Steamship Mutual Underwriting Association (Europe) Limited

Report and Financial Statements

For the year ended 20 February 2024

Contents

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Members of the Association will be held at the Biltmore Hotel, 1200 Anastasia Avenue, Coral Gables, Florida 33134 on Tuesday, 22 October 2024 at 12:15 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 2024, 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 81.2 of the Articles of Association are Mr C. Klerides 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 Association.

By Order of the Board

Cyproman Services Limited
Secretary

20 May 2024

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 28 Octovriou, 363, Vashiotis Ikos Center, Floor 1, 3107, Limassol, Cyprus not less than 48 hours before the time specified for the holding of the Meeting.

Directors and Officers

Board of Directors
C Sommerhage (ex - Chair), Columbia Shipmanagement (Deutschland) GmbH (resigned 01 June 2023)
C J Madinabeitia (Chair), Tradewind Tankers SL
R W Harris, Steamship P&I Management LLP
C Klerides
F Vrettos, Steamship Insurance Agency (Europe) Ltd
J Roome

Secretary
Cyproman Services Limited

Managers
Steamship P&I Management LLP

Independent Auditors
Moore Limassol Limited

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

Website: www.steamshipmutual.com

Registration Number
401650

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 2024. This is the first time that the financial statements have reflected the new accounting standard IFRS 17 Insurance Contracts.

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") in respect of the 2015/16 and subsequent policy years. The 2014/15 and prior policy years are reinsured 100% by the Steamship Mutual Trust ("Trust").

Strategic review

The Steamship group's ("Steamship") vision is to be the shipping industry's most trusted and valued P&I Club, providing the full range of marine Protection and Indemnity and related insurances, on the mutual principle, delivering both first class service and security. Steamship is committed to providing solutions in partnership with its members. It aims to protect its members from the risks of maritime trade in a cost effective and sustainable way, to maintain excellent financial strength and resilience and to develop expert and trusted teams globally.

Steamship embodies these values in delivering this vision:

- Mutuality - ensuring fairness amongst Club Members;
- Integrity – upholding high ethical, legal and regulatory standards;
- Safety and Sustainability - commitment to safety of life at sea and the preservation of the environment;
- Transparency - building strong relationships based on trust and open communication;
- Excellence - enabling our people to realise their full potential as team members, industry experts, leaders and managers; and
- Collaborative - embracing flexibility, diversity, and inclusivity.

Review of development and performance of the Association

For the year under review, the Directors set a 7.5% general increase in premium. At the 2024/25 renewal the general increase was set at 5%. The Directors of SMUAB, after considering the strong current and projected capital position of Steamship, declared a capital distribution to all its Members who renewed at 20 February 2024 equivalent to 7.5% of mutual premium paid for the 2023/24 policy year (Class 1–P&I). Accordingly, US$24.2m has been credited to all Steamship Members since year end.

The Association's owned entered tonnage increased by 9.5% from 44.1m gross tons ("GT") to 48.3m GT during the year and including renewal. Total entered tonnage at 20 February 2024 for owned and chartered entries stood at 104.8m GT (20 Feb 2023: 88.9m GT).

The result for the year was a surplus of US$6.1m (2023 restated under IFRS 17: surplus of US$3.8m).

The Association's net combined ratio, calculated by dividing the insurance service expenses minus amounts recoverable from reinsurers for incurred claims divided with the insurance revenue minus allocation of reinsurance premiums, was 87% (2023: 88%).

The Ukrainian crisis has had minimal impact on the Association's underwriting, claims, investments and operations, and all sanctions are being adhered to as required.

Underwriting

The 2020/21 policy year, was closed in May 2023.

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 FD&D were set at 10% for the 2024/25 and 2023/24, 5% for 2022/23 and 2021/22 policy years.

Claims

Gross incurred claims arising in respect of the 2023/24 policy year, including incurred but not reported ("IBNR") provisions, are projected to be US$59.3m, a decrease of 31.4% over the 2022/23 policy year (US$86.4m). Claims incurred net of reinsurance recoveries amounted to US$7.2m, a decrease of 31.4% compared to the 2022/23 policy year (US$10.5m).

The Association did not incur any Pool claims for the 2023/24 policy year. The overall Pool performance for the 2023/24 policy year was good, although higher than the 2022/23 policy year but lower on average than the 2018/19-2021/22 policy years.

A number of members have made enquiries relating to the Israel-Hamas situation and insecurity in the Red Sea area. There is a section on the Steamship website dedicated to this, containing in particular a frequently asked questions document, port updates, and threat circulars. All of which are updated regularly to keep pace with these developing situations.

Management Report

Steamship continues to work closely with Marine Media Enterprises ("MME") in supporting the production of safety and training videos. The MME subscription-based Learning Management System ("LMS") app that hosts a training video library, is now live, with 24 titles currently listed and a further 8 new titles in production.

Steamship is working with MME on the formal launch of a "Donate and Train Scheme" which sees 25% of a subscriber's LMS subscription fees donated to a maritime charity of the subscriber's choice, an initiative that supports the Environment, Social and Corporate Governance ("ESG") commitments of both Steamship and of the subscriber.

Steamship has continued to release loss prevention material such as risk alerts and articles, respond to Member enquiries of a technical and operational nature and also support and present at Club, Member and industry seminars and conferences.

Pooling and reinsurance

The Association's reinsurance programme for the 2024/25 policy year was arranged in conjunction with other members of the International Group ("IG"). The programme provides a limit of US$3.1bn in excess of US$10m, except in relation to oil pollution claims, which are subject to an overall limit of US$1.0bn.

Pooling

For 2024/25 policy year, the individual club retention, before Pooling with other members of the International Group, remains at US$10m, with an upper limit of US$100m for each event. A club bringing a claim to the Pool bears a 7.5% retention within the layer of US$50m to US$100m, with the balance being divided amongst all clubs in accordance with the Pooling Agreement.

Excess Loss cover

The IG's Excess of Loss programme was renewed with an unamended, free and unlimited coverage for all risks except malicious cyber, Covid-19 and other pandemic risks which have certain limitations noted below.

The main programme is placed in three layers with the first layer providing cover from US$100m to US$750m, the second layer from US$750m to US$1.5bn, and the third layer from US$1.5bn to US$2.1bn. There are three private placements for the 2024/25 policy year providing 25% of the first layer, with the remaining 75% placed in the broader market. There is no change to the Collective Overspill layer of US$1bn excess US$2.1bn.

For malicious cyber, Covid-19 and other pandemic risks there is free and unlimited cover in the first layer only. In the second and third layers, there is up to US$1.35bn of annual aggregated cover in respect of these three risks - excess of that the IG continues to Pool between itself the un-reinsured risk.

Hydra Insurance Company Limited ("Hydra")

Hydra is a cell captive set up by the IG in Bermuda under the Segregated Account Companies Act 2000.

For 2024/25 policy year, Hydra will continue to retain 100% of the Pool layer from US$30m to US$50m, and 92.5% of the Pool layer from US$50m to US$100m. In addition, Hydra will retain a US$107.1m annual aggregate deductible in the 75% share placed in the market of the first layer of the Excess Loss programme as detailed above.

Charterers' cover

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

Non-Poolable covers

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

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 reinsured for 90% of its net of external reinsurance underlying liabilities in respect of the 2015/16 and subsequent policy years. All Members of the Association are automatically Members of SMUAB and thus beneficiaries of The Steamship Mutual Trust.

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 surplus of the year to the free reserves of the Association.

Branches

The Association does not operate any branches.

Management Report

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 analysed in note 20.

Board of Directors
The members of the Board of Directors at the date of this report are presented on page 2.

Independent auditors
The external auditors have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be considered at the forthcoming Annual General Meeting.

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

C J Madinabeitia
Chair

20 May 2024

Income Statement and Statement of Other Comprehensive Income

For the year ended 20 February 2024

	Note	**2024 US$000**	Restated 2023 US$000
Insurance revenue	4, 7	**170,714**	147,024
Insurance service expenses	7	**(93,108)**	(83,949)
Insurance service result before reinsurance contracts held		**77,606**	63,075
Allocation of reinsurance premiums	8	**(135,238)**	(107,464)
Amounts recoverable from reinsurers for incurred claims	8	**62,320**	49,230
Net expense from reinsurance contracts held		**(72,918)**	(58,234)
Insurance service result		**4,688**	4,841
Net fair value gain on financial assets at fair value through profit or loss		**4,061**	508
Net foreign exchange (loss)/income		**(33)**	244
Total investment income		**4,028**	752
Finance (expense)/income for insurance contracts issued	7	**(3,942)**	2,419
Finance income/(expense) for reinsurance contracts held	8	**3,487**	(2,166)
Net insurance financial result		**(455)**	253
Other expenses	9	**(1,394)**	(2,018)
Surplus before tax		**6,867**	3,828
Income tax expense	10	**(725)**	-
Surplus for the year		**6,142**	3,828
Other comprehensive income		**-**	-
Total comprehensive income for the year		**6,142**	3,828

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

Prior period comparatives have been restated based on IFRS 17 'Insurance Contracts' requirements.

Statement of Financial Position

As at 20 February 2024

Assets	Note	2024 US$000	Restated 2023 US$000	Restated 2022 US$000
Investment assets	12	**73,823**	56,902	40,071
Reinsurance contract assets	8	**144,001**	144,010	144,750
Other assets	14	**920**	309	480
Cash at bank and in hand	15	**3,048**	6,295	9,943
Total assets		**221,792**	207,516	195,244
Liabilities				
Insurance contract liabilities	7	**174,375**	165,712	164,560
Trade and other payables	16	**958**	1,487	1,695
Total liabilities		**175,333**	167,199	166,255
Net assets		**46,459**	40,317	28,989
Equity				
Capital contribution	17	**42,500**	42,500	35,000
Free reserves – retained earnings/(accumulated losses)		**3,959**	(2,183)	(6,011)
Total Free Reserves		**46,459**	40,317	28,989

The financial statements were approved by the Board of Directors on 20 May 2024:

Carlos Juan Madinabeitia

Chair

Christakis Klerides

Director

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

Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts'.

Statement of Changes in Equity

For the year ended 20 February 2024

	Note	Capital contribution US$000	Accumulated (losses)/earnings US$000	Total - Free reserves US$000
Balance as at 20 February 2022 as previously reported		**35,000**	**(4,745)**	**30,255**
Impact of initial application of IFRS 17		-	(1,266)	(1,266)
Restated balance as at 20 February 2022		**35,000**	**(6,011)**	**28,989**
Capital contribution	17	7,500	-	7,500
Total comprehensive income for the year		**-**	3,828	3,828
Restated balance as at 20 February 2023		**42,500**	**(2,183)**	**40,317**
Total comprehensive income for the year		-	6,142	6,142
Balance as at 20 February 2024		**42,500**	**3,959**	**46,459**

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 2024

Cash flows from operating activities	Note	2024 US$000	Restated 2023 US$000
Surplus before taxation after interest		**6,867**	3,828
Adjustments for:			
Net gains from mutual funds		**(949)**	(470)
Operating cash flows before movements in working capital		**5,918**	3,358
Increase in net insurance contracts		**8,672**	1,892
(Increase)/decrease in other assets		**(611)**	171
Decrease in trade and other payables		**(529)**	(208)
Cash generated by operating activities		**13,450**	5,213
Taxation paid		**(725)**	-
Net cash generated by operating activities		**12,725**	5,213
Cash flows from investing activities			
Redemptions	12	**66,500**	73,098
Acquisition of investments classified as fair value through profit or loss	12	**(82,472)**	(89,459)
Net cash flows used in investing activities		**(15,972)**	(16,361)
Cash flows from financing activities			
Capital contribution		**-**	7,500
Net cash flows generated from financing activities		-	7,500
Net cash outflow for the year		**(3,247)**	(3,648)
Cash and cash equivalents as at 20 February 2023 / 20 February 2022	15	**6,295**	9,943
Cash and cash equivalents as at 20 February 2024 / 20 February 2023	15	**3,048**	6,295

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

Notes to the financial statements

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, 28 Octovriou, 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 P&I, and of FD&D risks on behalf of its Members.

(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) Operating environment

The Ukrainian crisis, which commenced in February 2022, has had minimal impact on the Association's underwriting, claims, investments and operations, and all sanctions are being adhered to as required.

Notes to the financial statements

2. Basis of preparation

(a) 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 balance sheet date. At year end, the solvency ratio of the Association was comfortably above the threshold set by the Insurance Companies Control Service (Note 19). Considering the nature of the Association's 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.

(b) New Standards and Amendments to Standards that are effective for annual periods beginning on or after 20 February 2023

In the current year, the Association has adopted 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 1 January 2023. Amendments to IAS 1 and Practice Statement 2, require minor changes to the references to accounting policies, such that disclosures should be of material accounting policies rather than significant accounting policies and further clarifies what an accounting estimate is. Except IFRS 17, which is explained below, these had an insignificant effect on the Association's financial statements.

(c) Adoption of new and revised standards

At the reporting date 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 2024. Some of them were adopted by the European Union and others not yet. The Directors expect that the adoption of these accounting standards in future periods will have an insignificant effect on the financial statements of the Association.

In these financial statements, the Association has applied IFRS 17 for the first time. IFRS 17 replaces IFRS 4 (Insurance Contracts) for annual periods commencing on or after 1 January 2023.

The Association has restated comparative information for 20 February 2023 applying the transitional provisions in Appendix C to IFRS 17. The nature to the changes in accounting policies can be summarised below:

Changes to classification and measurement

Under IFRS 17, the rights and obligations deriving from the International Group Pooling Agreement ("The Pool") are classified as a reinsurance contract (previously under IFRS 4, obligations were treated as gross insurance and right to recover was treated as reinsurance). Except for the classification of Pool claims, the adoption of IFRS 17 did not change the classification of the Association's insurance contracts.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Association.

Under IFRS 17, the Association's insurance contracts issued, and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of insurance contracts compared with the "general model" approach in IFRS 17 and is suitable for the Association's business.

Notes to the financial statements

2. Basis of preparation (continued)

(c) Adoption of new and revised standards (continued)

Changes to classification and measurement (continued)

The measurement principles of the PAA differ from the ‘earned premium approach’ used by the Association under IFRS 4 in the following key areas:

- The liability for remaining coverage (“LRC”) increases with premiums received, decreases with insurance acquisition costs paid, decreases with insurance revenue and increases with amortisation of insurance acquisition costs recognised in the Profit or Loss. In essence, the PAA results in a similar measurement outcome with IFRS 4, but with different presentation requirements. Member balances, deferred acquisition costs, unearned premium provision and brokerage payable which under IFRS 4 were presented on separate lines on the face of the Statement of Financial Position under IFRS 17 are presented in the LRC.

- Measurement of the LRC involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component.

- Measurement of the liability for incurred claims (“LIC”) (previously claims outstanding and incurred-but-not reported (IBNR) claims on a prudent undiscounted basis) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Association’s obligation to pay other incurred insurance expenses.

- Measurement of the asset for remaining coverage (“ARC”) (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

- Insurance acquisition cash flows include those that are directly attributable to a group and future groups and are expected to arise from renewals of contracts in that group. Where such insurance acquisition cash flows are paid (or where a liability has been recognised applying another IFRS standard) before the related group of insurance contracts is recognised, an asset from insurance acquisition cash flow is recognised. When insurance contracts are recognised, the related portion of the assets for insurance acquisition cash flows is derecognised and subsumed into the measurement at initial recognition of the insurance liability for the remaining coverage of the related group. Currently the Association does not make any prepayment of brokerage before the commencement of the insurance cover.

- Under IFRS 17, the Pooling Agreement is treated as a reinsurance contract held. Therefore, the rights and obligations of the Pooling Agreement are netted-off. Contrary to IFRS 4, outstanding Pool contributions towards other International Group P&I Clubs Pool claims do not form part of the gross claims outstanding but are presented in line “Reinsurance contract assets/liabilities” in the Statement of Financial Position and offset against the Association’s outstanding Pool recoveries and other reinsurance recoveries. Therefore, the net reinsurance cost/gain from the Pooling Agreement will be presented in the line “Amounts recoverable from reinsurers for incurred claims" in Profit or Loss.

- The insurance liabilities of claims outstanding assumed by the Association through Part VII on 20 December 2020, represent insurance contracts acquired in their claims settlement period. Therefore, contrary to IFRS 4, Part VII liabilities are not presented in claims outstanding but form part of LRC. LRC is then amortised in Profit Loss through the line of “Insurance revenue” based on the decrease of the Part VII claims outstanding on an undiscounted best estimate basis during the year.

Notes to the financial statements

2. Basis of preparation (continued)

(c) Adoption of new and revised standards (continued)

Changes to presentation and disclosure

For presentation in the statement of financial position, the Association aggregates insurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolio of insurance and reinsurance contracts issued that are assets
- Portfolio of insurance and reinsurance contracts issued that are liabilities
- Portfolio of reinsurance contracts held that are assets
- Portfolio of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements.

Portfolios of insurance contracts issued include any assets/liabilities for insurance acquisition and premium cash flows paid/received before the initial recognition of the relevant insurance contracts.

The line-item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Previously, the Association reported the following line items:

- Gross earned premiums
- Outward earned reinsurance premiums
- Changes in unearned premium reserves
- Gross insurance claims
- Net insurance claims

Now, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Income or expenses from reinsurance contracts held
- Insurance finance income or expenses

The Association provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying the standard

Transition to IFRS 17

On transition date, 20 February 2022, the Association:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied (Full Retrospective Approach).
- Has identified, recognised and measured assets for insurance acquisition cash flows as if IFRS 17 had always applied.
- Derecognised any existing balances that would not exist had IFRS 17 always applied.
- Recognised any resulting net difference in equity.

Notes to the financial statements

2. Basis of preparation (continued)

(c) Adoption of new and revised standards (continued)

Transition to IFRS 17 (continued)

The below reconciliation shows the presentation and valuation differences between IFRS 4 and IFRS 17 Statement of Financial Position on transition.

US$000	At 20 Feb 2022 As reported under IFRS4	Effects of adoption IFRS 17: Presentation changes	Effects of adoption IFRS 17: Measurement changes	At 20 Feb 2022 Restated under IFRS17
Assets				
Financial assets at fair value through profit or loss	40,071	-	-	40,071
Reinsurance contract assets	179,215	(27,999)	(6,466)	144,750
Deferred acquisition costs	226	(226)	-	-
Other financial assets at amortised cost	6,042	(5,563)	1	480
Cash at bank and in hand	9,943	-	-	9,943
Total assets	235,497	(33,788)	(6,465)	195,244
Liabilities				
Insurance contract liabilities	196,927	(27,168)	(5,199)	164,560
Trade and other payables	8,315	(6,620)	-	1,695
Total liabilities	205,242	(33,788)	(5,199)	166,255
Equity	30,255	-	(1,266)	28,989

The key presentation changes are:

- Reclassification of outstanding Pool claims of other P&I clubs from Insurance contract liabilities under IFRS 4 to Reinsurance contract assets.
- Reclassification of premiums/brokerage receivable/payable from/to members/brokers into the LRC within Insurance contract liabilities.

The key valuation changes are:

- The discounting of claims outstanding.
- $2.0m Transfer Premium (excess assets over liabilities) was transferred to the Association through the Part VII. Under IFRS 17 this is capitalised as part of LRC and amortised in the Profit or Loss during the life of this contract. Under IFRS 4, the $2.0m excess assets was recognised immediately as profit in the Profit or Loss.
- The recognition of losses from onerous contracts on the Bound But Not Incepted Business (“BBNI”) on gross and net of reinsurance basis for the next policy year. BBNI was not in the scope of IFRS 4.
- The replacement of a prudence/management margin under IFRS 4 by a risk adjustment under IFRS 17.

Notes to the financial statements

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Association's accounting policies, which are described in note 23, 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:

Insurance and reinsurance contracts

The Association applies the PAA to simplify the measurement of the LRC for insurance contracts issued and reinsurance contracts held. For insurance contracts with a coverage period of less than one year, the PAA applies automatically. For the Part VII book of business, which has a coverage period of more than one year, the Association performed an assessment and reasonably expects that LRC under PAA approximates the LRC under the General Measurement Model ("GMM") during the lifetime of this book of business. This assessment requires the use of significant judgement, making assumptions about the future and applying stress scenarios. Materiality is a key consideration in the quantitative assessment of results, and qualitative factors about the nature of the contracts including the timing and size of cash flows are considered when forming conclusions on PAA applicability. When measuring the LRC, the PAA is broadly similar to the Association's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Association now discounts cash flows that are expected to occur more than a year after the date on which the claims incurred and includes an explicit adjustment for non-financial risk.

Onerous contracts

For a group of onerous contracts, the LRC is calculated using the GMM. The gross loss component for a group of onerous contracts is the expected cash flow deficit, which is the difference between the LRC determined by the GMM and the LRC under PAA. The gross loss component is estimated based on judgmental forward-looking assumptions used to prepare the next policy year's business plan. Most insurance contracts issued by the Association incept mid-day 20 February each year and are legally bound before the inception of the next accounting period. The gross loss component is calculated based on budgeted loss on the Bound but Not Incepted Business for next policy year. The loss-recovery component is determined with reference to the gross loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Liability of incurred claims and risk adjustment for non-financial risks

The ultimate cost of outstanding claims is estimated using a range of standard actuarial projection techniques, such as the Development Factor and Bornhuetter-Ferguson methods.

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the balance sheet date on a best estimate basis. 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. Under IFRS 17, case estimates and IBNR are estimated on a discounted best estimate basis. An explicit risk adjustment that represents the compensation the Association requires for bearing reserving and expense uncertainty is added. For estimating the risk adjustment, the Association uses the Value at Risk method, estimating the Solvency II reserve risk at the 77.5th percentile using lognormal distribution which is assumed to approximate the Association's actual claims volatility. Note 20 shows, the carrying amount for insurance contract and provides details on significant assumptions and sensitivities made for insurance liabilities.

Notes to the financial statements

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Discount rates

Insurance contract liabilities are calculated by discounting the expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates ("rfr") are determined by reference to EIOPA USD rfr. If needed, the illiquidity premium is determined based on the volatility adjustment published by EIOPA. The rfr used does not include an illiquidity premium to align IFRS 17 discount rates with the Solvency II discount rates as the impact is immaterial.

Discount rates applied for discounting of future cash flows are listed below:

	1 year		**3 years**		**5 years**		**10 years**	
	Feb-24	Feb-23	**Feb-24**	Feb-23	**Feb-24**	Feb-23	**Feb-24**	Feb-23
On USD	**5.07%**	5.34%	**4.24%**	4.43%	**3.98%**	3.94%	**3.85%**	3.59%

Tax liabilities

There are key sources of estimation uncertainty in relation to tax liability. These uncertainties arise from assumptions and judgments made in estimating taxes payable and tax provisions. These estimates are based on a number of factors including, but not limited to, changes in tax laws and regulations, the outcome of tax audits, and the interpretation of complex tax matters. As a result, the actual tax liabilities may differ from the provisional payments and estimates made.

Notes to the financial statements

4. Insurance revenue	2024 US$000	Restated 2023 US$000
Mutual and fixed insurance revenue	**168,210**	137,545
Release calls	**471**	424
Part VII Run-Off	**2,033**	9,055
Insurance revenue	**170,714**	147,024

Insurance revenue by class of business		
Protection and Indemnity	**145,730**	122,495
Freight, Demurrage and Defence	**6,491**	5,447
Other	**16,460**	10,027
Part VII Run-Off	**2,033**	9,055
Insurance revenue	**170,714**	147,024

Insurance revenue by Member location		
Switzerland	**62,265**	43,354
Greece	**21,809**	18,149
Netherlands	**20,026**	17,713
Italy	**15,726**	12,537
France	**14,165**	10,867
Germany	**8,111**	7,403
Cyprus	**7,899**	13,721
Monaco	**4,560**	3,248
Norway	**2,753**	2,355
Spain	**2,209**	2,049
United Kingdom (Part VII Run-Off)	**2,033**	9,055
Other countries	**9,158**	6,573
Insurance revenue	**170,714**	147,024

5. Reinsurance contracts

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 of 90% of gross earned premium minus technical expenses which are ceded to SMUAB, the Association is indemnified for 90% of its net of external reinsurance underlying liabilities. The Association receives the benefit of all International Group Pool and other external reinsurance contracts. On 20 December 2020, through a Part VII transfer, the Association received from SMUA claims outstanding on expired policies of insurance where the policyholder was a resident of an EEA state, Monaco or Switzerland which under IFRS 17 are treated as contracts acquired in their claims settlement period. The Association also acquired the rights and obligations of reinsurance treaties under which SMUA was covered in respect of the transferred policies. The related party transactions and balances with SMUAB and the Steamship Mutual Underwriting Association Trustees (Bermuda) Limited ("The Trust") are disclosed in Note 18.

Notes to the financial statements

6. Net operating expenses

	2024 US$000	Restated 2023 US$000
Acquisition costs		
Brokerage	**16,885**	14,759
Underwriting administration expenses (Note 18)	**3,758**	3,064
	20,643	17,823
Claims administration expenses (Note 18)	**10,558**	8,608
Administrative expenses		
Administrative fee (Note 18)	**3,579**	2,918
Auditor's remuneration for the statutory audit of accounts	**224**	142
Auditor's remuneration for other assurance services	**34**	24
Professional services	**141**	213
Bank charges	**109**	103
Directors' fees (Note 18)	**51**	49
Irrecoverable VAT	**46**	104
Other costs	**36**	26
	4,220	3,579
Net operating expenses	**35,421**	30,010
Split of Attributable and Non-Attributable Expenses		
Attributable expenses	**33,945**	28,872
Non-attributable expenses (Note 9)	**1,296**	1,138
Total	**35,421**	30,010

Attributable expenses form part of insurance service expenses. Non-attributable expenses are overheads that cannot be directly attributed to portfolios of insurance contacts, hence, are not part of insurance service result.

Notes to the financial statements

7. Insurance contract liabilities reconciliation note

Gross insurance as at 20 February 2024 US$000	Liabilities for remaining coverage ("LRC")			Liability for incurred claims		
	Pre-recognition liabilities	LRC (excluding loss component)	Loss component	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total
Opening liabilities as at 20 Feb 2023	**1,896**	**52,388**	**-**	**102,922**	**8,506**	**165,712**
Insurance revenue	-	(170,714)	-	-	-	(170,714)
Insurance service expenses	-	20,653	-	71,473	982	93,108
Incurred claims and expenses	-	-	-	67,637	5,426	73,063
Adjustments to liabilities for incurred claims	-	-	-	3,836	(4,444)	(608)
Amortisation of acquisition costs	-	20,653	-	-	-	20,653
Insurance service result	**-**	**(150,061)**	**-**	**71,473**	**982**	**(77,606)**
Insurance finance expenses	**-**	**-**	**-**	**3,942**	**-**	**3,942**
Effect of movements in exchange rates	**-**	**111**	**-**	**222**	**-**	**333**
Total changes in P&L	**-**	**(149,950)**	**-**	**75,637**	**982**	**(73,331)**
Cash flows						
Premiums received	2,120	166,139	-	-	-	168,259
Insurance acquisition cash flows	-	(20,698)	-	-	-	(20,698)
Claims and other expenses paid	-	-	-	(65,567)	-	(65,567)
Total cash flows	**2,120**	**145,441**	**-**	**(65,567)**	**-**	**81,994**
Other movements	**(1,896)**	**1,896**	**-**	**-**	**-**	**-**
Net balance as at 20 Feb 2024	**2,120**	**49,775**	**-**	**112,992**	**9,488**	**174,375**

Incurred claims and expenses and adjustment to liabilities for incurred claims include $16,795,000 expenses re-charged by Steamship P&I Management LLP for management and administrative services (Note 18).

Notes to the financial statements

7. Insurance contract liabilities reconciliation note

Gross insurance as at 20 February 2023 US$000	Liabilities for remaining coverage ("LRC")			Liability for incurred claims		
	Pre-recognition liabilities	LRC (excluding Loss component)	Loss component	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total
Opening liabilities as at 20 Feb 2022	**1,488**	**63,540**	**5,174**	**87,163**	**7,195**	**164,560**
Insurance revenue	-	(147,024)	-	-	-	(147,024)
Insurance service expenses	-	17,845	(5,174)	69,967	1,311	83,949
Incurred claims and insurance expenses	-	-	-	64,021	4,922	68,943
Adjustments to liabilities for incurred claims	-	-	-	5,946	(3,611)	2,335
Reversal of losses on onerous contracts	-	-	(5,174)	-	-	(5,174)
Amortisation of acquisition costs	-	17,845	-	-	-	17,845
Insurance service result	**-**	**(129,179)**	**(5,174)**	**69,967**	**1,311**	**(63,075)**
Insurance finance expenses	**-**	**-**	**-**	**(2,419)**	**-**	**(2,419)**
Effect of movements in exchange rates	**-**	**(1,948)**	**-**	**(487)**	**-**	**(2,435)**
Total changes in P&L	**-**	**(131,127)**	**(5,174)**	**67,061**	**1,311**	**(67,929)**
Cash flows						
Premiums received	1,896	136,179	-	-	-	138,075
Insurance acquisition cash flows	-	(17,692)	-	-	-	(17,692)
Claims and other expenses paid	-	-	-	(51,302)	-	(51,302)
Total cash flows	**1,896**	**118,487**	**-**	**(51,302)**	**-**	**69,081**
Other movements	**(1,488)**	**1,488**	**-**	**-**	**-**	**-**
Net balance as at 20 Feb 2023	**1,896**	**52,388**	**-**	**102,922**	**8,506**	**165,712**

Incurred claims and expenses and adjustment to liabilities for incurred claims include: $13,803,000 expenses re-charged by Steamship P&I Management LLP for management and administrative services (Note 18).

Notes to the financial statements

8. Reinsurance contract assets reconciliation note

Reinsurance contract assets as at 20 February 2024 US$000	**Asset for remaining coverage**			**Asset for incurred claims**		
	Pre-recognition assets	**ARC (excluding loss component)**	**Loss recovery component**	**Estimates of PV of future cash flows**	**Risk adjustment for non-financial risk**	**Total**
Opening assets as at 20 Feb 2023	**169**	**44,502**	**-**	**91,759**	**7,580**	**144,010**
Allocation of reinsurance premiums	-	(135,238)	-	-	-	(135,238)
Amounts recoverable from reinsurers for incurred claims	-	-	-	61,381	939	62,320
Amounts recoverable for incurred claims and other expenses	-	-	-	41,172	4,899	46,071
Changes to amounts recoverable for incurred claims	-	-	-	20,209	(3,960)	16,249
Net income or expense from reinsurance contracts held	**-**	**(135,238)**	**-**	**61,381**	**939**	**(72,918)**
Reinsurance finance income	**-**	**-**	**-**	**3,512**	**-**	**3,512**
Effect of changes in non-performance	**-**	**(7)**	**-**	**(18)**	**-**	**(25)**
Effect of movements in exchange rates	**-**	**100**	**-**	**200**	**-**	**300**
Total changes in P&L	**-**	**(135,145)**	**-**	**65,075**	**939**	**(69,131)**
Cash flows						
Pool contributions paid	-	-	-	12,644	-	12,644
RI Premium paid	98	122,657	-	-	-	122,755
RI recoveries	-	-	-	(66,277)	-	(66,277)
Total cash flows	**98**	**122,657**	**-**	**(53,633)**	**-**	**69,122**
Other movements	**(169)**	**169**	**-**	**-**	**-**	**-**
Net balance as at 20 Feb 2024	**98**	**32,183**	**-**	**103,201**	**8,519**	**144,001**

Reinsurance contract assets include premiums ceded $91,564,000 to SMUAB, reinsurance share of claims paid $64,454,000 from SMUAB, US$702,000 from the Trust.

Reinsurance contract assets reflect reinsurance premium payable of $7,696,000 to SMUAB, outstanding recoveries $126,676,000 from SMUAB and outstanding recoveries $5,549,000 from the Trust. Related party transactions and balances are disclosed in Note 18.

Notes to the financial statements

8. Reinsurance contract assets reconciliation note

Reinsurance contract assets as at 20 February 2023 US$000	Asset for remaining coverage ("ARC")			Asset for incurred claims		
	Pre-recognition assets	ARC (excluding loss component)	Loss recovery component	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total
Opening assets as at 20 Feb 2022	**20**	**56,453**	**4,770**	**77,136**	**6,371**	**144,750**
Allocation of reinsurance premiums	-	(107,464)	-	-	-	(107,464)
Amounts recoverable from reinsurers for incurred claims	-	-	(4,770)	52,791	1,209	49,230
Amounts recoverable for incurred claims and other expenses	-	-	-	49,574	4,407	53,981
Loss-recovery on onerous contracts	-	-	(4,770)	-	-	(4,770)
Changes to amounts recoverable for incurred claims	-	-	-	3,217	(3,198)	19
Net income or expense from reinsurance contracts held	**-**	**(107,464)**	**(4,770)**	**52,791**	**1,209**	**(58,234)**
Reinsurance finance expenses	**-**	**-**	**-**	**(2,142)**	**-**	**(2,142)**
Effect of changes in non-performance	**-**	**(6)**	**-**	**(18)**	**-**	**(24)**
Effect of movements in exchange rates	**-**	**(1,752)**	**-**	**(439)**	**-**	**(2,191)**
Total changes in P&L	**-**	**(109,222)**	**(4,770)**	**50,192**	**1,209**	**(62,591)**
Cash flows						
Pool contributions paid	-	-	-	5,994	-	5,994
RI Premium paid	169	97,251	-	-	-	97,420
RI recoveries	-	-	-	(41,563)	-	(41,563)
Total cash flows	**169**	**97,251**	**-**	**(35,569)**	**-**	**61,851**
Other movements	**(20)**	**20**	**-**	**-**	**-**	**-**
Net balance as at 20 Feb 2023	**169**	**44,502**	**-**	**91,759**	**7,580**	**144,010**

Reinsurance contract assets include premiums ceded $72,587,000 to SMUAB, ($68,000) from the Trust, reinsurance share of claims paid $40,849,000 from SMUAB, $510,000 from the Trust.

Reinsurance contract assets reflect reinsurance premium payable to SMUAB of $708,000, outstanding recoveries from SMUAB $117,926,000 and outstanding recoveries $5,165,000 from the Trust. Related party transactions and balances are disclosed in Note 18.

Notes to the financial statements

9. Other expenses

	2024 US$000	Restated 2023 US$000
Non-attributable expenses	**(1,296)**	(1,138)
Realised foreign exchange losses	**(98)**	(955)
Other income	**-**	75
	(1,394)	(2,018)

Non-attributable expenses include $1,100,000 (2023: $787,000) expenses re-charged by Steamship P&I Management LLP for management and administrative services (Note 18).

10. Income tax expense

The tax charge represents:

	2024 US$000	Restated 2023 US$000
Current	**725**	-

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

	2024 US$000	Restated 2023 US$000
Surplus before tax	**6,867**	3,828
Tax at 12.5%	**858**	479
Tax effect of expenses/(income) not subject to income tax	**50**	(4)
Tax losses utilised	**(183)**	(475)
Current tax charge for year	**725**	-

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. As of 20 February 2023, the balance of tax losses on an IFRS 4 tax basis were US$1.5m. These tax losses were utilised in the tax year 2023.

Notes to the financial statements

11. Financial instruments by category

The Association holds the following financial instruments:

Financial assets	2024 US$000	Restated 2023 US$000
Financial assets at fair value through profit or loss (Note 12)	**73,823**	56,902
Financial assets at amortised cost:		
Other assets (Note 14)	**920**	309
Cash at bank and in hand (Note 15)	**3,048**	6,295
	77,791	63,506
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables (Note 16)	**958**	1,487
	958	1,487

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

	2024 US$000	2023 US$000
Financial assets measured at FVTPL		
Money Market Funds	**49,191**	37,227
Bond Funds	**24,632**	19,675
	73,823	56,902

	2024 US$000	2023 US$000
Balance at the beginning of the year	**56,902**	40,071
Fair value revaluation	**949**	470
Additions from reinvestments	**82,472**	89,459
Redemptions	**(66,500)**	(73,098)
Balance at the end of the year	**73,823**	56,902

Notes to the financial statements

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

Investments 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 asset or liability;
- 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).

	2024	2023
	US$000	US$000
Financial assets at FVTPL (Note 12)	**73,823**	56,902

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)	Level 1	N/A	N/A
Bond Funds (Note 12)	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 the financial statements

14. Other assets

	2024 US$000	Restated 2023 US$000
Other receivables	**745**	236
Amounts receivable from related parties (Note 18)	**175**	73
	920	309

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 given that the estimated ECL was immaterial. 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

	2024 US$000	2023 US$000
Current accounts with banks	**3,048**	6,295

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 given that the estimated ECL was immaterial.

16. Trade and other payables

	2024 US$000	Restated 2023 US$000
Deposits for guarantees issued for non-covered matters	**398**	1,199
Other creditors	**560**	288
	958	1,487

Deposits for guarantees issued for non-covered matters relates to matters for which the Association issued guarantees to third parties on behalf of its Members for non-covered claims and has obtained counter-securities 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.

Notes to the financial statements

17. Reserves – Capital contribution

	2024 **US$000**	2023 US$000
Balance at the beginning of the year	**42,500**	35,000
Capital contribution	**-**	7,500
Balance at the end of the year	**42,500**	42,500

In July 2022 the Association received a capital contribution of US$7.5m from a related party, SMUAB.

18. Transactions and balances with related parties

Controlling Entity

The Association, limited by guarantee, has no share capital and is controlled by its Members who are also the insureds. All mutual policyholders become a Member of the Association. The aggregate of these transactions is disclosed in these financial statements.

Remuneration of Board members and other key executives	**2024** **US$000**	2023 US$000
Non-Executive Directors Emoluments	**51**	49

Transactions with related parties

Related Party	**Nature of transaction**	**2024** **US$000**	Restated 2023 US$000
SPIM	Management and administrative services (Notes 6, 7 and 9)	**17,895**	14,590
SMUAB	Reinsurance premiums ceded (Note 8)	**91,564**	72,587
The Trust	Reinsurance premiums ceded (Note 8)	**-**	(68)
SMUAB	Reinsurer share of claims paid (Note 8)	**(64,454)**	(40,849)
The Trust	Reinsurer share of claims paid (Note 8)	**(702)**	(510)
SMUAB	(Increase)/decrease in Reinsurance Assets (Note 8)	**(8,750)**	2,266
The Trust	(Increase)/decrease in Reinsurance Assets (Note 8)	**(384)**	2,423

Notes to the financial statements

18. Transactions and balances with related parties (continued)

Balances with related parties

Related Party		2024 US$000	Restated 2023 US$000
SPIM	Expenses prepayment (Note 7)	**2,262**	402
SMUAB	RI recoveries (Note 8)	**126,676**	117,926
The Trust	RI recoveries (Note 8)	**5,549**	5,165
SMUAB	RI premium payable (Note 8)	**(7,696)**	(708)
The Trust	RI claims receivable (Note 14)	**175**	73

The Association has 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 for these management services, SPIM receives a 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 Insurance Companies Control Service ("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.

Solvency II Capital Adequacy:	2024 US$000	2023 US$000
Minimum Capital Requirements ("MCR")	7,693	8,623
Solvency Capital Requirements ("SCR")	30,770	34,491
Ratio of Eligible Own Funds to MCR	626%	457%
Ratio of Eligible Own Funds to SCR	206%	164%

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 Group Solvency Self-Assessment ("GSSA") Report which is submitted to the ICCS. The GSSA 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 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.

Notes to the financial statements

20. Risk management (continued)

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance revenue 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 liabilities for incurred claims 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. A risk adjustment which represents the compensation the Association requires for bearing reserving and expense risk that is calibrated between 70% and 80% confidence level and currently is set at 77.5% confidence level is added on top of claims best estimates. Actual experience will differ from the expected outcome but this prudent basis is expected to result in releases of prior period claim reserves. Inflation is one of many factors that are considered by claims handlers when setting an appropriate claim reserve prior to settling a claim. The Association uses standard actuarial techniques which, amongst other things, incorporate inflation when calculating appropriate liabilities for incurred claims. Together, these should accommodate potential increased costs arising from current levels of inflation.

Sensitivity Analysis

The following sensitivity analysis shows the impact on profit before tax and the impact on equity as of 20 Feb 2024 for reasonably possible movements in key assumptions with all other assumptions held constant.

The sensitivity of the overall surplus to three factors, other assumptions being unchanged, is shown below:	**Impact on profit before tax gross of RI**	**Impact on profit before tax net of RI**	**Impact on equity gross of RI**	**Impact on equity net of RI**
5% increase in claims incurred on current policy year	(3,653)	(1,349)	(3,196)	(1,180)
1% increase in the interest rates	2,579	18	2,256	15
1% decrease in the interest rates	(3,524)	(45)	(3,083)	(39)
Risk adjustment increase by 2.5% to 80%	(1,223)	(125)	(1,070)	(109)
Risk adjustment decrease by 2.5% to 75%	1,138	116	996	101

Notes to the financial statements

20. Risk management (continued)

Insurance risk (continued)

Policy year	2020/21 US$000	2021/22 US$000	2022/23 US$000	2023/24 US$000
End of reporting year	66,250	76,090	86,374	59,260
One year later	65,808	61,706	87,608	
Two years later	53,956	63,127		
Three years later	52,468			
Current estimate of ultimate claims	**52,468**	**63,127**	**87,608**	**59,260**
Cumulative payments to date	(44,309)	(44,878)	(31,033)	(13,535)
Claims outstanding	**8,159**	**18,249**	**56,575**	**45,725**
Claims outstanding relating to all reporting years				**128,708**
Prepaid expenses				**(2,262)**
Total gross claims outstanding				**126,446**
Effect of discounting				**(13,454)**
Effect of the risk adjustment for non-financial risk				**9,488**
Gross LIC				**122,480**

Insurance claims - net

Policy year	2020/21 US$000	2021/22 US$000	2022/23 US$000	2023/24 US$000
End of reporting year	11,996	12,242	10,507	7,170
One year later	13,293	13,762	10,102	
Two years later	14,025	13,789		
Three years later	13,734			
Net Current estimate of ultimate claims	**13,734**	**13,789**	**10,102**	**7,170**
Net Cumulative payments to date	(12,430)	(11,132)	(6,618)	(1,481)
Net Claims outstanding	**1,304**	**2,657**	**3,484**	**5,689**
Net - claims outstanding relating to all reporting years				**13,134**
Prepaid expenses				**(2,262)**
Net claims outstanding				**10,872**
Net effect of discounting				**(1,373)**
Net effect of the risk adjustment for non-financial risk				**969**
Effect of reinsurance non-performance				**292**
Net LIC				**10,760**

Geographic concentration of premiums and claims is made by the country of management of the members (Note 4).

Notes to the financial statements

20. Risk management (continued)

Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default causing a debt to be written off. The extensive reinsurance protection arranged by the Association effectively transforms a large proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. The credit risk arising from the reinsurance 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 International 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$25m for banks rated AA by S&P Global, or an equivalent rating from another agency, US$15m for banks rated A by S&P Global, or an equivalent rating from another agency, US$10m for banks rated BBB or worse by S&P Global, or an equivalent rating from another agency or has a Tier 1 capital ratio above 11.5% or US$5m if the capital ratio is above 10%. Loans and receivables from members, agents and intermediaries generally do not have a credit rating.

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

As at 20 February 2024	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Financial assets at fair value through profit or loss	57,976	3,407	7,693	4,747	-	**73,823**
Reinsurance assets	-	14,099	129,902	-	-	**144,001**
Cash at bank and in hand	-	2,787	-	-	261	**3,048**
Total assets with credit ratings	**57,976**	**20,293**	**137,595**	**4,747**	**261**	**220,872**

As at 20 February 2023 - Restated	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Financial assets at fair value through profit or loss	39,130	3,802	6,903	7,067	-	**56,902**
Reinsurance assets	-	353	143,636	21	-	**144,010**
Cash at bank and in hand	-	4,568	-	-	1,727	**6,295**
Total assets with credit ratings	**39,130**	**8,723**	**150,539**	**7,088**	**1,727**	**207,207**

Notes to the financial statements

20. Risk management (continued)

Liquidity risk

The Association's exposure to liquidity risk is limited given that its assets are mainly held in money market instruments, short-term US government bonds, medium-term corporate bonds and cash at bank. All other assets and liabilities are expected to be settled within 12 months from the balance sheet date. The following table shows the expected maturity of the Association's investments and cash at bank.

As at 20 February 2024

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Financial assets at fair value through profit or loss	61,337	5,070	6,690	726	**73,823**
Cash at bank	3,048	–	–	–	**3,048**
Total	**64,385**	**5,070**	**6,690**	**726**	**76,871**

As at 20 February 2023 - Restated

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Financial assets at fair value through profit or loss	44,664	7,158	4,368	712	**56,902**
Cash at bank	6,295	–	–	–	**6,295**
Total	**50,959**	**7,158**	**4,368**	**712**	**63,197**

Maturity profiles

The following table summarises the maturity profile of the portfolio of insurance contracts issued that are liabilities based on the estimates of the present value of future cash flows expected to be paid in the periods presented.

As at Feb 2024

	Up to 1 year US$000	1-2 years US$000	2-3 years US$000	3-4 years US$000	>5 years US$000	Total US$000
Marine insurance	18,286	30,352	25,445	14,087	24,822	112,992

As at Feb 2023 - Restated

	Up to 1 year US$000	1-2 years US$000	2-3 years US$000	3-4 years US$000	>5 years US$000	Total US$000
Marine insurance	16,373	29,160	21,872	12,900	22,617	102,922

Notes to the financial statements

20. Risk management (continued)

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates and currency exchange rates. Market risk arises primarily from investment activities. The investment in short term money market instruments with constant net asset value of 1 US$ per unit does not directly expose the Association to market price and interest rate risks. The Association is exposed to interest rate risk in relation to its holdings in bonds however this is reduced due to their short average maturity. The following table shows market risk sensitivities in the market value of the Bond Fund:

	2024	2023
	US$000	US$000
1% increase in interest rates - Impact on free reserves	**(273)**	(327)
5% decrease in the market value - Impact on free reserves	**(1,232)**	(984)

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

As at February 2024

	US dollar	**UK sterling**	**Euro**	**Brazilian real**	**Other**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Assets	190,474	6,756	19,882	1,152	3,528	**221,792**
Liabilities	(142,720)	(7,423)	(20,181)	(1,199)	(3,810)	**(175,333)**
	47,754	**(667)**	**(299)**	**(47)**	**(282)**	**46,459**

As at February 2023 - Restated

	US dollar	**UK sterling**	**Euro**	**Brazilian real**	**Other**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Assets	173,212	7,587	21,749	1,369	3,599	**207,516**
Liabilities	(133,720)	(7,925)	(20,666)	(1,297)	(3,591)	**(167,199)**
	39,492	**(338)**	**1,083**	**72**	**8**	**40,317**

The sensitivity of free reserves to a 5% strengthening or weakening of all foreign currencies against the US dollar is small.

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

Comparative information has been restated as if IFRS 17 has been always effective.

22. Events after the reporting period

There were no significant events after the reporting period.

Notes to the financial statements

23. Material accounting policies

The material accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Management seeks not to reduce the understandability of these financial statements by obscuring material information with immaterial information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

Cash and cash equivalents in the statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal an interest (“SPPI”), and (ii) they are not designated at FVTPL.

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 are as follows:

	2024	2023
EUR/USD	**1.077**	1.066
GBP/USD	**1.259**	1.200

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.

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 the financial statements

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

Notes to the financial statements

23. Material accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(ii) 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:

- 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.

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 “Net fair value gains/(losses) on financial assets at fair value through profit or loss line item”. Fair value is determined in the manner described in note 13.

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 income 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.

Notes to the financial statements

23. Material accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of 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.

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.

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.

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.

Notes to the financial statements

23. Material accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

(iv) 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;

(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 the financial statements

23. Material 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 the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment

Separating components from insurance and reinsurance contracts

The Association assesses its insurance contracts to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. Currently, the Association's products do not include any distinct components that require separation.

Level of aggregation

IFRS 17 requires insurers to determine the level of aggregation for applying its requirements. The Association previously applied aggregation levels under IFRS 4, which were higher than the level of aggregation required by IFRS 17. The level of aggregation for the Association is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. All insurance contracts of the Association are allocated into a single portfolio. The portfolio is further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Association identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Association makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As a mutual P&I Club, the pricing of the Association for the mutual business, does not include an element of profitability. The absence of a margin of profit is a fact for the existence of onerous contracts. Additionally, a risk adjustment calibrated at a targeted confidence level between 70%-80% will be added to the Liability for Remaining Coverage ("LRC") when assessing whether onerous contracts exist and to the Liability of Incurred Claims ("LIC"). The absence of a profit margin and the inclusion of a risk adjustment for measuring the fulfilment cash flows means that all contracts are expected to be onerous at the beginning of a policy year. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Association applied a full retrospective approach for transition to IFRS 17. The portfolio is further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolio of contracts are divided into three groups, as follows:

• 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)

• A group of the remaining contracts in the portfolio (if any)

Recognition

The Association recognises groups of insurance contracts it issues from the earliest of the following:

• The beginning of the coverage period of the group of contracts.

• The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Recognition - continued

• For a group of onerous contracts, if facts and circumstances indicate that the group is onerous, the Association recognises the expected loss in the accounting period those contracts were legally bound even if the cover period has not started.

The Association recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

• The beginning of the coverage period of the group of reinsurance contracts held. However, the Association delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

And

• The date the Association recognises an onerous group of underlying insurance contracts if the Association entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Association adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

Contract boundary

The Association includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Association can compel the policyholder to pay the premiums, or in which the Association has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

• The Association has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks

Or

• Both of the following criteria are satisfied:

• The Association has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio

• The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Measurement Premium Allocation Approach

	IFRS 17 Options	*Adopted approach*
Premium Allocation Approach ("PAA") Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model for measuring the liability for remaining coverage and the reinsurance asset for remaining coverage.	Most insurance contracts have contract boundaries of one year. Rules of cover for both P&I and Charterers include clauses which provide a unilateral, unconditional right to the Association to cancel cover. The existence of a unilateral, unconditional right to cancel cover means that the substantive obligation to provide coverage ends for a P&I cover thirty days after the inception of a P&I policy and seven days from the start of a Charterers policy. Reinsurance contracts that have cover period of one year are automatically eligible for PAA. For reinsurance contracts with cover period more than one year, the exposure after the first year is immaterial thus the ARC per PAA does not differ materially with ARC per general measurement model ("GMM").
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group.	Insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group.
Liability for remaining coverage ("LRC"), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to LRC, or where the time between providing each party of the services and the related premium due to date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LRC.	There is no significant financing component as the premiums are received within one year of the coverage period.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Measurement Premium Allocation Approach (continued)

	IFRS 17 Options	*Adopted approach*
Liability for Incurred Claims ("LIC") adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claims are incurred, it is not required to adjust these amounts for the time value of money.	LIC is adjusted for the time value of money.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LIC resulting from changes in discount rates and present this in OCI.	The change in LIC as a result of changes of discount rates will be captured within profit or loss.

Insurance contracts – initial measurement

The Association applies the PAA to all insurance contracts that it issues and all reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary

Or

- For contracts longer than one year, the Association has assessed and reasonably expects that the measurement of liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Association has also considered qualitative factors such as the nature of the risk of its insurance contracts.

The Association does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that it would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with for example:

- The length of the coverage period of the group of contracts

For a group of contracts that is not onerous at initial recognition, the Association measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus the insurance acquisition cash flows at that date
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for the for cash flows related to the group of contracts that the Association pays or receives before the group of insurance contracts is recognised.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Insurance contracts – initial measurement (continued)

The expected position before the start of most new policy years is that this single group of insurance contracts will be onerous, or at least at risk of becoming onerous, due to the absence of profit margin in the pricing of insurance contracts as well as the addition of a risk adjustment on the measurement of the liability for remaining coverage based on General Measurement Model which is required for the calculation of the loss component. The loss component (net outflow from the group of onerous contracts) is calculated with the General Measurement Model and is added on top of the liability of remaining coverage and is recognised immediately in profit or loss.

Reinsurance contracts held – Initial measurement

The Association measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adopted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Association recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to the group, the Association establishes a loss-recovery component of the asset for remaining coverage for group of reinsurance contracts held depicting the recovery of the losses.

The Association calculates the loss-recovery component by multiplying the gross loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Association expects to recover from the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the asset of remaining coverage.

Insurance contracts – subsequent measurement

The Association measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability of remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows
- Plus any amounts relating to amortisation of insurance acquisition cash flows recognised as an expense in the reporting period
- Minus the amount recognised as insurance revenue for the services provided during the period

The Association measures the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect estimates from the perspective of the Association, and include an explicit adjustment for non-financial risk (the risk adjustment).

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of the premium to profit or loss.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance contracts held.

Where the Association established a loss-recovery component, the Association subsequently reduces the loss-recovery component to zero in line with the reductions in the onerous group of underlying insurance contracts in order to reflect the that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Loss component

Due to the absence of profit margin in the pricing of insurance contracts, all contracts are expected to be onerous at initial recognition. The Association establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability of remaining coverage as determined by the PAA approach. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero. The cover period of most policies issued by the Association coincides with the reporting period. In addition, those policies are legally Bound Before the Inception ("BBNI") of the next policy/accounting year. This means that next policy year's insurance policies are legally bound before the completion of the current reporting year. If BBNI is expected to be onerous, the estimated loss for the next policy year is recognised immediately in the profit or loss.

Loss-recovery component

Where the Association recognises a gross loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Association establishes a loss-recovery component of the asset for the remaining coverage of a group of reinsurance contracts held depicting the expected recovery of the losses.

A loss-recovery component is subsequently reduced to zero in line with the reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Association expects to recover from the group of reinsurance contracts held.

Presentation of primary financial statements

The Association has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Presentation of primary financial statements (continued)

The Association disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Association does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Association separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

International Group Pooling arrangement

The Pooling agreement is a single contract between the IG Clubs and covers policies entered on a variable premium basis written by the P&I Clubs, their subsidiaries and branches. No premiums are payable in relation to the Pooling agreement by the P&I Club insurers. The only cashflows arising from the Pooling arrangement relate to Pool contributions and claim recoveries (Pool recoveries). The Pooling contract is considered to be a single reinsurance contract held under IFRS 17, in which the Association is the reinsured and the other P&I Clubs are the reinsurers.

Under IFRS 17 the individual insurance and reinsurance contract is considered the lowest unit of account. As such, the rights and obligations deriving from the Pooling arrangement derive from a single contract, hence are netted off.

The outstanding Pool recoveries for owned claims and the outstanding Pool contributions towards other P&I club claims will be netted-off in line “Reinsurance contract assets” or “Reinsurance contract liabilities” in the statement of financial position.

Pool contributions and Pool recoveries are presented in the line “Amounts recoverable from reinsurers for incurred claims" in Profit or Loss.

Insurance contracts acquired in their claims settlement period

The insurance liabilities of claims outstanding assumed by the Association through the Part VII transfer, on 20 December 2020, represent insurance contracts acquired in their claims settlement period. Under IFRS 17, this book is considered as an in-force policy and will form part of LRC.

The cover period of this book of business is the claims settlement period which is more than one year. The Association reasonably expects that the measurement of LRC for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model.

At the initial recognition, the LRC equals the consideration received, the total assets that were transferred to the Association with the Part VII transfer. As this group is onerous, a loss component that will equal net fulfilment cash flows will be recognised at initial recognition.

Subsequently, insurance revenue will be recognised in Profit or Loss based on the decrease of Part VII claims estimates on an undiscounted best estimate basis. The loss component will be revalued each reporting period by estimating the fulfilment cash flows and deducting the LRC.

Notes to the financial statements

23. Material accounting policies (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Association allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Association changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, except for the Part VII book of business, all revenue has been recognised on the basis of the passage of time.

Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Association does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVPL. The discounting of new claims is presented in insurance service expenses. The unwind of discounting as claims are settled and the change of discounting on claims incurred in previous periods due to changes in the discount rates, is presented in Profit or Loss in line with “Insurance finance expenses for insurance contracts issued” for gross insurance, and in the line of “Reinsurance finance income for reinsurance contracts held” for reinsurance contracts.

Net income or expense from reinsurance contracts held

The Association presents separately the allocation of reinsurance premiums and amounts expected to be recovered from reinsurance contracts held on the face of the Income Statement and Statement of Other Comprehensive Income. The Association, treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held.

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.

Additional Information

For the year ended 20 February 2024

Additional information to the information provided under the provisions of the Companies Act (Amendment) (No.2) Law of 2003 [N.167(1)] and of the IFRS, under Order 7 of the Superintended of Insurance for the year ended 20 February 2024

	Marine and transport		Total	
	2024	2023	2024	2023
	US$000	US$000	US$000	US$000
Gross premiums written	171,074	138,222	171,074	138,222
Reinsurers share of gross premiums	133,716	99,107	133,716	99,107
Gross earned premiums	168,681	137,969	168,681	137,969
Gross outstanding claim reserves	224,044	221,506	224,044	221,506
Gross claims incurred	65,419	71,758	65,419	71,758
Claims management costs	10,558	8,608	10,558	8,608
Administrative expenses	24,863	21,402	24,863	21,402

For the year ended 20 Feb 2024:

	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	8,011	63,149	20,310	14,366	22,118	8,226	15,949	4,625	2,240	12,080	171,074
Premiums from direct insurance	8,011	63,149	20,310	14,366	22,118	8,226	15,949	4,625	2,240	12,080	171,074
Gross claims incurred	1,292	29,842	7,527	4,389	8,205	(309)	6,025	(1,402)	1,588	8,262	65,419
Brokerage expenses	1,752	3,002	6,247	777.00	1,530	591	577	578	109	1,359	16,522

For the year ended 20 Feb 2023:

	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	13,746	43,434	17,745	10,887	18,182	7,417	12,560	3,254	2,053	8,944	138,222
Premiums from direct insurance	13,746	43,434	17,745	10,887	18,182	7,417	12,560	3,254	2,053	8,944	138,222
Gross claims incurred	10,471	13,719	1,585	273	49,421	1,866	5,678	(12,756)	2,143	(642)	71,758
Brokerage expenses	3,474	1,646	5,604	552	1,308	509	528	6	91	1,041	14,759

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 6 to 47 and comprise the statement of financial position as at 20 February 2024, and the statements of Income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Association as at 20 February 2024, 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.

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.

The key audit matters	How the matter was addressed in our audit
Valuation and adequacy of the Liability for incurred claims	
The Company has reported Liability for incurred claims amounting to US$122,480 thousands (As restated 2023: US$111,428 thousands). The projections used for the calculation of the present value of future cash flows involve estimations for all the future payments of incurred claims as well as insurance service expenses derived from incidents within each of the group contract boundaries. The estimation of this liability is complex and requires actuarial modelling and calculations that are based on significant judgment by the management in the selection of key assumptions that are required in projecting the ultimate amount payable in the future with respect to loss events that have occurred. Consequently, the determination of these projected cash flows is subject to a high degree of estimation uncertainty whereby any changes on the assumptions might have a significant impact on the financial statements. The future cashflow payments are projected using claims payment pattern derived from historical experience of the Company including determination of the ultimate liability of the incurred claims cases and therefore depend on the validity and completeness of the data used. The risk adjustment reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts and the determination of the risk adjustment requires actuarial modelling with significant assumptions. We consider that the measurement of the liability for incurred claims is a key audit matter for the current year, taking into consideration the significant judgement and estimation uncertainties of the cash flow projections and the risk adjustment as well as the significance of the liability. Detailed disclosure of the Liability for incurred claims is presented in Note 7 of the financial statements. The accounting policies are presented in Note 23 and related information on critical accounting judgements and key sources of estimation uncertainty in Note 3.	Our audit procedures in this area included, amongst others: ▪ Performed substantive testing of all incurred claims estimate which exceed performance materiality and obtained a sample from the remaining population using systematic sampling approach. These were agreed to supporting documentation and reviewed minutes of claims review meetings, where available. In addition, we confirmed that foreign currency balances were translated at appropriate foreign exchange (FX) rates. ▪ Performed test of control over claims estimates, by verifying that the claim estimate are reviewed at least on an annual basis to ensure that claims are monitored and kept up to date. ▪ Performed test of control over claims paid, by verifying that claim paid authority limits are appropriately applied to all claims payments. ▪ Considered supporting documentation used by management to monitor claims estimates and reviewed minutes available to ensure an adequate reserve is recorded. ▪ During our claims payments substantive testing we have also included an assessment of whether claims estimates have been appropriately adjusted. ▪ Selected a sample of case reserve movements both pre-year-end and post year-end to determine if case reserve updates have been recorded in the correct accounting period. ▪ Selected a sample of claims payments pre year end to assess if case estimates were correctly adjusted for the year end. ▪ We engaged an independent actuarial specialist, to act as auditor's expert, to provide us with an assessment of the reasonableness of methodology followed, the assumptions used for the estimation of the future cashflows, the risk adjustment for non-financial risk and the discounting of the cash flows for both current year and the restated prior years. ▪ We tested the completeness of the incurred claims data used for the cash flow projections, the calculation of the present value of the cash flow projections by ensuring that the data used was the same with the tested sample of case base estimates for both current year and the restated prior years. All the above procedures were completed in a satisfactory manner.

Independent Auditor's Report (continued)

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

Key audit matters (continued)

<table>
<tr><th>The key audit matters</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Valuation of Asset for incurred claims</td></tr>
<tr><td>The Association has reported asset for incurred claims US$111,720 thousands (As restated 2023: US$99,399 thousands).

Assets for incurred claims are significant to the financial statements and rely on the correct valuation of liability of incurred claims.

Detailed disclosure on the asset for incurred claims is presented in Note 8 of the financial statements.</td><td>▪ Performed a recalculation of quota share recoveries.
▪ In conjunction with substantive claims estimates testing, we tested the application of XoL reinsurance to determine reinsurance recoveries.
▪ Tested the entry of key reinsurance terms into reinsurance spreadsheets from the reinsurance contracts.
▪ Reconciled attaching recovery estimates from the gross claims estimate testing tracing any attaching recoveries to the reinsurance share of outstanding claims listing.
▪ Recalculated the reinsurers' share of pool claims and share of technical provisions by ensuring the retention limit had been applied and agreed to the IG portal.
▪ Performed substantive testing over pool claim estimates which have been agreed to the 3rd party notifications and supporting documentation to ensure these have been appropriately accounted for at year end.
▪ Substantively tested reinsurance recoveries above performance materiality to debit notes to ensure correct amount had been recovered for the claim.
All the above procedures were completed in a satisfactory manner.</td></tr>
<tr><td colspan="2">Transition to IFRS17 "Insurance Contracts"</td></tr>
<tr><td>On 20 February 2023, the Association adopted IFRS 17 Insurance Contracts, which replaced the existing standard, IFRS 4 Insurance Contracts.

IFRS 17 introduces pervasive changes to the measurement, presentation and disclosure of insurance contracts and related account balances. The standard is complex and has required significant judgement and interpretation in its application. To meet the requirements of the new standard, the Association has made significant changes to its systems, processes and controls.

IFRS 17 has been applied fully retrospectively as at 20 February 2022 to each group of insurance contracts. As a result, comparative information has been restated within the financial statements. Refer to note 2 (c) in the financial statements which sets out the qualitative and quantitative IFRS 17 information, including the relevant recognition and measurement requirements of the Standards, note 3 in the financial statements which sets out Critical accounting judgements and key sources of estimation uncertainty relevant for IFRS 17 and note 23 for the accounting policies applied on its adoption.</td><td>We performed the following audit procedures for the purposes of understanding and challenging key judgements and assumptions:
▪ Obtained an understanding of controls governing the restated 20 February 2023 and 20 February 2022 comparative financial information and transition impact and, in particular, those controls over the assumptions and methodologies applied in the new IFRS 17 models in valuing the liability for incurred claims.
▪ Evaluated the appropriateness of key technical accounting decisions, judgments, assumptions and elections made in determining the impacts to assess compliance with the requirements of the standard.
▪ With the involvement of our actuarial specialists, as our auditor's expert, we performed procedures to assess the Association's implementation of the defined methodology and IFRS 17 calculation models.
▪ We evaluated the data and other information required for the IFRS 17 calculations, including the data inputs to the calculation of the fulfilment cashflows and the risk adjustment within the liability for incurred claims.
▪ We assessed the appropriateness of both the new disclosures required and the specific disclosures related to the transition impact and reconciled the disclosures to underlying accounting records and supporting data.
All the above procedures were completed in a satisfactory manner.</td></tr>
</table>

Independent Auditor's Report (continued)

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

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and the additional information provided on page 48 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.

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

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

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

- 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.

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 to 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

Requirements of Article 10(2) of the EU Regulation 537/2014:

1. Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Association on 23 September 2021 by the Board of Directors. Our appointment has been renewed annually representing a total period of uninterrupted engagement appointment of three years.

2. 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 Company, which we issued on 20 May 2024 in accordance with Article 11 of the EU Regulation 537/2014.

3. 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.

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 Christos Tsissios.

Christos Tsissios
Certified Public Accountant and Registered Auditor
for and on behalf of
Moore Limassol Limited
Certified Public Accountants and Registered Auditors

Limassol, 20 May 2024