Steamship Mutual

Steamship Mutual Report and Accounts 2021

Mutual Vision

Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2021

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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

Notice of Meeting

Notice is hereby given that the One Hundred and Twelfth Annual General Meeting of the Members of the Company will be held at the St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 26 October 2021 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 2021, 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. Ahrenkiel, Ms I. Grimaldi and Mr A. Pohan. Being eligible, they offer themselves for re-election.

3 To authorise the Managers to fix the remuneration of the Auditor.

4 To transact any other ordinary business of the Company.

By Order of the Board

A Thawani
Secretary

27 May 2021

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

Directors

Directors

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

Secretary

A Thawani	Steamship P&I Management LLP

Managers

Steamship P&I Management LLP

Registered office

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

Website: www.steamshipmutual.com

Registered number

00105461

Strategic Report

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintains an A (stable) rating from Standard & Poor's. For the year under review, the Directors set a 7.5% general increase in P&I premium. At the 2021/22 renewal the general increase was set at 5%.

For Steamship Mutual Underwriting Association Limited ("Association"), owned entered tonnage increased by 6.7% from 59.8 million gross tons ("GT") to 63.8 million GT during the year and including renewal. Total entered tonnage at 20 February 2021 for owned and chartered entries stood at 116.3 million GT.

Gross premium written in the year decreased to US$204.8 million from US$308.7 million last year, a 33.7% decrease, predominantly reflecting 28.6 million GT of owned European business being entered in Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE") in response to the UK leaving the EU. Premium was also affected by the pandemic as several vessels were laid up during the year.

The Association's combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium increased from 101.2% to 108.6% due to Covid-19 related claims and higher than anticipated pool claims from the International Group.

The balance on the technical account for general business was a deficit of US$4.8 million for the financial year (2020: deficit US$1.0 million). Free reserves decreased from US$105.5 million to US$100.9 million.

It has been a challenging year for the Association as the world responded to the Covid-19 pandemic. The Directors and Managers have been focused on ensuring the safety of its staff and operational continuity so that Members continue to receive the service they expect from Steamship in these unprecedented times. The financial strength and operational resilience of Steamship are there for such events, and the Association has utilised these throughout the year, which has also been reflected in the very positive renewal..

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

Part VII Transfer

On 20 December 2020 SMUA transferred its EEA assets and liabilities to SMUAE under a Part VII of the Financial Services and Markets Act 2000. This was required to ensure continuity of claims handling service for EU policyholders entered with the Association for the 2019 policy year and earlier. See note 5 for more information.

Strategy

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

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

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2020/21 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2020/21 policy year (Class 2 – FD&D).

The 2017/18 policy year was closed in June 2020.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 10% for the 2021/22, 2020/21 and 2019/20 policy years and 5% for the 2018/19 policy year.

Strategic Report

Claims

Whilst the year was dominated by the Covid-19 pandemic and its effects, the ultimate consequences from a claims perspective were less than might have been anticipated at the outset. The initial impact was on the Association's cruise entry with outbreaks on several vessels. The effective cessation of the majority of cruise and passenger operations for the remainder of the year reduced exposure to passenger and cruise vessel crew claims. Nevertheless, the disruptive effects of the pandemic caused extensive dislocation to the shipping industry as a whole, particularly with respect to crew changes and repatriation.

The Managers endeavoured to provide the Association's Members with practical assistance in order to mitigate the effect of Covid-19, such as a dedicated area on the Association's website with the latest information and advice as it became available and actively participating in the International Group's Covid and quarantine working groups.

Despite the challenges arising such as the requirement to work remotely for the majority of the year, the Managers and staff have endeavoured to continue to provide the high standards of service that the Membership expects.

The Association experienced two Pool claims in excess of its retention during the policy year. These were Covid-19 related cruise claims where the Association's insurance was on a quota share basis, thus limiting its exposure.

A further edition of Sea Venture was published together with three newsletters.

A series of four loss prevention videos on the Coronavirus were produced to inform and guide seafarers. These programmes, which dealt with the issues of staying safe, maintaining mental resilience, implementing protective measures and effecting crew changes were made available free of charge to the Association's Members and the shipping industry generally.

A number of Risk Alerts and articles on topical operational issues were published on the website, and a further series of safety posters for roll-on/roll-off vessels and pure car and truck carriers was produced.

Pooling and reinsurance

The Association's reinsurance programme for the 2021/22 policy year was arranged in conjunction with other members of the International Group. The programme provided an ultimate limit of US$3.1 billion in excess of US$10 million, except in relation to oil pollution claims, which were subject to an overall limit of US$1.0 billion.

Pooling

For 2021/22, the individual club retention, before Pooling with other members of the International 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 was renewed with the same structure as for the expiring year. Three 10% private placements for the 2021/22 policy year, with the remaining 70% placed in the market. The first layer will provide cover from US$100 million to an increased upper limit of US$750 million, the second layer will cover from US$750 million to US$1.5 billion, and the third layer from US$1.5 billion to US$2.1 billion. There is no change to the Collective Overspill layer of US$1 billion excess US$2.1 billion.

Hydra Insurance Company Limited ("Hydra")

For 2021/22, Hydra will continue to retain 100% of the pool layer US$30 million to US$50 million and 92.5% of the pool layer US$50 million to US$100 million. In addition, Hydra will retain the US$100 million annual aggregate deductible in the 70% market share of the first layer of the Excess Loss programme. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

US oil pollution

There will be no surcharge again for 2021/22.

Charterers' cover

The Association provides cover for P&I and other risks for charterers, reinsured outside the Pool. Combined single limits up to US$1.0 billion are provided for P&I and other risks.

Non-Poolable covers

The Association continues to provide P&I cover for additional covers for a range of risks which are ancillary to Members' core operations, reinsured outside the Pool with limits up to US$1.0 billion.

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.

Strategic Report

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 injury claims as a significant risk. The Directors are aware of the volatility in this class and the risks associated with it; they are embedded within the reserving process. Further information on financial risk management is set out in the notes on the accounts.

Section 172 statement

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

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

Consequences of decisions in the long-term

The Board took account of the impact of the pandemic on Members and, acknowledging the need to achieve underwriting balance, ordered a 5% general increase for the 2021/22 policy year.

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

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

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

The Association actively promotes quality and safety in maritime operations through its evaluation of risk presented by the Members it insures, and its loss prevention initiatives. These measures have the objective of improving ship safety and the safety of life at sea, thereby reducing the risk of adverse environmental or community impact. Through the cover that is provided for the liabilities arising from shipping casualties, the Association's response to such incidents has a predominant focus upon mitigating and minimising environmental loss or damage. The Association is developing measures to manage the financial risks arising from climate change and is monitoring the potential impact of climate change through stress testing. The Managers have implemented many measures to reduce energy consumption and increase the scope of recycling within its office operations, and to raise awareness amongst employees of environmental responsibility and promote sustainable business. The Association consumed less than 40,000 kWh of energy, and is therefore exempt from the SECR disclosure requirements

A focus on initiatives to raise awareness of various issues relating to the COVID-19 pandemic, provide practical support for the mental well-being of seafarers and other loss prevention measures is set out in this report under Claims.

Maintain a reputation for high standards of business conduct

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

Need to act fairly between Members of the Association

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

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

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

The Steamship Mutual Trust ("Trust")

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

The Chairman of the Association is a Director of the Corporate Trustee which administers the Trust.

C Adams
Director

Managers
Steamship P&I Management LLP

27 May 2021

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 2021.

Principal activities

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

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

Directors

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

In accordance with Article 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Mr C. Ahrenkiel, Ms I. Grimaldi and Mr A. Pohan. Being eligible, they offer themselves for re-election.

Audit and Risk Committee ("Committee")

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

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

- Impact of, and response to, the Covid-19 pandemic
- Oversight of a Part VII transfer of European liabilities to Steamship Mutual Underwriting Association Europe
- Assessment of auditor rotation
- Review of stress tests, including ones relating to pandemics and climate change
- In-depth review of the risk appetite

Rules

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

Class 1 – Protection and Indemnity

Rule 25a – The removal of cover as of right for smuggling fines, with cover to be determined on a discretionary basis in accordance with Rule 25 xvi e.

Management Highlights

The Management Highlights will be published by July 2021.

Report of the Directors

Directors' responsibilities statement

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The financial statements are required by law to give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company 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.

External auditor

During the financial year, the Association, and other Steamship entities, undertook an audit tender process prompted by UK regulatory requirements to rotate the external auditor.

After completion of this process, the Board propose to appoint BDO LLP as the Association's external auditor at an EGM to be held on 30 June 2021.

C Adams
Director

Managers
Steamship P&I Management LLP

27 May 2021

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

1. Opinion

In our opinion the financial statements of Steamship Mutual Underwriting Association Limited (the 'parent company') and its subsidiary (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 2021 and of the group's deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and Financial Reporting Standard 103 "Insurance Contracts"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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".

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 company, with the exception of tax compliance and tax advisory services for a Hong Kong based branch of the company in respect of the 2019/2020 tax year of assessment, for a fee of approximately US$4,000.

The services were provided by a team separate to the audit team and impacted neither internal control nor material amounts recorded in the financial statements. In our opinion, based on the monetary value and the nature of the tax compliance and tax services provided, the impact of providing the services was immaterial and inconsequential, however this is a breach, albeit insignificant, of the FRC Ethical Standard. Following investigation it was concluded in agreement with the Audit Committee that given the size of the services provided and their potential impact, as well as the safeguards in place of separate teams, the provision of these services did not impact upon our integrity, objectivity and independence as auditor to the company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year was: • Technical provision – valuation of IBNR for US and Non US injury claims

Independent Auditor's Report

continued

	Within this report, key audit matters are identified as follows: Newly identified Similar level of risk
Materiality	The materiality that we used for the group financial statements was $3.49m which was determined on the basis of 3% of Solvency II Own Funds.
Scoping	The audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	The impact of Covid-19 on subsequent events and going concern is no longer a KAM in the current year, because the uncertainty surrounding Covid-19 was predominantly limited to the first half of 2020. The majority of Covid-19 claims were incurred in February/March 2020. Operationally, Steamship is now adjusted to the changes Covid-19 brought to the workplace and their business.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Assessed the financial performance of SMUA, including investment holdings, cash position, technical provision reserves and net asset positions, by performing a comparison analysis of the current year versus prior year year-end positions;
- Reviewed management's reverse stress testing within their Group Solvency Self Assessment;
- Performed an assessment of the impact by Covid-19 both financially and operationally;
- Assessed the appropriateness of the going concern disclosure in the financial statement.
- Considered post-year-end results to assess whether there are any material changes from the audited accounts, which might impact going concern.

Assessed the appropriateness of the going concern disclosure in the financial statement.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

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

Independent Auditor's Report

continued

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

Key audit matter description	*Refer to Note 1 and Note 16 to the financial statements for further information on this key audit matter.* We have identified the valuation of the technical provision as $798m (2020: $821.2m) our key audit matter since reserving inherently involves a great deal of uncertainty and judgement in the selection of key methodologies and assumptions. Key assumptions include inflation, exposure, prior ratio and % developed. 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 have performed a number of key procedures to address this key audit matter: • We performed a walkthrough of the process and controls over the reserving cycle, and obtained an understanding of these controls. • We involved our internal actuarial specialists in performing the below procedures: o Inspected and challenged the Steamship methodology, by checking consistency to prior year; o Performed a graphical analysis of claims information; o Challenged the key assumptions (as listed in the key audit matter), underlying management's approach to reserve estimates for the most recent policy year, in relation to the historical data and past performance by; o using our in-house reserving software to help us assess the Group's response to emerging claims trends for the % developed; o conducting sensitivity testing on assumptions. o Reviewed and challenged management's estimates of the impact of COVID-19 on exposure and claims by assessing the approach and methodology used by management to create their COVID reserve; o Reconciled the final IBNR position to their supporting calculations. • We also performed further audit procedures on testing the key inputs of the technical reserve balance: o Agreed policy and claims data to underlying accounting records o o Assessed the reserves booked by management with the involvement of our actuarial specialists.
Key observations	Based on the work performed, we have determined that the valuation of IBNR for US and Non US Injury Claims was reasonable.

Independent Auditor's Report

continued

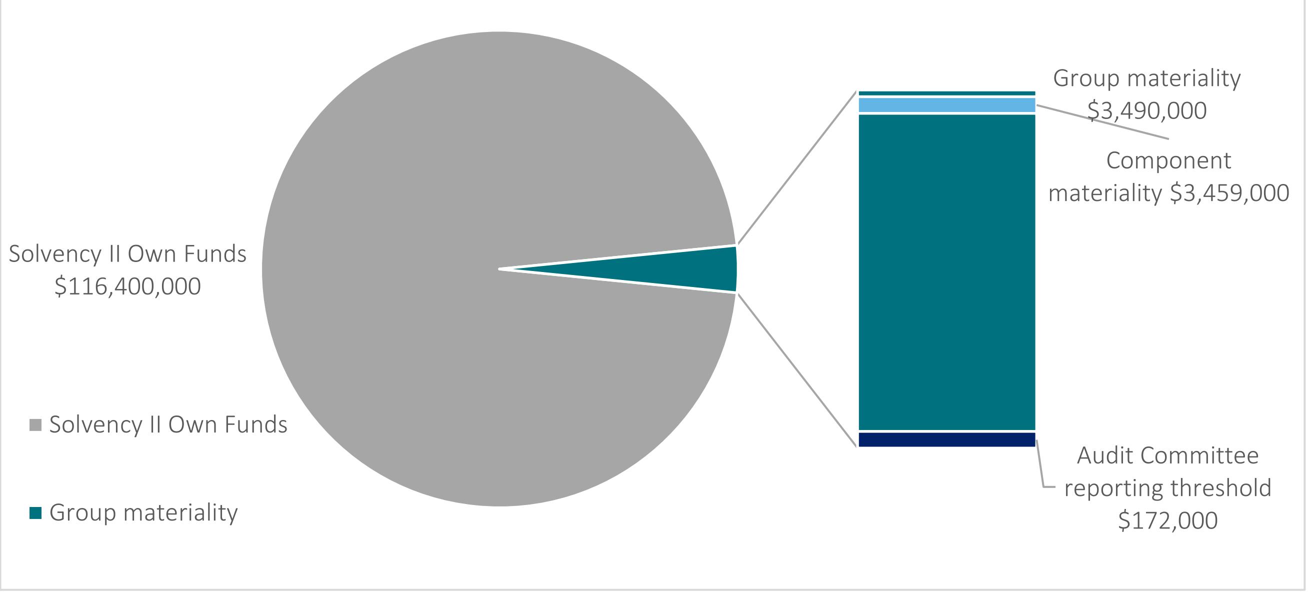
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	$3.49m (2020: $4.03m)	$3.46m (2020: $3.99m)
Basis for determining materiality	3% of Solvency II Own funds (This is consistent with prior year)	3% of Solvency II Own Funds capped at 99% of group materiality (This is consistent with prior year)
Rationale for the benchmark applied	Solvency II Own Funds is a key metric used by the Members to determine whether the Club has sufficient capital to prevent supplementary calls and pay claims when due. Materiality was initially based on the Q2 figure, and was reassessed using the Q4 position, but was determined appropriate to keep it at the initially determined level.	



Independent Auditor's Report

continued

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered the following factors:

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	1. Our risk assessment, including our assessment of the group's overall control environment including the impact of Covid-19; and 2. Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $172,000 (2020: $199,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The scope of our audit work was determined by obtaining an understanding of the group and its environment, and assessing the risks of material misstatement at the group level. The Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team. Our work represents 100% (PY: 100%) of group revenue and 100% (PY: 100%) of group net assets.

8. Other information

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

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.

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

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

We have nothing to report in this regard.

Independent Auditor's Report

continued

9. Responsibilities of directors

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

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: Technical provision - valuation of IBNR for US and Non US injury

Independent Auditor's Report

continued

claims. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

Independent Auditor's Report

continued

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 23 July 2002 to audit the financial statements for the year ending 20 February 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 20 February 2003 to 20 February 2021. This is our final year of reappointment, with a new auditor being appointed for the year-ended 20 February 2022.

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

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

15. Use of our report

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

Adam Addis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 May 2021

Consolidated Income and Expenditure Account

for the year ended 20 February 2021

Technical Account	Note	2021 US$000	2020 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**204,799**	308,725
Outward reinsurance premium	3	**(149,112)**	(228,431)
Earned premium, net of reinsurance		**55,687**	80,294
Allocated investment return transferred from the non-technical account		**1,528**	(732)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**164,940**	252,595
Portfolio claims transfer	5	**8,600**	-
Reinsurers' share	4	**(136,587)**	(210,988)
Net claims paid		**36,953**	41,607
Change in the provision for claims			
Gross amount	5	**(23,181)**	(6,204)
Reinsurers' share	5	**22,093**	6,262
Change in the net provision for claims	5	**(1,088)**	58
Claims incurred, net of reinsurance		**35,865**	41,665
Net operating expenses	6	**26,147**	38,880
Balance on the technical account for general business		**(4,797)**	(983)

Non-Technical Account	Note	2021 US$000	2020 US$000
Balance on the general business technical account		**(4,797)**	(983)
Investment income		**1,728**	482
Unrealised (losses)/gains on investments		**(1)**	133
Allocated investment return transferred to the technical account		**(1,528)**	732
Other income		**2**	36
(Deficit)/surplus on ordinary activities before taxation		**(4,596)**	400
Taxation	7	**44**	330
(Deficit)/surplus for the financial year		**(4,640)**	70
Free reserves brought forward		**105,479**	105,409
Free reserves		**100,839**	105,479

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 2021

Assets	Note	**2021 Consolidated US$000**	**2021 Company US$000**	2020 Consolidated US$000	2020 Company US$000
Investments					
Other financial investments	8	**83,895**	**83,895**	56,408	56,408
Investment in group undertaking	9	–	**29**	–	17
Reinsurers' share of technical provisions					
Claims outstanding	5	**757,687**	**757,687**	779,780	779,780
Debtors					
Debtors arising out of direct insurance operations		**5,033**	**5,033**	16,253	16,253
Debtors arising out of reinsurance operations	10	**58,425**	**58,425**	73,526	73,526
Other debtors		**3,606**	**3,677**	1,303	1,387
Other assets					
Cash at bank and in hand		**15,466**	**15,355**	24,137	24,036
Prepayments and accrued income					
Deferred acquisition costs		**490**	**490**	601	601
Other prepayments and accrued income		**370**	**370**	512	512
Total assets		**924,972**	**924,961**	952,520	952,520
Liabilities					
Capital and reserves					
Free reserves	12	**100,839**	**100,837**	105,479	105,479
Technical provisions					
Provision for unearned premium		**2,522**	**2,522**	3,685	3,685
Claims outstanding	5	**798,023**	**798,023**	821,204	821,204
Provisions for other risks and charges					
Provision for taxation		**113**	**113**	214	214
Other provisions	11	–	–	1,277	1,277
Creditors					
Creditors arising out of direct insurance operations		**12,891**	**12,891**	7,099	7,099
Creditors arising out of reinsurance operations		**6,900**	**6,900**	9,650	9,650
Other creditors including taxation and social security		**3,684**	**3,675**	3,912	3,912
Total liabilities		**924,972**	**924,961**	952,520	952,520

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 27 May 2021.

C Adams
Director

C Bouch
Director

Managers:
Steamship P&I Management LLP

Consolidated Cash Flow Statement

for the year ended 20 February 2021

Cash flows from operating activities	**2021 US$000**	2020 US$000
Operating (deficit)/surplus before taxation after interest	**(4,596)**	400
(Decrease)/increase in general insurance technical provisions	**(2,251)**	764
(Decrease)/increase in other provisions	**(1,277)**	648
Unrealised losses/(gains) on investments	**1**	(133)
Decrease/(increase) in debtors	**24,271**	(27,710)
Increase/(decrease) in creditors	**2,814**	(10,880)
Taxation paid	**(145)**	(352)
	23,413	(37,663)
Net cash inflow/(outflow) from operating activities	**18,817**	(37,263)
Cash flow from investment activities		
Net portfolio investment		
Sale of bonds and loans	**618**	348
(Purchase)/sale of money market instruments	**(25,540)**	4,570
(Increase)/decrease in cash on short term deposit	**(2,566)**	2,539
Cash generated by investing activities	**(27,488)**	7,457
Movement in opening and closing cash and cash equivalents		
Net cash outflow for the period	**(8,671)**	(29,806)
Cash and cash equivalents at 20 February 2020	**24,137**	53,943
Cash and cash equivalents at 20 February 2021	**15,466**	24,137

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.

(b) Going concern assessment

The Directors believe that the Association is taking all necessary measures to maintain its viability and the development of the business in the current economic environment. The Directors have:

- Assessed the financial performance of the Association, including the impact of Covid-19 in the last year, and the successful renewal referenced in the Strategic Report.
- Assessed the liquidity of all assets of the Association.
- Considered the Group Solvency Self Assessment (of the Steamship regulatory group), the outlook for Steamship and the stress tests performed within it.
- Assessed the solvency requirements set by the regulator and solvency ratio of the Association.
- Considered the potential ongoing impacts, financial and operational, of Covid-19 on the business, and the broader underwriting developments within its business plan, including the impact on its solvency position.
- Considered post-balance sheet events.

Based on the above, the Directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the financial statements.

(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 2021.

(d) Critical accounting judgements 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 16.

(e) 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.

(f) 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.

(g) Deferred acquisition costs

Acquisition costs are deferred to the extent that they are attributable to premium unearned at the balance sheet date.

(h) 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.

(i) Reinsurance premium and recoveries

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

Notes on the Accounts

continued

1. Accounting policies continued

(j) Investments

Quoted investments at their bid-value and cash at bank have been valued as at the close of business on 19 February 2021. 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.

(k) Foreign currencies

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

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

		2021	2020
Euro	€	**0.825**	0.927
UK sterling	£	**0.714**	0.772

Notes on the Accounts

continued

2. Gross premium written

	2021 US$000	2020 US$000
Mutual and fixed premium written	**203,181**	309,246
Return of premium	**13**	(73)
Release calls	**442**	258
Movement in unearned premium	**1,163**	(706)
	204,799	308,725

Gross premium by class of business

	2021 US$000	2020 US$000
Protection and Indemnity	**185,579**	282,720
Freight, Demurrage and Defence	**6,503**	10,648
Other	**12,717**	15,357
	204,799	308,725

Gross premium by Member location

	2021 US$000	2020 US$000
United States of America	**104,565**	120,403
South Korea	**17,901**	18,195
Taiwan	**10,747**	10,903
Hong Kong	**10,244**	10,432
China	**9,929**	8,876
Brazil	**7,901**	8,538
Chile	**6,480**	8,144
India	**6,278**	6,768
United Kingdom	**5,155**	7,750
Philippines	**4,261**	4,707
Switzerland	**760**	23,988
Cyprus	**643**	5,878
Italy	**399**	8,191
Greece	**341**	7,114
Germany	**156**	6,369
France	**132**	13,014
Netherlands	**–**	13,713
Other countries	**18,907**	25,742
	204,799	308,725

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	**2021 US$000**	2020 US$000
Claims and related expenses	**107,283**	193,822
Group Pool claims	**39,001**	34,565
Claims administration expenses	**18,656**	24,208
	164,940	252,595
Portfolio claims transfer	**8,600**	–
Less reinsurers' share		
SMUAB	**113,077**	166,098
The Trust	**7,741**	21,780
Group Pool and other reinsurers	**15,769**	23,110
	136,587	210,988
Net claims paid	**36,953**	41,607

Notes on the Accounts

continued

5. Change in net provision for claims	2021 US$000	2020 US$000
Gross outstanding claims		
Provision brought forward	**821,204**	827,408
Claims paid in the year	**(164,940)**	(252,595)
Transferred to SMUAE	**(86,420)**	-
Changes to reserves	**228,179**	246,391
Provision carried forward	**798,023**	821,204
The Trust's share of outstanding claims		
Provision brought forward	**96,120**	126,041
Reinsurance recoveries made in the year	**(7,741)**	(21,780)
Transferred to SMUAE	**(14,383)**	-
Changes to reserves	**(3,236)**	(8,141)
Provision carried forward	**70,760**	96,120
SMUAB's share of outstanding claims		
Provision brought forward	**455,949**	441,312
Reinsurance recoveries made in the year	**(113,077)**	(166,098)
Transferred to SMUAE	**(58,938)**	-
Changes to reserves	**135,419**	180,735
Provision carried forward	**419,353**	455,949
Group Pool & Excess Loss and other reinsurers' share of outstanding claims		
Provision brought forward	**227,711**	218,689
Reinsurance recoveries made in the year	**(15,769)**	(23,110)
Transferred to SMUAE	**(6,550)**	-
Changes to reserves	**62,182**	32,132
Provision carried forward	**267,574**	227,711
Total net outstanding claims	**40,336**	41,424

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

On 20 December 2020 the EEA business written by the Association and the associated gross and reinsurers share of technical provisions were transferred to SMUAE, under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"). The assets and liabilities transferred are detailed above. Net outstanding claims of US$6.549 million along with an additional portfolio claims transfer premium of US$2.051 million constitutes the US$8.600 million portfolio claims transfer recognised as an expense within claims paid under Note 4.

Gross outstanding claims carried forward are net of US$59.2 million of third party recoveries (2020: US$83.2 million).

Notes on the Accounts

continued

6. Net operating expenses	2021 US$000	2020 US$000
Acquisition costs		
Brokerage	**10,332**	18,133
Underwriting administration expenses	**7,257**	9,976
	17,589	28,109
Administrative expenses		
Other administration expenses	**7,774**	10,109
Regulatory fees	**415**	324
Directors' fees	**17**	22
Total audit fees	**352**	316
	8,558	10,771
	26,147	38,880

	2021 US$000	2020 US$000
Fees payable to the Association's auditor and its associates for the audit of the annual accounts	**188**	165
Fees payable to the Association's auditor and its associates for the audit of the annual accounts of the Association's branches	**46**	48
Fees payable to the Association's auditor and its associates for audit related assurance services	**118**	103
Total audit fees	**352**	316

	2021 US$000	2020 US$000
Taxation compliance services (for 2019/2020 tax year)	**4**	–
Total non-audit fees	**4**	**–**

Notes on the Accounts

continued

6. Net operating expenses (continued)

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 2021, these fees amounted to US$28.2 million (2020: US$36.8 million). US$2.7 million was due from SPIM at the year end (2020: US$0.4 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 2021 these fees and expenses amounted to US$1.0 million (2020: US$0.8 million). US$0.5 million was due to SPIM Singapore at the year end (2020: US$0.5 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 2021 these fees and expenses amounted to US$0.2 million (2020: US$0.3 million). US$nil was due from SMM(B) at the year end (2020: US$0.3 million).

Steamship Mutual Management (Hong Kong) Limited ("SMM(HK)") provides management and administrative services to the Association. Under the terms of its management contract SMM(HK) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses. For the financial year to 20 February 2021 these fees and expenses amounted to US$1.6 million (2020: US$1.4 million). US$0.1 million was due from SMM(HK) at the year end (2020: due to SMM(HK) US$33,659).

7. Taxation

The charge includes an estimated liability for the accounting year to 20 February 2021, of US$40,313 (2020: US$226,120) based upon an agreement with the United Kingdom tax authorities, assessed on the investment income of the Association for the year, along with an estimated liability of US$4,151 based on the results of the Association's overseas branches.

Analysis of tax charge on ordinary activities	**2021 US$000**	2020 US$000
United Kingdom corporation tax at 19% (2020: 19%) based on the (deficit)/surplus for the financial year	**44**	330
	44	330

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)/surplus on ordinary activities before tax	**(4,596)**	400
Tax at 19% (2020: 19%) thereon	**(874)**	76
Effect of tax on overseas branches	**1**	91
Effect of income not subject to corporation tax	**917**	163
Current tax charge for period	**44**	330

Notes on the Accounts

continued

8. Other financial investments

	2021 US$000	2020 US$000
Market value		
Bonds and loans	**16,399**	17,018
Money market instruments	**38,802**	13,262
Deposits with credit institutions	**28,693**	26,127
Cash accounts	**1**	1
	83,895	56,408
Cost		
Bonds and loans	**16,399**	17,017
Money market instruments	**38,802**	13,262
Deposits with credit institutions	**28,693**	26,127
Cash accounts	**1**	1
	83,895	56,407

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

9. Investment in group undertaking

	2021 US$000	2020 US$000
Cost	**29**	29
Impairment	**–**	(12)
	29	17

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

	2021 US$000	2020 US$000
The Trust	**56,974**	59,056
SMUAB	**1,407**	13,204
Group clubs	**–**	232
Other reinsurance debtors	**44**	1,034
	58,425	73,526

Notes on the Accounts

continued

11. Other provisions

As described under Transactions with related parties in Note 6, the Association has an obligation to reimburse the office and administration expenses of SPIM which include the expenses of its subsidiary service company Steamship Insurance Management Services Limited ("SIMSL"). These expenses include the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. The Directors consider that the Association has a constructive obligation to provide funding to SIMSL for the scheme requiring a provision to be recognised if the scheme has an accounting deficit as calculated in accordance with International Accounting Standard 19 – Employee Benefits. On this basis there was a surplus of US$2.3 million at the balance sheet date (2020: deficit US$1.3 million). The Trustees of SIMSL's pension scheme meet regularly and report to the Board on the management and performance of the scheme's assets and liabilities and associated risks.

12. Free reserves

	2021 US$000	2020 US$000
Free reserves brought forward	**105,479**	105,409
(Deficit)/surplus for year	**(4,640)**	70
	100,839	105,479

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

13. Contingent liabilities

The Association provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provision. For uncovered claims, guarantees are issued when appropriate counter security is obtained. As at 20 February 2021 the total value of guarantees issued in respect of uncovered claims was US$13.3 million (2020: US$10.7 million).

14. Security

A trust has been set up to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US$5.7 million (2020: US$5.6 million) had been allocated to the trust.

The Association deposits funds as required in the agreement between various members of the International Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited had a total value of US$10.7 million (2020: US$11.4 million).

Notes on the Accounts

continued

15. Capital management

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

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

16. Risk management

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

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

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

Insurance risk

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

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

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

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims 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

16. Risk management continued

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

		2021 US$000	2020 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(11,394)**	(15,748)
	net of reinsurance	**(870)**	(1,067)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	(2,000,000)
	net of reinsurance	**(3,252)**	(3,351)
Single claim for other member of IG of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(13,815)**	(14,286)
	net of reinsurance	**(1,382)**	(1,429)

The following tables show the development of claims over ten 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. The current financial year end position for the 2019/20 and prior policy years reflects the cumulative claims after the Part VII transfer referred to in note 5.

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	314,336	208,834	114,390	282,635	341,688	244,772	392,561	321,014	314,958	227,813
One year later	630,373	184,502	230,254	214,463	338,016	225,559	356,725	286,572	313,676	
Two years later	823,866	315,281	211,471	209,479	348,201	243,215	337,286	247,110		
Three years later	975,234	294,626	203,609	203,073	353,779	240,089	267,845			
Four years later	948,138	277,820	199,147	196,730	361,286	203,237				
Five years later	916,159	272,397	195,629	193,371	357,909					
Six years later	911,738	267,633	196,203	198,880						
Seven years later	916,476	262,945	193,309							
Eight years later	911,236	261,294								
Nine years later	908,991									
Current estimate of ultimate claims	**908,991**	**261,294**	**193,309**	**198,880**	**357,909**	**203,237**	**267,845**	**247,110**	**313,676**	**227,813**
Cumulative payments to date	876,265	259,279	179,189	178,798	330,416	170,333	176,326	131,890	115,726	23,973
Claims outstanding	**32,726**	**2,015**	**14,120**	**20,082**	**27,493**	**32,904**	**91,519**	**115,220**	**197,950**	**203,840**
Claims outstanding relating to last ten reporting years										737,869
Other claims liabilities										60,154
Total gross claims outstanding										798,023

Notes on the Accounts

continued

16. Risk management continued

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	9,399	8,927	13,574	30,972	34,778	41,936	31,343	29,950	31,090	22,939
One year later	9,443	8,945	16,612	30,817	33,005	47,354	37,756	33,254	34,934	
Two years later	9,451	10,106	16,589	20,158	38,430	52,722	39,176	32,924		
Three years later	10,538	10,108	11,606	21,339	40,704	54,895	53,064			
Four years later	10,538	9,191	12,714	22,065	42,409	51,676				
Five years later	9,830	9,617	13,552	22,457	42,752					
Six years later	10,527	10,035	14,354	22,582						
Seven years later	11,558	10,486	14,642							
Eight years later	11,532	10,666								
Nine years later	11,597									
Current estimate of ultimate claims	**11,597**	**10,666**	**14,642**	**22,582**	**42,752**	**51,676**	**53,064**	**32,924**	**34,934**	**22,939**
Cumulative payments to date	11.597	10,666	14,642	22,582	40,969	48,540	50,060	26,545	23,903	7,936
Claims outstanding	**–**	**–**	**–**	**–**	**1,783**	**3,136**	**3,004**	**6,379**	**11,031**	**15,003**
Claims outstanding relating to last ten reporting years										40,336
Other claims liabilities										–
Total net claims outstanding										40,336

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 at the time of contracting with them 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 Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoverables and bonds in the investment portfolio.

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

Credit risk also arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting exposure to each individual bank based on its credit rating and/or capital strength.

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

Notes on the Accounts

continued

16. Risk management continued

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

As at 20 February 2021

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	–	16,399	–	–	–	16,399
Money market instruments	38,802	–	–	–	–	38,802
Deposits with credit institutions	–	7,000	21,693	–	–	28,693
Cash accounts	–	1	–	–	–	1
Cash at bank and in hand	–	9,638	5,679	–	149	15,466
Reinsurers' share of technical provisions	–	10,392	725,225	21,971	99	757,687
Debtors arising out of reinsurance operations	–	17	58,408	–	–	58,425
Other debtors	–	–	143	–	–	143
Accrued interest	–	–	4	–	–	4
Other assets	–	–	–	–	9,352	9,352
Total assets	**38,802**	**43,447**	**811,152**	**21,971**	**9,600**	**924,972**

As at 20 February 2020

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

Notes on the Accounts

continued

16. Risk management continued

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

As at 20 February 2021

	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	–	1,533	1,347	1,432	721	5,033
Debtors arising out of reinsurance operations	58,381	5	4	18	17	58,425
Total	**58,381**	**1,538**	**1,351**	**1,450**	**738**	**63,458**

As at 20 February 2020

	Not due US$000	0 - 30 days US$000	31 - 90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	2,923	6,971	2,568	3,093	698	16,253
Debtors arising out of reinsurance operations	72,260	1,209	20	12	25	73,526
Total	**75,183**	**8,180**	**2,588**	**3,105**	**723**	**89,779**

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.

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

16. Risk management continued

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

As at 20 February 2021

	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	816,113	26,780	51,148	3,932	14,721	12,278	**924,972**
Liabilities	(731,445)	(13,555)	(51,054)	(4,024)	(15,485)	(8,570)	**(824,133)**
	84,668	**13,226**	**94**	**(92)**	**(764)**	**3,708**	**100,839**

As at 20 February 2020

	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	804,641	32,579	77,533	18,056	3,577	16,134	**952,520**
Liabilities	(708,347)	(24,993)	(80,303)	(18,117)	(3,655)	(11,626)	**(847,041)**
	96,294	**7,586**	**(2,770)**	**(61)**	**(78)**	**4,508**	**105,479**

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 2021

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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
22 Church Street
Hamilton HM 11
PO Box HM 601 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 Seventh Annual General Meeting of the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") will be held at The St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 26 October 2021 at 09:00 for the following purposes:

1 The Secretary to confirm that Notice of the Meeting has been given.
2 To approve the Minutes of the last Meeting of the Members.
3 To receive the Directors' Report and Accounts for the year ended 20 February 2021.
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. Adams, Mr R. Ahlqvist , Mr S. Edye, Mr M. Frith, Mr C. Klerides, Mr C. Madinabeitia, Mr S. Martin, Mr A. Pohan, Mr R. Shaw, Ms M. Sloan, Mr E. Yao and Mr R. Zagari. Being eligible all these Directors offer themselves for re-election.
6 To authorise the Directors to fix the remuneration of the Auditor.
7 Confirmation of acts.
8 To transact any other ordinary business of the Company.

By Order of the Board

Lucy Cook
Secretary

27 May 2021

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 Rosebank Centre, 5th Floor, 11 Bermudiana Road, Pembroke, HM 08, 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
P R Ahlqvist , Tufton
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
A Albertini, Marfin Management SAM
M W Bayley, Royal Caribbean International (resigned 20 October 2020)
C Bouch
D S Farkas, Norwegian Cruise Line
M Frith
I Grimaldi, Grimaldi Holdings SpA
D M Ho, Magsaysay Maritime Corp
E V Ide, Naviera Ultranav Ltda
W J Kim, Polaris Shipping Co. Ltd
C Klerides
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP
B A McAllister, McAllister Towing
C K Ong, U-Ming Marine Transport Corp
K Park, SM Group (appointed 22 March 2021)
A Pohan, NY Waterway
M Rodriguez, Royal Caribbean International (appointed 22 January 2021)
R G Shaw, STH Commercial Management LLC
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
A Zacchello, Seaarland Shipping Management BV
R Zagari, Augustea Group
S Zagury, Vale

Secretary

Lucy Cook, Carey Olsen Services Bermuda Limited

Managers

Steamship Mutual Management (Bermuda) Limited

Registered office

Rosebank Centre, 5th Floor
11 Bermudiana Road
Pembroke HM 08
Bermuda

Administrative office

Washington Mall II
22 Church Street
Hamilton HM 11
PO Box HM 601 HM CX
Bermuda
Telephone: +1 441 295 4502
Fax: +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 2021.

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") and Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE").

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

Directors

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

In accordance with the Act of Incorporation, as amended on 18 April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in New York, USA on 26 October 2021:

Mr C. Adams, Mr R. Ahlqvist, Mr S. Edye, Mr M. Frith, Mr C. Klerides, Mr C. Madinabeitia, Mr S. Martin, Mr A. Pohan, Mr R. Shaw, Ms M. Sloan, Mr E. Yao and Mr R. Zagari.

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

Free reserves

The balance on the Technical Account was a deficit of US$11.6 million for the financial year (2020: surplus US$6.3 million).

The overall deficit for the financial year of US$4.9 million (2020: surplus US$9.2 million) reflects a deficit in the Hydra cell of US$8.4 million (2020: surplus US$9.3m) offset partially by an unrealised gain in the freehold property of US$3.4 million (2020: unrealised loss US$0.1 million).

It has been a challenging year for the Association as the world responded to the Covid-19 pandemic. The Directors and Managers have been focused on ensuring the safety of its staff and operational continuity so that Members continue to receive the service they expect from Steamship in these unprecedented times. The financial strength and operational resilience of Steamship are there for such events, and the Association has utilised these throughout the year, which has also been reflected in the very positive renewal.

Underwriting

Gross premium written was US$155.3 million compared to US$181.6 million last year.

SMUA

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

SMUAE

For the 2020/21 and subsequent policy years the Association entered into a reinsurance contract with SMUAE under which, in return for a percentage of written premium ceded to the Association, SMUAE is indemnified for 90% of its net underlying liabilities. As part of a Part VII transfer of business from SMUA to SMUAE, in respect of SMUA's pre 20 February 2020 EEA liabilities, on 20 December 2020, the Association made a further capital contribution of US$5 million to SMUAE.

All Members of SMUA and SMUAE are automatically Members of the Association, and beneficiaries of the Steamship Mutual Trust ("the Trust").

The Trust

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

Claims

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

Investments

Total cash and investments held by the Association, including land and buildings, decreased by 1.4% to US$139.7 million.

Audit and Risk Committee ("Committee")

The Committee acts on behalf of the Board in considering the Association's financial statements, its external and internal audit activities and its risk management. In so doing the Committee liaises with the Managers and external

Report of the Directors

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

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

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

- Impact of, and response to, the Covid-19 pandemic
- Assessment of auditor rotation
- Review of stress tests, including ones relating to pandemics and climate change
- In-depth review of the risk appetite

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.

External auditor

During the financial year, the Association, and other Steamship entities, undertook an audit tender process prompted by UK regulatory requirements to rotate the external auditor.

After completion of this process, the Board propose to appoint BDO LLP as the Association's external auditor at an EGM to be held on 30 June 2021.

C Adams
Director

27 May 2021

Consolidated Income and Expenditure Account

for the year ended 20 February 2021

Technical Account	Note	2021 US$000	2020 US$000
Earned premium, net of reinsurance			
Gross premium written		**155,253**	181,556
Outward reinsurance premium			
The Trust	2	**(123,143)**	(148,434)
Other reinsurers		–	12
Earned premium, net of reinsurance		**32,110**	33,134
Allocated investment return transferred from the non-technical account		**47**	(9)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	**131,643**	166,926
Reinsurers' share	3	**(104,720)**	(156,591)
Net claims paid		**26,923**	10,335
Change in the provision for claims			
Gross amount	4	**81,041**	14,637
Reinsurers' share	4	**(65,188)**	200
Change in the net provision for claims		**15,853**	14,837
Claims incurred, net of reinsurance		**42,776**	25,172
Net operating expenses	5	**999**	1,646
Balance on the technical account for general business		**(11,618)**	6,307
Non-Technical Account			
Balance on the general business technical account		**(11,618)**	6,307
Investment income	6	**1,804**	2,028
Unrealised gains on investments	7	**1,606**	1,105
Investment management expenses		**(125)**	(109)
Allocated investment return transferred to the technical account		**(47)**	9
(Deficit)/surplus for the financial year		**(8,380)**	9,340
Other comprehensive gain/(loss)			
Increase/(decrease) in surplus above cost on revaluation of property	9	**3,433**	(122)
Total comprehensive (loss)/income		**(4,947)**	9,218

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 2021

	Free reserves US$000	Revaluation reserve US$000	Total US$000
As at 20 February 2019	**99,729**	**2,999**	**102,728**
Surplus for the financial year	9,340	–	9,340
Other comprehensive loss	–	(122)	(122)
Capital contribution and distribution	(46,324)	–	(46,324)
As at 20 February 2020	**62,745**	**2,877**	**65,622**
Deficit for the financial year	(8,380)	–	(8,380)
Other comprehensive income	–	3,433	3,433
Capital contribution	(5,000)	–	(5,000)
As at 20 February 2021	**49,365**	**6,310**	**55,675**

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

Consolidated Balance Sheet

as at 20 February 2021

Assets	Note	**2021 US$000**	2020 US$000
Investments			
Land and buildings	9	**23,262**	19,829
Other financial investments	10	**114,636**	119,185
Reinsurers' share of technical provisions			
Claims outstanding	4	**438,540**	373,352
Debtors			
Debtors arising out of reinsurance operations	11	**12,342**	33,102
Other debtors		**3,122**	2,653
Other assets			
Cash at bank and in hand		**1,843**	2,657
Other prepayments and accrued income		**398**	517
Total assets		**594,143**	551,295
Liabilities			
Capital and reserves			
Free reserves		**49,365**	62,745
Revaluation reserve	9	**6,310**	2,877
Technical provisions			
Claims outstanding	4	**536,990**	455,949
Creditors			
Creditors arising out of reinsurance operations	12	**1,407**	13,204
Other creditors	13	**71**	16,520
Total liabilities		**594,143**	551,295

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 27 May 2021.

C Adams
Director

C Bouch
Director

Managers:
Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20 February 2021

	2021 US$000	2020 US$000
Cash flows from operating activities		
Operating (deficit)/surplus before taxation after interest	**(8,380)**	9,340
Increase in general insurance technical provisions	**15,853**	14,837
Unrealised gains on investments	**(1,606)**	(1,105)
Decrease in debtors	**20,410**	42,849
Decrease in creditors	**(28,246)**	(8,852)
Capital contribution paid to SMUAE	**(5,000)**	(30,000)
Net cash (outflow)/inflow from operating activities	**(6,969)**	27,069
Cash flow from investment activities		
Net portfolio investment		
Purchase of bonds and loans	**(5,946)**	(37,128)
Sale of money market instruments	**12,033**	11,730
Decrease in cash on short term deposit	**68**	220
Cash generated by/(used in) investing activities	**6,155**	(25,178)
Movement in opening and closing cash and cash equivalents		
Net cash (outflow)/inflow for the year	**(814)**	1,891
Cash and cash equivalents at 20 February 2020	**2,657**	766
Cash and cash equivalents at 20 February 2021	**1,843**	2,657

Notes on the Accounts

continued

1. Accounting policies

(a) Accounting convention

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

(b) Going concern assessment

At year end, the solvency ratio of the Association was comfortably above the threshold set by the Bermuda Monetary Authority. Based on the above, the Directors believe that the Association is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. Based on the projections of the Association, it is expected that the Association will maintain compliance with its regulatory capital requirements for the period of the going concern assessment.

(c) Basis of consolidation

The accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited (“SMUAB”), its subsidiary undertaking Steamship Mutual Property Holdings Limited (“SMPH”), and its share of Hydra Insurance Company Limited (“Hydra”) at 20 February 2021.

(d) Critical accounting judgements and key sources of estimation uncertainty

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

(e) 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.

(f) 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.

(g) Reinsurance premiums and recoveries

Other reinsurance premiums are recognised on an accruals basis.

Notes on the Accounts

continued

1. Accounting policies continued

(h) Land and buildings

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

(i) Other financial investments

Quoted investments at their market value and cash at bank have been valued as at the close of business on 19 February 2021. 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.

(j) Debtors

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

(k) Foreign currencies

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

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

		2021	2020
Euro	€	**0.825**	0.927
UK sterling	£	**0.714**	0.772

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. The same arrangement is in place with SMUAE from the commencement of the 2020/21 policy year

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

Notes on the Accounts

continued

3. Claims paid – gross amount	2021 US$000	2020 US$000
Claims and related expenses	**131,584**	166,130
Claims administration expenses	**59**	796
	131,643	166,926
Less reinsurers' share		
Other reinsurers	**(57)**	(3)
The Trust	**104,777**	156,594
	104,720	156,591
Net claims paid	**26,923**	10,335

4. Change in net provision for claims	2021 US$000	2020 US$000
Gross outstanding claims		
Provision brought forward	**455,949**	441,312
Claims paid in the year	**(131,643)**	(166,926)
Changes to reserves	**212,684**	181,563
Provision carried forward	**536,990**	455,949
The Trust's share of outstanding claims		
Provision brought forward	**372,814**	372,288
Reinsurance recoveries made in the year	**(104,777)**	(156,594)
Changes to reserves	**169,997**	157,120
Provision carried forward	**438,034**	372,814
Other reinsurers' share of outstanding claims		
Provision brought forward	**538**	1,264
Reinsurance recoveries made in the year	**57**	3
Changes to reserves	**(89)**	(729)
Provision carried forward	**506**	538
Total net outstanding claims	**98,450**	82,597

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") by the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

Notes on the Accounts

continued

5. Net operating expenses	2021 US$000	2020 US$000
Administration expenses	**390**	1,182
Directors' remuneration	**490**	356
Auditor's remuneration	**119**	108
	999	1,646

Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, reimbursement of its local office and administration expenses. At 20 February 2021 the Association was owed US$0.2 million by SMM(B) (2020: US$33,707).

Since 21 February 2000 the Association has provided SMM(B) with an unsecured, indefinite loan of US$2.0 million. This loan was increased to US$5.3 million during the year ending 20 February 2014, for which as at 20 February 2021 a provision of US$2.4 million (2020: US$2.7 million) has been made. There were no other related party transactions requiring disclosure under FRS 102 s33.

6. Investment income	2021 US$000	2020 US$000
Dividends and interest	**1,435**	1,310
Realised gains/(losses)		
Investments	**337**	721
Foreign exchange	**32**	(3)
	369	718
	1,804	2,028

Notes on the Accounts

continued

7. Unrealised gains/(losses) on investments	**2021 US$000**	2020 US$000
Investments	**1,591**	1,111
Foreign exchange	**15**	(6)
	1,606	1,105

8. Taxation

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

9. Land and buildings

The freehold property consists of office premises in London. It is occupied under licence, free of rent, by the London representatives of the Managers. The property was valued by CBRE Limited at £16.6 million (US$23.3 million) reflecting the market value at 20 February 2021. The other comprehensive income shown in the consolidated statement of changes in equity reflects the movement in the US dollar equivalent of £15.3 million (US$19.8 million) as at 20 February 2020 to that of £16.6 million (US$23.3 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$6.3 million has been credited to the revaluation reserve.

Notes on the Accounts

continued

10. Other financial investments

	2021 US$000	2020 US$000
Market value		
Bonds and loans	**101,045**	93,508
Equities	**135**	120
Money market instruments	**13,353**	25,386
Cash accounts	**103**	171
	114,636	119,185
Cost		
Bonds and loans	**98,329**	92,383
Equities	**485**	485
Money market instruments	**13,353**	25,386
Cash accounts	**103**	171
	112,270	118,425

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 2021

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	101,045	–	–	**101,045**
Equities	–	–	135	**135**
Money market instruments	13,353	–	–	**13,353**
Cash accounts	103	–	–	**103**
	114,501	**–**	**135**	**114,636**

Notes on the Accounts

continued

10. Other financial investments continued

As at 20 February 2020

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

11. Debtors arising out of reinsurance operations

	2021 US$000	2020 US$000
The Trust	**9,736**	33,102
SMUAE	**2,606**	–
	12,342	33,102

12. Creditors arising out of reinsurance operations

	2020 US$000	2020 US$000
SMUA	**1,407**	13,204

13. Other creditors

	2020 US$000	2020 US$000
Capital distribution payable to Members	**–**	16,324
Accruals and other payables	**71**	196
	71	16,520

14. Wholly-owned subsidiary companies

SMPH is a wholly-owned subsidiary of the Association.

15. Hydra Insurance Company Limited (“Hydra”)

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

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

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.

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

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

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium received from SMUA and SMUAE 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 or SMUAE claims, as described under note 3 on the accounts.

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

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

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

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

		2021 **US$000**	2020 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(11,505)**	(9,601)
	net of reinsurance	**(1,202)**	(1,067)
Single claim of US$2billion in current policy year			
Overall surplus	gross of reinsurance	**(29,264)**	(29,839)
	net of reinsurance	**(17,190)**	(17,710)

Notes on the Accounts

continued

18. Risk management continued

Insurance risk continued

The following tables show the development of claims over ten 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 cumulative claims to the amount appearing in the balance sheet.

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	475,728	420,741	322,326	59,072	211,207	181,109	227,965	231,523	215,790	221,366
One year later	754,806	345,219	114,298	54,804	199,620	172,409	212,674	214,952	224,175	
Two years later	940,327	205,177	113,487	54,419	203,148	178,014	200,221	200,973		
Three years later	802,274	203,896	113,705	54,286	200,372	179,347	179,242			
Four years later	802,745	203,197	115,611	53,110	197,453	157,826				
Five years later	803,434	201,219	113,429	52,348	196,139					
Six years later	803,037	200,978	112,973	52,252						
Seven years later	802,872	199,349	113,244							
Eight years later	802,824	199,269								
Nine years later	802,824									
Current estimate of ultimate claims	**802,824**	**199,269**	**113,244**	**52,252**	**196,139**	**157,826**	**179,242**	**200,973**	**224,175**	**221,366**
Cumulative payments to date	802,628	201,063	108,866	50,661	174,483	121,395	125,777	107,209	87,554	31,032
Claims outstanding	**196**	**(1,794)**	**4,378**	**1,591**	**21,656**	**36,431**	**53,465**	**93,764**	**136,621**	**190,334**
Claims outstanding relating to last ten reporting years										536,642
Other claims liabilities										348
Total gross claims outstanding										536,990

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	42,466	49,814	54,802	36,326	19,892	15,344	29,562	33,874	33,517	43,688
One year later	34,048	41,376	41,687	32,058	25,881	7,891	24,475	32,805	35,974	
Two years later	31,537	36,170	40,876	31,673	25,630	4,385	22,283	29,709		
Three years later	29,769	34,889	41,094	31,540	24,105	3,501	14,155			
Four years later	30,394	34,190	43,000	30,364	22,793	2,915				
Five years later	30,394	32,212	40,818	29,602	22,438					
Six years later	29,997	31,971	40,362	29,506						
Seven years later	29,832	30,342	40,633							
Eight years later	29,791	30,262								
Nine years later	29,791									
Current estimate of ultimate claims	**29,791**	**30,262**	**40,633**	**29,506**	**22,438**	**2,915**	**14,155**	**29,709**	**35,974**	**43,688**
Cumulative payments to date	29,753	32,056	36,255	27,915	18,840	2,047	2,102	11,711	18,880	1,062
Claims outstanding	**38**	**(1,794)**	**4,378**	**1,591**	**3,598**	**868**	**12,053**	**17,998**	**17,094**	**42,626**
Claims outstanding relating to last ten reporting years										98,450
Other claims liabilities										–
Total net claims outstanding										98,450

Notes on the Accounts

continued

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 at the time of contracting with them 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 Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoverables and bonds in the investment portfolio.

Credit risk also arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting exposure to each individual bank based on its credit rating and/or capital strength.

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

As at 20 February 2021

	AAA US$000	AA US$000	A US$000	NR US$000	Total US$000
Bonds and loans	–	101,045	–	–	**101,045**
Money market instruments	13,353	–	–	–	**13,353**
Cash accounts	–	–	103	–	**103**
Cash at bank and in hand	–	1,021	822	–	**1,843**
Reinsurers' share of technical provisions	–	97	438,443	–	**438,540**
Debtors arising out of reinsurance operations	–	–	12,342	–	**12,342**
Accrued interest	–	300	–	–	**300**
Other assets	–	–	–	26,617	**26,617**
Total assets	**13,353**	**102,463**	**451,710**	**26,617**	**594,143**

As at 20 February 2020

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

Notes on the Accounts

continued

18. Risk management continued

Credit risk continued

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

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 9) otherwise its exposure is minimal since any currency exposure in claims from SMUA and SMUAE is passed on to the Trust.

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

As at 20 February 2021

	US dollar US$000	UK sterling US$000	Euro US$000	Other US$000	Total US$000
Assets	525,310	38,811	23,058	6,964	**594,143**
Liabilities	(493,396)	(15,238)	(22,870)	(6,964)	**(538,468)**
	31,914	**23,573**	**188**	**–**	**55,675**

As at 20 February 2020

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

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

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

Report on the audit of the non-statutory financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 20th February 2021 and of its deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Report Standard 103 "Insurance Contracts".

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

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Report of the Independent Auditor

continued

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. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the non-statutory financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities. We discussed among the audit engagement team including relevant internal specialists such as IT, real estate and Insurance actuarial, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative

Independent Auditor's Report

continued

of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports.

Use of our report

This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our 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.

Deloitte LLP
London, United Kingdom
27 May 2021

Steamship Mutual Underwriting Association (Europe) Limited

Report and Financial Statements

For the year ended 20 February 2021

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Notice of Meeting

Notice is hereby given that the second Annual General Meeting of the Members of the Association will be held at the St. Regis Hotel, Two East 55th Street, New York, NY 10022, USA, on Tuesday, 26 October 2021 at 09:15 hours for the following purposes:

1 To receive and if thought fit, to adopt the balance sheet and accounts for the year ended 20 February 2021, they having been recommended for adoption by the Board.

2 To elect Members of the Board.
The Members of the Board retiring by rotation and in accordance with Article 81.8 of the Articles of Association are Mr C. Bouch, Mr R. Harris, Mr C. Madinabeitia, Mr C. Sommerhage and Mr F. Vrettos. Being eligible, they offer themselves for re-election.

3 To authorise the Managers to fix the remuneration of the Auditor.

4 To transact any other ordinary business of the Company.

By Order of the Board

Cypröman Services Limited
Secretary

27 May 2021

CYPROMAN SERVICES LIMITED

Directors and Officers

Board of Directors

C Sommerhage (Chairman)	Columbia Shipmanagement (Deutschland) GmbH	
C Bouch		
R W Harris	Steamship P&I Management LLP	
C J Mandinabeitia	Tradewind Tankers SL	
C Klerides		
R Ahlqvist	Tufton Oceanic	
F Vrettos	Steamship Insurance Agency (Europe) Ltd	(Appointed on 23 March 2021)

Secretary Cyproman Services Limited

Managers Steamship P&I Management LLP

Independent Auditors Deloitte Limited

Registered Office 28 October, 363,
Vashiotis Ikos Center, Floor 1
3107, Limassol
Cyprus

Website: www.steamshipmutual.com

Management Report

The Board of Directors of Steamship Mutual Underwriting Association (Europe) Limited ("Association"), submits to the Members of the Association their Management Report together with the audited financial statements for the year ended 20 February 2021.

Principal Activities

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

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

Strategic review

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintains an A (stable) rating from Standard & Poor's.

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

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

Review of development and performance of the Association

On 20 December 2020, Steamship Mutual Underwriting Association Ltd ("SMUA") transferred its EEA liabilities and associated reinsurance assets to the Association under a Part VII of the Financial Services and Markets Act 2000 of the United Kingdom. See note 24 on the financial statements for more information.

For the year under review, the Directors set a 7.5% general increase in premium. At the 2021/22 renewal the general increase was set at 5%.

The Association's owned entered tonnage increased by 8.8% from 29.2 million gross tons ("GT") to 31.8 million GT during the year and including renewal. Total entered tonnage at 20 February 2021 for owned and chartered entries stood at 60.3 million GT.

The result for the year was a deficit of US$1.7 million (2020: deficit of US$0.01 million).

The Association's combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium was 107.6% due to Covid-19 related claims and higher than anticipated pool claims from the International Group.

It has been a challenging year for the Association as the world responded to the Covid-19 pandemic. The Directors and Managers have been focused on ensuring the safety of its staff and operational continuity so that Members continue to receive the service they expect from Steamship in these unprecedented times. The financial strength and operational resilience of Steamship are there for such events, and the Association has utilised these throughout the year, which has also been reflected in the very positive renewal.

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

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2020/21 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2020/21 policy year (Class 2 – FD&D).

The 2017/18 policy year, which was transferred from SMUA, was closed in June 2020.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 10% for the 2021/22, 2020/21 and 2019/20 policy years and 5% for the 2018/19 policy year.

Management Report

Claims

Whilst the year was dominated by the Covid-19 pandemic and its effects, the ultimate consequences from a claims perspective were less than might have been anticipated at the outset. The initial impact was on the Association's cruise entry with outbreaks on several vessels. The effective cessation of the majority of cruise and passenger operations for the remainder of the year reduced exposure to passenger and cruise vessel crew claims. Nevertheless, the disruptive effects of the pandemic caused extensive dislocation to the shipping industry as a whole, particularly with respect to crew changes and repatriation.

The Managers endeavoured to provide the Association's Members with practical assistance in order to mitigate the effect of Covid-19 such as a dedicated area on the Association's website with the latest information and advice as it became available and actively participating in the International Group's Covid and quarantine working groups.

Despite the challenges arising such as the requirement to work remotely for the majority of the year, the Managers and staff have endeavoured to continue to provide the high standards of service that the Membership expects.

The Association experienced a single claim in excess of its retention during the policy year, a pollution claim consequent on the loss of containers overboard.

A further edition of Sea Venture was published together with three newsletters.

A series of four loss prevention videos on the Coronavirus were produced to inform and guide seafarers. These programmes, which dealt with the issues of staying safe, maintaining mental resilience, implementing protective measures and effecting crew changes were made available free of charge to the Association's Members and the shipping industry generally.

A number of Risk Alerts and articles on topical operational issues were published on the website, and a further series of safety posters for roll-on/roll-off vessels and pure car and truck carriers was produced.

Pooling and reinsurance

The Association's reinsurance programme for the 2021/22 policy year was arranged in conjunction with other members of the International 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 2021/22, the individual club retention, before Pooling with other members of the International 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 was renewed with the same structure as for the expiring year. Three 10% private placements for the 2021/22 policy year, with the remaining 70% placed in the market. The first layer will provide cover from US$100 million to an increased upper limit of US$750 million, the second layer will cover from US$750 million to US$1.5 billion, and the third layer from US$1.5 billion to US$2.1 billion. There is no change to the Collective Overspill layer of US$1 billion excess US$2.1 billion.

Hydra Insurance Company Limited ("Hydra")

For 2021/22, Hydra will continue to retain 100% of the pool layer US$30 million to US$50 million and 92.5% of the pool layer US$50 million to US$100 million. In addition, Hydra will retain the US$100 million annual aggregate deductible in the 70% market share of the first layer of the Excess Loss programme. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

US oil pollution

There will be no surcharge again for 2021/22.

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

Management Report

The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB")
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%. All Members of the Association are automatically Members of SMUAB and thus beneficiaries of The Steamship Mutual Trust.

Share Capital
The Association is limited by guarantee without share capital.

Risk and uncertainties
The main risks the Association is exposed to are described in note 20.

Profit allocation, loss absorption and creation of reserves
The Directors decided to transfer the deficit of the year to the free reserves of the Association.

Branches
The Association does not operate any branches.

Contracts with Directors and other related parties
Transactions with the Directors and their emoluments are disclosed in note 18. The agreements, transactions and balances with related parties are disclosed in note 18.

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

Events after the reporting period
There were no significant events after the reporting period.

Financial risk management and use of financial instruments
The main financial risks and uncertainties to which the Association is exposed are disclosed and analyzed in note 20.

Board of Directors
The members of the Board of Directors at the date of this report are presented on page 2. Mr. Francis Vrettos was appointed on 23 March 2021.

Independent auditors
During the financial year, the Association and other Steamship entities undertook a full tender process for its external audit services, in accordance with regulatory requirements of other Steamship entities to rotate the external auditor.

Consequently, Moore Limassol Limited will be appointed as the company's external auditor for the financial year ending 20 February 2022 to replace Deloitte Limited.

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

Cyproman Services Limited
Secretary of the Association

CYPROMAN SERVICES LIMITED

Limassol, 27 May 2021

Deloitte.

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Steamship Mutual Underwriting Association (Europe) Limited (the "Association"), which are presented in pages 13 to 47 and comprise the statement of financial position as at 20 February 2021, the income statement and statement of comprehensive income and the statements of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Association as at 20 February 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We remained independent of the Association throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

Independent Auditor's Report (continued)

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

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

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

Key audit matters	**How our audit addressed the key audit matters**
Technical Provisions – valuation of Owned Business IBNR	
The Association has Incurred But Not Reported ("IBNR") technical provisions amounting to $51.836 thousands as at 20 February 2021. Included in this amount is IBNR relating to the Owned Business of $27.309 thousands. The valuation of the IBNR technical provisions of Owned Business is a key audit matter as it is significant in magnitude and its valuation involves a high degree of uncertainty and management judgment. Additionally, the actuarial models used in the valuation of these technical provisions may give rise to errors as a result of inappropriate choice of actuarial methodologies, techniques and assumptions. Detailed disclosure on the IBNR technical provisions is presented in Note 8 of the financial statements. The accounting policies for the technical provisions are presented in Note 25 and information on critical accounting judgements and key sources of estimation uncertainty in relation to these technical provisions in Note 3.	The work performed to address this risk included the following audit procedures: - Obtained an understanding and evaluated the design and implementation of the internal controls relating to the valuation of these technical provisions. - Assessed the experience and competencies of the actuarial experts of the Association to estimate the valuation of technical provisions. - Involved our internal actuarial specialists in performing the below procedures: • Assessed the methodology, models and assumptions used against generally accepted actuarial practices; • Held a meeting with Management to further understand and challenge the approach and key judgements; • Performed a graphical analysis of total incurred and paid amounts development against selected ultimates; • Performed sensitivity testing on key assumptions; and • Assessed the impact of COVID-19 on IBNR reserves and reviewed the adjustments made to IBNR reserves in respect of COVID-19 claims.

Deloitte.

Independent Auditor's Report (continued)

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

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

Key audit matters	**How our audit addressed the key audit matters**
Technical Provisions – valuation of Owned Business IBNR (continued)	
	- Performed audit procedures on key inputs used in the calculation of the IBNR technical provisions, such as agreeing policy and claims data to underlying accounting records. - Assessed the adequacy of the reserves in accordance with IFRS 4 - Insurance Contracts. - Assessed the completeness and accuracy of the disclosures in relation to the IBNR technical provisions in the financial statements, based on the relevant international financial reporting standards. All the above procedures were completed in a satisfactory manner.

Reporting on other information

The Board of Directors is responsible for the other information and the Additional information provided on page 48. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon.

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

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

Deloitte.

Independent Auditor's Report (continued)

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

Responsibilities of the Board of Directors and those charged with governance for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

Deloitte.

Independent Auditor's Report (continued)

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

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

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

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

Deloitte.

Independent Auditor's Report (continued)

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Association on 14 October 2019 by the Board of Directors. Our appointment is renewed annually by the Members of the Association representing a total period of uninterrupted engagement appointment of two years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Association, which we issued on 21st of May 2021 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

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

Deloitte.

Independent Auditor's Report (continued)

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

Other Matter

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

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

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

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

27 May 2021

Income Statement and Statement of Comprehensive Income

For the year ended 20 February 2021

Technical Account	Note	2021 US$000	2020 US$000
Earned premium, net of reinsurance			
Gross earned premium	4	**79,605**	-
Outward reinsurance premium		**(56,725)**	-
Earned premium, net of reinsurance		**22,880**	-
Allocated investment return	9	**594**	
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	**26,373**	-
Reinsurers' share	7	**(18,700)**	-
Net claims paid		**7,673**	-
Change in the provision for claims			
Gross amount		**69,043**	-
Reinsurers' share		**(64,572)**	-
Change in the net provision for claims		**4,471**	-
Claims incurred, net of reinsurance		**12,144**	-
Net operating expenses	6	**13,061**	-
Balance on the technical account for general business		**(1,731)**	-
Non-Technical Account			
Balance on the technical account for general business		**(1,731)**	-
Other expenses		**-**	171
Other income / (losses)	9	**46**	159
Deficit before tax		**(1,685)**	(12)
Income tax (expense)/income	10	**(3)**	1
Deficit for the year/period		**(1,688)**	(11)
Other comprehensive income		**-**	-
Total comprehensive loss for the year/period		**(1,688)**	(11)

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

Statement of Financial Position

As at 20 February 2021

Assets	Note	**2021 US$000**	2020 US$000
Financial assets at fair value through profit or loss	12	**46,467**	30,030
Reinsurers' share of technical provisions	8	**144,444**	-
Deferred acquisition costs		**272**	-
Other financial assets at amortised cost	14	**4,267**	165
Cash at bank and in hand	15	**8,831**	2,289
Total assets		**204,281**	32,484
Liabilities			
Insurance contract liabilities	8	**158,603**	-
Trade and other payables	16	**12,377**	2,495
Total liabilities		**170,980**	2,495
Net assets		**33,301**	29,989
Equity			
Other reserves	17	**35,000**	30,000
Free reserves - accumulated losses		**(1,699)**	(11)
Total Free Reserves		**33,301**	29,989

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The financial statements were approved by the Board of Directors on 27 May 2021:

Christakis Klerides

Director

Roine Ahlqvist

Director

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

Statement of Changes in Equity

For the year ended 20 February 2021

	Capital contribution	Accumulated losses	Total - Free reserves
	US$000	US$000	US$000
Balance as at 4 September 2019	**-**	**-**	**-**
Transactions with Members Capital contribution (Note 17)	30,000	-	30,000
Total comprehensive loss for the period	-	(11)	(11)
Balance as at 20 February 2020	**30,000**	**(11)**	**29,989**
Balance as at 20 February 2020	**30,000**	**(11)**	**29,989**
Transaction with Members Capital contribution (Note 17)	5,000	-	5,000
Total comprehensive loss for the year	-	(1,688)	(1,688)
Balance as at 20 February 2021	**35,000**	**(1,699)**	**33,301**

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

Statement of Cash Flows

For the year ended 20 February 2021

	2021 US$000	2020 US$000
Cash flows from operating activities		
Deficit before taxation after interest	**(1,685)**	(12)
Adjustments for:		
Foreign exchange (gains)/losses	**(594)**	2
Net gains from mutual funds	**(38)**	(161)
Operating cash flows before movements in working capital	**(2,317)**	(171)
Increase in net general insurance technical provisions	**14,159**	-
Increase in other financial assets at amortised cost	**(4,375)**	(165)
Increase in trade and other payables	**9,882**	2,495
Cash generated by operating activities	**17,349**	2,159
Taxation paid	**(1)**	-
Net cash generated by operating activities	**17,348**	2,159
Cash flows from investing activities		
Interest received	**38**	-
Redemptions	**40,081**	131
Acquisition of money market funds	**(56,518)**	-
Net cash flows (used in)/generated from investing activities	**(16,399)**	131
Cash flows from financing activities		
Capital contribution	**5,000**	-
Net cash flows generated from financing activities	**5,000**	-
Net cash inflow for the year/period	**5,949**	2,290
Cash and cash equivalents as at 20 February 2020 / 4 September 2019	**2,289**	-
Effect of foreign exchange rate changes	**593**	(1)
Cash and cash equivalents as at 20 February 2021 / 20 February 2020	**8,831**	2,289

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

Notes to accounts

For the year ended 20 February 2021

1. General

The Association was registered in Cyprus on 4 September 2019 as a Company limited by guarantee pursuant the requirements of Cyprus Companies Law, Cap. 113. The registered office of the Association is at Vashiotis Ikos Centre, 28th October Avenue, Limassol 3107, Cyprus.

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

From noon of 20 February 2020, Members of Steamship Mutual Underwriting Association Limited ("SMUA"), whose place of management is within the EEA and certain other jurisdictions, could have their entries accepted by the Association.

Operating Environment

With the recent and rapid development of the Coronavirus disease (Covid-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments have implemented restrictions on travelling as well as strict quarantine measures throughout the year.

From March 2020, the operations of the Association have been performed largely from a work-from-home environment. This enabled the Association to continue offering high-quality service to its Members despite the extraordinary conditions.

The Directors of the Association have assessed:

(i) whether any impairment allowances are deemed necessary for the Association's financial assets and non-financial assets by considering the economic situation and outlook at the end of the reporting period.

(ii) the ability of the Association to continue as a going concern

The Directors have considered the unique circumstances and the risk exposures of this pandemic and the Association's current financial resources and concluded that there is no significant impact on its financial position that would limit it from continuing to operate normally. Covid-19 related claims were below initial expectations and the impact of any additional claims is limited by the Association's reinsurance arrangements. There was no impact on the financial instruments held by the Association.

Notes to accounts

For the year ended 20 February 2021

2. Basis of preparation

(a) Declaration of conformity

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

(b) Basis of presentation

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

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

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

(c) Going concern assumption

The Directors have assessed the Association's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. At year end, the solvency ratio of the Association was comfortably above the threshold set by the Insurance Companies Control Service. Considering the nature of the Association insurance liabilities, the Association has excess liquidity.

Based on the above, the Directors believe that the Association is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. Based on the projections of the Association, it is expected that the Association will maintain compliance with the Solvency Capital and Minimum Capital requirements for the period of the going concern assessment.

Notes to accounts

For the year ended 20 February 2021

2. Basis of preparation (continued)

(d) New Standards and Amendments to Standards that are effective for annual periods beginning on or after 20 February 2020

In the current year, the Association has applied a number of amendments to International Financial Reporting Standards (the "IFRS", the "Standards") issued by the International Accounting Standards Board (the "IASB", the "Board") that are mandatorily effective for an accounting period that begins on or after 20 February 2020. All new amendments have been endorsed by the European Union, and their application had no effect on the Association's financial statements except for Amendments to IFRS 3 Business Combinations which had a material impact on the financial statements of the Association.

Amendments to IFRS 3 Business Combinations

The amendments provide guidance to help entities determine whether an acquisition made meets the definition of a business. The amendments:

- clarify, that to be considered a business, an acquired set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for acquisitions that occur on or after 20 February 2020. The Association has affected a Part VII transfer as of 20 December 2020 under the Financial Services and Markets Act 2000 (the "Transfer") as detailed in note 24. The transfer was accounted for as an acquisition of assets and liabilities pursuant to the amendments to IFRS 3 Business Combinations.

(e) Adoption of new and revised standards

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

IFRS 17 is expected to have a significant impact on initial application on the Association's financial statements which cannot be currently known or reasonably estimated.

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

IFRS 17 Insurance Contracts (Effective for annual reporting periods beginning on or after 20 February 2023)

The new standard replaces IFRS 4 and establishes the principles for the recognition, measurement, presentation, and disclosure for insurance contracts. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

Notes to accounts

For the year ended 20 February 2021

2. Basis of preparation (continued)

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

IFRS 17 Insurance Contracts (Effective for annual reporting periods beginning on or after 20 February 2023) (continued)

Scope

An entity shall apply IFRS 17 Insurance Contracts to:

- Insurance and reinsurance contracts that it issues:
- Reinsurance contracts it holds: and
- Investment contracts with DPF it issues, provided that it also issues insurance contracts

Option to apply IFRS 15 to fixed-fee contracts, provided certain criteria are met.

- Level of aggregation

IFRS 17 requires entities to identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of three groups:

- A group of contracts that are onerous at initial recognition, if any:
- A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- A group of the remaining contracts in the portfolio, if any;

An entity is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio would fall into different groups only because law or regulation constraints the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group.

Overview of the accounting model

The standard measures insurance contracts either under the general model or a simplified version of this called the Premium Allocation Approach. For insurance contracts with direct participation features the insurance entity should use the Variable Fee Approach.

General model

The General model should be applied to all insurance contracts, unless they have direct participation features or the contract is eligible for, and the entity elects to apply, the premium allocation approach. The general model is defined such that at initial recognition an entity shall measure a group of contracts at the total of (a) the amount of fulfilment cash flows (FCF), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money (TVM) and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk: and (b) the contractual service margin (CSM).

Notes to accounts

For the year ended 20 February 2021

2. Basis of preparation (continued)

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

IFRS 17 Insurance Contracts (Effective for annual reporting periods beginning on or after 20 February 2023) (continued)

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims is measured as the FCF related to past services allocated to the group at that date.

Premium Allocation Approach

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the premium allocation approach on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

Under this approach, the liability for incurred claims is still measured using the general model.

Presentation in the statement of profit or loss

An entity shall disaggregate the amounts recognized in the statement(s) of profit or loss into an insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses. Income or expenses from reinsurance contracts held shall be presented separately from the expenses or income from insurance contracts issued.

An entity shall present in profit or loss revenue arising from the groups of insurance contracts issued, and insurance service expenses arising from a group of insurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Revenue and insurance service expenses shall include any investment components.

Application

An entity shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach. Early application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

In May 2020, the International Accounting Standards Board (Board) has issued “Amendments to IFRS 17” to address concerns and implementation challenges that were identified after IFRS 17 “Insurance Contracts” was published in 2017. The main changes are:

- Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
- Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

Notes to accounts

For the year ended 20 February 2021

2. Basis of preparation (continued)

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

Amendments to IFRS 17 Insurance Contracts (Effective for annual reporting periods beginning on or after 20 February 2023)

- Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
- Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
- Several small amendments regarding minor application issues.

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

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Association's accounting policies, which are described in note 25, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from these estimates.

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

Valuation of liabilities of non-life insurance contracts

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the balance sheet date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for the reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The carrying amount for non-life insurance contract liabilities at the balance sheet date is US$158.603 million (2020: US$ Nil). Note 20 provides details on significant assumptions and sensitivities made for non-life insurance liabilities.

Part VII Transfer

For the Part VII transfer, which is disclosed in Note 24, significant judgement was exercised to determine whether this transaction should be presented as a business combination under IFRS 3 requirements or as a transfer of a group of assets and liabilities. In the absence of a clear acquisition of an organised workforce which would had constitute an acquisition of a substantive process this transaction was treated as an acquisition of a group of assets and liabilities.

Notes to accounts

For the year ended 20 February 2021

4. Gross earned premium	2021 US$000	2020 US$000
Mutual and fixed premium written	**80,618**	-
Release calls	**76**	-
Movement in unearned premium provision	**(1,089)**	-
Gross earned premium	**79,605**	-

Gross earned premium by class of business

Protection and Indemnity	**73,474**	-
Freight, Demurrage and Defence	**3,825**	-
Other	**2,306**	-
Gross earned premium	**79,605**	-

Gross earned premium by Member location

Switzerland	**24,664**	-
Netherlands	**14,993**	-
France	**6,644**	-
Greece	**6,563**	-
Cyprus	**6,079**	-
Germany	**5,853**	
Italy	**5,195**	-
Monaco	**2,868**	-
Spain	**1,697**	-
Belgium	**1,025**	-
Other countries	**4,024**	-
Gross earned premium	**79,605**	-

5. Reinsurance contracts

The Association has the following reinsurance arrangements:

For 2020/21 and subsequent policy years the Association entered into a reinsurance contract with Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB") under which, in return for a percentage of net earned premium minus certain expenses which are ceded to SMUAB, the Association is indemnified for 90% of its net underlying liabilities.

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

In the context of the Part VII transfer, the Association received the rights and obligations of reinsurance treaties under which SMUA was covered in respect of the transferred policies (Note 24).

Notes to accounts

For the year ended 20 February 2021

6. Net operating expenses	2021 US$000	2020 US$000
Acquisition costs		
Brokerage	**8,564**	-
Underwriting administration expenses (Note 18)	**1,999**	-
	10,563	-
Administrative expenses		
Administrative fee (Note 18)	**1,904**	92
Lease expenses (1)	**8**	14
Office expenses	**-**	19
Auditor's remuneration for the statutory audit of accounts	**135**	11
Auditor's remuneration for other assurance services	**44**	3
Auditor's remuneration for other assurance services - prior year	**6**	-
Professional services	**296**	-
Directors' fees (Note 18)	**8**	6
Stamp duties	**(24)**	24
Irrecoverable vat	**42**	-
Bank charges	**73**	2
Other costs	**6**	-
	2,498	171
Net operating expenses	**13,061**	171

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

Notes to the accounts

For the year ended 20 February 2021

7. Claims paid – gross amount	2021 US$000	2020 US$000
Claims and related expenses	**17,883**	-
Group Pool claims	**2,873**	-
Claims administration expenses (Note 18)	**5,617**	-
	26,373	-
Less reinsurers' share		
SMUAB	**18,508**	-
The Trust	**66**	-
Group Pool and other reinsurers	**126**	-
	18,700	-
Net claims paid	**7,673**	-

Gross claims paid by class of business

Protection and Indemnity	**16.036**	-
Freight, Demurrage and Defence	**1.375**	-
Other	**472**	-
Group Pool claims	**2.873**	-
Claims administration expenses	**5.617**	-
	26.373	-

8. Insurance contract liabilities

Carrying amount

	Gross Liability		Reinsurance Asset		Net liability	
	2021	2020	**2021**	2020	**2021**	2020
	US$000	US$000	**US$000**	US$000	**US$000**	US$000
Outstanding claims	**98,222**	-	**(90,294)**	-	**7,928**	-
IBNR	**51,836**	-	**(47,401)**	-	**4,435**	-
Claims handling provision	**7,456**	-	**(6,749)**	-	**707**	-
Unearned premium provision	**1,089**		**-**	-	**1,089**	
Total	**158,603**	**-**	**(144,444)**	**-**	**14,159**	**-**
Within one year	**29,628**	-	**(26,010)**	-	**3,618**	-
More than one years	**128,975**	-	**(118,434)**	-	**10.541**	-

Notes to accounts

For the year ended 20 February 2021

8. Insurance contract liabilities (continued)

Movement in the carrying amount:

	Gross Liability		Reinsurance Asset		Net liability	
	2021	2020	**2021**	2020	**2021**	2020
	US$000	US$000	**US$000**	US$000	**US$000**	US$000
At beginning of year/period	**-**	-	**-**	-	**-**	-
Movement of unearned premium provision	**1,089**	-	**-**	-	**1,089**	-
Part VII Transfer (Note 24)	**88,471**	-	**(79,871)**	-	**8,600**	-
Change in claims provisions	**95,416**	-	**(83,273)**	-	**12,143**	-
Claims paid	**(26,373)**	-	**18,700**	-	**(7,673)**	-
At year end	**158,603**	-	**144,444**	-	**14,159**	-

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of the final cost of individual cases based on current information. The individual estimates are reviewed regularly and include the Association's share of other Group clubs' Pool claims. Provision is also made for claims incurred but not reported by the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates. Gross outstanding claims at year end are net of US$26.1 million of third-party recoveries (2020: US$ Nil).

The unearned premium provision represents the portion of premiums written during the year which have not expired at the reporting date. No unexpired risk reserve was recognised due to the adequacy of the unearned premium provision to cover the estimated future costs of servicing the unexpired policies.

9. Other income / losses

	2021 **US$000**	2020 US$000
Net gains from mutual funds	**38**	161
Realised exchange gains/(losses)	**594**	(2)
Investment return allocated to the technical account	**(594)**	-
Bail commission	**8**	-
	46	159

The allocated investment return is comprised of realised exchange differences arising on the conversion of transactions on non-dollar denominated Member accounts.

Notes to accounts

For the year ended 20 February 2021

10. Income tax (expense)/income

The tax (charge)/credit represents:

	2021 US$000	2020 US$000
Current	**(3)**	1

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

	2021 US$000	2020 US$000
Deficit before tax	**(1,685)**	(12)
Tax at 12.5%	**(211)**	1
Effect of income not subject to income tax (foreign exchange differences)	**(74)**	-
Tax losses carried forward	**282**	-
Current tax charge for year/period	**(3)**	1

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

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

The Association's tax submissions for the financial years ended 20 February 2020 and 20 February 2021 have not been audited by the tax authorities. The Management considers that due to the accumulation of tax losses up to the balance sheet date, no additional taxes are expected to arise.

Notes to accounts

For the year ended 20 February 2021

11. Investments in financial assets

The Association holds the following financial instruments:

	2021	2020
Financial assets	**US$000**	US$000
Financial assets at fair value through profit or loss (Note 12)	**46,467**	30,030
Financial assets at amortised cost:		
Other financial assets at amortised cost (Note 14)	**4,267**	165
Cash at bank and in hand (Note 15)	**8,831**	2,289
	59,565	32,484
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables (Note 16)	**12,377**	2,495
	12,377	2,495

The Association's exposure to various risks associated with the financial instruments is discussed in Note 20. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of the financial assets mentioned above.

12. Financial assets at fair value through profit or loss

	Current 2021 US$000	Current 2020 US$000
Financial assets measured at FVTPL		
Money Market Funds	**46,467**	30,030

	2021	2020
	US$000	US$000
Balance at the beginning of the year/period	**30,030**	-
Capitalisation (see note 17)	**-**	30,000
Fair value revaluation	**-**	23
Additions from reinvestments	**56,518**	138
Redemptions	**(40,081)**	(131)
Balance at the end year/period	**46,467**	30,030

Notes to accounts

For the year ended 20 February 2021

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

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

The valuation methodology for these investments is disclosed in (Note 13).

13. Fair value measurement

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

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

	2021 **US$000**	2020 US$000
Financial assets at FVTPL (Note 12)	**46,467**	30,030
	46,467	30,030

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

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

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

Financial assets/ financial liabilities	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship and sensitivity of unobservable inputs to fair value**
Money Market Funds (Note 12)	Quoted bid prices in an active market – Level 1	N/A	N/A

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

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

Notes to accounts

For the year ended 20 February 2021

14. Other financial assets at amortised cost

	2021 US$000	2020 US$000
Debtors arising out of insurance operations	**3,856**	-
Debtors arising out of reinsurance operations	**78**	-
Other receivables	**333**	165
	4,267	165

All other financial assets at amortised cost are current assets.

An exercise has been performed on the recognition of expected credit losses ("ECL") and no loss has been recognised due to the credit quality of the respective debtors. The Board of Directors consider that the carrying amount of other financial assets at amortised cost approximates to their fair value.

15. Cash at bank and in hand

	2021 US$000	2020 US$000
Current accounts with banks	**8,831**	2,289

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

An exercise has been performed on the recognition of ECL and no loss has been recognised due to the credit quality of bank institutions.

16. Trade and other payables

	2021 US$000	2020 US$000
Creditors arising out of insurance operations	**5,275**	2,390
Creditors arising from reinsurance operations	**3,653**	-
Other creditors	**1,107**	38
Amounts payable to related parties (Note 18)	**2,342**	67
	12,377	2,495

The above amounts are due within 12 months. An amount of US$1.4 million included in creditors arising out of insurance operations relates to uncovered claims for which the Association provided guarantees to third parties on behalf of its Members (Note 22) and has obtained a counter-security in the form of a bank deposit. The Association has control over the corresponding assets.

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

17. Reserves – Capital contribution

	2021 US$000	2020 US$000
Balance at the beginning of the year/period	**30,000**	-
Capital contribution (1)	**5,000**	30,000
Balance at the end of the year/period	**35,000**	30,000

(1) During the year the Association received a capital contribution in the form of cash of US$5 million from SMUAB. In September 2019, the Association entered a capitalisation agreement with SMUAB. SMUAB transferred investments with a market value of US$30 million in the form of a capital contribution to the Association.

Notes to accounts

For the year ended 20 February 2021

18. Transactions and balances with related parties

Controlling Entity

The Association, is limited by guarantee, has no share capital and is controlled by the Members who are also the insureds. All mutual policyholders become a member of the Association. However, in certain cases an insured might not be a member of the Association. The aggregate of these transactions is disclosed in these financial statements.

Remuneration of Board members and other key executives

Non-Executive Directors	**2021 US$000**	2020 US$000
Emoluments	8	6

Transactions with related parties

Related Party	**Nature of transaction**	**2021 US$000**	2020 US$000
SPIM	Management and administrative services	9,520	92

Balances with related parties

Related Party	**2021 US$000**	2020 US$000
SPIM	(2,342)	(59)
Non-Executive Directors	-	(4)

With effect from 18th September 2019, the Association entered into a management agreement with Steamship P&I Management LLP ("SPIM") for the provision of all the services the Association needs for its operation. In exchange of these key management services, SPIM receives a fixed percentage of the Association's gross premium, and reimbursement of its related incurred expenses.

19. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirements of the ICCS, in accordance with Solvency II.

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

Notes to accounts

For the year ended 20 February 2021

19. Capital management (continued)

Solvency II Capital Adequacy:	2021 US$000	2020 US$000
Minimum Capital Requirements ("MCR")	6,719	4,179
Solvency Capital Requirements ("SCR")	26,877	16,716
Ratio of Eligible Own Funds to MCR	407%	587%
Ratio of Eligible Own Funds to SCR	152%	197%

The Association has a ratio of eligible own funds to SCR both in the current year and the prior reporting period well above the threshold set by the Insurance Companies Control Service.

20. 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 Own Risk Solvency Assessment ("ORSA") report which is submitted to the ICCS.

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

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

Insurance risk

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

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

The Association transfers a substantial portion of its insurance risk to its reinsurers through the provisions of its reinsurance arrangements with SMUAB and its membership of the International Group.

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at the reporting date. The Association aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome but this prudent basis is expected to result in releases of prior period claim reserves.

Notes to accounts

For the year ended 20 February 2021

20. Risk management (continued)

Insurance risk (continued)

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

		2021 US$000	2020 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(4,323)**	-
	net of reinsurance	**(408)**	-
Single claim of US$2 billion in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	-
	net of reinsurance	**(3,252)**	-
Single claim for other member of IG of US$2 billion in current policy year			
Overall surplus	gross of reinsurance	**(4,950)**	-
	net of reinsurance	**(495)**	-

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year										86,786
One year later									32,125	
Two years later								21,678		
Three years later							16,954			
Four years later						8,953				
Five years later					2,812					
Six years later				1,396						
Seven years later			830							
Eight years later		538								
Nine years later	1,713									
Current estimate of ultimate claims	1,713	538	830	1,396	2,812	8,953	16,954	21,678	32,125	86,786
Cumulative payments to date	4	7	45	(25)	75	351	443	1,182	4,178	20,533
Claims outstanding	1,709	531	785	1,421	2,737	8,602	16,511	20,496	27,947	66,253
Claims outstanding relating to last ten reporting years										146,992
Older claims liabilities										10,522
Total gross claims outstanding										157,514

Notes to accounts

For the year ended 20 February 2021

20. Risk management (continued)

Insurance risk (continued)

Insurance claims - net

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
End of reporting year										12,613
One year later									3,361	
Two years later								2,353		
Three years later							1,715			
Four years later						909				
Five years later					244					
Six years later				(5)						
Seven years later			8							
Eight years later		1								
Nine years later	3									
Current estimate of ultimate claims	3	1	8	(5)	244	909	1,715	2,353	3,361	12,613
Cumulative payments to date	3	1	8	(5)	20	93	118	314	1,111	6,468
Claims outstanding	-	-	-	-	224	816	1,597	2,039	2,250	6,145
Net claims outstanding relating to last ten reporting years										13,070
Other claims liabilities										-
Total net claims outstanding										13,070

The 2019/20 and prior policy years reflects the cumulative claims after the Part VII transfer referred to in note 24.

Credit risk

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

Credit risk in respect of amounts due from Members is spread across diverse industries. Cover can be cancelled, and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice therefore the Association experiences prompt payment of premium and bad debt experience is immaterial. Credit risk arises on operational balances and deposits held with banks. The Association limits individual exposures to US$15 million for banks rated AA by S&P, or an equivalent rating from another agency, US$10 million for banks rated A by S&P, or an equivalent rating from another agency, US$5 million for banks rated BBB or worse by S&P, or an equivalent rating from another agency and US$10 million for not rated banks if the bank is a member of a Deposit Protection Fund that will guarantee protection of at least US$10 million.

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

Notes to accounts

For the year ended 20 February 2021

20. Risk management (continued)

Credit risk (continued)

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

As at 20 February 2021

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Reinsurers' share of technical provisions	-	646	142,944	853	1	144,444
Debtors arising out of reinsurance operations	-	-	78	-	-	78
Cash at bank and in hand	-	6,788	-	-	2,043	8,831
Total assets with credit ratings	-	7,434	143,022	853	2,044	153,353

As at 20 February 2020

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

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 2021

	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	844	2,207	-	860	(55)	3,856
Debtors arising out of reinsurance operations	78	-	-	-	-	78
Total	922	2,207	-	860	(55)	3,934

Liquidity risk

The Association's exposure to liquidity risk is minimal given that its assets are mainly held in money market instruments and cash at bank. A split of insurance liabilities by maturity is disclosed in Note 8. All other assets and liabilities are expected to be settled within 12 months from the balance sheet date.

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 with constant net asset value of 1 dollar per unit and therefore it does not directly exposed the Association to market price and interest rate risks.

Notes to accounts

For the year ended 20 February 2021

20. Risk management (continued)

Market risk (continued)

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

As at February 2021

	US dollar	UK sterling	Euro	Brazilian real	SDR	Other	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Assets	156,049	7,029	28,344	2,211	1,889	8,759	204,281
Liabilities	(120,055)	(7,890)	(29,889)	(2,211)	(1,889)	(9,046)	(170,980)
	35,994	(861)	(1,545)	-	-	(287)	33,301

As at February 2020

	Euro	Total
	US$000	US$000
Assets	68	68

The following table shows the Association's sensitivity to a 5% increase and decrease in all foreign currencies against USD.

	2021	2020
	US$000	US$000
5% increase		
Impact in free reserves	**(135)**	3
5% decrease		
Impact in free reserves	**135**	3

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.

21. Comparative figures

The comparative figures cover the period from 4 September 2019 (date of incorporation) to noon 20 February 2020.

22. 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 2021, the total value of guarantees issued in respect of uncovered claims was US$4.9 million (2020: US$ Nil). If the contingent liability crystalises, the Association will exercise the counter-securities held and consequently receive the respective amounts from the insureds.

Notes to accounts

For the year ended 20 February 2021

23. Events after the reporting period

There were no significant events after the reporting period.

24. Part VII Transfer

On 2 December 2020, the High Court of Justice Business and Property Courts of England and Wales approved the scheme for the transfer of the insurance and reinsurance contracts written by SMUA to SMUAE under a Part VII of the Financial Services and Markets Act 2000. The transferred contracts relates to policies of insurance in the name of policyholders situated in an EEA state, Monaco or Switzerland. SMUAE assumed all rights and obligations under the transferred insurance policies, as well as, the rights and obligations of reinsurance treaties under which SMUA is covered in respect of the transferred policies.

The effective date of this transfer was 20 December 2020.

This transaction is treated as an acquisition of a group of assets and liabilities. The fair value of insurance liabilities SMUAE assumed, constitutes the consideration in this transaction. Claims outstanding includes a risk margin of US$2.05 million.

The assets and liabilities which were transferred at 20 December 2020 are as follows:

	Total US$000
Amount receivable from SMUA	**8,600**
Reinsurance share of insurance liabilities	**79,871**
Total assets	**88,471**
Claims outstanding	**67,157**
IBNR	**15,442**
Claims handling provision	**3,821**
Risk margin	**2,051**
Total liabilities	**88,471**

Notes to accounts

For the year ended 20 February 2021

25. General accounting policies

Cash and cash equivalents in the statement of cash flows

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

Foreign currencies

The functional and presentation currency is US dollars. In preparing the financial statements of the Association, transactions in currencies other than the Association's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise. The exchange rate on the reporting date and used for the purpose of preparing the accounts is as follows:

	2021	2020
EUR/USD	**1.213**	**1.079**
GBP/USD	**1.401**	**1.295**

Contingent liabilities

Contingent liabilities are disclosed if there is a possible obligation as a result of a past event or there is present obligation, but payment is not probable, or the amount cannot be measured reliably.

Fair value measurement

The techniques used by the Association for measuring certain assets at fair value are disclosed in Note 13.

Leases

The Association as lessee

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

Financial instruments

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets

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

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

Classification of financial assets

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

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

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

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

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

(i) Amortised cost and effective interest method

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

(ii) Debt instruments classified as at FVTOCI

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

(iii) Financial assets at FVTPL

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

Specifically:

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(iii) Financial assets at FVTPL (continued)

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

Foreign exchange gains and losses

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

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

Impairment of financial assets

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

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

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

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(i) Significant increase in credit risk

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

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

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

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

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

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

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

(ii) Measurement and recognition of expected credit losses

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

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

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

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

(iii) Write-off policy

The Association writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Association’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss. The Association considers that an event of default occurs only when the legal department believes there remain no legal avenue, or it is not cost effective, to pursue recovery of a debt.

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(vi) Definition of default

The Association considers that default has occurred when a financial asset is over 90 days past due unless the Association has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(v) Credit-impaired financial assets

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

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

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

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

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

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

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

Derecognition of financial liabilities

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

Events after the reporting date

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

Taxation

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

Current tax

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

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

Notes to accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Premium written

Premium comprise the total premium receivable for the whole period of cover provided by contracts incepting during the financial year. All premium is shown gross of commission payable to intermediaries and exclusive of taxes levied on premium. Release calls received for waiving the liability of a member for further mutual and/or additional premium form part of the premium written.

Unearned premium

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

Deferred acquisition costs

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

Claims and related expenses

Claims and related expenses are charged to the profit or loss statement when they have been settled. A provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date and for the estimated future costs of handling these claims. A provision for claims incurred but not reported ("IBNR") is established on a statistical basis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates. The reinsurers' share of technical provisions is calculated consistently with the amounts associated with the underlying insurance contract and the terms of the reinsurance contract. Further details of actuarial methodologies for claims incurred but not reported are described in note 20.

Reinsurance contracts

Payments made to and recoveries from other Associations under the International Group Pooling arrangements are recognised in the income and expenditure account when debited or credited. Reinsurance premium and recoveries are recognised in the income and expenditure account on an accruals basis. Reinsurance contracts are contracts which the Association enter with reinsurers to transfer insurance risk.

The amount recoverable from reinsurers include the reinsurance share of gross insurance liabilities and is measured according the terms of each reinsurance contract.

Amounts receivable from reinsurers are reviewed annually for any impairment. If there are indications for impairment the Association remeasures the amount receivable from reinsurers to the recoverable amount. The impairment is recognized in the Income Statement.

Liability adequacy test

At each balance sheet date, the Association evaluates the adequacy of its liabilities that arise from its operations. This type of test is performed as a control of sufficient amount of unearned premium reserve less the corresponding expected costs. The liability adequacy test for unearned premium reserve is limited to the unexpired portion of existing contracts. If the result is negative, it is necessary to create an additional provision and recognise the deficiency in the income statement.

Notes to the accounts

For the year ended 20 February 2021

25. Principal accounting policies (continued)

Deferred acquisition costs

Deferred acquisition costs represent a proportion of brokerage and other acquisitions costs which relate to securing new insurance contracts and renewing existing contracts, and which are attributable to unearned premiums. The deferred acquisition costs are expensed in the income statement over the terms of the policies as premium is earned.

26. Deemed dividend distribution

Companies, which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, within two years after the end of the relevant tax year, will be deemed to have distributed this amount as dividend on the 31 of December of the second year. The amount of the deemed dividend distribution is reduced by any actual dividend already distributed by 31 December of the second year for the year the profits relate. The Association pays special defence contribution on behalf of the members over the amount of the deemed dividend distribution at a rate of 17% (applicable since 2014) when the entitled members are natural persons tax residents of Cyprus and have their domicile in Cyprus. In addition, from 2019 (deemed dividend distribution of year 2017 profits), the Association pays on behalf of the members General Healthcare System (GHS) contribution at a rate of 2,65% (31.12.2019: 1,70%), when the entitled members are natural persons tax residents of Cyprus, regardless of their domicile.

Notes to accounts

For the year ended 20 February 2021

Additional information provided in accordance with the provisions of the Companies Act (Amendment) (No.2) Law of 2003 [N.167(1)] and of the IFRS, in accordance with Directive 7 for the year ended 20 February 2021

	Marine and transport		Total	
	2021 US$000	2020 US$000	2021 US$000	2020 US$000
Gross premiums written	80,694	-	80,694	-
Reinsurers share of gross premiums	56,725	-	56,725	-
Gross earned premiums	79,605	-	79,605	-
Gross outstanding claim reserves	157,514	-	157,514	-
Gross claims incurred	95,416	-	95,416	-
Claims management costs	5,617	-	5,617	-
Administrative expenses	13,061	-	13,061	-

	Cyprus	Switzerland	Netherlands	France	Greece	Germany	Italy	Monaco	Spain	Other countries	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross Written Premiums	6,160	25,063	15,195	6,733	6,602	5,583	5,265	2,906	1,719	5,468	80,694
Premiums from direct insurance	6,160	25,063	15,195	6,733	6,602	5,583	5,265	2,906	1,719	5,468	80,694
Gross claims incurred	5,959	6,992	9,670	36,269	3,678	27,663	2,226	666	129	2,164	95,416
Brokerage expenses	730	1,199	4,734	418	186	236	441	254	115	251	8,564

The Steamship Mutual Trust

Annual Report and Accounts 2021

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The Steamship Mutual Trust

Directors of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited
A L Marchisotto, Moran Holdings Inc (Chairman)
J G Conyers
S Mehta
R Thompson
A Pohan, NY Waterway
S-M Edye, Sloman Neptun, Schiffahrts, AG

Secretary of the Corporate Trustee
Lucy Cook, Carey Olsen Services Bermuda Limited

Manager of the Corporate Trustee
Hamilton Investment Management Limited

Registered office of the Corporate Trustee
Rosebank Centre, 5th Floor
11 Bermudiana Road
Pembroke HM 08
Bermuda

Administrative offices of the Corporate Trustee
Washington Mall II
22 Church Street
Hamilton HM 11
PO Box HM 601, 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 2021.

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 2020 to 20 February 2021. Total premium receivable by the Trust in respect of all its reinsurance contracts during the financial year was US$123.0 million.

Accounts

Free reserves as at 20 February 2021 increased by US$7.0 million to US$321.2 million. Total investments of the Trust at the balance sheet date amounted to US$911.5 million, an increase of US$40.2 million on the previous year.

Investment performance

All asset classes made positive contributions during the year. Equities and Alternative investments performed particularly well and fixed income also benefited from the reduction in US interest rates. The Trust recorded an investment gain of 5.7% (5.6% net of fees). This excludes a currency gain of US$3.4 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 risk appetite.

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

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

Claims

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

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.

External auditor

During the financial year, the Trust, and other Steamship entities, undertook an audit tender process prompted by UK regulatory requirements to rotate the external auditor.

After completion of this process, the Corporate Trustee proposes to appoint BDO LLP as the Trust's external auditor at an EGM to be held on 30 June 2021.

R Thompson

Director

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

27 May 2021

Income and Expenditure Account

for the year ended 20 February 2021

Technical Account	Note	2021 US$000	2020 US$000
Earned premium, net of reinsurance			
Gross premium written	3	**122,954**	146,908
Allocated investment return transferred from the non-technical account		**3,386**	(2,469)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**112,583**	178,374
Change in the provision for claims			
Gross amount	4	**54,921**	(29,396)
Claims incurred, net of reinsurance		**167,504**	148,978
Net operating expenses	5	**99**	85
Balance on the technical account for general business		**(41,263)**	(4,624)

Non-Technical Account	Note	2021 US$000	2020 US$000
Balance on the technical account for general business		**(41,263)**	(4,624)
Investment income	6	**21,635**	17,690
Unrealised gains on investments	7	**32,312**	42,071
Allocated investment return transferred to the technical account		**(3,386)**	2,469
Investment management expenses		**(2,301)**	(2,267)
Surplus for the financial year		**6,997**	55,339
Free reserves brought forward		**314,251**	258,912
Free reserves		**321,248**	314,251

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 2021

Assets	Note	**2021 US$000**	2020 US$000
Investments			
Other financial investments	8	**911,482**	871,299
Debtors			
Other debtors		**–**	146
Prepayments and accrued income			
Accrued interest		**4,107**	4,370
Total assets		**915,589**	875,815
Liabilities			
Capital and reserves			
Free reserves		**321,248**	314,251
Technical provisions			
Claims outstanding	4	**523,855**	468,934
Creditors			
Creditors arising out of reinsurance operations	9	**66,788**	92,158
Other creditors		**3,698**	472
Total liabilities		**915,589**	875,815

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

These financial statements were approved by the Corporate Trustee on 27 May 2021.

The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited

Cash Flow Statement

for the year ended 20 February 2021

	2021 US$000	2020 US$000
Cash flows from operating activities		
Operating surplus before taxation after interest	**6,997**	55,339
Increase/(decrease) in general insurance technical provisions	**54,921**	(29,396)
Unrealised (gains) on investments	**(32,312)**	(42,071)
Decrease/(increase) in debtors	**409**	(720)
Decrease in creditors	**(22,144)**	(10,534)
	874	(82,721)
Net cash inflow/(outflow) from operating activities	**7,871**	(27,382)
Cash flows from investment activities		
Net portfolio investment		
Net sale/(purchase) of bonds and loans	**3,783**	(51,723)
Net (purchase)/sale of equities	**(2,664)**	(253)
Net sale/(purchase) of alternative investments	**7,044**	(9,475)
(Increase)/decrease in money market instruments	**(16,034)**	88,833
Cash (used by)/from investing activities	**(7,871)**	27,382
Movement in opening and closing cash and cash equivalents		
Net cash inflow for the period	**–**	–
Cash and cash equivalents at 20 February 2020	**–**	–
Cash and cash equivalents at 20 February 2021	**–**	–

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.

(b) Going concern assessment

At year end, the solvency ratio of the Trust was comfortably above the threshold set by the Bermuda Monetary Authority.

Based on the above, the Trustees believe that the Trust is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. Based on the projections of the Trust, it is expected that the Trust will maintain compliance with its regulatory capital requirements for the period of the going concern assessment.

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

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

(d) Premium written

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

(e) 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.

(f) Foreign currencies

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

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

		2021	2020
Euro	€	**0.825**	0.927
UK sterling	£	**0.714**	0.772
Brazilian real	R$	**5.378**	4.374

Notes on the Accounts

continued

2. Accounting policies continued

(g) Other financial investments

Investments and cash balances have been valued at their market value as at 19 February 2021. Investment income consists of interest, dividends and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the fair value of investments compared to their cost.

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

3. Reinsurance contracts

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

At 20 February 2015 the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUA which covers 100% of SMUA's net retained liabilities up to and including the 2014/15 policy year including those transferred to SMUAE by means of a Part VII transfer on 20 December 2020.

4. Change in the net provision for claims

	2021 US$000	2020 US$000
Gross outstanding claims		
Provision brought forward	**468,934**	498,330
Claims paid in the year	**(112,583)**	(178,374)
Changes to reserves	**167,504**	148,978
Provision carried forward	**523,855**	468,934
Total net outstanding claims	**523,855**	468,934

There was a favourable movement in the prior year net claims provision of US$1.1 million during the year (2020: favourable US$22.4 million).

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of SMUA and SMUAE of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") at the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

5. Net operating expenses

	2021 US$000	2020 US$000
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	**5**	5
Auditor's remuneration	**94**	80
	99	85

6. Investment income

	2021 US$000	2020 US$000
Dividends and interest	**20,906**	23,500
Realised gains/(losses)		
Investments	**2,176**	(4,623)
Exchange	**(1,447)**	(1,187)
	729	(5,810)
	21,635	17,690

Notes on the Accounts

continued

7. Unrealised gains/(losses) on investments	2021 US$000	2020 US$000
Investments	**27,479**	43,352
Foreign exchange	**4,833**	(1,281)
	32,312	42,071

8. Other financial investments	2021 US$000	2020 US$000
Fair value		
Equities	**101,301**	87,054
Alternative investments	**94,602**	95,626
Bonds and loans	**689,826**	679,696
Money market instruments	**13,032**	4,539
Cash accounts	**12,594**	5,053
Derivative financial instruments	**127**	(669)
	911,482	871,299
Cost		
Equities	**52,244**	49,580
Alternative investments	**75,248**	82,292
Bonds and loans	**665,596**	669,379
Money market instruments	**13,032**	4,539
Cash accounts	**12,594**	5,053
	818,714	810,843

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 2021

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities	101,301	–	–	**101,301**
Alternative investments	–	73,847	20,755	**94,602**
Bonds and loans	689,826	–	–	**689,826**
Money market instruments	13,032	–	–	**13,032**
Cash accounts	12,594	–	–	**12,594**
Derivative financial instruments	–	127	–	**127**
	816,753	**73,974**	**20,755**	**911,482**

Notes on the Accounts

continued

8. Other financial investments continued

As at 20 February 2020

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

9. Creditors arising out of reinsurance operations

	2021 US$000	2020 US$000
SMUA	**56,974**	59,056
SMUAB	**9,736**	33,102
SMUAE	**78**	–
	66,788	92,158

10. Taxation

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

11. Transactions with related parties

The Corporate Trustee receives a fee for investment management costs and related expenses. For the financial year to 20 February 2021 this fee amounted to US$2.3 million (2020: US$2.3 million) of which US$0.4 million (2020: US$0.4 million) was outstanding at the balance sheet date.

12. Capital management

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

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

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

Notes on the Accounts

continued

13. Risk management

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

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

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium received from SMUA and SMUAE 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, SMUAE 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 and SMUAE. 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 and SMUAE which project 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 and SMUAE compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

SMUA and SMUAE aim 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.

	2021 US$000	2020 US$000
5% increase in claims incurred on current policy year		
Effect on Trust free reserves	**(10,303)**	(8,632)
Single claim in SMUA or SMUAE of US$2 billion in current policy year		
Effect on Trust free reserves	**(12,074)**	(12,130)

Notes on the Accounts

continued

13. Risk management continued

Insurance risk continued

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

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

Insurance claims - gross

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	227,979	224,996	198,320	172,086	191,315	165,765	194,128	197,649	182,273	176,676
One year later	230,003	211,455	172,634	151,737	173,739	164,518	188,199	182,148	188,201	
Two years later	213,473	208,812	166,309	153,976	176,902	173,629	177,939	171,265		
Three years later	211,876	200,590	164,844	149,281	176,267	175,845	165,087			
Four years later	206,522	192,482	157,984	145,871	174,660	154,911				
Five years later	202,079	192,499	155,166	144,181	173,702					
Six years later	200,031	187,437	156,089	146,903						
Seven years later	198,017	184,552	154,555							
Eight years later	196,868	182,960								
Nine years later	198,098									
Current estimate of ultimate claims	**198,098**	**182,960**	**154,555**	**146,903**	**173,702**	**154,911**	**165,087**	**171,265**	**188,201**	**176,676**
Cumulative payments to date	194,167	180,621	144,856	132,226	155,643	119,349	123,675	95,499	68,674	28,969
Claims outstanding	**3,931**	**2,339**	**9,699**	**14,677**	**18,059**	**35,562**	**41,412**	**75,766**	**119,527**	**147,707**
Claims outstanding relating to last ten reporting years										468,679
Other claims liabilities										55,176
Total gross claims outstanding										523,855

Insurance claims - net

Policy year	2011/12 US$000	2012/13 US$000	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000
End of reporting year	212,081	221,771	198,320	172,086	191,315	165,765	194,128	197,649	182,273	176,676
One year later	209,673	203,542	172,634	151,737	173,739	164,518	188,199	182,148	188,201	
Two years later	202,063	208,812	166,309	153,976	176,902	173,629	177,939	171,265		
Three years later	205,769	200,590	164,844	149,281	176,267	175,845	165,087			
Four years later	200,415	192,482	157,984	145,871	174,660	154,911				
Five years later	195,971	192,499	155,166	144,181	173,702					
Six years later	193,923	187,437	156,089	146,903						
Seven years later	191,909	184,552	154,555							
Eight years later	190,760	182,960								
Nine years later	191,990									
Current estimate of ultimate claims	**191,990**	**182,960**	**154,555**	**146,903**	**173,702**	**154,911**	**165,087**	**171,265**	**188,201**	**176,676**
Cumulative payments to date	188,059	180,621	144,856	132,226	155,643	119,349	123,675	95,499	68,674	28,969
Claims outstanding	**3,931**	**2,339**	**9,699**	**14,677**	**18,059**	**35,562**	**41,412**	**75,766**	**119,527**	**147,707**
Claims outstanding relating to last ten reporting years										468,679
Other claims liabilities										55,176
Total net claims outstanding										523,855

Notes on the Accounts

continued

13. 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 limiting exposure to each individual bank based on its credit rating and/or capital strength.

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 2021

	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	112,050	124,838	253,368	177,963	20,315	1,292	**689,826**
Money market instruments	13,032	–	–	–	–	–	**13,032**
Cash accounts	–	6,765	5,829	–	–	–	**12,594**
Derivative financial instruments	–	–	127	–	–	–	**127**
Accrued interest	137	540	1,778	1,456	180	16	**4,107**
Unsettled investment transactions	–	–	–	–	–	–	**–**
Other assets	–	–	–	–	–	195,903	**195,903**
Total assets	**125,219**	**132,143**	**261,102**	**179,419**	**20,495**	**197,211**	**915,589**

As at 20 February 2020

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

Notes on the Accounts

continued

13. Risk management continued

Market risk

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

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

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

The following tables show the Trust's assets and liabilities by currency. The exposure to euro and Brazilian real through derivative positions was US$nil and US$4.6 million respectively at 20 February 2021 (US$4.9 million and US$6.8 million respectively at 20 February 2020).

As at 20 February 2021

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Other US$000	Total US$000
Assets	873,557	13,716	28,316	–	–	**915,589**
Liabilities	(529,495)	(18,625)	(26,776)	(4,530)	(14,915)	**(594,341)**
	344,062	**(4,909)**	**1,540**	**(4,530)**	**(14,915)**	**321,248**
Of which held in derivatives				4,637		

As at 20 February 2020

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

Notes on the Accounts

continued

13. Risk management continued

Market risk continued

IBNR is classified as US dollar.

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

	Effect on investment valuation US$000
As at 20 February 2021	(46,453)
As at 20 February 2020	(44,819)

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

	Effect on investment valuation US$000
As at 20 February 2021	(35,455)
As at 20 February 2020	(30,469)

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

	Effect on investment valuation US$000
As at 20 February 2021	(14,190)
As at 20 February 2020	(14,344)

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

Notes on the Accounts

continued

13. Risk management continued

Liquidity risk

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

The following table shows the expected maturity of the Trust's assets, based on the undiscounted contractual maturities of the assets.

As at 20 February 2021

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	292,326	73,586	279,499	266,071	**911,482**
Other assets	4,107	–	–	–	**4,107**
Total assets	**296,433**	**73,586**	**279,499**	**266,071**	**915,589**

As at 20 February 2020

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

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 2021

	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	196,433	108,233	149,042	70,147	**523,855**
Creditors arising out of reinsurance operations	66,788	–	–	–	**66,788**
Other liabilities	3,698	–	–	–	**3,698**
Total liabilities	**266,919**	**108,233**	**149,042**	**70,147**	**594,341**

As at 20 February 2020

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

Notes on the Accounts

continued

13. Risk management continued

Operational risk

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

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 20 February 2021 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

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

- The Income and Expenditure Account;
- The Balance Sheet;
- The Cash Flow Statement; and
- The related notes 1 to 13.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the non-statutory financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

continued

Responsibilities of directors

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

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We discussed among the audit engagement team including relevant internal specialists such as IT and Insurance actuarial regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports.

Independent Auditor’s Report

Use of our report

This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our 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.

Deloitte LLP
London, United Kingdom
27 May 2021