Steamship Mutual Underwriting Association Limited

Annual Report and Accounts 2023

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Steamship Mutual
Underwriting Association Limited

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

Notice of Meeting

Notice is hereby given that the One Hundred and Fourteenth Annual General Meeting of the Members of the Company will be held at the Post Oak Hotel, 1600 W Loop S, Houston, Texas, TX 77027 on Tuesday, 24 October 2023 at 09:05 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 2023, they having been recommended for adoption by the Board.
2 To elect Members of the Board.
The Members of the Board retiring by rotation and in accordance with Article 11.2 of the Association are Mr C Ahrenkiel, Mr A Pohan and Mr A Tung. Being eligible, they offer themselves for re-election.
3 The Members of the Board who have been appointed since the last AGM, retiring in accordance with Article 11.10 of the Association are Mr J Andrews, Mr G Jones, Mr B McAllister and Mr J Roome. Being eligible, they offer themselves for re-appointment.
4 To authorise the Managers to fix the remuneration of the Auditor.
5 To transact any other ordinary business of the Company.

By Order of the Board

A Thawani
Secretary

21 May 2023

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

Directors

Directors
A Pohan, NY Waterway (Chairman)
C B Adams, Steamship P&I Management LLP (resigned 21 February 2023)
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland
J H D Andrews, Steamship P&I Management LLP (appointed 4 April 2023)
C Bouch (resigned 20 July 2022)
I Grimaldi, Grimaldi Holdings SpA
G K Jones, Steamship P&I Management LLP (appointed 21 February 2023)
C J Madinabeitia, Tradewind Tankers SL
S J Martin, Steamship P&I Management LLP (resigned 4 April 2023)
B A McAllister, McAllister Towing (appointed 21 December 2022)
J Roome (appointed 7 July 2022)
A L Tung, Island Navigation Corp International Ltd
R Zagari, Augustea Group

Secretary
A Thawani, Steamship P&I Management LLP

Managers
Steamship P&I Management LLP

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

Website: www.steamshipmutual.com

Registered number
00105461

Strategic Report

The Directors present their Strategic Report for Steamship Mutual Underwriting Association Limited ("Association") for the year ended 20 February 2023.

The Steamship group ("Steamship") is financially one of the largest and strongest marine Protection and Indemnity ("P&I") clubs in the world and maintains an "A" rating from S&P Global. For the year under review, the Directors set a 12.5% general increase in P&I premium. At the 2023/24 renewal the general increase was set at 7.5%.

The key performance indicators are entered tonnage, gross premium written, combined ratio and the result for the financial year as detailed below.

The Association's owned entered tonnage increased by 5.6% from 69.1m gross tons ("GT") to 73.0m GT during the year and including renewal. Total entered tonnage at 20 February 2023 for owned and chartered entries stood at 141.7m GT.

Gross premium written in the year increased to US$268.9m from US$209.5m last year, a 28.4% increase.

The Association's combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium, improved from 104.1% to 97.4% due to lower than anticipated Pool claims from the International Group for the 2022 policy year.

The balance on the technical account for general business was a surplus of US$1.8m for the financial year (2022: deficit US$2.3m). Free reserves increased from US$98.6m to US$101.1m.

Strategy

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

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

Underwriting

During the year mutual premium was levied as follows:

- 100% mutual premium for the 2022/23 policy year (Class 1 – P&I); and
- 100% mutual premium for the 2022/23 policy year (Class 2 – FD&D).

The 2019/20 policy year was closed in May 2022.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 15% for the 2023/24 and 2022/23 policy years, and 12.5% for the 2021/22 and 2020/21 policy years.

Claims

Gross incurred claims arising in respect of the 2022/23 policy year, including incurred but not reported ("IBNR") provisions, are projected to be $234.8m, an increase of 11.9% over the 2021/22 policy year ($209.8m). Claims incurred net of reinsurance recoveries amounted to $24.1m, an increase of 2.5% compared to the 2021/22 policy year ($23.5m).

Overall, the 2022/23 policy year represents a favourable result after accounting for the increased tonnage written by the Association and the unsurprising increase in passenger claims as cruise vessels resumed post-Covid with almost full schedules and occupancy levels.

Although Steamship did not experience any Pool claims for the 2022 policy year, with overall Pool performance for the policy year being very good, it was adversely affected by a number of significant increases in Pool estimates for prior policy years, as were all members of the International Group.

Covid-19 claims are on-going with a number remaining outstanding but continue to reduce in significance. Relatively few incidences have been notified during the 2022/23 policy year to date and all of which are low value.

Steamship has continued to support the production of several safety and training videos. The final two videos in the Shipboard Operations series which discuss the effect of Covid-19 on the shipping industry are now available. Part 2 – "COVID" introduces the concept of different leadership styles during a suspected coronavirus infection onboard, and Part 3 – "Commerce" looks at some of the commercial issues impacted by the Covid-19 pandemic. Other titles including "Drug Smuggling", "Drug and Alcohol Abuse", "Social Isolation" and "Observational Skills" have also been completed. There are currently 20 videos available with a further 5 titles under production or soon to be released.

The engagement between Steamship and Mental Health Support Solutions (MHSS) continues to strengthen, with an increasing number of Members enquiring about the additional services that MHSS can provide such as pre-boarding psychological evaluation, the on-site attendance of psychologists in the event of an incident or similar traumatic event, and mental health training.

During the course of the year Steamship has released an increased number of loss prevention risk alerts and topical articles, with the Loss Prevention team attending in person and presenting at a number of industry conferences and Member crew training seminars.

Strategic Report

Pooling and reinsurance

The Association's reinsurance programme for the 2023/24 policy year was arranged in conjunction with other members of the International Group. The programme provides an ultimate limit of US$3.1bn in excess of US$10m, except in relation to oil pollution claims, which were subject to an overall limit of US$1.0bn.

Pooling

For 2023/24 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 International Group'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.

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 2023/24 policy year providing 25% of the first layer, with the remaining 75% placed in the market. There is no change to the Collective Overspill layer of US$1bn excess US$2.1bn.

For malicious cyber, covid and pandemic risks there is now free and unlimited cover for the first layer. For 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 International Group continues to pool between itself the un-reinsured risks. This combination means that there is no change to Members' cover for the 2023/24 policy year.

Hydra Insurance Company Limited ("Hydra")

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

For 2023/24 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.

Risk management

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

The Association's exposure to liquidity, or cash flow, risk is limited given the terms of its reinsurance arrangements and that its investments are cash, money market instruments, short-term US government bonds and medium-term corporate bonds.

The external auditor identified the degree of estimation and judgement in respect of the valuation of IBNR for injury claims as a significant risk. The Directors are aware of the volatility in this class, the risks associated with it, and that they are embedded within the reserving process. Further information on financial risk management is set out in the notes on the accounts.

See note 17 for more information on risk management.

Section 172 ("s172") statement

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

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

Consequences of decisions in the long-term

The Board took account of elevated Pool claims, amongst other factors, and, acknowledging the need to achieve underwriting balance, ordered a 7.5% general increase for the 2022/23 policy year.

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

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

Strategic Report

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

The Association actively promotes quality and safety in maritime operations through its evaluation of risk presented by the Members it insures and provides practical support for the mental well-being of seafarers and its loss prevention initiatives. These measures have the objective of improving ship safety and the safety of life at sea, thereby reducing the risk of adverse environmental and community impact. Through the cover that is provided for the liabilities arising from shipping casualties, the Association's response to such incidents has a focus upon minimising environmental impact.

During the financial year, the Association has developed measures and carried out a stress test to manage and analyse the potential risks arising from climate change. This stress test built on the prior analysis carried out by the Association's internal auditor PwC and examined the data regarding the physical impact of climate change on P&I claims. Claims staff have also been instructed to include a climate change indicator to facilitate future reporting requirements and trend analysis.

Steamship released its first Sustainability Report during the year, which outlines the sustainability relevance of the Club's core activities, in addition to providing details of measures implemented by the Managers to reduce the environmental impact of their operations. These measures include increasing the scope of recycling, minimising energy usage, reducing water consumption and waste within its office operations and monitoring CO2 emissions associated with business travel. For newly leased office buildings, high importance is placed on energy efficiency. See the Steamship Mutual website (link on page 3) for the full report. The Managers also continue to raise awareness amongst employees of Environment, Social and Corporate Governance ("ESG") and sustainability issues and have established an ESG Support Hub to assist Members with ESG and sustainability issues and thereby add value to the Association's membership.

Corporate governance and reporting history

Environmental risk management, including climate risk, has been a feature of the Association's corporate thinking and governance structures for many years, and is included within the terms of reference for several committees of the Association and the Managers:

- **Emerging Risks Sub-committee** – reviews the emergence of risks relating to increased pollution regulation and lower vessel emissions regulations and the pricing of emerging risks to ensure sufficient provision is provided for events not in data.
- **Audit & Risk Committee ("ARC") and Claims Committee** – commission and review stress tests in relation to the Association's environmental risks. During the financial year, the stress test programme selected two environmental risks identified during an earlier assessment by PwC and examined, in respect of both the wreck removal and pollution claims categories, the data surrounding the physical impact of climate change. The leading risks continue to be both physical (the risk of more frequent vessel casualties arising from severe weather events) and transitional (the introduction of new fuels and propulsion technology in response to the regulatory requirement for the shipping industry to reduce greenhouse gas ("GHG") emissions).
- **Risk Management Operations Committee ("RMOC")** – provides stress test recommendations to the ARC and prepares climate scenario analysis conducted with support from PwC.
- **Climate Change & Sustainability Working group** – established in 2020, reviews climate and other ESG risks encapsulated in an ESG risk cause dashboard and makes recommendations to the RMOC for climate stress tests.

Maintain a reputation for high standards of business conduct

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

Need to act fairly between Members of the Association

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

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

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

The Steamship Mutual Trust ("Trust")

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

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

A Pohan
Chairman

Managers
Steamship P&I Management LLP

21 May 2023

Report of the Directors

The Directors have pleasure in presenting their Report and the Audited Accounts of the Association for the year ended 20 February 2023.

Principal activities

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

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

Directors

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

In accordance with Article 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Mr C Ahrenkiel, Mr A Pohan and Mr A Tung. The Members of the Board who have been appointed since the last AGM, retiring in accordance with Article 11.10 of the Association are Mr J Andrews, Mr G Jones, Mr B McAllister and Mr J Roome. Being eligible, they offer themselves for re-election.

Audit and Risk Committee (“ARC”)

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

The ARC meets three times a year and is currently comprised of the following Directors: Mr C J Madinabeitia (Chairman), Mr J Roome, and Mr R Zagari. Mr A Pohan is invited to attend the meeting in his capacity as Chairman of the Association, and representatives of the Managers are also invited to attend.

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

The external auditor meets with the Managers who, having liaised with the ARC Chairman, review their audit approach and the key risks identified. The audit plan is submitted to and reviewed by the ARC and Board. The audit partner presents their audit plan and findings to the ARC and Board.

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

Within the past year the ARC’s work has included a review of the following matters:

- Impact of, and response to, the Ukraine/Russia crisis
- Activities of the new external auditor
- Internal audit reports, including cyber security
- Stress tests, including financial resilience and impact of inflation
- Risks associated with London office move

Rules

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

Class 1 – Protection and Indemnity

Rule 2 – Definitions – A rule change to enable each of the insuring entities to rely on the sanctions provisions notwithstanding that any given sanctions risk exposure is to the other insuring entity.

Rule 18 – General Exceptions and Limitations – Amendments to reflect an increase in the poolable cover limit available in respect of charterers and for consortium claims, from US$350m to US$500m.

Rule 19 – Hull Risks and Specialist Operations – An amendment to reflect a new Pooling Agreement exclusion in respect of mining activities, which now fall within the categories of specialist operations.

Report of the Directors

Rule 25 ix – Towage – Amendments to incorporate changes to the Pooling Agreement as follows:

- The requirement for a contract to be on knock for knock terms only extends to property and not loss of life or personal injury;
- The inclusion of BIMCO Supplytime as an approved contract for the purpose of towage.

Rule 25 xii – Quarantine Risks – Amendments to clarify the recoverability of expenses in light of scenarios experienced as a result of the Covid pandemic.

Rule 25 xiii – Cargo Liabilities – Failure of Cargo Interests to Collect Cargo – An amendment to enable disposal costs to be covered subject only to the general claim reporting requirements under Rule 28, while making clear that the strict reporting requirement, failing which there is no recovery from the Club, applies only to storage charges.

Streamlined Energy and Carbon reporting ("SECR")

The Association consumed less than 40,000 kWh of energy and is therefore exempt from the SECR disclosure requirements.

Future developments

Please refer to the Strategic report on pages 4-6 which describes the Association's continued financial strength, its strategy to be the best provider of P&I insurances, ongoing developments in claims management, its focus on fostering relationships with its members and suppliers, and its commitment to protecting the community and environment. A specific mention is also made to the general increase (second paragraph - page 4) and the reinsurance programme for the 2023/24 policy year (page 5).

Financial instruments

Please refer to the risk management note in the Strategic report on page 5.

Management Highlights

The Management Highlights will be published by June 2023.

Directors' responsibilities statement

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

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

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

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

Disclosure of information to the external auditor

Each Director at the date of approval of this report confirms that:

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

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

External auditor

A resolution to reappoint BDO LLP as the Association's external auditor will be proposed at the forthcoming AGM.

A Pohan
Chairman

Managers
Steamship P&I Management LLP

21 May 2023

Consolidated Income and Expenditure Account

for the year ended 20 February 2023

Technical Account	Note	2023 US$000	2022 US$000
Earned premium, net of reinsurance			
Gross premium written	2	**268,882**	209,454
Outward reinsurance premium	3	**(200,650)**	(153,695)
Earned premium, net of reinsurance		**68,232**	55,759
Allocated investment return transferred from the non-technical account		**(733)**	(867)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**311,689**	165,100
Reinsurers' share	4	**(277,502)**	(135,664)
Net claims paid		**34,187**	29,436
Change in the provision for claims			
Gross amount	5	**(9,669)**	15,941
Reinsurers' share	5	**11,765**	(13,069)
Change in the net provision for claims	5	**2,096**	2,872
Claims incurred, net of reinsurance		**36,283**	32,308
Net operating expenses	6	**29,450**	24,883
Balance on the technical account for general business		**1,766**	(2,299)

Non-Technical Account	Note	2023 US$000	2022 US$000
Balance on the general business technical account		**1,766**	(2,299)
Investment income	7	**99**	(837)
Unrealised gains	8	**62**	1
Allocated investment return transferred to the technical account		**733**	867
Other income		**22**	52
Surplus/(deficit) before taxation		**2,682**	(2,216)
Taxation	9	**154**	11
Surplus/(deficit) for the financial year		**2,528**	(2,227)
Free reserves brought forward		**98,612**	100,839
Free reserves		**101,140**	98,612

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

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

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

Balance Sheet

as at 20 February 2023

Assets	Note	2023 Consolidated US$000	2023 Company US$000	2022 Consolidated US$000	2022 Company US$000
Investments					
Other financial investments	10	**100,604**	**100,604**	68,344	68,344
Investment in group undertaking	11	**–**	**25**	–	27
Reinsurers' share of technical provisions					
Claims outstanding	5	**758,991**	**758,991**	770,756	770,756
Debtors					
Debtors arising out of direct insurance operations - policyholders		**5,719**	**5,719**	8,586	8,586
Debtors arising out of reinsurance operations	12	**49,514**	**49,514**	74,820	74,820
Other debtors		**1,430**	**1,603**	1,568	1,634
Other assets					
Cash at bank and in hand		**13,578**	**13,369**	15,833	15,730
Prepayments and accrued income					
Deferred acquisition costs		**639**	**639**	623	623
Other prepayments and accrued income		**416**	**416**	395	395
Total assets		**930,891**	**930,880**	940,925	940,915
Liabilities					
Capital and reserves					
Free reserves	14	**101,140**	**101,137**	98,612	98,610
Technical provisions					
Provision for unearned premium		**3,866**	**3,866**	3,479	3,479
Claims outstanding	5	**804,295**	**804,295**	813,964	813,964
Provisions for other risks and charges					
Provision for taxation		**154**	**153**	9	9
Creditors					
Creditors arising out of direct insurance operations - policyholders		**11,052**	**11,052**	15,020	15,020
Creditors arising out of reinsurance operations	13	**8,141**	**8,141**	8,383	8,383
Other creditors including taxation and social security		**2,243**	**2,236**	1,458	1,450
Total liabilities		**930,891**	**930,880**	940,925	940,915

The parent company made a surplus for the year end 20 February 2023 of $2,527,000 (2022: Deficit of $2,227,000). The Association has taken exemption under Section 408 of the Companies' Act from preparing a parent company statement of income and expenditure.

The accompanying notes to these accounts form an integral part of this balance sheet. These financial statements were approved by the Board of Directors on 21 May 2023.

A Pohan
Chairman

C J Ahrenkiel
Director

Managers:
Steamship P&I Management LLP

Consolidated Cash Flow Statement

for the year ended 20 February 2023

	2023 US$000	2022 US$000
Cash flows from operating activities		
Operating surplus/(deficit) before taxation after interest	**2,682**	(2,216)
Increase in general insurance technical provisions	**2,483**	3,829
Unrealised gains on investments	**(62)**	(1)
Decrease/(increase) in debtors	**28,274**	(18,068)
(Decrease)/increase in creditors	**(3,425)**	1,386
Taxation paid	**(9)**	(115)
	27,261	(12,969)
Net cash inflow/(outflow) from operating activities	**29,943**	(15,185)
Cash flow from investment activities		
Net portfolio investment		
Purchase of bonds and loans	**(17,171)**	(1)
Sale/(purchase) of money market instruments	**4,416**	(3,003)
(Increase)/decrease in cash on short term deposit	**(19,443)**	18,556
Cash (used in)/generated by investing activities	**(32,198)**	15,552
Movement in opening and closing cash and cash equivalents		
Net cash (outflow)/inflow for the period	**(2,255)**	367
Cash and cash equivalents at 20 February 2022	**15,833**	15,466
Cash and cash equivalents at 20 February 2023	**13,578**	15,833

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

The consolidated accounts have been prepared in compliance with the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and applicable United Kingdom Financial Reporting Standards ("FRS") 102 and 103. The financial statements are prepared under the historical cost convention, as modified for fair valuation of financial assets at fair value through profit and loss.

The Association has taken exemption from presenting a parent income and expenditure statement under section 408 of Companies Act 2006. The Association has taken exemption from presenting a parent Statement of Cash Flows under section 1.12 (b) of FRS 102.

(b) Going concern assessment

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

- Assessed the financial performance of the Association and the successful renewal referenced in the Strategic Report.
- Assessed the liquidity of all assets of the Association.
- Considered the Group Solvency Self Assessment (of the Steamship regulatory group), the outlook for Steamship and the stress tests performed within it.
- Assessed the solvency requirements set by the regulator and solvency ratio of the Association.
- Considered post-balance sheet events.

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

(c) Basis of consolidation

The accounts consolidate the accounts of Steamship Mutual Underwriting Association Limited and its wholly owned subsidiary undertaking Steamship (Germany) GmbH at 20 February 2023.

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

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

(e) Premium written

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

(f) Unearned premium

The proportion of premium written relating to periods of cover after the year end is carried forward as a provision for unearned premium. There is no reinsurers' share of unearned premium due to the reinsurance contracts being recognised on an earned basis.

(g) Deferred acquisition costs

Acquisition costs are deferred to the extent that they are attributable to premium unearned at the balance sheet date. There is no reinsurers' share of deferred acquisition costs due to the reinsurance contracts being recognised on an earned basis.

(h) Claims and related expenses

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

The Association provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provision. Guarantees are issued under certain circumstances, in accordance with procedures, for uncovered claims when appropriate counter security is obtained in advance.

Notes on the Accounts
continued

1. Accounting policies continued

(i) Reinsurance premium and recoveries

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

(j) Investments

Investments have been valued as at the end of the reporting period and at fair value through profit or loss. Deposits held at credit institutions have a maturity date of 3 months or more. Investment income consists of interest and realised gains and losses on fair value through profit or loss assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of realised and unrealised exchange differences arising on the conversion of transactions on non-US dollar denominated transactions relating to the technical account and the funding of the operating expenses of the Managers' London office. These exchange differences are disclosed in notes 7 and 8.

(k) Cash at bank and in hand

Cash and cash equivalents comprise cash at bank and in hand, have a maturity of less than 3 months, and are valued at the end of the reporting period.

(l) Foreign currencies

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

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

		2023	2022
Euro	€	**0.938**	0.882
UK sterling	£	**0.833**	0.736

Notes on the Accounts
continued

2. Gross premium written

	2023 US$000	2022 US$000
Mutual and fixed premium written	**269,194**	210,639
Return of premium	**62**	2
Release calls	**13**	(230)
Movement in unearned premium	**(387)**	(957)
	268,882	209,454

Gross premium by class of business

	2023 US$000	2022 US$000
Protection and Indemnity	**245,865**	193,137
Freight, Demurrage and Defence	**6,612**	5,064
Special Risks and Extra Covers	**16,405**	11,253
	268,882	209,454

Gross premium by Member location

	2023 US$000	2022 US$000
United States of America	**143,964**	109,317
South Korea	**23,806**	17,650
China	**20,525**	11,245
Hong Kong	**13,453**	10,880
Taiwan	**10,781**	9,744
United Kingdom	**6,812**	7,228
Chile	**6,668**	5,654
India	**6,129**	5,783
Brazil	**5,819**	5,781
Philippines	**4,880**	4,825
Other countries	**26,045**	21,347
	268,882	209,454

Notes on the Accounts

continued

3. Reinsurance contracts

The Association has the following reinsurance arrangements:

For 2015/16 and subsequent policy years the Association entered into a reinsurance contract with related party SMUAB under which, in return for a percentage of written premium ceded to SMUAB, the Association is covered for 90% of its net underlying liabilities. For the financial year to 20 February 2023 premium ceded to SMUAB amounted to US$157.9m (2022: US$122.7m). Reinsurers share of claims paid recovered from SMUAB during the financial year is disclosed in note 4. SMUAB's share of outstanding claims as at 20 February 2023 is disclosed in note 5.

The Association entered into a reinsurance contract with related party The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of the Trust, a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover 100% of its net underlying liabilities for all policy years up to and including 2014/15. For the financial year to 20 February 2023 premium ceded to the Trust amounted to -US$0.6m (2022: -US$1.2m). Reinsurers share of claims paid recovered from the Trust during the financial year is disclosed in note 4. The Trust's share of outstanding claims as at 20 February 2023 is disclosed in note 5.

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

4. Claims paid

	2023 US$000	As restated 2022 US$000
Gross claims paid		
Claims and related expenses	**268,093**	112,858
International Group Pool claims	**23,381**	35,754
Claims administration expenses	**20,215**	16,488
	311,689	165,100
Less reinsurers' share		
SMUAB	**130,155**	121,851
The Trust	**5,062**	4,896
International Group Pool and other reinsurers	**142,285**	8,917
	277,502	135,664
Net claims paid	**34,187**	29,436

Restatement

The comparatives for 2022 have been restated due to the incorrect classification between the reinsurers of Hydra reinsurance recoveries as part of their reinsurance share on claims paid. Reinsurance recoveries from SMUAB and the International Group Pool and other reinsurers have been restated from US$116,535,000 to US$121,851,000 and from US$14,234,000 to US$8,917,000 respectively. There was no impact on the total reinsurers' share recognised as a result of this classification error.

The impact on net claims paid, the deficit for 2022 in the Consolidated Income and Expenditure Account and the net assets on the Balance Sheet is nil.

Notes on the Accounts
continued

5. Change in net provision for claims	2023 US$000	2022 US$000
Gross outstanding claims		
Provision brought forward	**813,964**	798,023
Claims paid in the year	**(311,689)**	(165,100)
Changes to reserves	**302,020**	181,041
Provision carried forward	**804,295**	813,964
The Trust's share of outstanding claims		
Provision brought forward	**54,414**	70,760
Reinsurance recoveries made in the year	**(5,062)**	(4,896)
Changes to reserves	**360**	(11,450)
Provision carried forward	**49,712**	54,414
SMUAB's share of outstanding claims		
Provision brought forward	**427,706**	419,353
Reinsurance recoveries made in the year	**(130,155)**	(121,851)
Changes to reserves	**156,509**	130,204
Provision carried forward	**454,060**	427,706
International Group Pool & Excess Loss and other reinsurers' share of outstanding claims		
Provision brought forward	**288,636**	267,574
Reinsurance recoveries made in the year	**(142,285)**	(8,917)
Changes to reserves	**108,868**	29,979
Provision carried forward	**255,219**	288,636
Total net outstanding claims	**45,304**	43,208

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

Gross outstanding claims carried forward are net of US$35.4m of third party recoveries (2022: US$64.0m).

Notes on the Accounts
continued

6. Net operating expenses

	2023 US$000	2022 US$000
Acquisition costs		
Brokerage	**13,363**	11,156
Underwriting administration expenses	**7,929**	6,573
	21,292	17,729
Administrative expenses		
Other administration expenses	**7,526**	6,332
Regulatory fees	**265**	455
Directors' fees	**6**	18
Audit fees	**361**	349
	8,158	7,154
	29,450	24,883

	2023 US$000	2022 US$000
Payable to the Association's auditor and its associates for the audit of the annual accounts	**229**	232
Payable to the Association's auditor and its associates for the audit of the annual accounts of the Association's branches	**84**	69
Payable to the Association's auditor and its associates for audit related assurance services	**48**	48
Total audit fees	**361**	349

Transactions with related parties

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

Steamship P&I Management LLP ("SPIM") provides management and administrative services to the Association. Under the terms of its management contract SPIM receives, as remuneration for its services, a fee which is based in part on premium payable by Members in each accounting year together with reimbursement of its office and administration expenses including the ongoing funding of a defined benefit pension scheme for which SIMSL is the statutory employer. For the financial year to 20 February 2023, these fees amounted to US$28.8m (2022: US$22.9m). US$0.4m was due from SPIM at the year end (2022: US$0.7m) and is included in other debtors on the balance sheet.

Steamship P&I Management (Singapore) PTE Ltd ("SPIM Singapore"), a subsidiary of SPIM, provides management and administrative services to the Association. SPIM Singapore receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses. For the financial year to 20 February 2023 these fees and expenses amounted to US$1.5m (2022: US$1.3m). US$0.1m was due to SPIM Singapore at the year end (2022: US$0.03m) and is included in other creditors on the balance sheet.

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses and those of its worldwide representatives. For the financial year to 20 February 2023 these fees and expenses amounted to US$0.3m (2022: US$0.2m). US$nil was due from SMM(B) at the year end (2022: US$nil).

Notes on the Accounts
continued

6. Net operating expenses (continued)
Transactions with related parties continued
Steamship Mutual Management (Hong Kong) Limited ("SMM(HK)") provides management and administrative services to the Association. Under the terms of its management contract SMM(HK) receives as remuneration for its services, a fee which is based on the reimbursement of its office and administration expenses. For the financial year to 20 February 2023 these fees and expenses amounted to US$1.8m (2022: US$1.7m). US$0.3m was due from SMM(HK) at the year end (2022: US$0.2m) and is included in other debtors on the balance sheet.

7. Investment income	2023 US$000	2022 US$000
Dividends and interest	**1,166**	28
Realised (losses)/gains:		
Investments	**(334)**	2
Foreign exchange	**(733)**	(867)
	99	(837)

8. Unrealised gains	2023 US$000	2022 US$000
Investments	**62**	1
Foreign exchange	**–**	–
	62	1

9. Taxation
The charge includes an estimated liability for the accounting year to 20 February 2023, of US$152,654 (2022: US$5,553) based upon an agreement with the United Kingdom tax authorities, assessed on the investment income of the Association for the year, along with an estimated liability of US$1,818 (2022: $2,866) based on the results of the Association's overseas branches.

Analysis of tax charge on ordinary activities	2023 US$000	2022 US$000
United Kingdom corporation tax at 19% (2022: 19%) based on the surplus/(deficit) for the financial year	**154**	11
	154	11

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

Surplus/(deficit) before tax	**2,682**	(2,216)
Tax at 19% (2022: 19%) thereon	**510**	(421)
Effect of tax on overseas branches	**–**	3
Effect of income not subject to corporation tax	**(356)**	429
Current tax charge for period	**154**	11

Notes on the Accounts
continued

10. Other financial investments

	2023 US$000	2022 US$000
Market value		
Bonds and loans	**33,634**	16,401
Money market instruments	**37,389**	41,805
Deposits with credit institutions	**29,579**	10,136
Cash accounts	**2**	2
	100,604	68,344
Cost		
Bonds and loans	**33,571**	16,400
Money market instruments	**37,389**	41,805
Deposits with credit institutions	**29,579**	10,136
Cash accounts	**2**	2
	100,541	68,343

Fair value determination

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

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

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

Level 3 Market data is unavailable for the asset.

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

As at 20 February 2023

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	16,739	16,895	–	**33,634**
Money market instruments	37,389	–	–	**37,389**
Deposits with credit institutions	29,579	–	–	**29,579**
Cash accounts	2	–	–	**2**
	83,709	**16,895**	**–**	**100,604**

As at 20 February 2022

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Bonds and loans	16,401	–	–	**16,401**
Money market instruments	41,805	–	–	**41,805**
Deposits with credit institutions	10,136	–	–	**10,136**
Cash accounts	2	–	–	**2**
	68,344	**–**	**–**	**68,344**

Notes on the Accounts
continued

11. Investment in group undertaking	**2023 US$000**	2022 US$000
Cost	**29**	29
Impairment	**(4)**	(2)
	25	27

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

12. Debtors arising out of reinsurance operations	**2023 US$000**	2022 US$000
The Trust	**48,438**	60,124
SMUAB	**–**	14,504
International Group clubs	**9**	73
Other reinsurance debtors	**1,067**	119
	49,514	74,820

13. Creditors arising out of reinsurance operations	**2023 US$000**	2022 US$000
SMUAB	**571**	–
International Group clubs	**34**	2,226
Other reinsurance debtors	**7,536**	6,157
	8,141	8,383

14. Group free reserves	**2023 US$000**	2022 US$000
Free reserves brought forward	**98,612**	100,839
Surplus/(deficit) for year	**2,528**	(2,227)
	101,140	98,612

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

Notes on the Accounts
continued

15. Security
A trust has been set up to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets included with other financial investments with a total value of US$5.8m (2022: US$5.7m) had been allocated to the trust.

The Association deposits funds as required in the agreement between various members of the International Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited, included within other financial investments, had a total value of US$10.9m (2022: US$10.7m).

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

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

17. Risk management
The Association monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment ("GSSA") report which is submitted to both the UK and Bermudian regulators. The GSSA documents Steamship's and the Association's risk and capital management processes employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

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

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

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

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

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

Inflation is one of many factors that are considered by claims handlers when setting an appropriate claims reserve prior to settling a claim. The Association uses standard actuarial techniques which, amongst other things, incorporate inflation when calculating appropriate technical provisions. Together, these should accommodate potential increased costs arising from current levels of inflation.

Notes on the Accounts
continued

17. Risk management continued

The Association aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome, but this prudent basis is expected to result in releases of prior year claim reserves. This prudence is expected to cover increased costs that might arise should inflation remain above the long-term average.

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

		2023 US$000	2022 US$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	**(11,742)**	(10,491)
	net of reinsurance	**(889)**	(883)
Single claim of US$2bn in current policy year			
Overall surplus	gross of reinsurance	**(2,000,000)**	(2,000,000)
	net of reinsurance	**(3,491)**	(3,308)
Single claim for other member of IG of US$2bn in current policy year			
Overall surplus	gross of reinsurance	**(14,785)**	(13,546)
	net of reinsurance	**(1,478)**	(1,355)

The following tables show the development of claims over ten years on both a gross and net of reinsurance basis. The top half of each table shows how the estimates of total claims for each policy year have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet. The current financial year end position for the 2019/20 and prior policy years reflects the cumulative claims after the Part VII transfer to SMUAE on 20 December 2020.

Insurance claims - gross

Policy year	**2013/14 US$000**	**2014/15 US$000**	**2015/16 US$000**	**2016/17 US$000**	**2017/18 US$000**	**2018/19 US$000**	**2019/20 US$000**	**2020/21 US$000**	**2021/22 US$000**	**2022/23 US$000**
End of reporting year	114,390	282,635	341,688	244,772	392,561	321,014	314,958	227,886	209,826	234,846
One year later	230,254	214,463	338,016	225,559	356,725	286,572	316,973	210,651	183,516	
Two years later	211,471	209,479	348,201	243,215	337,286	249,729	307,313	209,875		
Three years later	203,609	203,073	353,779	240,089	320,113	230,080	413,850			
Four years later	199,147	196,730	361,286	231,965	350,143	228,551				
Five years later	195,629	193,371	357,909	233,027	348,967					
Six years later	196,203	198,880	356,827	234,767						
Seven years later	193,309	198,794	358,502							
Eight years later	181,017	193,561								
Nine years later	178,649									
Current estimate of ultimate claims	178,649	193,561	358,502	234,767	348,967	228,551	413,850	209,875	183,516	234,846
Cumulative payments to date	170,414	182,157	337,130	218,914	245,495	173,587	338,245	87,271	61,517	28,320
Claims outstanding	**8,235**	**11,404**	**21,372**	**15,853**	**103,472**	**54,964**	**75,605**	**122,604**	**121,999**	**206,526**
Claims outstanding relating to last ten reporting years										**742,034**
Provision in respect of prior years										**62,261**
Total gross claims outstanding										**804,295**

Notes on the Accounts
continued

17. Risk management continued

Insurance claims - net

Policy year	2013/14 US$000	2014/15 US$000	2015/16 US$000	2016/17 US$000	2017/18 US$000	2018/19 US$000	2019/20 US$000	2020/21 US$000	2021/22 US$000	2022/23 US$000
End of reporting year	13,574	30,972	34,778	41,936	31,343	29,950	31,090	23,012	23,483	24,059
One year later	16,612	30,817	33,005	47,354	37,756	33,254	38,230	25,902	27,179	
Two years later	16,589	20,158	38,430	52,722	39,176	35,543	41,204	28,613		
Three years later	11,606	21,339	40,704	54,895	40,318	36,825	44,430			
Four years later	12,714	22,065	42,409	55,986	40,599	38,367				
Five years later	13,552	22,457	42,752	56,818	40,602					
Six years later	14,354	22,582	42,952	57,377						
Seven years later	14,642	22,664	42,956							
Eight years later	14,787	22,828								
Nine years later	14,290									
Current estimate of ultimate claims	14,290	22,828	42,956	57,377	40,602	38,367	44,430	28,613	27,179	24,059
Cumulative payments to date	14,290	22,828	42,045	56,007	39,195	35,729	40,892	19,526	15,771	9,114
Claims outstanding	**–**	**–**	**911**	**1,370**	**1,407**	**2,638**	**3,538**	**9,087**	**11,408**	**14,945**
Claims outstanding relating to last ten reporting years										**45,304**
Provision in respect of prior years										**–**
Total net claims outstanding										**45,304**

Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default causing a debt to be written off. The extensive reinsurance protection arranged by the Association effectively transforms a large proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. The credit risk arising from the reinsurance contracts with Steamship Mutual Trust and SMUAB is mitigated through the operation of a collateral agreement. External reinsurers are generally only used if at the time of contracting with them their financial strength rating is at least A- from S&P Global, or an equivalent rating from another rating agency, except in the case of some members of the International Group. The key area of exposure to credit risk for Steamship are in relation to its reinsurance recoverables.

Credit risk in respect of amounts due from Members is spread across diverse industries and geographical areas. Cover can be cancelled and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice therefore the Association experiences prompt payment of premium and bad debt experience is immaterial. Receivables from Members, agents and intermediaries generally do not have a credit rating.

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

Notes on the Accounts
continued

17. Risk management continued
The following tables show the aggregated credit risk exposure for those assets with external credit ratings (mainly S&P Global).

As at 20 February 2023

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	1,634	20,004	5,927	6,069	–	33,634
Money market instruments	37,389	–	–	–	–	37,389
Deposits with credit institutions	–	9,050	20,529	–	–	29,579
Cash accounts	–	2	–	–	–	2
Cash at bank and in hand	–	10,534	3,044	–	–	13,578
Reinsurers' share of technical provisions	–	5,253	724,452	29,270	16	758,991
Debtors arising out of reinsurance operations	–	17	49,491	4	2	49,514
Other debtors	–	–	–	–	–	–
Accrued interest	80	40	180	–	–	300
Other assets	–	–	–	–	7,904	7,904
Total assets	**39,103**	**44,900**	**803,623**	**35,343**	**7,922**	**930,891**

As at 20 February 2022

	AAA US$000	AA US$000	A US$000	BBB US$000	Not rated US$000	Total US$000
Bonds and loans	–	16,401	–	–	–	16,401
Money market instruments	41,805	–	–	–	–	41,805
Deposits with credit institutions	–	9,050	1,086	–	–	10,136
Cash accounts	–	2	–	–	–	2
Cash at bank and in hand	–	11,382	4,451	–	–	15,833
Reinsurers' share of technical provisions	–	5,585	739,375	25,783	13	770,756
Debtors arising out of reinsurance operations	–	17	74,803	–	–	74,820
Other debtors	–	–	261	–	–	261
Accrued interest	–	1	–	–	–	1
Other assets	–	–	–	–	10,910	10,910
Total assets	**41,805**	**42,438**	**819,976**	**25,783**	**10,923**	**940,925**

Notes on the Accounts
continued

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

As at 20 February 2023

	Not due US$000	0 - 30 days US$000	31 - 90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	1,991	1,042	1,675	902	109	5,719
Debtors arising out of reinsurance operations	48,438	987	29	43	17	49,514
Total	**50,429**	**2,029**	**1,704**	**945**	**126**	**55,233**

As at 20 February 2022

	Not due US$000	0 - 30 days US$000	31 - 90 days US$000	Over 90 days US$000	Impaired US$000	Total US$000
Debtors arising out of direct insurance operations	–	1,356	5,538	1,328	364	8,586
Debtors arising out of reinsurance operations	74,628	9	49	117	17	74,820
Total	**74,628**	**1,365**	**5,587**	**1,445**	**381**	**83,406**

Liquidity risk
Liquidity risk is the risk that the Association cannot meet its financial obligations as they fall due. The Association's exposure to liquidity risk is limited given that its investments are cash, money market instruments, short-term US government bonds and medium-term corporate bonds, and the terms of its reinsurance agreements provide for prompt payment. The following table shows the expected maturity of the Association's assets.

As at 20 February 2023

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	90,095	6,146	3,751	612	**100,604**
Reinsurers' share of technical provisions	276,912	157,474	213,157	111,448	**758,991**
Other assets	71,296	–	–	–	**71,296**
Total assets	**438,303**	**163,620**	**216,908**	**112,060**	**930,891**

As at 20 February 2022

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Investments	68,344	–	–	–	68,344
Reinsurers' share of technical provisions	295,770	175,175	213,368	86,443	770,756
Other assets	101,825	–	–	–	101,825
Total assets	**465,939**	**175,175**	**213,368**	**86,443**	**940,925**

Notes on the Accounts
continued

17. Risk management continued

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

As at 20 February 2023

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	293,440	166,874	225,881	118,100	**804,295**
Other liabilities	25,456	–	–	–	**25,456**
Total liabilities excluding capital and reserves	**318,896**	**166,874**	**225,881**	**118,100**	**829,751**

As at 20 February 2022

	0-1 years US$000	1-2 years US$000	2-5 years US$000	Over 5 years US$000	Total US$000
Claims outstanding	312,350	184,995	225,330	91,289	813,964
Other liabilities	28,349	–	–	–	28,349
Total liabilities excluding capital and reserves	**340,699**	**184,995**	**225,330**	**91,289**	**842,313**

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

The Association's investments are in short term money market instruments, US government bonds and medium-term corporate bonds and therefore it has limited direct exposure to interest rate risk.

The Association receives the majority of its premium income in US dollars, a significant amount in euro and small amounts in UK sterling and Canadian dollars. Claim liabilities arise in a number of currencies but predominantly in US dollar, euro, UK sterling and Brazilian real. To minimise currency mismatching, assets are regularly reviewed against the Association's liabilities.

Notes on the Accounts
continued

17. Risk management continued

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

As at 20 February 2023

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Korean Won US$000	Other US$000	Total US$000
Assets	801,918	24,051	78,681	10,500	2,749	12,992	**930,891**
Liabilities	(714,506)	(15,734)	(75,284)	(10,551)	(2,759)	(10,917)	**(829,751)**
	87,412	**8,317**	**3,397**	**(51)**	**(10)**	**2,075**	**101,140**

As at 20 February 2022

	US dollar US$000	UK sterling US$000	Euro US$000	Brazilian real US$000	Korean Won US$000	Other US$000	Total US$000
Assets	819,223	12,992	82,765	11,475	3,231	11,239	940,925
Liabilities	(726,290)	(12,578)	(79,956)	(11,477)	(3,272)	(8,740)	(842,313)
	92,933	**414**	**2,809**	**(2)**	**(41)**	**2,499**	**98,612**

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

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

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

Operational risk

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

Independent Auditor's Report

Independent auditor's report to the Members of Steamship Mutual Underwriting Association Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 20 February 2023 and of the Group's surplus for the financial year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Steamship Mutual Underwriting Association Limited (the 'Parent Company') and its subsidiary (the 'Group') for the year ended 20 February 2023 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Company Balance Sheet, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

Independence

Following the recommendation of the Audit and Risk Committee, we were appointed by Board of Directors on 30 June 2021 to audit the financial statements for the year ended 20 February 2022 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 20 February 2022 and 20 February 2023. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Review of the latest available Group Solvency Self-Assessment (GSSA) return to check compliance with regulatory solvency requirements. This included checking that stress testing was performed and review of the results of the stress testing as documented in the GSSA return.
- Assessed the solvency position through reference of sufficiency of assets to meet liabilities and the adequacy of regulatory capital.
- Reviewed the going concern of the Group and Parent's reinsurers through assessment of solvency and credit ratings.
- Enquiries of the Directors and scrutiny of management information, board minutes and regulatory correspondence to ascertain the existence of undisclosed events or obligations that may cast doubt on the Group and Parent's ability to continue as a going concern.
- Considered the impact of climate change on the Group and Parent's activities through discussion with management and our knowledge of relevant factors affecting the industry.
- Review of the basis of solvency projections and the appropriateness of the mechanism applied for the next 12 months from when the financial statements are authorised for issue by reviewing the reasonableness of the assumptions made based on historic outturn of previous projections. Review and challenge of the Group and Parent's current plans and budgets, including an assessment of the 2023 budget against the audited 2023 results and assessing the reasonableness of assumptions made based on historic outturn of budgeted results and our knowledge of relevant factors affecting the industry and economy.

Independent Auditor's Report

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

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

Overview

Coverage	*100% (2022: 100%) of Group profit before tax* *100% (2022: 100%) of Group revenue* *100% (2022: 100%) of Group total assets*		
		2023	2022
Key audit matters	Valuation of technical provisions and reinsurer's share of technical provisions	✔	✔
Materiality	*Group financial statements as a whole* $4.0m (2022: $3.1m) based on 1.5% (2022: 1.5%) of gross written premiums.		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We undertook a full scope audit of the Parent Company, which was considered to be the only significant component. All audit work was performed directly by the Group's audit engagement team which included, where relevant, appointed specialists. For the non-significant component, an analytical procedure was performed by the group engagement team to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report
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Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of Technical Provisions and reinsurer's share of technical provisions (Notes 5 and 17) *As per note 5 & 17 and accountancy policy 1(d) & (h), the financial statements record gross technical provisions of US$804.3m (2022: US$814.0m), and net technical provisions of US$45.3m (2022: US$43.2m). This is made up of individual case estimates and claims incurred but not yet reported ('IBNR').*	The valuation of technical provisions, both gross and net of reinsurance, is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions. 1) IBNR modelling by actuarial experts is reliant on: • Relevant claims data being input correctly into actuarial models. • The application of appropriate actuarial techniques, judgements and assumptions. 2) Case estimates are inherently uncertain and rely on: • The expertise of the claims handlers and their experience of assessing claims in different jurisdictions and of different types. • The correct and timely entry of claims information onto the claims system. • Adjustments being made to significant year end estimates and payments being absorbed by the assessment of IBNR. The Group has a range of reinsurance placement, incorporating quota share, International Group pool excess of loss and non-pool cover. Reinsurers' share of technical provisions is dependent on the appropriate valuation of gross reserves and the correct application of the portfolio of reinsurance agreements in place. We have assessed this area as being of significant risk to the audit and key audit matter due to the significance of these amounts in deriving the Group's results and because of the degree of assumptions and estimation underpinning the determination of the technical provisions, which can be highly subjective.	We performed the following: **Valuation of IBNR:** • Reconciled key actuarial inputs used in actuarial models to claims system which are noted to consist of incurred claims positions, initial expected loss ratios and earned and ultimate premium. • Through the use of our actuarial specialists we independently projected the ultimate claims figure using historical claims data and our own actuarial techniques. • Through the use of our actuarial specialists we assessed the appropriateness of the methodology, significant judgements and assumptions applied by the Group's actuarial team in calculating technical provisions. • Reviewed the outturn of prior years' claims IBNR against previous estimates, to assess valuation of IBNR held against the subsequent current year claims development. **Valuation of Claim Estimates:** • Tested the operating effectiveness of a control relating to the timely review of open claim estimates. • Agreed a sample of claim estimates to supporting documentation, such as legal correspondence, claims notifications and invoices to assess whether case estimates were valued appropriately. • Assessed the appropriateness of key claims adjustments around Pool claims application of member Annual Aggregate Deductibles ('AADs') and adjustment of Pool AADs by agreeing to supporting documentation such as claims notifications. • Agreed a sample of claims estimate adjustments and payments pre and post-year end to third party documentation and bank statements, to assess whether these adjustments and payments were accounted for in the correct period. **Valuation of Reinsurance Share of Technical Provisions:** • Through the use of our actuarial specialists we assessed the appropriateness of the methodology, significant judgements and assumptions applied by the Groups' actuarial team in calculating the reinsurance share of technical provisions. • Agreed the quota share reinsurance arrangement to contract, assessing whether the percentages as well as coverage period were valid and accurate. On an overall basis recalculated the quota share element of reinsurer's share of technical provisions using contracted quota share rates. • A sample of reinsurance claims were assessed for the accuracy of the excess of loss reinsurance calculations through identification of claims above reinsurance retention levels, thus eligible for recovery as per the agreement. We recalculated

Independent Auditor's Report

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		the reinsurers' share in line with the excess of loss reinsurance programme terms. • Confirmed the accuracy of key reinsurance terms on a sample basis applied to the reinsurance share of technical provisions to reinsurance contracts in place. **Key Observations:** Based on our audit procedures performed we consider the judgements and assumptions made in the valuation of technical provisions and reinsurer's share of technical provisions to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements	Parent company financial statements	Group financial statements	Parent company financial statements
	2023 $m	2023 $m	2022 $m	2022 $m
Materiality	4.0	4.0	3.1	3.1
Basis for determining materiality	1.5% of gross written premium		1.5% of gross written premium	
Rationale for the benchmark applied	The financial statements are affected by a quota share agreement. Due to the significant impact this has on the gross line items affected by this agreement, gross written premium was determined to be the appropriate benchmark on which to base materiality.		The financial statements are affected by a quota share agreement. Due to the significant impact this has on the gross line items affected by this agreement, gross written premium was determined to be the appropriate benchmark on which to base materiality.	
Performance materiality	3.0	3.0	2.0	2.0
Basis for determining performance materiality	75%		65%	
Rationale for the percentage applied for performance materiality	75% of financial statement materiality was reflective of our perceived risk of the financial statements containing misstatements, taking into account the risk associated with the engagement.		65% of financial statement materiality was reflective of our assessment of risk of the financial statements containing misstatements, taking into account the risks in first year audit engagements.	

Independent Auditor's Report
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Specific materiality
We also determined that for line items not affected by the quota share reinsurance agreement, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, a specific materiality of $3.0m (2022: $2.9m) has been set. We determined materiality for these items based on 3% of Net Assets (2022: 3% Net Assets). We further applied a performance materiality level of $2.3m (2022: $1.9m) being 75% (2022: 65%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit and Risk Committee that we would report to them all individual audit differences in excess of $200k (2022: $155k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting
Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

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

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

Independent Auditor's Report
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Auditor's responsibilities for the audit of the financial statements

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

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

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

Non-compliance with laws and regulations

Based on:

- Our understanding of the legal and regulatory framework applicable to the Group's operations;
- Discussion with the Directors and other management regarding the Group's the policies and procedures regarding compliance with laws and regulations; and
- Discussion with management including head of compliance and those charged with governance,

We considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation and the Companies Act 2006.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be the Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA') and the Bribery Act 2010.

Our procedures in respect of the above included:

- Agreement of the Group and Parent financial statement disclosures to underlying supporting documentation;
- Involvement of tax specialists in the audit;
- Review of legal expenditure accounts to understand the nature of expenditure incurred;
- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory (PRA & FCA) and tax authorities for any instances of non-compliance with laws and regulations; and
- Review of the Group Solvency Self-Assessment (GSSA).

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, Audit and Risk Committee, internal audit and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Independent Auditor's Report
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Based on our risk assessment, we considered the areas most susceptible to fraud to be the Valuation of Technical Provisions and management override of controls.

Our procedures in respect of the above included:

- In response to risk of fraud within the valuation of technical provisions, we reviewed the assumptions and methodology applied by the Group in the valuation of technical provisions to consider whether the methods utilised are in compliance with Technical Actuarial Standards (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance), using our internal actuaries as auditor's specialists (refer to the key audit matters section of our report); and
- In response to the risk of management override of controls, testing a sample of journal entries made throughout the year to supporting documentation and reviewing for evidence of management bias that might reasonably represent a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Alexander Barnes (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

21 May 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).