,150	140,457	**454,570**
Allocated investment return transferred from the non-technical account	(359)	323	524	**488**
Gross claims paid	(22,051)	(88,916)	(105,475)	**(216,442)**
Net provision for claims outstanding	(161,508)	(86,660)	(59,008)	**(307,176)**
Administration expenses	(77)	(108)	(299)	**(484)**
Balance on the technical account	(39,032)	(6,211)	(23,801)	**(69,044)**
Allocated net investment income	14,220	26,421	28,823	**69,464**
Non-technical account administration expenses	(2,489)	(2,139)	(1,936)	**(6,564)**
Open policy years funds available	(27,301)	18,071	3,086	(6,144)

Closed Policy Years – P&I Class	Total US$000
Available balance as at 20 February 2018	171,594
Add:	
Balance of 2015/16 year as at 20 February 2018	61,334
Movements during financial year:	
Other net premium	(4,416)
Allocated investment return from non-technical account	(1,922)
Net claims paid	(48,453)
Available balance as at 20 February 2019	178,137
Net provision for claims outstanding	(162,367)
Closed policy years funds available	15,770

Summary	All Classes	FD&D	Others	P&I
Open and closed years funds available	23,254	14,848	(1,220)	9,626
Investment income available for allocation	235,658			
Total projected funds available	**258,912**			

Income and Expenditure Account

for the year ended 20 February 2019

Technical Account	Note	2019 US$000	2018 US$000
Earned premium, net of reinsurance			
Gross premium written	3	**141,071**	152,089
Allocated investment return transferred from the non-technical account		**(3,936)**	4,460
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**174,509**	167,465
Change in the provision for claims			
Gross amount	4	**5,677**	6,630
Claims incurred, net of reinsurance		**180,186**	174,095
Net operating expenses	5	**83**	119
Balance on the technical account for general business		**(43,134)**	(17,665)

Non-Technical Account	Note	2019 US$000	2018 US$000
Balance on the technical account for general business		**(43,134)**	(17,665)
Investment income	6	**17,843**	16,082
Unrealised (losses)/gains on investments	7	**(6,281)**	17,224
Allocated investment return transferred to the technical account		**3,936**	(4,460)
Investment management expenses		**(2,712)**	(2,335)
(Deficit)/surplus for the financial year		**(30,348)**	8,846
Free reserves brought forward		**289,260**	280,414
Free reserves		**258,912**	289,260

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 2019

Assets	Note	**2019 US$000**	2018 US$000
Investments			
Other financial investments	8	**856,610**	865,851
Debtors			
Other debtors		**108**	379
Prepayments and accrued income			
Accrued interest		**3,688**	4,233
Total assets		**860,406**	870,463
Liabilities			
Capital and reserves			
Free reserves		**258,912**	289,260
Technical provisions			
Claims outstanding	4	**498,330**	492,653
Creditors			
Creditors arising out of reinsurance operations	9	**102,630**	87,954
Other creditors	10	**534**	596
Total liabilities		**860,406**	870,463

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

These financial statements were approved by the Corporate Trustee on 13 May 2019.

The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited

Cash Flow Statement

for the year ended 20 February 2019

(Deficit)/surplus on ordinary activities before tax	2019 US$000	2018 US$000
Operating (deficit)/surplus before taxation after interest	**(30,348)**	8,846
Increase in general insurance technical provisions	**5,677**	6,630
Unrealised losses/(gains) on investments	**6,281**	(17,224)
Decrease in debtors	**816**	1,085
Increase in creditors	**14,614**	28,376
	27,388	18,867
Net cash (outflow)/inflow from operating activities	**(2,960)**	27,713
Cash flow statement		
Net cash (outflow)/inflow from operating activities	**(2,960)**	27,713
Cash flows were invested as follows:		
Movement in cash holdings	**–**	–
Net portfolio investment		
Net (sale)/purchase of bonds and loans	**(83,599)**	72,941
Net (sale)/purchase of equities	**(18,241)**	5,099
Net purchase/(sale) of alternative investments	**11,747**	(20,152)
Increase/(decrease) in money market instruments	**87,133**	(30,175)
	(2,960)	27,713
Net investment of cash flows	**(2,960)**	27,713
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	**–**	–
Portfolio investments	**(2,960)**	27,713
Movement arising from cash flows	**(2,960)**	27,713
Changes in market values and exchange rate effects	**(6,281)**	17,224
Total movement in portfolio investments net of financing	**(9,241)**	44,937
Portfolio investments net of financing at 20 February 2018	**865,851**	820,914
Portfolio investments net of financing at 20 February 2019	**856,610**	865,851

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) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail under note 14.

(c) Premium written

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

(d) Claims and related expenses

Full provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

(e) Foreign currencies

The functional currency is US dollars. Assets and liabilities including investments and bank balances have been converted to US dollars at the 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:

		2019	2018
Euro	€	**0.882**	0.807
UK sterling	£	**0.767**	0.715
Brazilian real	R$	**3.710**	3.233

(f) Other financial investments

Investments and cash balances have been valued at their bid value as at the close of business on 19 February 2019. 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	2019 US$000	2018 US$000
Gross outstanding claims		
Provision brought forward	**(492,653)**	(486,023)
Provision carried forward	**498,330**	492,653
Change in the net provision for claims	**5,677**	6,630

A favourable movement in the prior year net claims provision of US$8.2 million was experienced during the year (2018: favourable US$9.5 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	2019 US$000	2018 US$000
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	**5**	34
Auditor's remuneration	**78**	85
	83	119

6. Investment income	2019 US$000	2018 US$000
Dividends and interest	**19,674**	18,105
Realised losses		
Investments	**1,585**	(3,666)
Exchange	**(3,416)**	1,643
	(1,831)	(2,023)
	17,843	16,082

Notes on the Accounts

continued

7. Unrealised (losses)/gains on investments	**2019 US$000**	2018 US$000
Investments	**(5,761)**	14,407
Foreign exchange	**(520)**	2,817
	(6,281)	17,224

8. Other financial investments	**2019 US$000**	2018 US$000
Market value		
Equities	**72,894**	101,017
Alternative investments	**80,292**	68,885
Bonds and loans	**604,932**	685,727
Money market instruments	**88,557**	2,504
Cash accounts	**9,868**	8,788
Derivative financial instruments	**67**	(1,070)
	856,610	865,851
Cost		
Equities	**49,327**	67,568
Alternative investments	**72,817**	61,070
Bonds and loans	**617,656**	701,255
Money market instruments	**88,557**	2,504
Cash accounts	**9,868**	8,788
	838,225	841,185

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 2019

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

Notes on the Accounts

continued

8. Other financial investments continued

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)
	669,576	196,275	–	865,851

9. Creditors arising out of reinsurance operations

	2019 US$000	2018 US$000
SMUA	**35,751**	47,427
SMUAB	**66,879**	40,527
	102,630	87,954

10. Other creditors

	2019 US$000	2018 US$000
Unsettled investment transactions	**–**	–
Other creditors	**534**	596
	534	596

11. 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.

12. Transactions with related parties

The Corporate Trustee receives a fee for investment management costs and related expenses. For the financial year to 20 February 2019 this fee amounted to US$2.8 million (2018: US$2.4 million) of which US$0.5 million (2018: US$0.5 million) was outstanding at the balance sheet date.

13. 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.

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

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

Notes on the Accounts

continued

14. Risk management

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

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

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium received from SMUA via SMUAB in the current policy year is insufficient to cover claims and other costs arising in that year. The Trust's premium risk is calculated on net premiums written and is in relation to its exposure to SMUA and SMUAB claims, as described under note 3 on the accounts.

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

The Trust ultimately relies on SMUA which projects claims liabilities using the Bornhuetter-Ferguson method for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee of SMUA compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

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

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

	2019 US$000	2018 US$000
5% increase in claims incurred on current policy year		
Effect on Trust free reserves	**(9,689)**	(10,106)
Single claim in SMUA of US$2 billion in current policy year		
Effect on Trust free reserves	**(13,956)**	(13,741)

Notes on the Accounts

continued

14. Risk management continued

Insurance risk continued

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

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

Insurance claims – gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	227,979	224,996	198,320	172,086	191,315	165,765	194,128	197,649
One year later	230,003	211,455	172,634	151,737	173,739	164,518	188,199	
Two years later	213,473	208,812	166,309	153,976	176,902	173,629		
Three years later	211,876	200,590	164,844	149,281	176,267			
Four years later	206,522	192,482	157,984	145,871				
Five years later	202,079	192,499	155,166					
Six years later	200,031	187,437						
Seven years later	198,017							
Current estimate of ultimate claims	198,017	187,437	155,166	145,871	176,267	173,629	188,199	197,649
Cumulative payments to date	194,032	174,272	134,183	125,784	131,874	112,073	95,915	23,592
Claims outstanding	3,985	13,165	20,983	20,087	44,393	61,556	92,284	174,057
Claims outstanding relating to last eight reporting years								430,510
Other claims liabilities								67,820
Total gross claims outstanding								498,330

Insurance claims – net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000
End of reporting year	212,081	221,771	198,320	172,086	191,315	165,765	194,128	197,649
One year later	209,673	203,542	172,634	151,737	173,739	164,518	188,199	
Two years later	202,063	208,812	166,309	153,976	176,902	173,629		
Three years later	205,769	200,590	164,844	149,281	176,267			
Four years later	200,415	192,482	157,984	145,871				
Five years later	195,971	192,499	155,166					
Six years later	193,923	187,437						
Seven years later	191,909							
Current estimate of ultimate claims	191,909	187,437	155,166	145,871	176,267	173,629	188,199	197,649
Cumulative payments to date	187,924	174,272	134,183	125,784	131,874	112,073	95,915	23,592
Claims outstanding	3,985	13,165	20,983	20,087	44,393	61,556	92,284	174,057
Claims outstanding relating to last eight reporting years								430,510
Other claims liabilities								67,820
Total net claims outstanding								498,330

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

Notes on the Accounts

continued

14. Risk management continued

Credit risk

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

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

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

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

As at 20 February 2019

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

Notes on the Accounts

continued

14. Risk management continued

Credit risk continued

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	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, foreign exchange rates and other price changes.

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

The Trust is exposed to currency risk in relation to claim liabilities in a number of non-US dollar currencies, predominantly UK sterling, euro and Brazilian real. This exposure is 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 exposure to euro and Brazilian real through derivative positions was US$nil and US$12.1 million respectively at 20 February 2019 (US$19.9 million and US$13.8 million respectively at 20 February 2018).

As at 20 February 2019

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

Notes on the Accounts

continued

14. Risk management continued

Market risk continued

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		

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 2019	(13,871)
As at 20 February 2018	(10,299)

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 high quality 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 investment 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 2019

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

Notes on the Accounts

continued

14. Risk management continued

Liquidity risk continued

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

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 2019

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	176,875	108,102	138,269	75,084	498,330
Other liabilities	103,164	–	–	–	103,164
Total liabilities	280,039	108,102	138,269	75,084	601,494

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

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 non-statutory financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 20th February 2019 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 Financial Reporting Standard 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Bermuda Companies Act 1981.

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

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge

Independent Auditor's Report

continued

obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

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

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

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

Report on other legal and regulatory requirements

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 non-statutory financial statements are prepared is consistent with the non-statutory 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.

Independent Auditor's Report

continued`

Matters on which we are required to report by exception

- Under the Bermuda Companies Act 1981 we are required to report in respect of the following matters if, in our 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 non-statutory financial statements are not in agreement with the accounting records and returns; 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.

Use of our report

This report is made solely to the Corporate Trustee, 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 Trust and the Corporate Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Statutory Auditor
London
United Kingdom

13 May 2019

STEAMSHIP MUTUAL

Steamship Insurance Management Services Limited
Aquatical House
39 Bell Lane
London
E1 7LU

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

www.steamshipmutual.com

@SteamshipMutual

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