UK P&I CLUB

EUROPE

The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Directors' Report & Financial Statements
for the year ended 20th February 2018

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COMPANY NUMBER 00022215

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (EUROPE) LIMITED

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THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (EUROPE) LIMITED

DIRECTORS

A.K. Olivier	(Chairman)
R. Chen	(appointed 8th May 2017)
H.V. Franco	
O. Gast	(resigned 30th October 2017)
R.C. Gillett	
N.G. Inglessis	
A.C. Margaronis	
M. Morooka	(resigned 30th October 2017)
H.N. Schües	
N.H.H. Smith	
A.J. Taylor	
H.J. Wynn-Williams	
P.A. Wogan	

Information on the Association

Registered in England and Wales No 00022215

Registered Office:

90 Fenchurch Street
London
EC3M 4ST

Secretary:

K. Halpenny

On behalf of Thomas Miller P&I (Europe) Limited

Managers:

Thomas Miller P&I (Europe) Limited

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (EUROPE) LIMITED

STRATEGIC REPORT

Business Review

Review of the Year

The Directors are pleased to report that the total income of The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("the Association" or "UK Europe") exceeded the total cost. As a result, the Association achieved a surplus for the year which has been transferred to reserves.

Key Performance Indicators

The key performance indicators used to manage the entity are gross written premiums, net claims incurred, the annual result and total capital available as together these provide a comprehensive view of the financial performance and position of the Association.

Gross written premiums in the year amounted to $362 million.

The Association has substantial reinsurance cover which limited the total net cost of claims to $21 million.

The surplus reported of $25 million in the year was transferred to reserves. The total reserves of $198 million are sufficient to meet regulatory requirements and provide the Association with the resources required to meet its objectives.

The following table summarises the results of the Associations over the last four years. The Association has a 90 per cent quota share reinsurance contract with the parent undertaking which is reflected in the table below.

Amounts in US$000s

Year ended 20 February	**2015**	**2016**	**2017**	**2018**
Net premium	78,100	74,521	72,930	76,964
Investment return	5,946	4,603	1,260	302
Total net income	**84,046**	**79,124**	**74,190**	**77,266**
Claims incurred	(26,306)	(20,402)	(24,269)	(20,641)
Expenses	(41,056)	(42,468)	(41,107)	(39,562)
Foreign exchange	(7,378)	(2,788)	(6,809)	8,229
Total expenses	**(74,740)**	**(65,658)**	**(72,185)**	**(51,974)**
Operating Result	**9,306**	**13,466**	**2,005**	**25,292**
Combined ratio	**86%**	**76%**	**79%**	**78%**

The combined ratio is stated after the application of the quota share contract with the parent undertaking.

Principal Risks and Uncertainties

Given the nature of the business, the key risks and uncertainties facing the Association continue to relate to insurance risk, which incorporates the frequency and amount of claims relating to losses incurred by policyholders insured with the Association. This risk is managed by the underwriting process of the Association which reduces the likelihood of significant loss through determination of acceptable risks for which to provide cover and the reinsurance program, which incorporates both quota share and excess of loss agreements, reduces the impact of large losses.

The Association also faces investment risk, being the valuation of investments and return gained thereon. This risk is managed through an investment policy covering the diversity and stability of investments held.

The Association has adopted an investment policy which requires sufficient assets to be maintained in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected demands on cash.

The Association manages credit risk through a screening process of all new policyholders prior to entry. In addition, the Association has the ability to cancel cover and outstanding claims payable to Member in the event of default. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating equivalent or better than "A" at the time the contract is made.

Corporate and social responsibility

The Directors are of the opinion that the environmental impact of the Group's activities is low, due to the nature of the business. There are therefore currently no KPIs relating to environmental matters. The business is, however, conscious of its environmental responsibility, and continues to seek ways to reduce reliance on paper-based records. It also continues to invest in website technology in order to facilitate electronic distribution of information to Members, brokers, suppliers and third parties.

As the Associations executive function is performed by independent professional managers there are no employee matters to report.

We have a zero tolerance approach to acts of bribery and corruption. To manage bribery and corruption risks, the Association operates within a robust risk management framework.

We have a zero tolerance approach to modern slavery and human trafficking and are also committed to acting ethically and with integrity in all our business dealings and relationships to ensure modern slavery is not taking place in our own business nor in any of the supply chains we operate. We always work to the highest professional standards and comply with all laws and regulations applicable to the business.

The selection and management of suppliers, including service evaluation and review, are governed by procurement policies. Recruitment methods and standards for potential suppliers are articulated in those policies.

The Group made charitable donations of $0.1 million during the year, none were to political parties.

Future Plans for the Association

The Association's strategy is to provide superior insurance products and claims handling service to its policyholder Member at a competitive price, whilst maintaining excellent financial security over the long term.

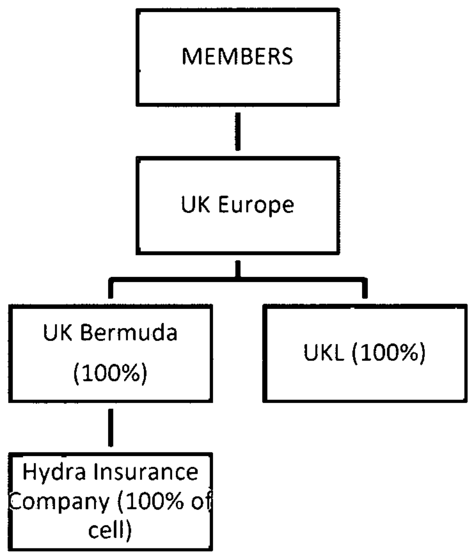
In pursuing this strategy over the coming year, the Association aims to assist the UK Club in achieving its vision of being the leading ship-owner controlled provider of P&I insurance and other services to the international shipping community.

Group restructure

On 20 February 2018, immediately following the year end, the group was restructured. As a result of the restructure, the Association become the holding company for the group and the sole Member of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("UK Bermuda"), incorporated in Bermuda. The Associations policyholders, who were previously Members of UK Bermuda, had their Membership rights transferred to the Association.

The group structure applicable from the start of the 2018 policy year is therefore as follows:

The Group Structure for the 2018 policy year



The activities of the individual companies have not been affected by the restructure.

Group restructure (continued)

The UK Bermuda ("UKB") group pre restructure closing balance sheet and the UK Europe ("UKE") group opening balance sheet post restructure are detailed in the table below:

Amounts in $000	Post restructure UKE Group Opening balance 21 February 2018	Pre restructure UKB Group Closing balance 20 February 2018
Assets		
Investments	1,236,614	1,236,614
Loans and receivables including insurance receivables	87,502	87,502
Derivative financial instruments	2,785	2,785
Reinsurance assets	155,108	155,108
Cash and cash equivalents	156,244	156,244
Current income tax credit	1,645	1,645
Accrued interest	270	270
Total assets	**1,640,168**	**1,640,168**
Reserves and liabilities		
Capital and reserves attributable to members		
Free reserves	536,955	536,955
Cash flow hedging reserve	2,785	2,785
Other reserves	240	240
Total	**539,980**	**539,980**
Financial liabilities - Perpetual subordinated capital securities	99,816	99,816
Total	**639,796**	**639,797**
Other liabilities		
Insurance liabilities	986,236	986,236
Trade and other payables	14,136	14,136
Total	**1.000,372**	**1.000,372**
Total reserves and liabilities	**1,640,168**	**1,640,168**

The restructure has no impact on the group's free reserves which are $540 million with a further $100 million of Hybrid capital as at 20 February 2018.

By Order of the Board

K Halpenny

For Thomas Miller P&I (Europe) Limited

Company Secretary

REPORT OF THE DIRECTORS

The Directors present their Report, together with the Financial Statements for the year ended 20 February 2018.

Establishment of the Association

As at 20 February 2018 The UK Mutual Steam Ship Assurance Association (Europe) Limited was the subsidiary of The UK Mutual Steam Ship Assurance Association (Bermuda) Limited. Management of the Association is undertaken by Thomas Miller (P&I) Europe Limited ("Manager"). The Association is limited by guarantee.

Financial Performance

The Directors are satisfied with the performance as stated on page 3.

Principal Activity

The principal activity of the Association is the mutual insurance of shipowners' and charterers' third party (protection and indemnity) risks.

Directors

The Directors of the Association are listed on page 2.

Disclosure of Information to the Auditors

So far as each of the persons who are Directors at the time of this report are aware, there is no relevant audit information of which the Association's auditors are unaware and the Directors confirm that they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. These financial statements are prepared in accordance with International Financial Reporting Standard ("IFRS") as defined by International Accounting Standard 1 ("IAS 1"). They have been prepared under the historical cost convention, as modified by the recording of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Association's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Moore Stephens LLP as the Association's auditors will be put to the forthcoming Annual General Meeting.

By Order of the Board

K Halpenny

For Thomas Miller P&I (Europe) Limited

Company Secretary

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (EUROPE) LIMITED

Independent Auditors' Report to the Member of The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Our Opinion

We have audited the financial statements of The United Kingdom Steam Ship Assurance Association (Europe) Limited ("The Association") for the year ended 20 February 2018 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flow 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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2018 and of its surplus for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK')) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Association's member, 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 Association's member 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 Association and the Association's member as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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) 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.

<table>
<tr><th>Area of focus</th><th>Work performed to address this risk</th><th>Results from our work performed</th></tr>
<tr><td>
Valuation of Technical Provisions

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.

The Association's financial statements record gross technical provisions of $985,256k (2017: $923,637k), and net technical provisions of $75,313k (2017 $75,527k). This is made up of individual case estimates and claims incurred but not yet reported ('IBNR').

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.

There is particular risk in the reserving for:

Occupational Disease claims due to the high volatility of such claims.
Pool claims due to the reliance on other parties for the timely and appropriate update of claims information.

Furthermore claim 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 Association's assessment of IBNR.

</td><td>
We have performed the following:

Valuation of IBNR:

Reconciled key actuarial data to accounting records.
Reviewed the methodology, significant judgements and assumptions applied by the Association's actuarial team.
Reviewed the outturn of prior years' IBNR against previous estimates.
Used our actuarial team to assess the work of the Associations' actuaries, including the disclosures within the financial statements.
Independently projected the ultimate claims figure using historical claims data and our own actuarial techniques.

Valuation of Claim Estimates:

Completed operational controls testing, through ensuring that a sample of claims files had their estimates reviewed within a 6 month period.
Agreed all claim estimates above our performance materiality level to supporting documentation.
Assessed key information used by management to monitor claim estimates.
Reviewed the outturn of prior years' estimates against the previous year's position.
Reviewed significant claims estimate adjustments and payments either side of the year end, to ensure these adjustments and payments were accounted for in the correct period.

</td><td>
Based on our audit procedures we have gained audit assurance that the valuation of the technical provisions are fairly stated.
</td></tr>
</table>

Our application of materiality

In planning and performing our audit we were guided by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

The Association relies to a significant extent on quota share reinsurance. These arrangements have the effect of transferring insurance premiums and claims to a reinsurer. Due to the extent of this arrangement it was felt appropriate to set a Financial Statements materiality to determine the extent of audit procedures to be applied over premiums and claims before these reinsurance arrangements. Then a lower level of materiality has been set for transactions and balances not affected by quota share reinsurance arrangements.

Financial statements materiality was set at $7.7 million. The principal determinant in this assessment was the Association's gross written premium, which we consider to be the most relevant benchmark, as it reflects the overall scale of premiums and claims transactions within the accounts. Our materiality was set at approximately 2% of this number.

The lower level of materiality has been based on net assets, as the key performance indicator for stakeholders is the economic stability of the Association. Our materiality of $4.0 million represents approximately 2% of net assets. We have agreed with the Audit & Risk Committee that we shall report to them any misstatements in excess of $385,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The audit of the financial statements includes the audit of the Association and its branches. The audit of both the Associations and branches has been signed by the same engagement partner. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Association when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions.

Other information

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

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

Opinion on the matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where The Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanation we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors Responsibilities on page 7, 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 Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Matters on which we are required to address
We were appointed by the Audit & Risk Committee in 1998. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit & Risk Committee.

Alexander Barnes Alexander Barnes
Senior Statutory Auditor

For and on behalf of **Moore Stephens LLP,** Statutory Auditor
150 Aldersgate Street, London EC1A 4AB

31st May 2018

INCOME STATEMENT

for the year ended 20th February 2018

Amounts in $000	**Notes**	**2018**	**2017**
Income			
Gross earned premium	12	361,793	386,166
Mutual premium discount	12	-	(9,996)
		361,793	376,170
Premium ceded to reinsurers	12	(284,829)	(303,240)
Net earned premium		76,964	72,930
Net investment return	13	302	1,260
Total net income		**77,266**	**74,190**
Expenses			
Claims and claims adjustment expenses net of reinsurance	10	(20,641)	(24,268)
Expenses for the acquisition of insurance contracts		(20,229)	(19,988)
Net operating expenses	14	(19,333)	(21,119)
Foreign exchange gains/(losses)		8,229	(6,810)
Total expenses		**(51,974)**	**(72,185)**
Results from operating activities		**25,292**	**2,005**
Surplus before tax		**25,292**	**2,005**
Income tax expense	15	(207)	(417)
Surplus for the year attributable to Member		**25,085**	**1,588**

There was no other comprehensive income for the year

Total comprehensive income for the year attributable to Member		**25,085**	**1,588**

The notes on pages 17 to 39 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 20th February 2018

Amounts in $000	**Notes**	**2018**	**2017**
Assets			
Investments	6	211,404	195,892
Loans and receivables including insurance receivables	7	112,402	101,218
Reinsurance assets	10	910,630	848,777
Cash and cash equivalents	9	61,374	41,304
Current income tax		1,646	961
Total assets		**1,297,456**	**1,188,152**
Reserves and liabilities			
Capital and reserves attributable to Member			
Free reserves		67,447	42,362
Capital contribution		130,679	130,679
Total		**198,126**	**173,041**
Other liabilities			
Insurance liabilities	10	986,236	924,537
Trade and other payables	11	113,094	90,574
Total		**1,099,330**	**1,015,111**
Total reserves and liabilities		**1,297,456**	**1,188,152**

The notes on pages 17 to 39 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28th May 2018 and were signed on its behalf

A.K. Olivier
Director

N.G Inglessis
Director

H.J. Wynn-Williams
Manager

STATEMENT OF CHANGES IN RESERVES

	Attributable to Member		
Amounts in $000	**Free reserves**	**Capital contribution**	**Total**
Balance at 20th February 2016	**40,774**	**130,679**	**171,453**
Surplus for the year	1,588	-	1,588
Other comprehensive income	-	-	-
Total comprehensive income for the year	1,588	-	**1,588**
Balance at 20th February 2017	**42,362**	**130,679**	**173,041**
Surplus for the year	25,085	-	25,085
Other comprehensive income	-	-	-
Total comprehensive income for the year	25,085	-	**25,085**
Balance at 20th February 2018	**67,447**	**130,679**	**198,126**

The notes on pages 17 to 39 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 20th February 2018

Amounts in $000	Notes	2018	2017
Operating activities			
Calls and premiums received		368,411	374,489
Receipts from reinsurance recoveries		279,864	258,607
Interest and dividends received		3,364	6,497
		651,639	**639,593**
Claims paid		281,132	272,098
Acquisition costs		20,229	19,988
Operating expenses paid		28,659	32,916
Reinsurance premiums paid		290,313	304,711
Taxation paid		892	1,591
		621,225	**631,304**
Net cash provided/(used) by operating activities		**30,414**	**8,289**
Investing activities			
Purchase of investments		(26,173)	(317,872)
Sale of investments		14,964	325,720
Net cash provided by/(used in) investing activities		**(11,209)**	**7,848**
Net increase in cash and cash equivalents		19,205	16,137
Effect of exchange rate fluctuations on cash and cash equivalents		865	(393)
Cash and cash equivalents at the beginning of the year	9	41,304	25,560
Cash and cash equivalents at the end of the year	**9**	**61,374**	**41,304**

The notes on pages 17 to 39 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1
General Information

The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("the Association") is incorporated in Europe as a company limited by guarantee and having a statutory reserve but not share capital. The principal activities of the Association are the insurance and reinsurance of marine protection and indemnity risks on behalf of the Member.

These financial statements have been authorised for issue by the Board of Directors on 28th May 2018.

Note 2
Summary of significant accounting policies

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

2.1 Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as defined by International Accounting Standard 1 ("IAS 1"). They have been prepared under the historical cost convention, as modified by the recording of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Association's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Association

IFRS 9: Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the International Accounting Standards Board's ("IASB") work on the replacement of IAS 39 Financial Instruments: recognition and measurement. The standard is effective for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 may have an effect on the classification and measurement of the Association's financial assets but will have no impact on classification and measurements of financial liabilities.

IFRS 15: Revenue from Contracts with customers
IFRS 15 as issued reflects the IASB work on the replacement of IAS 18 Revenue. The standard sets out the requirements for recognising revenue that apply to contracts with customers, except for those covered by standards on leases, insurance contracts and financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. A high level assessment of IFRS 15 was performed, and it is considered to have no impact on the Association.

IFRS 17: Insurance Contracts
IFRS 17 as issued reflects IASB work on the replacement of IFRS 4 Insurance Contracts. The standard establishes principles for the recognition, measurement; presentation and disclosure of insurance contracts issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The standard is effective for annual periods beginning on or after 1 January 2021, however

earlier application is permitted. The Association is currently in the process of performing an impact assessment of the key changes that IFRS 17 introduces and has elected not to apply IFRS 17 early.

2.3 Segment reporting

The Board of Directors, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the body that makes strategic decisions. All business written by the Association relates to protection and indemnity risks. Internal reporting to the Board of Directors covers this single segment and, consistent with the internal reporting, no further segmental reporting is presented apart from the geographical disclosure as presented in Note 5.

2.4 Annual accounting

The income statement is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year, the cost of claims incurred and reinsurance for the current year, and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the income statement and are allocated to a policy year or to a reserve.

2.5 Policy year accounting

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. Return on investments is allocated proportionately to the average balance of funds on each policy year or other funds. Operating expenses are allocated to the current policy year.

2.6 Foreign currency translation

(a) Functional currency presentation
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in U.S. dollars, being the Association's presentation and functional currency.

(b) Transactions and balances
Revenue transactions in foreign currencies have been translated into U.S. dollars at rates revised at monthly intervals. All exchange gains and losses, whether realised or unrealised, are included in the income statement. Foreign currency assets and liabilities are translated into U.S. dollars at the rates of exchange ruling at the end of the reporting period. The resulting difference is included in foreign exchange gains and losses in the income statement.

2.7 Financial assets

2.7.1 Classification

The classification of financial assets is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

(a) Financial assets at fair value through profit or loss
The Association has designated its financial assets as at fair value through profit or loss, as the Association manages and evaluates the performance of its financial assets on a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as in this category unless they are designated as hedges.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

2.7.2 Recognition and measurement

Purchases and sales of financial assets are recognised on trade-date which is the date on which the Association commits to purchase or sell the asset.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Association has also transferred substantially all risks and rewards of ownership.

2.7.3 Determination of fair value

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.
When a financial asset is impaired, the Association reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

2.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Association designates derivatives as either: hedges of highly probable forecast transactions (cash flow hedges); or non-hedge derivatives.

Derivatives that do not qualify for hedge accounting
Changes in the fair value of all derivative instruments that do not qualify for hedge accounting are recognised immediately within the income statement.

2.9 Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial liability applying the effective interest method.

2.10 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.11 Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

2.12 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk.

Provision for outstanding claims
Provision for the liabilities of insurance contracts is made for outstanding claims and settlement expenses incurred at the statement of financial position date including an estimate for claims incurred but not yet reported ("IBNR"). Included in the provision is an estimate for internal and external costs of handling the outstanding claims. Individual claims estimates are made on a most likely outcome basis.

The risks associated with insurance contracts are complex and subject to a number of variables. The Association uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost and ultimate claims numbers. The key methods used by the Association in estimating liabilities are:

- Chain ladder
- Bornhuetter-Ferguson
- Other statistical and benchmarking techniques

Significant delays are experienced in the notification and settlement of certain types of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to claims provisions established in previous years are reflected in the financial statements for the period in which the adjustments are made.

Occupational Disease claims have a significant latency period and therefore the liability is discounted. Details of the discount rates applied are disclosed in Note 10.

Insurance receivables and payables
Receivables and payables arising under insurance contracts are recognised when due and measured at cost less provision for impairment, which approximate fair value.

2.13 Reinsurance

The Association enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

2.14 Current and deferred income tax

The charge for taxation is shown in the income statement. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.15 Revenue recognition

Insurance premium revenue
Calls and premiums include gross calls, less return premiums, release charges and provisions for cancellations. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

Premiums are recognised as revenue (premiums earned) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

The Directors retain the power to levy supplementary premiums, or give discounts on mutual premiums on open policy years. These are recognised when the Board of the Association approves the supplementary premium or the discount.

Investment income
(a) Interest income and expenses
Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment return and finance costs in the income statement using the effective interest rate method.

(b) Dividend income
Dividend income is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities. Dividends are recognised within investment return.

(c) Fair value and realised gains and losses
Fair value gains and losses on investments recorded in the income statement include gains and losses on financial assets that relate to the movement in the market value of financial assets compared to the cost. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2.16 Reserves attributable to members

Free reserves are the accumulated surplus of the Association and represent the excess of assets over liabilities.

Capital contributions reserve represents contributions from the Association's parent.

Note 3
Critical Accounting estimates and judgements

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

The estimation techniques applied in the calculation of the technical provisions are described in Note 2.12. The technical provisions at the year end are disclosed in Note 10.

Note 4
Management of risk

The Association is governed by the Board of Directors which holds responsibility for the direction and activities of the Association. The Board has formalised its appetite for risk at both the strategic and operational level.

The Board has established a framework of governance through which risk is managed. This framework operates through a number of sub committees, being:

1. The Ship and Membership Quality Committee ensures the quality of the Association's membership thereby managing insurance and credit risk.
2. The Strategy Committee assists the Board in formulating strategic direction across the business including risk, investment and reinsurance strategy.
3. The Audit and Risk Committee considers the risks that may impede the Association from accomplishing its objectives and how these risks are managed and controlled.
4. The Investment Committee assists the Board in managing the investment portfolio of the Association.

In addition further committees, which report to the Group Audit and Risk Committee ("GARCO"), have been established by the Managers to support operational decision making:

1. The Reinsurance Committee considers the optimal reinsurance structure for the Association and the security of the counterparties to the programme.
2. The Reserving Committee considers appropriate provision against unpaid claims.
3. The Finance Committee considers the financial position of the Association including the risk of counterparty default.
4. The Risk Committee considers the business risk log and emerging risks of the Association.

The Association is focussed on the identification and management of potential risks. This covers all aspects of risk management including that to which the Association is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk impairing the Association can be classified as follows:

1. Insurance risk – incorporating underwriting and reserving risk
2. Market risk – incorporating investment risk, interest rate risk and currency rate risk
3. Credit risk – being the risk that a counterparty is unable to pay amounts in full when due
4. Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due
5. Operational risk – being the risk of failure of internal processes or controls

The Association has established its appetite for risk in relation to its business strategy and available resources. The Association seek to maximise their resources by effective risk management techniques. Therefore a risk management system has been developed to identify and mitigate risk.

As part of the risk management system, the Association have developed an internal model to cover underwriting risk. The model is tailored specifically to the underwriting risk accepted by the Association and therefore provides the Board with the expected outcome of a given scenario.

This allows the Association to consider more accurately the effectiveness and efficiency of risk mitigation techniques such as reinsurance. The model is designed to encompass the full spectrum of underwriting risks to which the Association is exposed.

The Board and Managers have sought to establish and embed risk management procedures within the business through a Compliance manual, an internal quality management system and a risk management framework which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function and various committees noted above.

The Association manages the risks relating to the operations of the Association through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk, credit risk and liquidity risk.

4.1 Insurance risk

The Association is a mono-line insurer, underwriting only protection and indemnity insurance for the shipping community.

Underwriting risk is the risk that the Association's net insurance obligations (i.e. claims less premiums) are different to expectations. The Association considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk).

Reserve risk is managed by the Association's reserving policy. The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management and GARCO.

Premium risk is managed by an underwriting policy which establishes robust underwriting practices in order to meet business needs and satisfy regulatory control. This is supplemented with a robust forecasting approach undertaken as part of the Association's ORSA process.

The underwriting process is based on a thorough understanding of the risk accepted. This understanding is enhanced as:

- The Association is a mono line insurer and has provided broadly the same cover for many years.
- The Board and Members Committee of the parent association include representatives from a full cross section of the shipping community so giving insight into changes in the risk accepted by the Association over time.
- Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management.

Underwriting risk is mitigated via the Association's reinsurance programme. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, the International Group Pooling agreement and reinsurance of claims within the claims retained by the Association within the Pool deductible.

The excess of loss reinsurance cover purchased jointly with other members of the International Group provides cover for large claims arising from mutual business. The International Group Pooling agreement provides a sharing of claims costs between thirteen member Clubs. The share attributable to each member is calculated for each policy year on an agreed formula including an adjustment for each Club's historic loss record on the Pool.

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position is adequate. However, actual experience will differ from the expected outcome.

Some results of sensitivity testing are set out below, showing the impact on surplus before tax and equity, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Amounts in US$000s	2018	2017
Increase in loss ratio by 5 percentage points		
Gross	(18,090)	(18,808)
Net	(3,848)	(3,646)

A 5 per cent decrease in loss ratios would have an equal and opposite effect.

4.2 Market risk

Market risk arises through fluctuations in market valuations, interest rates, corporate bond spreads and foreign currency exchange rates.

The Association's investment policy is reviewed by the Investment Committee and approved by the Board. The policy manages exposure to investment risk which is monitored by regular reports from the investment managers. Further discussion of this arrangement is provided below under the "prudent person principle".

The prudent person principle
Under the Association's investment policy, all of the Association's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically the portfolio:

- Is invested in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported.
- Ensures the security, quality and liquidity of the portfolio as a whole.
- Is appropriate to the nature, currency and duration of the Association's insurance liabilities.
- Includes derivative instruments only where they contribute to a reduction of risks or efficient portfolio management.
- Is diversified to avoid excessive reliance on any asset, issuer or group, or geographical area.

The Association's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Association's investment assets in conformity with the business and investment objectives and sets the parameters within which the Association's assets may be invested. It is considered and approved by the Board on an annual basis and ad hoc as required and is subject to the Association's Investment Policy. The Investment Managers report to the Board at each meeting.

A 5 per cent reduction in the valuation of all investments would result in a reduction in free reserves of $11 million (2017: $10 million).

Foreign currency risk management
The Association is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollars. The most significant currencies to which the Association is exposed are Sterling and the Euro. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in that currency. In addition, from time to time, the Association uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

The profile of the Association's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurer's share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

As at 20th February 2018

Amounts in US$000s	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
Debt securities	158,606	31,396	21,402	-	**211,404**
UCITS	7,700	504	-	-	**8,204**
Cash balances	38,959	3,457	7,824	2,930	**53,170**
Amounts due from policyholders	72,938	221	-	-	**73,159**
Reinsurers' share of outstanding claims	910,630	-	-	-	**910,630**
Sundry debtors	33,826	5,617	1,446	-	**40,889**
Gross outstanding claims	(751,023)	(106,429)	(94,243)	(34,541)	**(986,236)**
Other liabilities	(113,094)	-	-	-	**(113,094)**
	358,542	**(65,234)**	**(63,571)**	**(31,611)**	**198,126**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Of the total debt securities $173 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000s	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
Debt securities	152,001	25,936	17,955	-	**195,892**
UCITS	1,376	174	-	-	**1,550**
Cash balances	33,674	1,896	2,980	1,204	**39,754**
Amounts due from policyholders	79,100	208	390	-	**79,698**
Reinsurers' share of outstanding claims	848,777	-	-	-	**848,777**
Sundry debtors	13,862	8,619	-	-	**22,481**
Gross outstanding claims	(705,599)	(104,041)	(70,988)	(43,909)	**(924,537)**
Other liabilities	(90,574)	-	-	-	**(90,574)**
	332,617	**(67,208)**	**(49,663)**	**(42,705)**	**173,041**

Foreign currency sensitivity analysis

A 5 per cent strengthening of the following currencies against the U.S. dollar would be estimated to have increased/ (decreased) the surplus before tax and reserves at the year end by the following amounts:

As at 20th February 2018

Amounts in US$000s	**Effect on surplus**
Sterling	1,652
Euro	1,172

A 5 per cent weakening of these currencies against the U.S. dollar would have an equal and opposite effect.

Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds. The maturity profile of these investments is typically shorter than the profile of claims liabilities. The Association has no debt with interest payments that vary with changes in interest rate.

Interest rate sensitivity analysis
It is estimated that the value of the Association's investments would decrease for the following amounts if market interest rates had increased by 100 basis points at the statement of financial position dates and all assumptions had remained unchanged. The sensitivity analysis is limited to the effect of changes in interest rates on debt securities.

Amounts in US$000s	**Effect on investment valuation**
As at 20th February 2018	12,979
As at 20th February 2017	8,822

A decrease of 100 basis points would have an equal and opposite effect.

4.3 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board consider the financial position of significant counterparties on a regular basis, the Reinsurance Committee monitors aggregate exposure to each reinsurer and the Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made.

Amounts due from policyholders represents premium owing to the Association in respect of insurance business written. The Association manages the risk of member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to policyholders that fail to settle amounts payable. The Association limits its reliance on any single policyholders.

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below "A" whilst also ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty. The policy allows for a limited investment in equities, the majority of investments being in fixed interest securities and UCITS. Within these, most investments are at least A rated with many relating to Government or Supranational bodies.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

The credit rating bands are provided by independent ratings agencies:

As at 20th February 2018

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	182	160,938	4,101	46,183	**211,404**
UCITS	8,204	-	-	-	**8,204**
Cash balances	-	-	53,170	-	**53,170**
Amounts due from policyholders	-	-	-	73,159	**73,159**
Amounts due from group pooling arrangement	-	-	52,005	17,672	**69,677**
Amounts due from reinsurers	-	109,977	632,990	97,986	**840,953**
Sundry debtors	-	-	-	40,889	**40,889**
Total of assets subject to credit risk	**8,386**	**270,915**	**742,266**	**275,889**	**1,297,456**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Of the total debt securities, $173 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
Debt securities	-	149,205	-	46,687	**195,892**
UCITS	1,550	-	-	-	**1,550**
Cash balances	-	-	39,754	-	**39,754**
Amounts due from policyholders	-	-	-	79,698	**79,698**
Amounts due from group pooling arrangement	-	-	21,708	7,974	**29,682**
Amounts due from reinsurers	-	31,626	778,908	8,561	**819,095**
Sundry debtors	-	-	-	22,481	**22,481**
Total of assets subject to credit risk	**1,550**	**180,831**	**840,370**	**165,401**	**1,188,152**

4.4 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

As at 20th February 2018

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	-	-	42,729	168,675	**211,404**
UCITS	8,204	-	-	-	-	**8,204**
Cash balances	53,170	-	-	-	-	**53,170**
Amounts due from policyholders	13,471	59,688	-	-	-	**73,159**
Sundry debtors	-	40,889	-	-	-	**40,889**
Reinsurers share of outstanding claims	-	258,568	166,820	247,578	237,664	**910,630**
Total assets	**74,845**	**359,145**	**166,820**	**290,307**	**406,339**	**1,297,456**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Of the total debt securities, $173 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	-	-	64,046	131,846	**195,892**
UCITS	1,550	-	-	-	-	**1,550**
Cash balances	39,754	-	-	-	-	**39,754**
Amounts due from policyholders	1,152	78,546	-	-	-	**79,698**
Sundry debtors	-	22,481	-	-	-	**22,481**
Reinsurers share of outstanding claims	-	275,014	141,412	210,048	222,303	**848,777**
Total assets	**42,256**	**376,041**	**141,412**	**274,094**	**354,149**	**1,188,152**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

As at 20th February 2018

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(278,315)	(181,111)	(268,787)	(258,023)
Derivative contracts	-	-	-	-
Other liabilities	(113,094)	-	-	-
Total other liabilities	**(391,409)**	**(181,111)**	**(268,787)**	**(258,023)**

As at 20th February 2017

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years
Gross outstanding claims	(299,561)	(154,034)	(228,798)	(272,263)
Derivative contracts	-	-	-	-
Other liabilities	(90,574)	-	-	-
Total other liabilities	**(390,135)**	**(154,034)**	**(228,798)**	**(272,263)**

4.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association has engaged Thomas Miller P&I (Europe) Limited as managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by GARCO. A human resource manual and including all key policies have also been documented.

4.6 Limitation of the sensitivity analyses

The sensitivity analyses in sections 4.1 and 4.2 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

There have been no changes to methods and assumptions used in the calculation of sensitivity analyses from the previous year.

4.7 Capital management

The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern, meet regulatory requirements and maintain an "A" rating with Standard and Poor's, with a substantial margin in each case. The Association manages its capital requirement by utilising risk management techniques.

The Association monitors available capital and its funding structure in the light of the prevailing economic environment, the risk associated with its asset holdings, and regulatory developments impacting on the Association.

The Association continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the Solvency 2 regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 percent confidence level of solvency over one year time frame. Throughout the period the Association complied with the regulators capital requirements and the requirements in the other countries in which it operates. The Association has developed a Partial Internal Model which has been approved by the PRA and is already being used for capital and business decision making.

At the year end the Association's capital resources included reserves of $67.4 million (2017: $42.4 million).

4.8 Fair value hierarchy

IFRS 13, 'Fair value measurement', requires enhanced disclosures about fair value measurement and liquidity risk. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Association's assets and liabilities measured at fair value:

As at 20th February 2018

Amounts in US$000s	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Debt securities	38,436	172,968	-	211,404
Derivative financial instruments	-	-	-	-
Total	**38,436**	**172,968**	**-**	**211,404**

The table above identifies the underlying investments held within mutual funds in order to provide a better indication of the risk. Of the total debt securities, $164 million are held within mutual funds.

As at 20th February 2017

Amounts in US$000s	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Debt securities	31,825	164,067	-	195,892
Derivative financial instruments	-	-	-	-
Total	**31,825**	**164,067**	**-**	**195,892**

Note 5
Segment information

The Association only provides protection and indemnity risk cover to its policyholders and as a result, no concentration analysis of risks by cover can be performed. As this cover applies to ships at sea it is not feasible to measure geographical concentration of insurance liabilities. Consequently, the Association has identified protection and indemnity risk to be the only reportable segment.

The surplus amount reported in the income statement is similar to the amount reported to the Board of Directors for allocating resources and assessing performance of the operating segment. Consequently, for the results of the operating segment protection and indemnity risks refer to the income statement.

The entity is domiciled in Europe. The result of its revenue from policyholders by geographical area is as follows:

Amounts in $000	**2018**	**2017**
USA	75,217	76,515
Greece	68,579	67,884
Japan	49,146	50,471
Germany	29,659	29,942
United Kingdom	11,623	12,308
China	19,953	20,268
Other	107,616	118,782
Total	**361,793**	**376,170**

In the analysis above, revenue is allocated based on the country in which the policyholder is located.

Note 6
Financial assets

The Association's financial assets are summarised by measurement category in the table below.

Amounts in $000	**2018**	**2017**
Financial assets at fair value through profit or loss	211,404	195,892
Loans and receivables including insurance receivables (note 7)	112,402	101,218
Total financial assets	**323,806**	**297,110**

The assets comprised within the financial asset category above are detailed in the tables below:

Financial assets at fair value through profit or loss

Amounts in $000	**2018**	**2017**
Debt securities	38,436	31,825
Mutual funds	172,968	164,067
Total financial assets at fair value through profit or loss	**211,404**	**195,892**

Within the mutual funds above, there is an underlying investment in debt securities are detailed in the table below:

Mutual funds

Amounts in $000	**2018**	**2017**
Debt securities	172,968	164,067
Total mutual funds	**172,968**	**164,067**

The movement in the Association's financial assets (excluding loans and receivables – see Note 7) is summarised in the table below by measurement category:

Amounts in $000	**Fair value through profit or loss**	**Total**
At the end of 2016	**213,892**	**213,892**
Exchange differences on monetary assets	(6,417)	(6,417)
Additions	317,872	317,872
Disposals	(325,720)	(325,720)
Fair value net gains		
- Designated at fair value through income statement on initial recognition	(2,089)	(2,089)
Profit on sale of investments		
- Designated at fair value through income statement on initial recognition	(1,646)	(1,646)
At the end of 2017	**195,892**	**195,892**
Exchange differences on monetary assets	7,365	7,365
Additions	26,173	26,173
Disposals	(14,964)	(14,964)
Fair value net gains		
- Designated at fair value through income statement on initial recognition	(3,047)	(3,047)
Profit on sale of investments		
- Designated at fair value through income statement on initial recognition	(15)	(15)
At the end of 2018	**211,404**	**211,404**

Note 7
Loans and receivables

Amounts in $000	2018	2017
Insurance receivables:		
- Due from contract holders	77,270	81,582
- Less provision for doubtful debts	(4,111)	(1,884)
- Due from reinsurers	10,683	2,252
	83,842	**81,950**
Other loans and receivables		
- Prepayments	95	11,236
- Sundry receivables	1,124	8,032
- Intercompany debtors	27,341	-
	28,560	**19,268**
Total loans and receivables including insurance receivables	**112,402**	**101,218**
Current portion	112,402	101,218
Non-current portion	-	-
	112,402	**101,218**

There is no concentration of credit risk with respect to loans and receivables, as the Association has a large number of internationally dispersed debtors.

Note 8
Derivative financial instruments

Non hedge derivatives
Forward currency contracts are entered into in order to manage the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses. These are economic hedges, but do not meet the hedge accounting criteria.

The table below analyses all derivative positions:

Forward currency contracts	**2018**			**2017**		
Amounts in $000	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Non hedge derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	-

Note 9
Cash and cash equivalents

Amounts in $000	2018	2017
Cash at bank and in hand	50,931	37,442
Short-term bank deposits - UCITS	8,204	1,550
Short-term bank deposits - other	2,239	2,312
Total	**61,374**	**41,304**

Note 10
Insurance liabilities and reinsurance assets

Amounts in $000	2018	2017
Gross outstanding claims		
- Member' claims	911,101	865,490
- Other clubs' pool claims	74,155	58,147
	985,256	**923,637**
Reinsurer's share of gross outstanding claims		
- Group excess of loss and market reinsurance	162,445	138,681
- Pool recoveries	69,677	29,682
- Other intergroup reinsurers	677,821	679,747
	909,943	**848,110**
Provision for unearned premium	980	900
Provision for unearned reinsurance premium	(687)	(667)
Total insurance liabilities, net	**75,606**	**75,760**
Current	19,745	24,547
Non-current	55,861	51,213

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. The IBNR reserve includes an amount for Occupational Disease claims amounting to a discounted value of $69 million (2017: $64 million). The discount is based on A and AA rated corporate bonds. The discount rate has decreased this year to 2.75% from 3.00% last year.

Occupational Disease claims have a significant latency period estimated to be 17 years making them particularly uncertain for reserving purposes. The reserve has been set with reference to industry studies and the Association's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of those claims.

Discount rate sensitivity analysis
It is estimated that the value of the Association's reserve for Occupational Disease would increase by the following amounts if the discount rate decreased by 1 per cent at the statement of financial position date.

As at 20th February 2018

Amounts in US$000s	Effect on the reserve
1% decrease in discount rate	7,100
1% increase in discount rate	(5,900)

10.1 Development claim tables
The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Association's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year

Amounts in $000 **Reporting year**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
- End of reporting year	241,341	275,765	340,169	250,715	284,788	259,872	292,299
- One year later	226,792	285,365	252,655	229,089	271,752	255,565	
- Two years later	209,766	280,149	356,187	222,165	278,309		
- Three years later	209,870	281,221	346,093	219,975			
- Four years later	203,828	259,179	365,760				
- Five years later	202,660	253,003					
- Six years later	201,479						
Current estimate of ultimate claims	201,479	253,003	365,760	219,975	278,309	255,565	292,299
Cumulative payments to date	189,994	226,889	300,958	154,901	123,242	89,650	52,403
Liability recognised in the statement of financial position	11,485	26,114	64,802	65,074	155,067	165,915	239,896
Total liability relating to last seven policy years							**728,353**
Other claims liabilities							256,903
Total reserve included in the statement of financial position							**985,256**

Insurance claims - net

Estimate of ultimate claims cost attributable to the policy year

Amounts in $000 **Reporting year**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
- End of reporting year	19,307	22,061	27,214	20,057	20,586	23,359	21,483
- One year later	18,143	22,829	28,212	21,353	19,273	22,021	
- Two years later	16,781	22,412	25,143	20,983	17,837		
- Three years later	16,790	23,053	24,910	20,659			
- Four years later	16,317	22,089	23,650				
- Five years later	16,183	22,057					
- Six years later	16,130						
Current estimate of ultimate claims	16,130	22,057	23,650	20,659	17,837	22,021	21,483
Cumulative payments to date	15,170	20,141	21,001	14,877	10,313	8,965	5,168
Liability recognised in the statement of financial position	960	1,916	2,649	5,782	7,524	13,056	16,315
Total liability relating to last seven policy years							**48,202**
Other claims liabilities							27,111
Total reserve included in the statement of financial position							**75,313**

The Association has elected to disclose only seven years of claims experience data in its claims development tables as permitted by IFRS 4 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the 10-year information requirement has been satisfied.

10.2 Movement in insurance liabilities and reinsurance assets
Claims and loss adjustment expenses

Amounts in $000		**2018**			**2017**	
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**
Outstanding claims brought forward	**923,637**	**(848,110)**	**75,527**	**968,455**	**(893,037)**	**75,418**
Cash paid for claims settled in the year	(270,219)	249,364	(20,855)	(269,010)	244,851	(24,159)
Claims incurred in the current year	331,838	(311,197)	20,641	224,192	(199,924)	24,268
Outstanding claims carried forward	**985,256**	**(909,943)**	**75,313**	**923,637**	**(848,110)**	**75,527**

The Association seeks to minimise foreign exchange risk by holding investments in non US dollar currencies to match claims exposure.

The impact of foreign currency exchange movement on claims liabilities is recognised in foreign exchange gains and losses in the income statement rather than claims incurred. The corresponding exchange movement in respect of the investment portfolio is also recognised in exchange gains and losses in the income statement.

Note 11
Trade and other payables

Amounts in $000	**2018**	**2017**
Reinsurance premium payable	6,614	11,582
Claims payable	2,840	14,283
Trade payables and accrued expenses	5,742	3,907
Group balance	97,898	60,802
Total	**113,094**	**90,574**

The fair value of these balances approximates their carrying value.

Note 12
Net earned premium

Amounts in $000	**2018**	**2017**
Mutual		
Mutual premium	313,072	334,236
Return premium	(236)	(2,574)
Release charges	1,953	1,370
Other premium	368	824
	315,157	**333,856**
Fixed premium		
Chartered vessels	38,191	43,301
Owned vessels	8,525	9,059
	46,716	**52,360**
Gross written premium	**361,873**	**386,216**
Change in unearned premium provision	(80)	(50)
Gross earned premium	**361,793**	**386,166**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(55,470)	(80,758)
Other market reinsurance	(22,109)	(31,824)
Other reinsurance	(361)	(825)
Quota share reinsurance	(206,909)	(189,804)
	(284,849)	**(303,210)**
Changes in unearned reinsurance premium provision	**20**	**(30)**
Total premium ceded to reinsurers	**(284,829)**	**(303,240)**
Mutual Premium discount	-	(9,996)
Total Net earned premium	**76,964**	**72,930**

Note 13
Investment return

Amounts in $000	2018	2017
Investment income		
Dividend income	4,023	851
Interest on fixed income securities	164	4,833
Bank deposit interest	299	26
Other investment charges	(1,122)	(715)
Total investment income	**3,364**	**4,995**
Net realised gains on financial assets at fair value through profit or loss		
- Debt securities	-	(1,643)
- Equity securities	(15)	(3)
Total net realised gains on financial assets	**(15)**	**(1,646)**
Net fair value gains on financial assets through profit or loss		
- Debt securities	-	(2,176)
- Equity securities	(3,047)	87
Total	**(3.047)**	**(2,089)**
Total investment return	**302**	**1,260**

Net fair value gains on financial assets at fair value through profit or loss relate entirely to assets designated to be in this category upon initial recognition.

Note 14
Net operating expenses

Amounts in $000	2018	2017
Residual management fee	10,804	11,954
Directors' Meetings	2,461	2,665
Managers /Agent travel	281	325
Sales and marketing	1,008	1,077
Legal and professional expenses	1,490	2,712
Bank and financial expenses	595	660
Loss prevention and Ship Inspection initiatives	759	658
Audit fee	301	268
Other expenses	1,634	800
Total operating expenses	**19,333**	**21,119**

A proportion of the management fee covers key management personnel.

Note 15
Income tax expense

Amounts in $000	2018	2017
Current taxes on income for the reporting period		
Adjustment in respect of prior periods	25	42
UK tax	(232)	(459)
Total income tax expense	**(207)**	**(417)**

The weighted average applicable tax rate was 5 per cent (2017: 5 per cent).

Tax on the Association's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the companies as follows:

Amounts in $000	2018	2017
Surplus before tax	25,292	2,005
Non-taxable transactions	(24,990)	(745)
Tax calculated at domestic tax rates applicable to profits in the respective countries		
Effects of:		
- UK tax	(232)	(459)
- Overseas taxation	-	-
- Net adjustment in respect of prior periods	25	42
Total	**(207)**	**(417)**

Note 16
Contingencies

The Association like all other insurers is subject to litigation in the normal course of its business. The Association does not believe that such litigation will have a material effect on its profit or loss and financial condition.

Note 17
Average expense ratio

The average expense ratio for this Association is included within the consolidated average expense ratio of the UK Club and hence has not been disclosed individually within these Financial Statements.

Note 18
Related party transactions

The Association has no share capital and is controlled by its parent The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("UK Bermuda"), incorporated in Bermuda.

The Association has a 90 per cent quota share reinsurance contract with the parent undertaking. During the year, the income statement includes $207 million (2017: $190 million) of reinsurance premiums written to UK Bermuda. Amounts recoverable from UK Bermuda under this agreement on claims paid during the year were $198 million (2017: $209 million). At the year end, an amount of $71 million is due to UK Bermuda. A further $677 million is recoverable from UK Bermuda against estimated outstanding claims at the year end.

Thomas Miller P&I (Europe) Limited provides management services to the Association. The Association has a contract with Thomas Miller P&I (Europe) Limited which contains a one year termination clause.

Amounts in $000	**2018**	**2017**
Key management compensation		
Short term employee benefits - Directors' fees	116	122

Note 19
Subsequent event - Group restructure

On 20 February 2018, immediately following the year end, the group was restructured. As a result of the restructure, the Association became the holding company for the group and the sole Member of the UK Bermuda. The Associations' policyholders, who were previously Members of the UK Bermuda, had their Membership rights transferred to the Association.

The activities of the individual companies have not been affected by the restructure.

The restructure has no impact on the group's free reserves which are $540 million with a further $100 million of Hybrid capital as at 20 February 2018.