Britannia

The Britannia Steam Ship
Insurance Association Limited

Annual Report and Financial Statements

20 February 2016

Contents

Key statistics

30 Countries

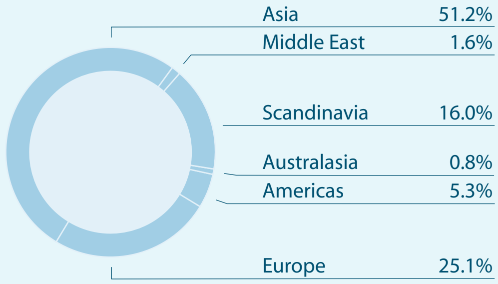
240 Members

3,600 Ships

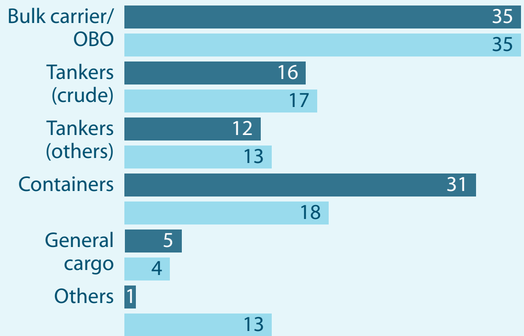
106m gt Owned tonnage

36m gt Chartered tonnage

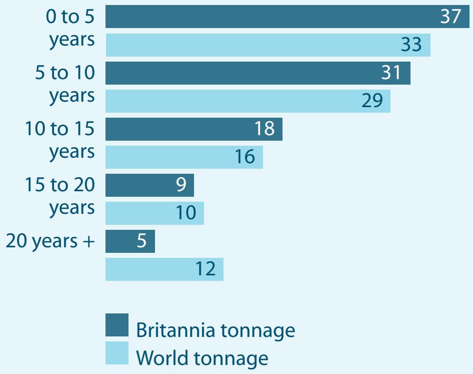
Entered tonnage by area of management – Class 3



Ships by type (% of total)



Age of ships (% of total)



	20 February 2016 (m gt)	20 February 2015 (m gt)	20 February 2014 (m gt)
Entered tonnage (owned)	**105.9**	108.5	108.0
Entered tonnage (chartered)	**35.5**	27.0	23.0

	US$(000)	US$(000)	US$(000)
Calls and premiums	**260,272**	269,726	284,167
Net claims incurred	**(167,654)**	(156,241)	(203,516)
Investment income	**(23,500)**	3,954	48,135
Net operating expenses	**(26,986)**	(24,963)	(26,811)
Net income after taxation	**(24,871)**	18,269	26,181
Free reserves*	**346,396**	371,267	352,998

Net loss ratio	**86.1%**	79.5%	97.2%
Average expense ratio	**9.12%**	8.43%	8.03%

Standard & Poor's rating	**A (stable)**	A (stable)	Api

* The Association also retains the benefit of its reinsurance contract with Boudicca Insurance Company Limited (see note 3 to the financial statements).

	US$(000)	US$(000)	US$(000)
Surplus investment assets in Boudicca available to meet future claims by the Association	**166,300**	174,300	118,900

Chairman's statement

Looking back at my words last year, I had hoped that 2015/6 would finally see some improvement in shipping markets. As you will all be aware there has been no tangible change, with a sluggish world economy continuing to depress rates. The only bright spot has been the oil tanker sector, which has enjoyed a good year.

Turmoil in world markets has had an inevitable effect on investment returns, with our portfolio recording an overall loss of 2.5% for the year. We decided during the year to further protect the portfolio by moving some of our corporate bond and equity holdings into Diversified Growth and Absolute Return funds. We expect these changes to be in place by the first quarter of 2016.

Last year I referred to the fact that Britannia was planning to undertake a strategy review during 2015. This took place during the first half of the year and was underpinned by a detailed study of the shipping and marine insurance markets to determine the risks and opportunities that might face the Association in the future. The study identified scale as an important attribute that could also deliver a number of strategic advantages. One way of achieving scale is through merger with a like-minded insurer and you will have seen the announcement that we are in merger discussions with the UK Club. We are currently engaged in a due diligence process to determine whether a merger is feasible and beneficial to both Clubs' Members. The Committee will consider the results of these discussions in May.

Meanwhile changes in the UK regulatory regime have led to a Governance Review within Britannia and, as a result, we will be making changes to our structure to introduce a smaller Regulatory Board, with up to 14 directors, to manage the controlled functions of the Association. The Committee will continue to represent the wider membership and ensure that their views are properly represented.

Management of the various sanction regimes by the EU and US has been a key concern to the Association and its Members. The recent lifting of some, but not all, sanctions in relation to Iran has enabled trade to resume, but the insurance sector continues to be affected by some US sanctions. Further detail is given later in this report.

We said goodbye during the year to Messrs D J Ridgway, S D Lee and M Y Nordin, for whose contributions we are very grateful. We have welcomed as new directors Ms S Dio and Mr P H Lee.

Finally I would like to note the retirement of Grantley Berkeley after 34 years with the Association. Grantley was Chairman of Tindall Riley from 2006 and also Chairman of the International Group from 2012 to 2015. I am pleased to advise that Grantley will remain on the Committee as a non-executive director to provide additional support during the current merger discussions. He has been replaced by Mr J A Trew as the Manager nominated director.

Nigel Palmer OBE Chairman

Financial review

The Association's financial performance for the year ended 20 February 2016 has been one of contrast: a strong underwriting result of US$35.3m but a disappointing investment return, which for the first time since 2008 was negative overall. The combination of these two factors has been to reduce the Association's reserves by US$24.9m; however, with balance sheet reserves of US$346.4m and significant resources available through Boudicca, the overall financial position of the Association remains well in excess of the triple-A measure based on Standard & Poor's capital model.

The strength of the Association's financial position has continued to be of direct benefit to Members. In October 2015, the Committee decided that it could further reduce the budgeted deferred call for the 2014/15 policy year, from 40% to 37.5% (it having been reduced by the Committee in the previous October from 45% to 40%). The total saving to Members from these waivers is US$12.7m. In addition, for the 2016/17 P&I (Class 3) renewal, the Committee was able to agree, for the third year in succession, a modest general increase of 2.5%.

There was some loss of owned tonnage at the 2015/16 renewal and growth in tonnage during the year was slower than in recent years as the volume of newbuilding deliveries remained low. However, there was an increase in the Association's chartered book as a result of additional tonnage from existing Members and a number of new standalone chartered fleets. These factors, together with the impact of the further waiver to advance calls, resulted in a modest reduction in P&I calls of US$8.9m to US$251.6m. FD&D (Class 6) also saw a slight fall in premiums of US$0.5m, which was mainly the result of some loss of owned tonnage at the 2015/16 renewal.

Reinsurance premiums fell year on year by US$7.5m, the result of lower premiums on the International Group excess of loss reinsurance programme and lower premiums payable to Boudicca. The cost of the charterers' reinsurance programme for 2015/16 was broadly similar to the previous year.

Incurred claims within the Club retention in the 2015/16 policy year, while higher than the previous year at the same stage, were substantially lower than in the 2012/13 and 2013/14 policy years, where claims were exceptionally high. By contrast, the 2014/15 policy year has proved to be an exceptionally low one for claims, and the position in 2015/16, which is somewhere between the two, is therefore considered to be a return to a more 'normal' claims level.

The 2015/16 policy year saw 20 claims in excess of US$1m, which is higher than the 15 such claims reported in 2014/15. Of these, two have exceeded the Club retention; one, the *ALPINE ETERNITY*, by a considerable margin. Indeed, this claim is the first on the Association to exceed the Pool retention since 2004/05 and it looks likely to be its largest ever claim. The aggregate estimated cost of these large claims (net of reinsurance recoveries) is US$84.2m and it is the impact of these large claims that explains the main difference between the overall incurred claims position in 2014/15 and in 2015/16. However, claims at US$1m and below are also slightly higher in number and aggregate value than in the 2014/15 policy year at the same stage, although they remain well below the high points of 2012/13 and 2013/14. 5,079 such claims had been reported in 2015/16 by 20 February 2016, compared to 4,766 in 2014/15, an increase of 6.6% in number. Their aggregate value was higher by 13.8%.

Financial review

Incurred claims on the Pool are also higher in value than in the previous year at the same stage. However, after allowing for the impact of the *ALPINE ETERNITY* and *EL FARO*, two Pool claims each expected to cost in excess of US$70m, claims are relatively light. A total of 10 claims had been notified by 20 February 2016, with an estimated aggregate cost of US$256m; this compares with the same number in 2014/15 at the same stage, but with an estimated aggregate cost of US$180m.

The past 12 months have seen the usual pattern of positive development in claims in prior policy years, which has allowed substantial releases from claims provisions in those years. In the 2012/13 policy year, in which the cost of claims is above the attachment point for the aggregate reinsurance contract with Boudicca, the improvements to claims have benefited Boudicca rather than the Association directly.

The overall underwriting result for the year ended 20 February 2016, represented by the balance on the technical account, was a surplus of US$35.3m. This compares to a surplus of US$41.0m in the previous year, which benefited from a lower level of claims incurred. Of the total underwriting surplus, US$35.2m was contributed by P&I (Class 3) and US$0.1m by FD&D (Class 6). Although the Class 6 result was impacted by an increase in the provision for future claims handling for that Class, the underlying underwriting performance remained strong.

2015/16 was a difficult one for investments. Equity markets went through a number of periods of volatility and, in the final two months of the financial year, the MSCI World Index, which the Association's equities track, fell by 247 points, more than half of the total fall for the year. While the index has rallied strongly in the weeks post 20 February 2016, the return on equities reported in these accounts was minus 11.9%. Government bond markets were relatively flat but returns on corporate bonds were also negative. The overall return generated by the Association's investment portfolio for the year was minus US$23.5m, equivalent to a loss of 2.3%. With the longer-term rate of return fixed at 3.25%, this resulted in a transfer from the investment reserve of US$62m.

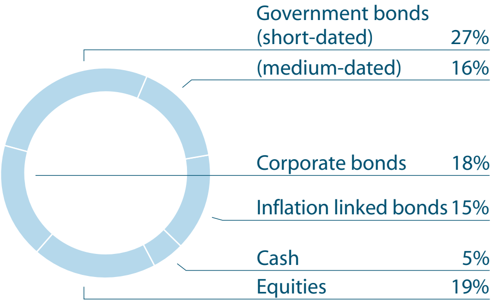
During 2014/15, the Association underwent its first interactive credit rating by Standard & Poor's (S&P), after being rated on a 'public information' basis for a number of years. The rating, published in October 2014, was 'A stable', and this rating was confirmed by S&P in October 2015. This shows that S&P consider that the Association remains financially strong, with a stable outlook.

The Association's financial strength at 20 February 2016, measured by its balance sheet reserves, stands at US$346.4m. The total resources available to the Association include potential future recoveries from Boudicca. The surplus funds available from Boudicca, as disclosed in note 3 to the financial statements, were US$166.3m at 20 February 2016, a small reduction on the position reported this time last year.

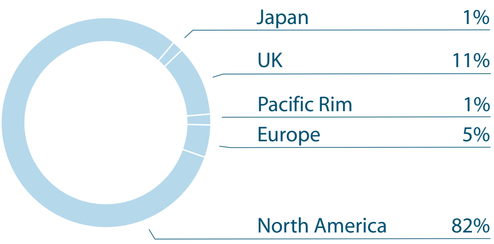
Despite the disappointing investment performance, the Association remains very well funded, with resources in excess of the Committee's economic capital target and with very substantial headroom over its regulatory capital requirements.

Investment review

Invested funds at market value
20 February 2016
Type of investment



Geographical distribution



Financial markets grew increasingly turbulent through 2015, with a particularly weak outcome for the opening two months of 2016 ensuring that equity market returns for the review period were negative in the vast majority of cases. Markets 'see-sawed' on a number of occasions as optimism on US and European economic growth progress was punctuated by bouts of nervousness around Greece, China, oil, currencies and interest rates. As measured by the FTSE World Index, global equities recorded a negative total return of 9.2% in local currency terms, which translated to a more modest 1.5% loss in sterling terms as a result of sterling weakness.

Central bank policy was a focus in the year, with the Federal Reserve's (Fed) decision in December finally to raise interest rates ending the uncertainty that marked 2015. The European Central Bank's (ECB) commitment to a quantitative easing (QE) programme worth €1.1 trillion (increased by a further €360bn in December) fostered euro weakness, which in turn bolstered the competitiveness of the region's exporters. This was reflected in better than expected economic growth data, further underpinning the demand for European equities, which generally outperformed UK and US markets. However, financial markets do not operate in isolation and there were other sizeable factors also influencing markets in the year: China, Greece and commodities.

Greece was a key part of the financial markets narrative in the first half of 2015 as the newly-elected government's belief that a popular mandate at home warranted concessions from its creditors proved to be misplaced. Just as a new Greek bailout was agreed, market turbulence erupted as the soaring Chinese stock market went into reverse amid concerns about its economy, financial system and its decision effectively to devalue the currency. China's stock market lost 19% after an extremely volatile 12-month experience. Local currency returns elsewhere in the emerging markets universe were mixed, with Brazil down 17%, Greece down 41% and Russia up 5%.

The US economy generally showed improvement, despite a weather-related setback in the opening quarter of 2015. Despite GDP growth picking up as the year progressed, the Fed postponed interest rate hikes on two occasions as the bank waited for sufficient evidence the economy was on a firm footing. The S&P 500 Index fell 8.2% on a capital-only local currency basis. Falling oil and other commodity prices meant that energy and materials sectors were the poorest performers in the year, offsetting gains by consumer, IT and healthcare sectors.

There was a wide dispersion of stock market returns in Europe for the 12 months, although they were still almost uniformly negative; Germany fell by 17%,

Investment review

France by 12%, Italy by 21% with Spain by 24%; all on a capital-only basis. Ireland was an exception, as its continued financial and economic rehabilitation underpinned an 8% gain by its stock market.

The FTSE All-Share Index recorded a negative total return of minus 7.1% in the 12 months. Although the economy continued to exhibit solid growth characteristics, the London stock exchange is home to many large global companies, meaning its performance is not as correlated with domestic issues as might be the case elsewhere. The relatively large exposure to oil and mining sectors weighed on the market, but there were positive offsets from the better outcomes achieved in technology and consumer sectors. The election of a Conservative government in May was generally welcomed by the market, although the prospect of a referendum on the UK's continued membership of the European Union (fixed for 23 June 2016) caused some unease, particularly for sterling which has recently weakened.

While the oil price had shown some stability and recovered in the early months of 2015, the impact of sustained oversupply and some concern about economic prospects for 2016 contributed to a steep fall in prices. In mid-January, Brent crude prices hit a 12-year low and despite rebounding from those levels, it recorded a loss of 42% in the 12 months. Japan's Nikkei Index recorded a loss of almost 15%, although the relative weakness of the British pound versus the strong yen was such that most of that loss was offset for the unhedged British investor.

Fixed income markets experienced a year of fluctuating fortunes, with most developed sovereign bond markets recording small gains or losses in the period. In a sometimes turbulent year, Eurozone bond yields plunged to new lows in the lead-up to, and after the launch of, the ECB's QE programme in March. By mid-April, German bonds with duration of up to nine years were yielding less than zero, with the benchmark 10-year bond yield touching 0.05%. From this low point, there was a heavy sell-off and 10-year yields shot back above 1.0%, in part due to Greek worries. Concerns about global growth in the second half of the review period also tended to result in a market preference for high quality sovereign debt; German 10-year yields ended February at just 0.11%. The fall in yields in the opening two months of 2016 was reflected in bond markets around the world. US 10-year bond yields ended the review period at 1.73%, down from 1.99% a year earlier. Following the unexpected Bank of Japan introduction of negative deposit rates in January, Japanese 10-year yields fell to record lows; in fact by the end of February, bonds maturing in 2026 were yielding minus 0.06%.

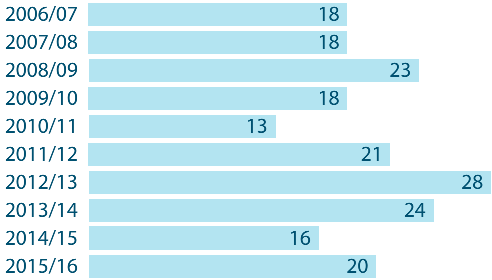
UK yields also finished the year lower; 10-year gilt yields fell to 1.34% from 1.80%. The general expectation was for gilts to weaken as the Bank of England was thought likely to follow the Fed with higher interest rates in 2015. However, the Fed's delay coincided with the slide of UK inflation into negative territory, dampening expectations that the Bank of England would increase rates before the second half of 2016, and thus keeping yields at relatively low levels.

Apart from the fact that China's move to devalue the yuan contributed to fears of competitive devaluations, or a currency war, growth concerns weighed heavily on commodity prices, which in turn hit the currencies of countries that are big exporters of basic resources. So while Brazil's stock market fell about 17%, the country's currency fell by 20% against sterling, effectively a double blow for British-based investors. Towards the end of 2015, the British pound itself began to lose support as worries about a possible exit from the European Union began to exercise investor minds. These worries grew in the first two months of 2016; sterling fell 16% versus the Japanese yen, 9% versus the US dollar and 7% against the euro in the 12 months.

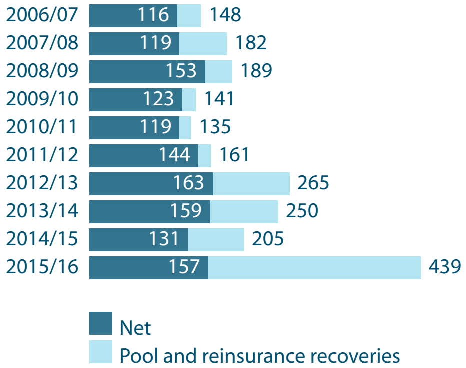
Class 3 – Protection and Indemnity (P&I)

Claims

Class 3 P&I claims
Number of claims on the Association that are greater than US$1m (net) as at 20 February 2016



Association's estimated retained claims
(US$m) as at 20 February 2016



Britannia retained claims

The previous two years' reports began by advising that retained claims in both the 2012/13 and 2013/14 policy years had consecutively reached the highest levels ever recorded. While there has been some improvement, the estimates for those years still stand at US$182m and US$187m respectively. There was concern that those claim levels would be repeated or even exceeded going forward. Fortunately, that has not been the case and claims for the 2014/15 policy year are noticeably better, currently standing at an estimated US$150m. Claims for the 2015/16 policy year are slightly higher, currently estimated at US$169m, with 5,099 claims compared to 4,781 claims notified at the same stage of development in 2014/15.

The Association continues to categorise claims within its retention into two bands: those that are estimated to cost US$1m or less, which are known as 'attritional' claims, and those that are estimated to cost in excess of US$1m, which are known as 'high value' claims. Attritional claims constitute the vast majority of claims by number, while high value claims, although very small in number, constitute a high proportion of the total estimated claims cost.

To date, the total number of attritional claims notified in respect of the 2015/16 policy year is 5,079. This represents an increase on the 4,766 attritional claim notifications the previous year, which in turn show considerable reductions on the 5,788 attritional claims notified the previous year. This year-on-year decrease in the number of claims is attributed to various liner operators moving to higher cargo deductibles and the Association's move, at the 2014 renewal, to a combined deductible (which applies to the underlying claim, plus costs, fees and expenses). This move is also reflected in a general drop in the number of routine cases reported to the Association's correspondents locally.

Although high value incidents are considerably less frequent, as mentioned above, their impact can be financially significant. There were 20 such notifications in 2015/16 estimated at US$84.2m compared to 15 claims with an estimated value of US$59.3m in 2014/15.

With such a small number of claims, it is difficult to identify trends. Four of the large cases involved collisions, four involved significant property damage claims, two of which will exceed the Club retention of US$9m, and a grounding. The largest of these claims was the *ALPINE ETERNITY* (see Pool claims). Another large property damage claim occurred at the SCCT terminal in Port Said, when a container ship made contact with a shore gantry crane and a naval landing craft moored astern of the intended berth. The impact pushed the crane away from the quay edge and caused substantial damage to the main support legs and quay rail bogies. A similarly large property damage claim occurred following contact with a wharf at the Kapar Power Station, Malaysia while a Member's ship was berthing under pilot. The grounding occurred after a dry bulk carrier was driven ashore by hurricane Patricia on Punta Graham 22 miles north of Manzanillo, Mexico. The ship was in ballast but had 254 mt of IFO and 134 mt of MGO on board at the time of the grounding. Fortunately the crew were safely evacuated. An operation to remove all pollutants has been successfully completed to prevent any spillage or damage to the environment and the fate of the wreck is being discussed with the Mexican authorities.

The Association continues to investigate the root causes of high value claims. Last year it was reported that human error and poor seamanship were usually significant elements in many major incidents and that the level of claims paid by the Club often related as much to the jurisdiction in which the claims are brought. The same underlying issues have been identified in the larger incidents occurring in 2015/16 and navigational issues, poor bridge team management and over-reliance on pilots have all been found to be significant factors in the causes of larger incidents. Highly inflated claims are often presented increasing the shipowner's exposure to greater losses.

Pool claims

2015/16 saw two high profile Pool claims, *EL FARO* and *ALPINE ETERNITY*. *EL FARO*, a cargo/passenger ship, departed from Jacksonville, US en route to San Juan, Puerto Rico. On 1 October all communication with the ship was lost

and subsequent search and rescue efforts failed to locate the ship or her 33 crew, all of whom are presumed dead. Aside from cargo claims, the primary exposure is to the families of the deceased crew. *ALPINE ETERNITY*, entered with the Association, was a more mundane casualty with the ship (a product carrier) hitting and destroying a jacket rig in the Arabian Gulf. Thankfully there was no pollution as the jacket was not yet on stream. Nevertheless the incident has given rise to a significant claim which will go through the Pool into the first layer of the Group Excess of Loss programme. There has been the added complication of the jacket rig being in Iranian waters and the potential application of sanctions, which has required lengthy engagement with authorities in the US (OFAC) and the EU (HM Treasury).

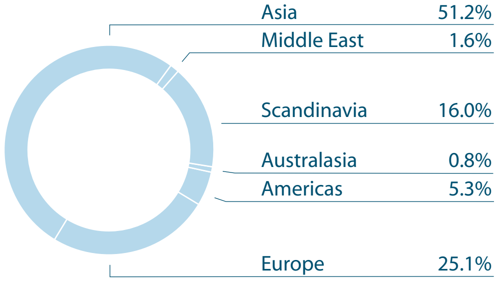
Notwithstanding those two incidents, claims on the 2015/16 Pool to date have been relatively light overall with ten claims reported (the same number as at the end of the 2014/15 policy year). Those ten claims have a higher aggregate value than at the end of the 2014/15 policy year, at approximately US$256m (2015/16) compared to US$180m (2014/15). However, this is an improvement on the comparable figure for preceding years e.g. US$331m (2011/12), US$377m (2012/13) and US$291.5m (2013/14). A degree of caution must be applied to these figures as Pool claims tends to develop over a longer period, with 2011/12, 2012/13 and 2013/14 all deteriorating markedly to US$505m, US$484m and US$390m respectively. Nevertheless, the past two years of lighter Pool claims is encouraging.

More pointedly, nine of the ten Pool claims in 2015/16 involved poor bridge team management or navigational practices in one form or another. Human error would seem to be unavoidable but all shipowners should maintain their efforts to minimise the risk of incidents caused by bad practices through a combination of training and the adoption of best practices and onboard procedures (including regular audits of compliance with those procedures).

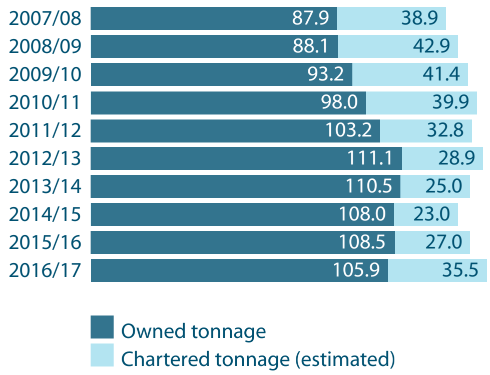
Class 3 – Protection and Indemnity (P&I)

Tonnage

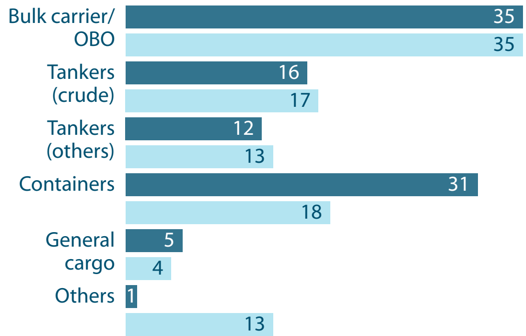
Entered tonnage by area of management – Class 3



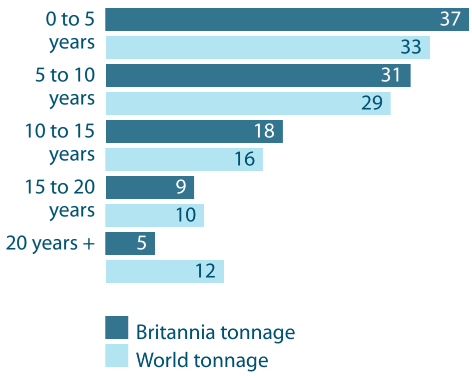
Tonnage entered – Class 3 (m gt)
(Beginning of policy year)



Ships by type (% of total)



Age of ships (% of total)



The Association's owned tonnage increased by over 4m gt during the 2015/16 policy year, with the majority of the growth coming from existing Members. Chartered tonnage increased by approximately 3.5m gt during the policy year, again largely due to the increased chartering activity of existing Members.

The number of Members entered in the Association increased marginally during the year with nine new Members joining on the owned side and eight withdrawing (the majority of these resulting from the ongoing difficult market conditions). Of the newly-entered ships, the majority were newbuildings. The age profile of the Association's entered tonnage remains favourable: 68% of the Association's entered tonnage was built within the last ten years, compared to 63% for the world fleet.

The composition of entered tonnage by type of ship has not altered materially over the year, with crude tankers representing 16% of the entered tonnage, other tankers 12%, containers 31% and bulk carriers 35%.

The geographical spread of the Association's business has also remained largely unchanged over the year, with fleets from the Asian region still representing more than 50% of the Association's tonnage. Fleets from Europe represent around 25% of the Association's tonnage, which is a slight increase from this time last year.

At renewal on 20 February 2016 the Association's overall tonnage increased by approximately 1.7m gt, predominantly as a result of existing Members transferring tonnage to the Association. A significant number of new commitments are scheduled to join the Club during the 2016/17 policy year.

At the beginning of the 2016/17 policy year, the Association's entered tonnage amounted to approximately 141.4m gt, which is made up of 105.9m gt owned and 35.5m gt chartered tonnage.

Class 3 – Protection and Indemnity (P&I)

International Group reinsurance

Structure

The Association is party to the International Group Pooling Agreement and participates in the Group's excess of loss reinsurance programme. From 20 February 2014, individual Group clubs retained US$9m of each claim before pooling up to a limit per claim of US$80m. From 20 February 2016, the individual club retention increased to US$10m while the Pool retention remains at US$80m. Two layers of US$500m each, plus one layer of US$1bn, then provide reinsurance cover for claims up to US$2bn in excess of the club and Pool retentions. There is a lower limit of cover for oil pollution claims of US$1bn. In addition, a Group overspill reinsurance protects clubs and their Members against their share of overspill liabilities for claims up to US$1bn in excess of US$2.08bn (see diagram below).

The loss experience of the reinsurance programme on the 2012/13, 2013/14, 2014/15 and 2015/16 years remained favourable to reinsurers and currently there is only one claim notified to the programme for 2015/16. This, combined with increased market capacity, the continuing positive financial development of the Group captive Hydra and the use of a third multi-year fixed placement, enabled the Group to achieve advantageous reinsurance renewal terms, with reductions across all layers of the programme and on the Excess War P&I cover. This resulted in reinsurance rate reductions for all ship types. Against an expiring market premium of US$459.3m, the 2016/17 premium is US$437.8m.

In addition, the scope of the reinsurance cover has been extended for the 2016/17 policy year to include nuclear risks liabilities arising under approved certificates, guarantees or undertakings up to a limit of US$1bn.

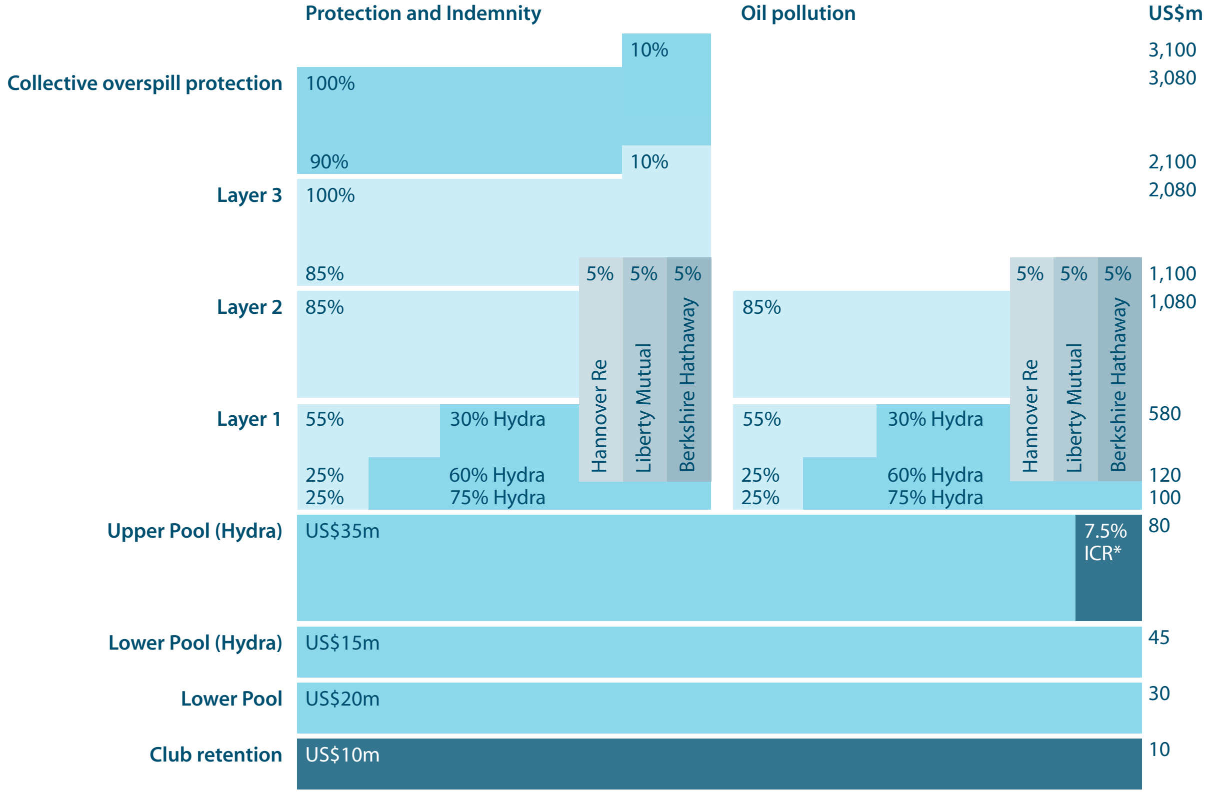
Hydra

The Group's objective is to become less susceptible to the unpredictable nature of the commercial reinsurance market. In that regard Hydra, the Group's protected cell captive insurance company, has a significant role to play.

For 2016/17, Hydra's reinsurance of the Group Pool will remain unchanged at US$50m excess US$30m. Hydra's coinsurance share in the first layer of the programme (US$500m excess US$80m) will increase slightly for 2016/17 to include a further 5% share of the layer from US$80m to US$100m.

The intention is to build Hydra's financial resources to enable the Group to continue to retain more risk in the future, while at the same time ensuring that security is in place to enable each club to meet its Pool liabilities.

International Group excess of loss reinsurance programme
2016/17 policy year (not to scale)



*ICR – Individual Club retention

Class 3 – Protection and Indemnity (P&I)

Loss prevention

During the past year, the Association has devoted significant resources to loss prevention, supporting Members in their efforts to avoid accidents and reduce the cost of claims. This has included condition surveys, root cause analysis and the dissemination of the lessons learned through the Association's range of publications (all of which can be found on the Britannia website) and the well-received regular technical seminars targeted at raising safety awareness.

Condition surveys

The Association's long-established ship inspection programme remains the principal means by which the Managers review the quality of entered tonnage. These surveys help to monitor maintenance standards, with a particular emphasis on safety of life at sea, by focusing on the physical condition of a ship and its fittings, as well as shipboard management practices and operations.

Over 160 condition surveys were carried out during 2015. The majority of the surveys formed part of our annual inspection of a representative sample of Members' ships, while others were instigated in response to claims records, port state control (PSC) detentions or referrals from the claims and underwriting departments. As in past years, a number of tankers were inspected in accordance with the International Group's regime to survey tankers over ten years of age which had carried heavy fuel oil (HFO) as cargo during the previous policy year.

Of the ships surveyed, 70% returned 'good' and 'very good' results. However, as anticipated, the difficult economic environment has continued to have an impact on the level of maintenance carried out on board ships. This is reflected in the fact that while 30% of the surveys carried out returned acceptable results, multiple deficiencies were frequently found. As a result, the following initiatives have been undertaken:

• *Risk Watch* has continued its series of articles highlighting good maintenance practices; and

• Findings from the survey programme have been incorporated into seminar materials used by the loss prevention team in order to emphasise the potential consequences of poor maintenance.

Root cause analysis (RCA)

Larger claims remain the bedrock of our day to day RCA work, with such claims usually involving collisions, groundings and damage to property. Often the underlying cause can be attributed to poor bridge team management and a lack of situational awareness and teamwork. To highlight these issues:

• *Risk Watch* has featured a series of articles based on incidents involving watch keeping error, highlighting the importance of maintaining good bridge procedures. One such article demonstrated the danger of using VHF radio in a collision avoidance situation, addressing the importance of using sound signals and keeping a proper look out.

• The popular series of collision regulations (COLREGs) posters, which have been distributed with *Risk Watch*, continued in 2015 and further posters will follow in 2016.

• In collaboration with Warsash Maritime Academy in the UK, the loss prevention team has produced a video filmed on a bridge simulator, depicting many of the errors identified from an analysis of the Association's larger claims. The video is an integral part of the navigation workshop and it is currently being rolled out in the Association's worldwide technical seminar programme. The expectation is that this training package will be made available to Members via the website later this year so that it can be integrated into Members' own training programmes.

Further root cause analysis work has led to:

• An article in *Britannia News* (December 2015) on the potential hazards associated with the carriage of rice.

• A detailed article in *Risk Watch* (August 2015) following a review of tanker contamination claims.

• A *Risk Watch* edition in April 2015 focusing solely on tanker shortage claims.

• A poster and a checklist, reminding crew that careless liquid cargo sampling can lead to expensive claims and emphasising that samples should be collected, sealed, labelled and recorded in line with best industry practices and company procedures.

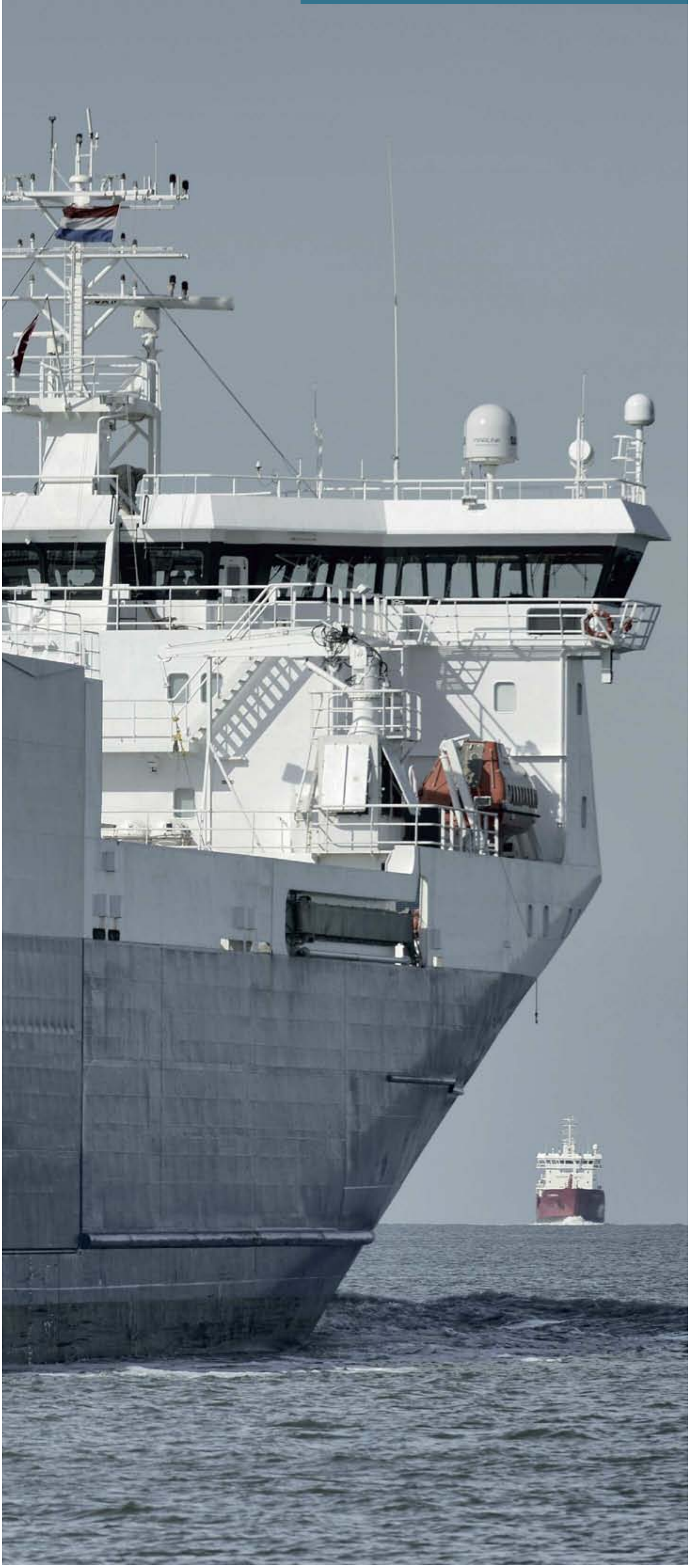
Technical seminars

The Association's technical seminar programme continues to disseminate the lessons learned in locations where Members' crew supply is concentrated. During the course of 2015, the loss prevention team hosted 14 separate seminars in India, the Philippines, the People's Republic of China and Taiwan. These were attended by a total of almost 1,400 delegates including master mariners, senior officers, ratings, superintendents and office staff.

Subjects covered included identifiable trends arising out of the condition survey programme and port state control ship detentions together with a review of crew welfare issues, highlighting management of fatigue on board. Entry into enclosed spaces was once again revisited together with a focus on cargo care, including the risk of liquefaction. Interactive workshops were conducted on ECDIS and navigation issues with contributions encouraged from the floor and these workshops emphasised the importance of passage planning, collision avoidance and bridge team management. The new computer-generated bridge simulations, created with the assistance of Warsash Maritime Academy and based on claims experienced by Members of the Association, were also presented.

The ECDIS workshop addressed the practical use of ECDIS and the training required together with a discussion on ECDIS-assisted accidents and how to avoid them, with a follow up article published in *Risk Watch* (March 2016).

The loss prevention team has also continued to make presentations at Members' individual officers' conferences, attending 16 during the course of 2015.



Publications

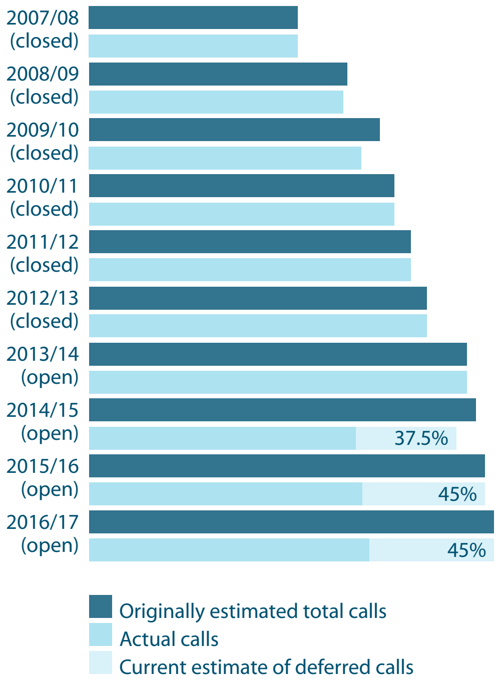
The Managers continue to produce regular news items and bulletins for Members which seek to raise awareness of safety issues. The quarterly publication *Risk Watch*, together with its *Claims and Legal* supplement, remains the primary channel for sharing technical information with the membership and with crew serving on board ships entered with the Association.

During 2015, *Health Watch* raised awareness of the physical and mental health problems faced by seafarers. Recent issues sought to enhance seafarers' knowledge of food hygiene and expanded on the theme of 'you are what you eat' with articles on gout and kidney stones. We also raised awareness of the risks associated with fatigue and ways in which seafarers could assist in reducing the number of accidents caused by fatigue, together with raising awareness of mental illness and exploring ways of overcoming stress and depression. The Wellness at Sea programme launched by Sailors' Society was also included, outlining the training that can be given to crew, and posters were distributed with these publications. To emphasise this work, fatigue and fatigue-related claims were discussed as an integral part of the technical seminar programme and in addition, representatives from Sailors' Society were the keynote speakers at the Association's 2015 Member forums.

Class 3 – Protection and Indemnity (P&I)

Policy year development

Advance and deferred calls – Class 3



The underwriting position for the closed and open policy years is shown in the policy year statement on page 50. This incorporates the Managers' prudent estimate of outstanding claims, including a provision for claims incurred but not reported (IBNR), for all policy years up to and including 2015/16.

2012/13

The general increase for this year was 5% and the budgeted deferred call remained at 40%. At its meeting in October 2013 the Committee decided to call this deferred call in full.

Retention claims in the policy year were again at an unprecedented level, exceeding the record high of the previous policy year at the same stage by 22%. Claims of more than US$1m have increased from 25 to 28, of which five are currently estimated to exceed the Club retention of US$8m.

There have been 26 notifications to the Pool to date, of which two have reached the first layer of the IG excess of loss reinsurance programme. At 20 February 2016, the value of incurred claims on the Pool was US$484.8m.

This time last year, the projected deficit on the policy year was US$19.6m. Over the past 12 months this position has improved slightly so that the deficit is now US$19.3m. The 2012/13 policy year was closed on 20 February 2016.

2013/14

In October 2012 the Committee approved a general increase in advanced calls of 12.5% and increased the deferred call from 40% to 45%. This decision reflected the Committee's concerns about the uncertain claims environment, in particular the upward trend in retention claims. Mindful of the severe financial pressures under which many shipowners were operating, it was decided to give Members a one-off premium discount of 7.5% on their advance calls, to be financed from the Association's reserves. At its meeting in October 2013, the Committee decided to call the 45% deferred call in full.

Retention claims continued their upward momentum and at the 12-month stage of development had again reached a record level, exceeding the record high of the previous policy year at the same stage by 5%. Claims of more than US$1m have fallen from 32 to 24, of which four are currently estimated to exceed the Club retention of US$9m. These 24 claims account for just under 50% of the total cost of claims for the year, so their overall impact is significant.

There have been 22 notifications to the Pool to date, of which two have reached the first layer of the IG excess of loss reinsurance programme. At 20 February 2016, the value of incurred claims on the Pool was US$390.4m.

This time last year, the projected deficit on the policy year was US$52.4m. Over the past 12 months this position has improved so that the deficit is now US$30.7m.

2014/15

In October 2013 the Committee approved a general increase in advance calls of 2.5% while the budgeted deferred call remained at 45%. These decisions reflected the Committee's desire to maintain the Association's strong financial position in the face of an uncertain claims environment, while recognising the continuing severe financial pressures under which many shipowners were operating.

Retention claims, at US$149.9m, are at their lowest level for four years at the 24-month stage. This is seen as a remarkably low level, following the two preceding years of exceptionally high claims. Currently there are only 16 claims expected to cost more than US$1m, an increase of one on the number reported last year. Of these, one is currently estimated at more than the Club retention of US$9m and has been reported to the Pool.

Pool claims in the 2014/15 policy year have been at their lowest level at the same stage of development for the past six years, at US$193.6m. There have been 13 notifications to the Pool to date, none of which has reached the first layer of the IG excess of loss reinsurance programme.

To reflect the low levels of claims in this policy year, at its meeting in October 2014 the Committee decided to reduce the estimated deferred call from 45% to 40%, thereby easing the financial burden on Members. Furthermore, at its meeting in October 2015, the Committee approved a further 2.5% waiver in deferred call to 37.5%, with 17.5% collected immediately and 20% in 12 months' time. The total waivers of deferred call have benefited Members by approximately US$12.7m.

This time last year, the projected deficit on the policy year was US$26.3m. Over the past 12 months this position has improved such that the deficit is now US$6.9m (including the impact of the waivers of the deferred call).

2015/16

In October 2014 the Committee approved a general increase in advance calls of 2.5% while the budgeted deferred call was maintained at 45%. This level of deferred call again reflected the Committee's caution over the claims environment faced by Members, while providing flexibility, if appropriate, for part of the deferred call to be waived in the event of a more benign claims year.

Retention claims are at a slightly higher level than claims in the 2014/15 policy year, but well below the highs seen between 2011/12 and 2013/14.

Currently there are 20 claims expected to cost more than US$1m, slightly up on the previous policy year. Of these, two are currently estimated to exceed the Club retention of US$9m, with one of the claims falling on the first layer of the IG excess of loss reinsurance programme.

Pool claims in the 2015/16 policy year are slightly above the level reported last year. There have been nine notifications to the Pool to date, of which two have reached the first layer of the IG excess of loss reinsurance programme. At 20 February 2016, the value of incurred claims on the Pool was US$255.8m. It should be noted that two Pool claims account for almost 72% of the notified amounts to the Pool. It is difficult to predict how the Pool will develop after the year end, but the Association continues to adopt a cautious view in relation to its provisions for Pool claims.

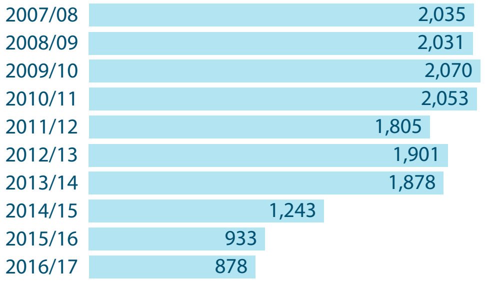
2016/17

In October 2015 the Committee approved a general increase in advance calls of 2.5% for the third year in a row, while the budgeted deferred calls was maintained at 45%, the rationale being the same as in 2015/16.

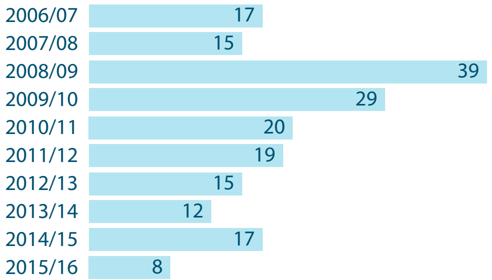
The chart on page 14 presents the originally estimated calls, the actual calls and the current estimate of deferred calls for the 10 years up to and including 2016/17.

Class 6 – Freight, Demurrage and Defence (FD&D) Claims

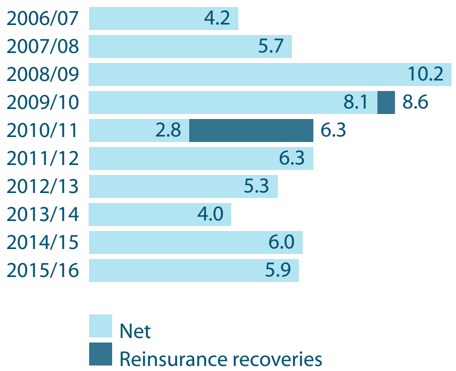
Class 6 – FD&D ships entered



Class 6 – FD&D claims
Number of claims on the Association notified to date that are greater than US$50,000 (net)



Association's estimated retained claims
(US$m) as at 20 February 2016



The 2015/16 policy year saw an increase in both the total number and aggregate value of FD&D claims compared with the previous two policy years. However, the increases were fairly modest and further confirmed the return to normal levels of FD&D claims activity following the extremely high level of claims experienced from 2008 to 2010, largely as a result of the global financial crisis.

On first impression, the continuing benign FD&D environment in 2015/16 may be a little surprising. The poor state of most sectors of the shipping market might suggest that disputes would be more common, because so many shipping companies are facing serious financial constraints. However, the fact that the market has been flat, even at very low charterparty hire rates, may actually have reduced the number of disputes; it is when chartering markets are volatile, with hire rates moving dramatically up or down, that the number of disputes tends to increase as some shipowners and charterers attempt to take advantage of changes in the market.

Furthermore, despite the poor market conditions, surprisingly few shipping companies have, to date, been declared insolvent or been rumoured to be on the brink of financial collapse. Such events naturally tend to cause an increase in FD&D claims as concerned creditors seek to obtain security by arresting assets, such as ships, bunkers and cargoes, belonging to their debtors. Having said that, the first few months of 2016 have seen some jitters in the market as several charterers have stated publicly that they wish to negotiate reductions in the rates of hire they are paying under long-term charterparties This has, in turn, seen an increase in efforts to obtain security from those charterers.

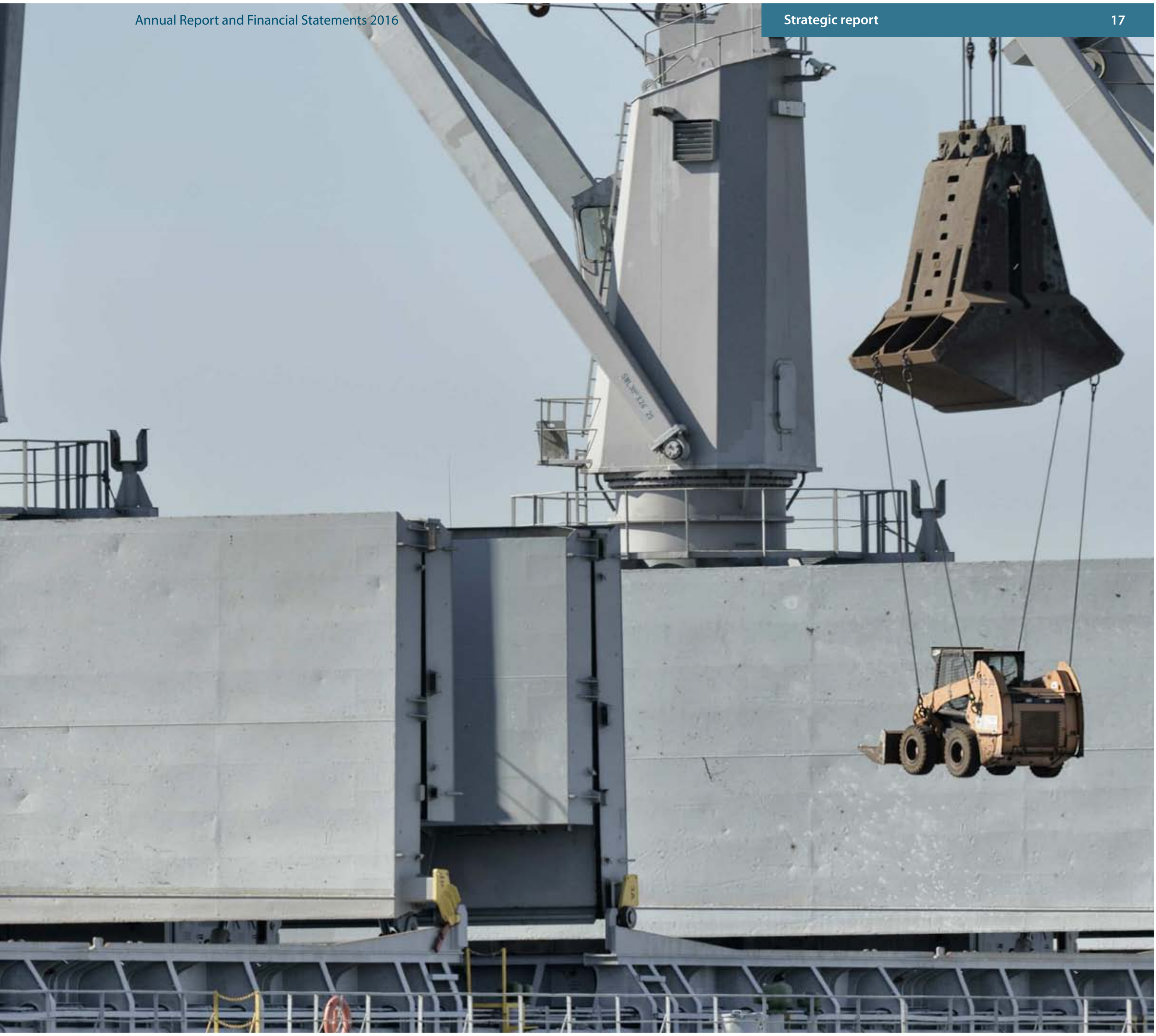
Most of the claims handled by the Association in 2015/16 were of the typical FD&D type and no unusual trends were discernible. The claims included disputes concerning off-hire, demurrage, underperformance and/or bunker overconsumption, supply of necessaries (in particular fuel) and claims for hull damage to the extent that they are covered under FD&D (i.e. those claims falling within the Members' hull policy deductible). Given that most sectors of the shipping market have been weak for several years it might be assumed that there would be an increase in the number of claims resulting from poor ship maintenance as shipowners delay repairs in order to cut costs. Thankfully, to date that has not been the Association's experience.

As for previous policy years, 2014/15 has deteriorated largely due to the ongoing cost of disputes resulting from the bankruptcy of the Danish company OW Bunker in November 2014.

Before it collapsed, OW, its subsidiaries and affiliates are estimated to have been involved in about 7% of all global bunker supplies, usually acting as an intermediary trader between the shipowner and the physical supplier. When OW filed for bankruptcy, many physical suppliers that had supplied fuel to ships on OW's orders had not been paid, reflecting credit sale terms. Likewise, many shipowners and charterers had not yet paid OW for the fuel that they had agreed to supply.

OW's bankrupt estate and their bankers ING (to which OW had assigned many of the payments that were due to it as security for a revolving credit facility) have claimed that they are entitled to receive payment from shipowners or charterers despite the fact that OW had not paid the physical supplier. They have also claimed that this gives OW the right in some countries to arrest the ship to which the fuel was supplied (or another ship in the same or associated ownership). In reply, physical suppliers have argued that the non-payment for fuel supplied to a ship on OW's orders gives them a right of lien over the ship for the price of the fuel and the right to arrest the ship. Shipowners have, therefore, faced competing claims and the risk of being required to make two payments for the same fuel stem.

In an attempt to protect their position many shipowners have asked the courts in those countries in which they face competing claims to decide which claim should be paid. Unfortunately, the courts have reached different conclusions on the extent of a shipowner's ability to protect its position. For example, the New York court has ruled that it has jurisdiction to decide which claimant is entitled to be paid by the shipowner and that, if the shipowner deposits funds in the New York court as security, the court will restrain the claimant from bringing proceedings against the shipowner for the same claim in other jurisdictions. By contrast, the Singaporean court has ruled that a claim for payment brought



against a shipowner by OW's bank (as OW's assignee) and a claim brought by physical suppliers against a ship pursuant to a retention of title clause in the supply contract and/or a maritime lien are unrelated claims that do not arise from the same debt obligation. The approach of the Singaporean court, therefore, exposes shipowners to the risk of having to pay both OW's bank and the physical supplier.

London arbitrators and the English courts have also decided an OW related case in a way that is unfavourable to shipowners. In the *RES COGITANS* case the Commercial Court and, in turn, the Court of Appeal upheld a London arbitration award in which the tribunal had decided that OW and its assignee bank were entitled to receive payment for fuel which they had contracted with shipowners to supply to a ship even though OW did not have title to the fuel at the time it was either supplied or consumed (OW not having paid for the fuel). This was because OW's contract with the shipowners was one under which OW had merely agreed to arrange for the delivery of the fuel to the ship and to ensure that the physical supplier consented to the fuel being used before they were paid, which was implied as being the case. Thus, while OW or its assignee bank is able, under English law, to claim payment from a shipowner even though OW has not paid the physical supplier, the ship to which the fuel has been supplied (as well as ships in the same or associated ownership) will be exposed in jurisdictions outside England to the risk that the physical supplier may assert a lien against the ship for the price of the fuel.

The shipowners in the *RES COGITANS* case have appealed against the Court of Appeal's decision to the English Supreme Court, whose decision is expected imminently.

Although Members of the Association have not been affected as much as other shipowners and their FD&D insurance providers, the Association has dealt with a number of cases resulting from OW's bankruptcy which have had a fairly significant effect on the value of FD&D claims for the 2014/15 policy year. Nevertheless, in spite of the effect of OW's collapse and the modest increase in claims activity in 2015/16, Class 6 overall remains in good shape due to the benign claims environment that has prevailed since 2010 and, at present, gives no particular cause for concern.

Class 6 – Freight, Demurrage and Defence (FD&D)

Policy year development

The ultimate cost of claims notified to Class 6 can be difficult to forecast due to the unpredictable nature of litigation, despite the fact that the Managers endeavour to exercise close control over the conduct of all notified disputes. A claim which initially appears benign may deteriorate unexpectedly into long-running and costly litigation. In addition, it is not unusual for a new dispute to be reported which relates to matters occurring a number of years earlier, adding to the potential deterioration of past policy years. Fluctuations in cost in the policy year are exacerbated by the steady annual increase in the fees of lawyers and experts employed on behalf of Members.

As a result, it is inherently difficult to predict with accuracy the outcome of open policy years and a cautious approach must be taken when interpreting claims trends. This has been particularly the case for the more recent policy years which, starting in 2008/09, saw a dramatic escalation in claims resulting from contract disputes associated with the sudden downturn in the shipping sector. Since that peak, the cost of claims has abated, although there has been a modest increase in the number and total value of claims over the last year. Claims in the last three policy years have developed positively, to the extent that claims are back to the pre-recessionary levels last seen in 2007/08.

Unlike P&I, FD&D does not have the benefit of pooling or joint reinsurance arrangements with other defence associations and therefore the Association purchases its own reinsurance protection. There has been a general limit of cover of US$10m per claim since 20 February 2000 and a sub-limit of US$2m for newbuilding disputes.

The following sections review the developments over the past 12 months on the open policy years.

2011/12

Despite continued uncertainty over the claims environment, but mindful of the significant call increase in the 2010/11 policy year, the Committee decided in October 2010 that there should be no general increase to calls but that the deferred call for Members with mutual tonnage should remain at 50%. At the Committee meeting in October 2012 it was agreed that the deferred call should be called in full.

Claims in this policy year have been at a slightly lower level than 2010/11 at the equivalent stage of development, and are well below the much higher levels seen in 2008/09 and 2009/10. At 20 February 2016 the policy year was showing a surplus of US$3.0m, an increase of US$0.5m on the position reported this time last year. The 2011/12 policy year was closed on 20 February 2016.

2012/13

Because of the improvements seen in the fortunes of FD&D over the previous 12 months, in October 2011 the Committee decided that for the second year running there should be no general increase in calls. At the Committee meeting in October 2013 it was also decided to call only half of the budgeted deferred call, amounting to US$1.4m.

Claims in this policy year are at a lower level than the last six policy years at the equivalent stage of development. At 20 February 2016 the policy year was showing a surplus of US$2.2m, an increase of US$0.5m on the position reported this time last year.

2013/14

To address the fact that the last two policy years had experienced rising claim numbers and costs over the previous 12 months, in October 2012 the Committee decided that, following two years without an increase, the general advance call rate should rise by 10%. It was further decided that the deferred call rate for Members with mutual tonnage should remain at 50%. However, given the policy year's encouraging claims position, at the Committee meeting in October 2014, it was decided to call only half of the deferred call, amounting to US$1.4m, but to waive the balance.

Claims in this policy year have continued to develop positively, to the extent that claims are back to the pre-recessionary levels last seen in 2004/05. At 20 February 2016 the policy year was showing a surplus of US$1.8m, an increase of US$1.0m on the position reported this time last year.

2014/15

In October 2013 the Committee decided for the third year out of four that there should be no general increase to calls but, to give maximum financial flexibility, that the deferred call for Members with mutual tonnage should remain at 50%. However, at the Committee meeting in October 2014, it was decided that Members should be advised to budget for a reduced deferred call of only 30%. This amounted to a saving to Members of US$1.0m. At the Committee meeting in October 2015, it was decided to call this reduced deferred call of 30% in full.

Claims in this policy year have continued the positive development seen over the last couple of years. While they are currently projected to be higher than in 2013/14 at the same stage of development, they are well below the claims seen between 2007/08 and 2012/13. At 20 February 2016, the policy year was showing a surplus of US$0.2m, an increase of US$0.2m on the position reported this time last year.

2015/16

In October 2014 the Committee decided for the fourth year out of five that there should be no general increase to calls and that the deferred call for Members with mutual tonnage should be reduced from 50% to 30%. The original objective of increasing the deferred call from 20% to 50% (to rebuild the reserves of Class 6 following the historic low reached at 20 February 2010) has been achieved but the reduced deferred call will still provide sufficient financial flexibility.

Claims in this policy year are at a slightly higher level than those seen over the last three policy years at the same stage of development. At 20 February 2016 the policy year is showing a breakeven position and in the absence of any deterioration in claims, it is anticipated that there should be some improvement to this position over time.

2016/17

In October 2015 the Committee decided for the fifth year out of six that there should be no general increase to calls and that the deferred call for Members with mutual tonnage should remain at 30%.

Overall position

At 20 February 2015 the balance on the general reserve stood at zero. Over the last five years, since the historic low of Class 6's reserves position at 20 February 2010, the free reserves of Class 6 have been rebuilt. At the Committee meeting in October 2015 the Committee therefore decided to transfer US$5.0m from the income and expenditure account to the general reserve. The general reserve will be available in the event of any future short-term spike in claims.


SAFETY FIRST
NO SMOKING
NO NAKED FLAME

P&I industry developments

Sanctions

The maritime industry has been required to comply with sanctions for many years, although recent years have seen sanctions increase in number and scope. It is perhaps unsatisfactory that, in the context of the international political situation, the burden of monitoring and policing sanctions often falls on shipowners and charterers. Not surprisingly therefore, a recap of developments in sanctions has been a regular feature of this industry update section.

While many of the long-standing sanctions remain in place, there have been some noteworthy changes over the past 12 months. A warming of the political climate between Cuba and the US suggests that in the coming months we may see the relaxation of some sanctions imposed by the US. More wide-reaching is the conclusion of the discussions between Iran and the P5+1 (being the five permanent members of the UN Security Council China, France, Russia, the UK and the US, plus Germany) with 16 January 2016 (Implementation Day) seeing the lifting of US and EU sanctions in respect of Iranian crude oil, petroleum products and petrochemicals as well as the provision of related insurance. While the political agreement was welcomed by most, it is important to remember that primary US sanctions remain in place, specifically the prohibition on:

- US persons, including financial institutions, from doing business in or relating to Iran. This includes a prohibition on US$ transfers involving Iranian entities; and

- dealings with designated entities and individuals (SDNs).

The practical effect for shipowners has been, for most, to reopen Iran as a place to trade, principally involving the carriage of Iranian crude oil, petroleum products and petrochemical products. Less helpful are the implications to the Group excess of loss programme (GEoL programme) arranged by the International Group (IG), which responds to any claim excess of the IG's pooling of claims. A significant percentage of the reinsurers participating on the GEoL programme are US domiciled or have US parents or connections, and are thus precluded from covering Iranian claims. The risk is that a shortfall in recovery under the GEoL programme will fall to the individual Member whose ship has the relevant claim. This is not satisfactory and the IG is continuing its discussions with the US authorities (OFAC), seeking a permanent solution. The ideal solution would be to extend the current OFAC General License H, thus permitting US reinsurers to participate in the GEoL programme and pay out if a claim arose that involved Iranian interests (whether as third party claimants or as members of the IG). In the meantime, for 2016/17, 'fall-back' cover has been arranged by the IG to protect Members and clubs. However, that cover does not replicate the full GEoL programme and is not a permanent solution.

Maritime Labour Convention (MLC)

The second phase of the MLC, including cover for up to four months' back wages for seafarers, comes into force on 18 January 2017. As previously reported, the IG has agreed that this be included as a P&I covered risk, although not subject to pooling. Discussions continue within the IG to agree a common endorsement of cover for Members, which will be inserted into each ship's Certificate of Entry. Likewise, discussions continue to arrange reinsurance to protect clubs and their wider membership in the event of an individual Member becoming insolvent and triggering an exposure under the MLC.

Ballast Water Management Convention (BWMC)

Much has been written on the BWMC, including a focus article which can be found on the Association's website at: www.britanniapandi.com/focus/show/ballast-water-management

It seems inevitable that the BWMC will come into force in early 2017. While 35 signatory states have ratified the BWMC, perhaps embarrassingly, it remains unclear whether those states amount to the required 35% plus of the world's merchant shipping tonnage in order to trigger the 12 months' countdown to implementation. Of greater concern is the question as to whether suitable technology exists that will meet the obligations imposed by the BWMC, especially the D2 discharge criteria as more fully set out in the convention. Exposing shipowners to risks that are not of their making is unreasonable. This is aside from the sizeable economic cost imposed on shipowners in complying with the BWMC against the backdrop of continuing economic woes in the shipping industry.

Pollution

IOPC Fund – *NISSOS AMOGOS*

Readers are referred to previous industry articles following the Venezuelan judgment in the *NISSOS AMORGOS* case and the 'disagreement' between the IG and the IOPC Fund. It remains disappointing that an amicable conclusion of that matter could not be reached, as it remains essential that there is close co-operation between the IOPC Fund and the IG when handling major pollution incidents that exceed CLC limitation thus enabling the swift compensation of legitimate third party claims. More encouragement is found in the understanding recently reached that any future incident that may see claims exceeding CLC (so as to impact the IOPC Fund) is likely to be handled on a case by case basis. It is hoped that this will allow IG Clubs to make interim payments beyond CLC which are not then challenged by the IOPC Fund.

PRESTIGE

On 13 November 2002, the fully laden Aframax *PRESTIGE* got into difficulties and eventually sank off the coast of Spain. The ship was carrying approximately 77,000 mt of crude oil and there was extensive pollution resulting from the casualty. The past 14 years have seen a series of court cases in numerous jurisdictions, including Spain. On 26 January 2016 the Spanish Supreme Court issued a judgment overturning the Court of Appeal and finding the master of *PRESTIGE* guilty of an aggravated crime against the environment. More troubling, while Spain is a signatory to CLC, the Supreme Court held that its limits did not apply and that the IG club was directly liable beyond its CLC limit up to the US$1bn cover referred to in the ship's Certificate of Entry.

Despite the fact that this is a Supreme Court judgment, we understand that there is still a long way to go in this legal battle, including potential appeals back to the Spanish Supreme Court, then the Spanish Constitutional Court and ultimately the European Court of Human Rights. In the meantime, there remains the English arbitration award, obtained in 2013, against France and Spain (and unchallenged by those countries) to the effect that the IG club involved has no direct liability beyond the ship's CLC limit. It is expected that there will be future developments on this topic.

Services to Members

The Association's membership can expect the highest levels of service across all of their dealings with the Club, and across all departments, such as underwriting, claims, loss prevention and finance. This is reflected in the Managers' core principle of seeing every Member at least once a year (whether by the Managers or by our invaluable exclusive correspondents). In turn, the Managers constantly strive to improve service levels and welcome feedback during those visits or, if easier, in writing via the 'contact us' page of the Association's website.

The past year has seen a number of developments in service. There have been IT upgrades which allow for faster remote office access to our systems, whether it is issuing original letters of undertaking out of office hours or simply providing for easier access to claims and underwriting systems while claims handlers and underwriters are travelling. This enables a quicker response which is essential if, say, a Member's ship is under arrest.

The half day claims workshop that continues to be a very successful part of the annual Britannia training week has now been taken 'on the road' to Members who may not be able to attend the London training week. In March the workshop was presented to Members in Tokyo, together with Members who had travelled to Tokyo from the Imabari and Kobe areas and the workshop was also presented in Hong Kong. Sharing our collective knowledge of claims will stand us all in good stead if (or when) the next major claim occurs.

Another development has been the introduction of one to two month secondments to our exclusive correspondent offices by some of the Managers' London-based claims handlers, underwriters and loss prevention staff. These secondments have proved very successful, with positive reports from Members and from the exclusive correspondents, and the secondments are continuing throughout 2016.

These developments are in addition to the well-established programme of engagement and communication with Members and with their brokers which includes:

Publications: the Managers regularly send out a variety of publications which can all be found on the Britannia website, for example *Risk Watch, Claims & Legal, Health Watch, Britannia News*. In addition there is a fortnightly news round-up, *Britannia News Supplement (BNS)* which is sent out by email.

Circulars and bulletins: these deal with individual topics when they arise. For example, circulars have recently been sent out on sanctions, particularly the partial lifting of the US and EU sanctions against Iran. There are also a variety of 'focus' pages on the Britannia website which deal with topics in greater detail, including a recent update on the Ballast Water Management Convention which is likely to come into force in early 2017.

Training week: this continues to take place each September in the London office. Representatives from the membership attend for a week for a series of lectures and workshops given by the Managers, together with a social programme to allow Members to get to know each other and to foster relationships with the Britannia staff.

Member forums: these are held each year in Asia and in Europe. In 2015 there were 80 Member delegates attending in Singapore and in London there were 55 delegates. Members were provided with updates on the robust financial health of their Club (reported in more details elsewhere) and were given an overview of claims with a focus on personal injury claims. There was also a presentation from Sailors' Society on their Wellness at Sea programme, targeted at helping with mental health issues faced by crew while serving on board.

Regional presentations: in May 2015 the Report and Accounts was presented to Members and brokers in Hong Kong and in November 2015 there was a presentation to Members and brokers in Singapore which provided a snapshot of the Club's position and the 2016/17 general increase decision.

Members of the Committee

N J Palmer OBE Felixstowe[1,2,3,4]
(Chairman)

D von Appen Santiago
G W A Berkeley London
V Boluda Madrid
S Chao Hong Kong
A Cieslinski Szczecin[1,2,3]
S W Dio London
A J Firmin Hamburg
C K Foo Singapore
J C K Hsu Vancouver
T K Y Hsu Monaco
J-B Kjaervik Copenhagen[2,3,4]
K C K Koo Hong Kong
S-C Lan Taipei
P H Lee Seoul
F F-H Lu Taipei
L Martel Montreal
M Mattioli Naples[3,4]

C de las Morenas Madrid[1,3,4]
B T Nielsen Dallas[1]
S Paek Seoul
K M Sheth Mumbai
K Takigawa Tokyo
J Warwick London
Y Yamawaki Tokyo
T Yokomizo Tokyo
J R L Youell London[1,3]
A J Cutler London (Manager)[3]
J A Trew London (Manager)[2]

1 Audit Group
2 Nominations Sub-Committee
3 Finance, Risk and Investment Sub-Committee
4 Remuneration Group

Corporate governance report

The Association remains committed to high standards of corporate governance and, while it is not bound by the UK Corporate Governance Code, it seeks to comply voluntarily with those key aspects of the Code that are relevant to its business. Developments in corporate governance best practice are monitored carefully and the Association's system of governance has also been reviewed to confirm that it complies with the detailed requirements of the Solvency II Directive.

The Committee of the Association comprises a non-executive chairman, up to 26 non-executive directors drawn from its shipowner Members, one non-executive director who is expert in insurance matters, and two executive directors from the Association's Managers. The Committee is responsible for all strategic aspects of the business of the Association. In practice, it delegates some of its powers to sub-committees and responsibility for the day-to-day management of the Association to the Managers, Tindall Riley (Britannia) Ltd. The Managers are responsible for ensuring that appropriate information, which is adequate to enable the Committee to discharge its duties and to oversee the business effectively, is provided on a timely basis. There are nevertheless a number of matters that are reserved exclusively for decision by the Committee and these are reviewed and updated at least annually. The Committee meets three times a year.

Certain of the Committee's powers are delegated to sub-committees. The membership of these sub-committees is set out on page 22.

The Committee

Audit Group
This group comprises up to four non-executive directors of the Association. Its responsibilities include the financial statements and the annual return to the Prudential Regulation Authority, internal and external audit, and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Committee. The audit group meets twice a year.

Nominations Sub-Committee
The nominations sub-committee comprises up to four non-executive directors of the Association and the Chairman of Tindall Riley (Britannia) Ltd. Its principal responsibilities are to make recommendations to the Committee on the appointment of new directors, the re-election of existing directors, and the appointment of the chairman of the Committee, and the monitoring the performance of the directors. The nominations sub-committee meets as required during the year.

Finance, Risk and Investment Sub-Committee (FRISC)
The FRISC, which meets four times a year, comprises up to ten directors of the Association, including the Chairman, the expert director and the two Manager directors. Its responsibilities include undertaking reviews of the following matters:

- Policy year results and proposed calls
- Reinsurance
- Investments
- Expenses
- Business risks
- Compliance matters including Solvency II
- ORSA and capital adequacy

Remuneration Group
The group comprises up to five members of the FRISC. Its responsibilities include an annual review of the fee paid to the Managers and periodic reviews of directors' remuneration. The group meets twice a year.

Regulation and risk management
The Association is regulated in the UK by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks.

The Association has developed a risk management and capital modelling framework, which is documented in a Risk Management Strategy approved by the Committee. The strategy requires a detailed assessment of the risks faced by the Association to be carried out at least annually. A key element of this assessment is the Britannia Business Risk Review (BRR), a comprehensive risk register, in which all material risks to the Association's business are identified and their probabilities of occurring and potential impact are assessed. The BRR also records the internal controls and procedures in place to mitigate the risks identified. Risks are categorised under a number of headings which, together with a summary of the Association's risk mitigation approach, are set out below.

Corporate governance report

Insurance risk arises from two sources – adverse claims development (reserve risk) and inappropriate underwriting (underwriting risk). Reserve risk is managed by the Association's policy of prudent reserving of individual claims (which in most years is evident from the release of 'redundant' reserves noted in the financial statements) and frequent reviews of estimates, including oversight of large claims by a sub-committee of senior claims directors. Prudent contingency (IBNR) reserves are also maintained at confidence levels consistent with the Association's risk appetite. Underwriting risk is managed by having in place a clear underwriting philosophy, procedures and controls in relation to pricing, rigorous selection criteria for the admission of new Members, and the diversification of risks, both by ship type and geographical location.

Reinsurance is another important method for the management of insurance risk. The Association participates in the International Group pooling arrangement, whereby individual claims above US$10m (for 2016/17) are pooled (and reinsured above US$80m through the GEoL programme) and has a number of reinsurance covers with Boudicca Insurance Company Ltd. Judicious use of reinsurance is also made in respect of certain specific risks where additional protection is appropriate.

Market risk refers to the risk of losses on the Association's investment portfolio, arising from fluctuations in the market value of the underlying investments. The Association has a clear investment strategy that is reviewed regularly, which has a number of objectives – to match investments to the Association's claims liabilities in terms both of currency and duration, to hold a diversified portfolio of investment types and, within that overall context, to maximise the return generated at an agreed level of risk.

The underlying strategy is to match insurance liabilities in terms of currency and duration with high quality fixed-interest government securities and hold appropriate levels of corporate bonds and equities. Asset allocation is the responsibility of the Committee, but the FRISC has the authority to vary asset allocations on a tactical basis.

Credit risk arises from the possibility of default by one or more counterparties, which include reinsurers and deposit-takers as well as Members. This risk is managed by carrying out appropriate due diligence on prospective counterparties: carrying out financial checks on potential Members, looking at the credit ratings of reinsurers and monitoring these over time (a minimum rating of 'A' is required for any of the Association's reinsurance programmes), restricting the exposure to individual deposit takers (currently the limit is US$10m) and having in place a robust credit control system.

Liquidity risk refers to the possibility of the Association having insufficient cash available to settle claims and other liabilities as they fall due. The Association prepares cash flow forecasts in order to manage likely cash requirements, based on known liabilities but leaving a prudent margin for unexpected commitments. Significant cash balances are maintained so that there are always adequate funds available to pay claims as required. In addition, the investment strategy requires substantial holdings in cash funds, which are available at very short notice and can be used to augment cash balances should the need arise.

Operational risk covers the risks arising from the failure of internal processes, people or systems, or from external events. The Managers have identified its operational risks, which are recorded in the BRR. It has a comprehensive procedures manual which covers every aspect of the management of the Association and the internal audit function has proved effective in testing the internal control framework to ensure that it remains appropriate.

Economic and regulatory capital
In addition to the comprehensive programme of risk mitigation actions outlined above, the Association has an economic capital strategy that defines the level of capital necessary to cover the risk of losses occurring that exceed the Association's risk appetite. A range of modelling techniques has been developed that are used to quantify the risks identified by the BRR to variable confidence levels and time horizons. The outputs from the modelling provide the Association's economic capital benchmark.

The Association also has a policy and procedures for the preparation of the Own Risk and Solvency Assessment (ORSA), which incorporates the totality of the Association's risk and capital management processes. This is a detailed assessment of the risks faced by a firm and confirmation that the Solvency Capital Requirement (SCR) adequately reflects these risk exposures. The ORSA includes a forward-looking assessment of risk and capital requirements over a three year time horizon.

Solvency II
Solvency II came into effect on 1 January 2016. The Solvency II regime is split into three broad areas or pillars. Pillar 1 sets the two minimum solvency standards: the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). These are calculated by firms using either a standard formula or internal models. The Association uses the standard formula to calculate the SCR. Pillar 2 is concerned with systems of governance and risk management and, in addition to defining the processes by which insurers are supervised by the PRA and FCA, it includes a requirement for firms to prepare an ORSA. Pillar 3 sets out the requirements for the public disclosure of information and the contents of regulatory reports that must be made to the regulators. The Association's first annual reporting under the Solvency II regime will be in respect of the year ending 20 February 2017.

Statutory directors' report

The directors have pleasure in presenting their report to the 145th annual general meeting of the Members of the Association together with the audited financial statements for the year to 20 February 2016.

Principal activities

The principal activities of the Association and its subsidiaries during the year were the insurance and reinsurance of the risks of Protection and Indemnity (Class 3) and Freight, Demurrage and Defence (Class 6). The Chairman's statement on pages 2 and 3 and the strategic report on pages 4 to 22 report on these activities and the financial results of the Association for the year together with likely future developments.

Directors

The members of the Committee are directors of the Association for the purposes of the Companies Acts. The present members of the Committee are listed on page 22 of this report.

Messrs S D Lee and D J Ridgway retired from the Committee on 13 May 2015, Mr M Y Nordin retired from the Committee on 19 January 2016 and Mr G W A Berkeley retired from the Committee as a Manager director on 29 February 2016. Ms S Dio was appointed to the Committee on 20 October 2015, Mr P H Lee was appointed to the Committee on 19 January 2016 and Messrs G W A Berkeley and Mr J A Trew were appointed to the Committee on 1 March 2016 and in accordance with the Articles of Association offer themselves for re-election.

Ms S Chao and Messrs C K Foo, J C K Hsu, T K Y Hsu, J-B Kjaervik, F F H Lu, N J Palmer and Y Yamawaki all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors indemnity insurance

The Association has purchased directors and officers liability insurance in respect of all of the Association's directors.

Audit

The Managers are responsible for the preparation of the financial statements and have confirmed they have provided all relevant audit information of which they are aware. The Audit Group has considered the financial statements with the Managers, met privately with the auditors, and reported to the Committee.

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

Moore Stephens LLP have expressed their willingness to be reappointed as auditors of the Association. A resolution to reappoint them as the Association's auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

The directors confirm that, to the best of their knowledge, the strategic report on pages 4 to 22 and the corporate governance report on pages 23 to 24 include a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces.

By order of the Committee
J P Rodgers Secretary
10 May 2016

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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. 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). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and its income and expenditure for that period. In preparing these financial statements, the directors are required to:

• select suitable accounting policies and apply them consistently.

• make judgments and accounting estimates that are reasonable and prudent.

• state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

• 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 that show 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 taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

Independent auditors' report to the Members

We have audited the financial statements of The Britannia Steam Ship Insurance Association Ltd for the year ended 20 February 2016 which are set out on pages 28 to 49. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities set out above, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion the financial statements:

• give a true and fair view of the state of the Group's and Association's affairs as at 20 February 2016 and of the Group's result for the 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 examined the appendix on page 50, showing the policy year position for Class 3. In our opinion, the appendix has been properly prepared in accordance with the accounting policies set out on pages 33 to 35.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion 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.

Matters on which we are required to report by exception
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 our 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 explanations we require for our audit.

Michael Butler Senior Statutory Auditor
for and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street, London EC1A 4AB
18 May 2016

Consolidated income and expenditure account

20 February 2016

		Consolidated		Class 3 P&I		Class 6 FD&D	
		2016	2015	2016	2015	2016	2015
Technical account – general business	Note	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)
Earned premiums, net of reinsurance							
Calls and premiums	2	**260,272**	269,726	**251,591**	260,536	**8,681**	9,190
Reinsurance premiums	3	**(65,663)**	(73,191)	**(65,214)**	(72,795)	**(449)**	(396)
		194,609	196,535	**186,377**	187,741	**8,232**	8,794
Allocated investment return transferred from the non-technical account		**35,285**	25,674	**33,905**	24,658	**1,380**	1,016
Total income		**229,894**	222,209	**220,282**	212,399	**9,612**	9,810
Claims incurred net of reinsurance							
Net claims paid	4	**(182,974)**	(172,610)	**(176,545)**	(167,121)	**(6,429)**	(5,489)
Change in provision for claims	5	**15,320**	16,369	**16,918**	14,206	**(1,598)**	2,163
Net claims incurred		**(167,654)**	(156,241)	**(159,627)**	(152,915)	**(8,027)**	(3,326)
Net operating expenses	7	**(26,986)**	(24,963)	**(25,514)**	(23,506)	**(1,472)**	(1,457)
Total expenditure		**(194,640)**	(181,204)	**(185,141)**	(176,421)	**(9,499)**	(4,783)
Balance on technical account		**35,254**	41,005	**35,141**	35,978	**113**	5,027
Non-technical account							
Balance on the technical account		**35,254**	41,005	**35,141**	35,978	**113**	5,027
Net investment income	8	**(23,500)**	3,954	**(22,458)**	3,744	**(1,042)**	210
Allocated investment return transferred to the technical account	9	**(35,285)**	(25,674)	**(33,905)**	(24,658)	**(1,380)**	(1,016)
Net (deficit)/surplus before taxation		**(23,531)**	19,285	**(21,222)**	15,064	**(2,309)**	4,221
Taxation	10	**(1,340)**	(1,016)	**(1,283)**	(975)	**(57)**	(41)
Net (deficit)/surplus after taxation		**(24,871)**	18,269	**(22,505)**	14,089	**(2,366)**	4,180
Balance from previous year		**131,294**	95,136	**118,641**	87,310	**12,653**	7,826
Net transfers to general reserve		**(5,000)**	–	**–**	–	**(5,000)**	–
Net transfers from investment reserve		**61,962**	17,889	**59,409**	17,242	**2,553**	647
Balance to consolidated statement of financial position		**163,385**	131,294	**155,545**	118,641	**7,840**	12,653

All amounts are derived from continuing operations. The notes on pages 33 to 49 form part of these financial statements. There are no recognised gains and losses other than those included in the consolidated income and expenditure account.

Consolidated statement of financial position

20 February 2016

		Consolidated		Class 3 P&I		Class 6 FD&D	
Assets	Note	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
Investments							
Financial investments	11	**953,682**	1,017,668	**916,638**	977,599	**37,044**	40,069
Reinsurers' share of technical provisions							
Claims outstanding	5	**527,337**	296,657	**526,100**	294,334	**1,237**	2,323
Debtors							
Direct insurance operations – Members	15	**85,190**	87,310	**80,999**	84,972	**4,191**	2,338
Reinsurance operations	16	**46,501**	11,628	**46,467**	11,390	**34**	238
Taxation		**–**	112	**–**	109	**–**	3
Other debtors	17	**5,406**	5,429	**5,406**	5,416	**–**	13
		137,097	104,479	**132,872**	101,887	**4,225**	2,592
Other assets							
Cash at bank		**59,937**	61,359	**51,515**	54,227	**8,422**	7,132
Prepayments and accrued income							
Accrued interest		**3,487**	4,533	**3,350**	4,352	**137**	181
Other prepayments and accrued income		**5,547**	4,540	**5,235**	4,087	**312**	453
Total assets		**1,687,087**	1,489,236	**1,635,710**	1,436,486	**51,377**	52,750

Liabilities							
Capital and reserves							
Investment reserve		**128,011**	189,973	**119,921**	179,330	**8,090**	10,643
General reserve		**55,000**	50,000	**50,000**	50,000	**5,000**	–
Income and expenditure account		**163,385**	131,294	**155,545**	118,641	**7,840**	12,653
		346,396	371,267	**325,466**	347,971	**20,930**	23,296
Technical provisions							
Gross outstanding claims	5	**1,308,955**	1,093,595	**1,284,664**	1,069,816	**24,291**	23,779
Creditors							
Direct insurance operations – Members		**16,673**	7,914	**15,921**	7,473	**752**	441
Derivative liabilities	18	**2,582**	526	**2,474**	504	**108**	22
Reinsurance operations	19	**4,929**	7,949	**4,904**	7,932	**25**	17
Other creditors	20	**7,552**	7,985	**2,281**	2,790	**5,271**	5,195
Total liabilities		**1,687,087**	1,489,236	**1,635,710**	1,436,486	**51,377**	52,750

The notes on pages 33 to 49 form part of these financial statements.

N J Palmer OBE Director

B T Nielsen Director
10 May 2016

J A Trew
Tindall Riley (Britannia) Limited Managers

Consolidated statement of cash flows

20 February 2016

Cash flows from operating activities	2016 US$(000)	2015 US$(000)
Net (deficit)/surplus before tax	**(23,531)**	19,285
Adjustments for:		
Change in provision for claims (net of reinsurance)	**(15,320)**	(16,369)
(Increase)/decrease in insurance and other debtors	**(32,691)**	4,320
Increase in insurance and other creditors	**5,306**	413
Net investment income	**23,500**	(3,954)
Cash from operations	**(42,736)**	3,695
Income taxes paid	**(1,228)**	(1,128)
Net cash generated from operating activities	**(43,964)**	2,567
Cash flows from investing activities		
Purchase of equities	**(12,437)**	(8,272)
Purchase of fixed interest investments	**(519,097)**	(423,457)
Sale of equities	**7,894**	32,366
Sale of fixed interest investments	**495,309**	396,510
Net change to deposits with credit institutions	**53,316**	3,977
Income from equity investments	**5,244**	5,201
Income from fixed income investments	**13,413**	15,124
Bank and other cash	**160**	(1,408)
Investment management expenses	**(1,364)**	(1,804)
Net cash from investing activities	**42,438**	18,237
Net (decrease)/increase in cash at bank	**(1,526)**	20,804
Cash at bank at the beginning of the financial year	**61,359**	43,734
Effect of foreign exchange rate changes	**104**	(3,179)
Cash at bank at the end of the financial year	**59,937**	61,359

The notes on pages 33 to 49 form part of these financial statements.

Statement of changes in equity

20 February 2016

Class 3 P&I	Investment reserve US$(000)	General reserve US$(000)	Income and expenditure account US$(000)	Total US$(000)
At 20 February 2014	196,572	50,000	87,310	333,882
Surplus for the financial year	–	–	14,089	14,089
Transfer from investment reserve	(17,242)	–	17,242	–
At 20 February 2015	179,330	50,000	118,641	347,971
Deficit for the financial year	–	–	(22,505)	(22,505)
Transfer from investment reserve	(59,409)	–	59,409	–
At 20 February 2016	**119,921**	**50,000**	**155,545**	**325,466**

Class 6 FD&D				
At 20 February 2014	11,290	–	7,826	19,116
Surplus for the financial year	–	–	4,180	4,180
Transfer from investment reserve	(647)	–	647	–
At 20 February 2015	10,643	–	12,653	23,296
Deficit for the financial year	–	–	(2,366)	(2,366)
Transfer to general reserve	–	5,000	(5,000)	–
Transfer from investment reserve	(2,553)	–	2,553	–
At 20 February 2016	**8,090**	**5,000**	**7,840**	**20,930**

Total				
At 20 February 2014	207,862	50,000	95,136	352,998
Surplus for the financial year	–	–	18,269	18,269
Transfer from investment reserve	(17,889)	–	17,889	–
At 20 February 2015	189,973	50,000	131,294	371,267
Deficit for the financial year	–	–	(24,871)	(24,871)
Transfer to general reserve	–	5,000	(5,000)	–
Transfer from investment reserve	(61,962)	–	61,962	–
At 20 February 2016	**128,011**	**55,000**	**163,385**	**346,396**

The Association is incorporated and registered in Great Britain as a company limited by guarantee and does not therefore have a share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account. Annual transfers equivalent to the net unallocated return/(deficit) on the Association's investments are made to or from this reserve.

The general reserve was established in accordance with Rule 39(1) of the Association to provide for any claims, expenses, losses or other outgoings of the Association (including any deficiency in respect of any closed policy year), or to eliminate or reduce any call in respect of any policy year.

Association (parent company) statement of financial position

20 February 2016

Assets	Note	2016 US$(000)	2015 US$(000)
Investments			
Investment in group undertakings	12	**8,082**	8,082
Financial investments	11	**116,752**	132,207
		124,834	140,289
Reinsurers' share of technical provisions			
Claims outstanding	5	**1,232,388**	1,014,479
Debtors			
Direct insurance operations – Members	15	**85,190**	87,310
Reinsurance operations	16	**48,840**	19,152
Taxation		**–**	112
Other debtors	17	**5,406**	5,429
		139,436	112,003
Other assets			
Cash at bank		**47,700**	45,871
Prepayments and accrued income			
Accrued interest		**237**	259
Other prepayments and accrued income		**5,534**	4,527
Total assets		**1,550,129**	1,317,428

Liabilities	Note	2016 US$(000)	2015 US$(000)
Capital and reserves			
Investment reserve		**5,726**	9,420
Income and expenditure account		**121,760**	114,263
		127,486	123,683
Technical provisions			
Gross outstanding claims	5	**1,308,955**	1,093,595
Creditors			
Direct insurance operations – Members		**16,673**	7,914
Reinsurance operations	19	**4,929**	7,949
Amounts owed to group undertakings		**85,015**	76,951
Other creditors	20	**7,071**	7,336
Total liabilities		**1,550,129**	1,317,428

The notes on pages 33 to 49 form part of these financial statements.

N J Palmer OBE Director

B T Nielsen Director
10 May 2016

J A Trew
Tindall Riley (Britannia) Limited Managers

Notes to the financial statements

20 February 2016

These group financial statements, which consolidate the financial statements of the Association and its wholly-owned subsidiary undertakings, have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (the Regulations) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'profit and loss account' as a heading. This is replaced in these financial statements by 'income and expenditure account', consistent with the mutual status of the Association. The individual statement of financial position of the Association ('the parent undertaking') is prepared in accordance with the provisions of Section 394 of the Companies Act 2006 and the Regulations. The Association is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income and expenditure account and the related notes that would have formed part of the financial statements.

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of compliance

These group financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'), Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103) and the Companies Act 2006. Note 22 sets out the material adjustments on adoption of FRS 102 and 103.

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items that are material to the consolidated financial statements.

Basis of accounting

The Association's business is accounted for on an annual basis. Separate accounts are maintained for each class of business written.

For the purpose of reporting to Members all transactions are allocated to individual policy years. Calls and premiums (including reinsurance premiums), claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date of the incident giving rise to the claim. All other income and expenditure items are allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Association and its subsidiary undertakings drawn up to 20 February each year. Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated upon consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Association.

Rates of exchange

The Association uses the US dollar as its currency of presentation and functional currency. Monetary assets and liabilities denominated in other currencies are translated into US dollars at the rates ruling at the statement of financial position date. Revenue transactions are translated at the actual rate applying at the date of transaction or, where this is not practicable, the average rate for the year. Exchange rate differences are recognised in the non-technical account of the income and expenditure account.

Calls and premiums

Calls and premiums in respect of policies incepting prior to the balance sheet date are shown gross of acquisition costs and net of returns and bad and doubtful debts. They include deferred calls for which Members have been advised to budget, to the extent that the directors expect them to be called within 12 months of the balance sheet date. Reinsurance premiums are accounted for in the same accounting period as the direct insurance premium or calls to which they relate.

Acquisition costs

Acquisition costs represent brokerage and commission charges relating to the writing of policies; underwriting management costs; renewal of existing Members' entries; negotiation with potential Members and the processing of entry documentation.

Claims paid

Claims paid comprise all claims and related expenses approved by the Committee and advances made on account of claims during the year. They include the Association's share of claims under the Pooling Agreement, together with the internal costs of handling and processing claims.

Reinsurance recoveries represent recoveries made and due in respect of claims paid by the Association in the year. They include amounts recoverable under the Pooling Agreement and market reinsurance contracts.

Notes to the financial statements

20 February 2016

1 Accounting policies (continued)

Claims outstanding

The provision for claims outstanding in the financial statements comprises the Managers' estimate of the ultimate outcome of all reported claims based on current information, plus their forecast of the ultimate cost of claims incurred but not reported (IBNR). The provision also includes an allowance for future claims handling costs.

The Association reserves individual reported claims within its retention on a 'highest reasonable likely outcome' basis, except in circumstances where there is insufficient information available to make a meaningful estimate. In such cases, a statistically derived reserve is applied, which is based on the development of similar notifications made in earlier years.

The IBNR provision for claims within the Association's retention is determined by the Managers based on standard actuarial projection techniques supported by stochastic modelling. The model uses historical information on claims development, adjusted for inflation and other variables, such as the number of ships entered with the Association, to project the ultimate cost of claims. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims in more recent years. The confidence levels selected for setting IBNR reserves reflect the Association's risk tolerance.

Provisions in respect of the Association's share of other Clubs' Pool claims are based on information and data supplied by the other parties to the Pooling Agreement, to which the Managers apply similar actuarial techniques and models to those described on the previous page.

Provisions for all claims are based on information available at the statement of financial position date. Significant delays are experienced in the notification of certain claims (sometimes of many years' duration), and accordingly, the ultimate cost of claims cannot be known with certainty at the balance sheet date. It is possible that subsequent information and events may result in the ultimate liability varying from the amount provided. Any such differences between claims provisions and subsequent settlement are dealt with in the technical account – general business in later years.

Claims provisions are recognised gross of any reinsurance recoveries. The reinsurers' share of claims outstanding is derived from an estimation of the amounts that will be recoverable from reinsurers based on the gross provisions (including the IBNR provisions) and the structure of the Association's reinsurance programme, and having due regard to the possibility of default by reinsurers.

Investment return

The investment return recognised in the non-technical account comprises investment income (interest and dividends); realised gains and losses on investments sold in the year and movements in unrealised gains and losses arising in the year, net of investment management expenses.

Dividends are recognised from the date the shares are quoted 'ex-dividend' and include related tax credits. Interest and expenses are recognised on an accruals basis. Realised gains and losses on investments are calculated as the difference between the net sales proceeds and the purchase price. The movement in unrealised gains and losses recognised in the income and expenditure account represents the difference between the valuation of investments at the statement of financial position date and either their purchase price or their valuation at the commencement of the year, with an adjustment to reverse previously recognised unrealised gains or losses on investments disposed of in the current year. Realised and unrealised gains and losses include any related exchange gains or losses.

Financial investments

Non-derivative financial investments are shown at current market value at the statement of financial position date. Non-derivative listed investments are stated at bid value. Non-derivative unlisted investments are valued by the directors on a prudent basis, having regard to their likely realisable value. Investments in group undertakings and participating interests in the Association's own balance sheet are stated at cost.

Derivative instruments are held to support the group's investment return. Derivatives are categorised as held for trading and are classified as financial investments or creditors at fair value through income. Derivative instruments are measured at initial recognition, and subsequently at fair value, and changes in fair value are recognised in the income and expenditure account. Transaction costs incurred in buying and selling derivative instruments are recognised in the income and expenditure account when incurred. The fair value of a derivative instrument is determined by reference to published price quotations in an active market.

Segment reporting

Business written by the Association relates to protection and indemnity ('P&I') and freight, demurrage and defence ('FD&D') risks of its Members. Internal reporting to the Committee covers these lines of business and, consistent with the internal reporting, no further segmental reporting is presented apart from the geographical disclosure of P&I Members as presented in Note 14.

1 Accounting policies (continued)

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. The allocated investment return and operating expenses are allocated to the current policy year.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in 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.

Critical accounting judgments and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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 amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

2 Calls and premiums

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
Advance calls and premiums						
2015/16 policy year	**193,926**	–	**186,758**	–	**7,168**	–
2014/15 policy year	**1,964**	203,027	**1,954**	195,259	**10**	7,768
2013/14 policy year	**449**	804	**447**	897	**2**	(93)
Closed years	**(76)**	8	**(76)**	90	**–**	(82)
	196,263	203,839	**189,083**	196,246	**7,180**	7,593
Deferred calls						
2015/16 policy year	**68,568**	–	**67,143**	–	**1,425**	–
2014/15 policy year	**(3,641)**	66,932	**(3,713)**	65,405	**72**	1,527
2013/14 policy year	**(988)**	(438)	**(992)**	(441)	**4**	3
Closed years	**70**	(607)	**70**	(674)	**–**	67
	64,009	65,887	**62,508**	64,290	**1,501**	1,597
Calls and premiums	**260,272**	269,726	**251,591**	260,536	**8,681**	9,190

All business is written in the UK. At its meeting in October 2015, the Committee agreed to waive 2.5% of the P&I deferred call for the 2014/15 policy year resulting in a reduction in calls for the prior year of US$3.7m. At its meeting in October 2014, the Committee decided to reduce the P&I deferred call, for which Members have been advised to budget, from 45% to 40% amounting to a reduction of US$8.8m in calls in the 2014/15 policy year, and from 50% to 30% for FD&D amounting to a reduction of US$1.1m in calls in the 2014/15 policy year. Furthermore, the Committee agreed to waive 50% of the FD&D outstanding deferred call for the 2013/14 policy year resulting in a reduction in calls for the current year of US$1.4m.

3 Reinsurance premiums

Group excess of loss	**28,567**	33,802	**28,567**	33,802	**–**	–
Other	**37,096**	39,389	**36,647**	38,993	**449**	396
	65,663	73,191	**65,214**	72,795	**449**	396

The Association's reinsurance contract with Boudicca Insurance Company Limited (a Bermudian reinsurer) provides limited quota share cover together with aggregate excess of loss cover for policy year deficits that, in the absence of this reinsurance, would have become a charge on the general reserve.

In addition, the contract provides separate excess of loss reinsurance in respect of individual claims that exceed US$4m within the Association's retention.

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3 Reinsurance premiums (continued)

Transactions with Boudicca during the year were as follows:	2016 US$(000)	2015 US$(000)
Reinsurance premiums paid to Boudicca		
Quota share/aggregate excess of loss cover	**8,250**	10,250
Individual excess of loss cover	**14,000**	14,000
	22,250	24,250
Claims recoverable from Boudicca		
Quota share/aggregate excess of loss cover	**(3,507)**	(41,415)
Individual excess of loss cover	**28,129**	18,165
	24,622	(23,250)
Claims recoverable from Boudicca		
On paid claims	**15,538**	23,947
Increase/(decrease) in provision for amounts recoverable	**9,084**	(47,197)
	24,622	(23,250)
As at 20 February 2016 the following amounts were recoverable from Boudicca		
Debtors – reinsurance operations	**10,367**	6,314
Reinsurers' share of technical provisions	**72,882**	63,798
	83,249	70,112

At the balance sheet date surplus investment assets of Boudicca totalling US$166.3m (2015 – US$174.3m) were held to support future claims under the reinsurance contract in a manner which ensures that they cannot be dissipated to the detriment of the Association.

	Consolidated		Class 3 P&I		Class 6 FD&D	
4 Net claims paid	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
Gross claims paid						
Members' claims	**221,465**	180,678	**213,182**	174,823	**8,283**	5,855
Other Clubs' Pool claims	**26,589**	41,298	**26,589**	41,298	**–**	–
	248,054	221,976	**239,771**	216,121	**8,283**	5,855
Recoveries on claims paid						
From the Group excess of loss reinsurance	**–**	–	**–**	–	**–**	–
From the Pool	**40,819**	15,227	**40,819**	15,227	**–**	–
Other reinsurers	**24,261**	34,139	**22,407**	33,773	**1,854**	366
	65,080	49,366	**63,226**	49,000	**1,854**	366
Net claims paid	**182,974**	172,610	**176,545**	167,121	**6,429**	5,489

5 Change in net provision for claims						
Claims outstanding						
Members' claims	**1,093,879**	875,066	**1,069,588**	851,287	**24,291**	23,779
Other Clubs' Pool claims	**215,076**	218,529	**215,076**	218,529	**–**	–
	1,308,955	1,093,595	**1,284,664**	1,069,816	**24,291**	23,779
Reinsurers' share of claims outstanding						
From the Group excess of loss reinsurance	**178,377**	32,811	**178,377**	32,811	**–**	–
From the Pool	**203,308**	132,354	**203,308**	132,354	**–**	–
Other reinsurers	**145,652**	131,492	**144,415**	129,169	**1,237**	2,323
	527,337	296,657	**526,100**	294,334	**1,237**	2,323
Net claims outstanding carried forward	**781,618**	796,938	**758,564**	775,482	**23,054**	21,456
Net claims outstanding brought forward	**796,938**	813,307	**775,482**	789,688	**21,456**	23,619
Change in net provision for claims	**(15,320)**	(16,369)	**(16,918)**	(14,206)	**1,598**	(2,163)

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 value of US$75.0m (2015 – US$71.9m). Occupational Disease claims have a significant latency period 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.

The reinsurer's share of claims outstanding due to the Association from its subsidiary Universal Shipowners Marine Insurance Association Limited and its special purpose vehicle Hydra Insurance Company Limited totalled US$707,846,000 (2015 – US$722,064,000). Total reinsurance recoveries due to the Association from affiliate companies and external reinsurers totals US$1,232,388,000 (2015 – US$1,014,479,000).

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 policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

Insurance claims – gross (Consolidated)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	299,913	339,649	256,758	245,985	245,184	299,014	419,387	360,522	271,778	527,169
One year later	308,613	312,449	268,968	237,699	268,284	309,059	406,416	357,386	275,748	
Two years later	322,813	295,339	258,908	224,114	244,544	286,594	376,607	329,780		
Three years later	269,763	308,149	259,958	215,337	224,470	266,536	360,464			
Four years later	254,913	299,249	254,869	204,756	207,251	246,807				
Five years later	253,413	298,542	249,899	205,529	197,206					
Six years later	245,086	283,148	240,829	198,947						
Seven years later	243,880	280,233	237,025							
Eight years later	238,760	278,680								
Nine years later	237,096									
Current estimate of ultimate claims	237,096	278,680	237,025	198,947	197,206	246,807	360,464	329,780	275,748	527,169
Cumulative payments to date	228,970	258,244	200,446	165,552	151,071	203,945	249,381	148,882	110,331	97,767
Liability recognised in the consolidated balance	8,126	20,436	36,579	33,395	46,135	42,862	111,083	180,898	165,417	429,402
Total liability relating to the last ten policy years										1,074,333
Other claims liabilities										234,622
Total reserve included in the consolidated statement of financial position										**1,308,955**

Insurance claims – net (Consolidated)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	199,931	223,179	226,770	222,180	228,784	243,590	248,435	258,836	214,694	233,575
One year later	205,442	222,435	229,944	202,985	229,964	238,864	243,072	253,737	195,588	
Two years later	207,379	220,305	222,808	194,877	214,112	239,157	238,169	231,204		
Three years later	212,708	221,535	213,894	190,751	199,217	222,930	237,845			
Four years later	198,723	208,094	209,258	180,822	182,117	204,449				
Five years later	196,596	208,090	203,758	179,422	171,367					
Six years later	190,301	200,544	197,358	174,222						
Seven years later	189,513	196,907	193,258							
Eight years later	184,554	195,407								
Nine years later	183,351									
Current estimate of ultimate claims	183,351	195,407	193,258	174,222	171,367	204,449	237,845	231,204	195,588	233,575
Cumulative payments to date	177,127	180,199	171,913	146,486	132,023	162,873	179,922	125,702	86,588	58,721
Liability recognised in the consolidated balance	6,224	15,208	21,345	27,736	39,344	41,576	57,923	105,502	109,000	174,854
Total liability relating to the last ten policy years										598,712
Other claims liabilities										182,906
Total reserve included in the consolidated statement of financial position										**781,618**

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Development claim tables (continued)

Insurance claims – gross (Class 3 P&I)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	293,984	332,080	242,945	232,589	233,312	287,964	408,322	352,130	263,676	519,176
One year later	302,184	305,280	253,605	224,389	258,412	299,259	398,351	350,194	267,646	
Two years later	316,684	288,120	243,845	210,689	235,127	277,544	369,292	323,588		
Three years later	263,634	300,380	247,645	202,793	214,930	258,236	353,649			
Four years later	248,484	291,480	243,056	192,592	196,274	239,007				
Five years later	247,684	290,873	238,186	194,363	185,667					
Six years later	239,558	276,129	229,516	188,526						
Seven years later	238,551	273,214	225,812							
Eight years later	233,431	271,861								
Nine years later	231,867									
Current estimate of ultimate claims	231,867	271,861	225,812	188,526	185,667	239,007	353,649	323,588	267,646	519,176
Cumulative payments to date	224,059	252,318	190,168	156,252	141,866	197,335	244,242	144,687	105,843	94,405
Liability recognised in the consolidated balance	7,808	19,543	35,644	32,274	43,801	41,672	109,407	178,901	161,803	424,771
Total liability relating to the last ten policy years										1,055,624
Other claims liabilities										229,040
Total reserve included in the consolidated statement of financial position										**1,284,664**

Insurance claims – net (Class 3 P&I)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	194,002	215,610	212,957	208,784	216,912	232,540	237,370	250,444	206,592	225,582
One year later	199,013	215,266	214,581	190,089	220,092	229,064	235,007	246,545	187,486	
Two years later	201,250	213,086	207,745	182,231	204,740	230,107	230,854	225,012		
Three years later	206,579	213,766	201,581	179,105	190,345	214,630	231,030			
Four years later	192,294	200,325	197,445	169,176	173,745	196,649				
Five years later	190,867	200,421	192,045	168,776	163,245					
Six years later	184,772	193,525	186,045	164,276						
Seven years later	184,184	189,888	182,045							
Eight years later	179,225	188,588								
Nine years later	178,122									
Current estimate of ultimate claims	178,122	188,588	182,045	164,276	163,245	196,649	231,030	225,012	187,486	225,582
Cumulative payments to date	172,216	174,273	161,635	137,561	125,098	156,263	174,783	121,507	82,100	55,359
Liability recognised in the consolidated balance	5,906	14,315	20,410	26,715	38,147	40,386	56,247	103,505	105,386	170,223
Total liability relating to the last ten policy years										581,240
Other claims liabilities										177,324
Total reserve included in the consolidated statement of financial position										**758,564**

Development claim tables (continued)

Insurance claims – gross (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	5,929	7,569	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993
One year later	6,429	7,169	15,363	13,310	9,872	9,800	8,065	7,192	8,102	
Two years later	6,129	7,219	15,063	13,425	9,417	9,050	7,315	6,192		
Three years later	6,129	7,769	12,313	12,544	9,540	8,300	6,815			
Four years later	6,429	7,769	11,813	12,164	10,977	7,800				
Five years later	5,729	7,669	11,713	11,166	11,539					
Six years later	5,529	7,019	11,313	10,421						
Seven years later	5,329	7,019	11,213							
Eight years later	5,329	6,819								
Nine years later	5,229									
Current estimate of ultimate claims	5,229	6,819	11,213	10,421	11,539	7,800	6,815	6,192	8,102	7,993
Cumulative payments to date	4,911	5,926	10,278	9,300	9,205	6,610	5,139	4,195	4,488	3,362
Liability recognised in the consolidated balance	318	893	935	1,121	2,334	1,190	1,676	1,997	3,614	4,631
Total liability relating to the last ten policy years										18,709
Other claims liabilities										5,582
Total reserve included in the consolidated statement of financial position										**24,291**

Insurance claims – net (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2006/07 US$(000)	2007/08 US$(000)	2008/09 US$(000)	2009/10 US$(000)	2010/11 US$(000)	2011/12 US$(000)	2012/13 US$(000)	2013/14 US$(000)	2014/15 US$(000)	2015/16 US$(000)
End of reporting year	5,929	7,569	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993
One year later	6,429	7,169	15,363	12,896	9,872	9,800	8,065	7,192	8,102	
Two years later	6,129	7,219	15,063	12,646	9,372	9,050	7,315	6,192		
Three years later	6,129	7,769	12,313	11,646	8,872	8,300	6,815			
Four years later	6,429	7,769	11,813	11,646	8,372	7,800				
Five years later	5,729	7,669	11,713	10,646	8,122					
Six years later	5,529	7,019	11,313	9,946						
Seven years later	5,329	7,019	11,213							
Eight years later	5,329	6,819								
Nine years later	5,229									
Current estimate of ultimate claims	5,229	6,819	11,213	9,946	8,122	7,800	6,815	6,192	8,102	7,993
Cumulative payments to date	4,911	5,926	10,278	8,925	6,925	6,610	5,139	4,195	4,488	3,362
Liability recognised in the consolidated balance	318	893	935	1,021	1,197	1,190	1,676	1,997	3,614	4,631
Total liability relating to the last ten policy years										17,472
Other claims liabilities										5,582
Total reserve included in the consolidated statement of financial position										**23,054**

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	Consolidated		Class 3 P&I		Class 6 FD&D	
	2016	2015	2016	2015	2016	2015
6 Movement in prior years' claims provisions	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)

Included within net claims incurred in the technical account are the following amounts in respect of adjustments to claims provisions for years ending prior to 20 February 2015.

	2016	2015	2016	2015	2016	2015
Net provision at beginning of the year	**796,938**	813,307	**775,482**	789,688	**21,456**	23,619
Net payments in the year in respect of these provisions	**(124,243)**	(119,065)	**(121,185)**	(116,470)	**(3,058)**	(2,595)
Net provision at the end of the year in respect of claims provided for at the end of the previous year	**(606,764)**	(635,788)	**(588,341)**	(619,540)	**(18,423)**	(16,248)
Over/(under) provision in respect of prior years	**65,931**	58,454	**65,956**	53,678	**(25)**	4,776

7 Net operating expenses

	2016	2015	2016	2015	2016	2015
Directors' fees	**667**	726	**613**	667	**54**	59
Auditors' remuneration	**263**	312	**244**	292	**19**	20
Other expenses	**5,761**	5,238	**5,511**	4,994	**250**	244
Administrative expenses	**6,691**	6,276	**6,368**	5,953	**323**	323
Acquisition expenses	**20,295**	18,687	**19,146**	17,553	**1,149**	1,134
Net operating expenses	**26,986**	24,963	**25,514**	23,506	**1,472**	1,457

The highest paid director received US$115,192 (2015 – US$115,278). The auditors were paid US$279,632 for non-audit services – tax consultancy US$36,832, strategic review US$232,854, other US$9,946 (2015 – US$19,674 for non-audit services – tax consultancy). The Association employs no staff, management services being provided by Tindall Riley (Britannia) Limited.

In accordance with the International Group Agreement 1999, the Association is required to disclose the average expense ratio for its P&I business for the past five years. The ratio measures all costs of the Association (except those directly related to the management of claims) as a function of call, premium and investment income for a five-year period. Britannia's average ratio for the five years to 20 February 2016 was 9.12% (2015 – 8.43%). The ratio has been calculated in accordance with the schedule and guidelines issued by the International Group.

8 Net investment income

	2016	2015	2016	2015	2016	2015
Income from equity investments	**5,244**	5,201	**5,024**	4,983	**220**	218
Income from fixed income investments	**13,413**	15,124	**12,876**	14,531	**537**	593
Bank and other interest	**160**	(1,408)	**153**	(1,349)	**7**	(59)
Realised investment (loss)/gain	**(18,254)**	12,617	**(17,511)**	12,046	**(743)**	571
Unrealised investment loss	**(22,803)**	(22,597)	**(21,777)**	(21,596)	**(1,026)**	(1,001)
Exchange gain/(loss) on cash balances	**104**	(3,179)	**86**	(3,138)	**18**	(41)
Investment income	**(22,136)**	5,758	**(21,149)**	5,477	**(987)**	281
Investment management expenses	**(1,364)**	(1,804)	**(1,309)**	(1,733)	**(55)**	(71)
Net investment income	**(23,500)**	3,954	**(22,458)**	3,744	**(1,042)**	210

9 Longer-term investment return

Investment income is allocated to the general business technical account on the basis of longer-term rates of investment return. The longer-term rates are based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying the rates to the investible assets held during the period for each major market on a monthly basis. The following rates have been used:

	Bonds		Equities	
	2016	2015	2016	2015
US	**2.5%**	1.5%	**7.0%**	7.0%
UK	**0.7%**	1.1%	**7.0%**	7.0%
Europe	**3.7%**	1.7%	**7.0%**	7.0%
Pacific Basin	**2.0%**	3.0%	**7.0%**	7.0%
Japan	**2.8%**	0.5%	**7.0%**	7.0%

Comparison of actual return achieved with the return allocated to the technical account using longer-term rates	10 years to February 2016 US$(000)	10 years to February 2015 US$(000)
Actual return achieved	**334,916**	380,116
Longer-term return credited to the technical account	**283,383**	272,372
Excess of actual returns over longer-term returns	**51,533**	107,744

10 Taxation	Consolidated 2016 US$(000)	Consolidated 2015 US$(000)	Class 3 P&I 2016 US$(000)	Class 3 P&I 2015 US$(000)	Class 6 FD&D 2016 US$(000)	Class 6 FD&D 2015 US$(000)
Analysis of charge for period						
UK Corporation tax charge	**–**	129	**–**	132	**–**	(3)
Overprovision in previous year	**(7)**	(179)	**(7)**	(179)	**–**	–
Unrelieved foreign withholding taxes	**1,347**	1,066	**1,290**	1,022	**57**	44
Taxation	**1,340**	1,016	**1,283**	975	**57**	41

By virtue of its mutual status, the Association is not liable to tax on its underwriting operations. The Association's own investment income is subject to UK Corporation tax. The investment income of the Association's subsidiary Universal Shipowners Marine Insurance Association Limited and its cell in Hydra Insurance Company Limited are not subject to tax in Bermuda but do suffer irrecoverable withholding tax on income from investments in certain jurisdictions.

Factors affecting the tax charge for period

The tax charge for the period is higher than that produced by applying the standard rate of Corporation tax in the UK of 20% (2015 – 21%). The differences are explained below:

Net income before tax	**(23,531)**	19,285	**(21,222)**	15,064	**(2,309)**	4,221
Net income on ordinary activities multiplied by standard rate of Corporation tax in the UK of 20% (2015 – 21%)	**(4,706)**	4,049	**(4,244)**	3,163	**(462)**	886
Effects of:						
Non-taxable mutual insurance underwriting operations	**(6)**	(3,219)	**247**	(2,377)	**(253)**	(842)
Non-taxable investment income	**4,712**	(701)	**3,997**	(654)	**715**	(47)
Current tax charge	**–**	129	**–**	132	**–**	(3)

11 Financial investments						
Group						
Market value						
Quoted shares and other variable yield securities	**182,503**	204,496	**174,767**	195,797	**7,736**	8,699
Debt securities and other fixed income securities	**723,572**	714,546	**695,890**	686,970	**27,682**	27,576
Deposits with credit institutions	**48,044**	101,359	**46,400**	97,451	**1,644**	3,908
Derivatives at fair value through income	**405**	64	**388**	61	**17**	3
Unsettled investment transactions	**(842)**	(2,797)	**(807)**	(2,680)	**(35)**	(117)
	953,682	1,017,668	**916,638**	977,599	**37,044**	40,069
Cost						
Quoted shares and other variable yield securities	**134,538**	128,877	**128,349**	122,926	**6,189**	5,951
Debt securities and other fixed income securities	**727,477**	725,017	**699,635**	697,034	**27,842**	27,983
Deposits with credit institutions	**48,044**	101,359	**46,400**	97,451	**1,644**	3,908
Unsettled investment transactions	**(842)**	(2,797)	**(807)**	(2,680)	**(35)**	(117)
	909,217	952,456	**873,577**	914,731	**35,640**	37,725
Included in investments at market value were:						
Listed on the UK stock exchange	**101,375**	145,221	**96,910**	138,904	**4,465**	6,317
Listed on other investment exchanges	**803,858**	771,024	**772,940**	741,183	**30,918**	29,841
	905,233	916,245	**869,850**	880,087	**35,383**	36,158
Association						
Market value						
Debt securities and other fixed income securities	**116,752**	132,207	**111,202**	125,842	**5,550**	6,365
Cost						
Debt securities and other fixed income securities	**117,515**	131,364	**111,465**	124,617	**6,050**	6,747
Included in investments at market value were:						
Listed on the UK stock exchange	**25,895**	27,225	**24,600**	25,864	**1,295**	1,361
Listed on other investment exchanges	**90,857**	104,982	**86,602**	99,978	**4,255**	5,004
	116,752	132,207	**111,202**	125,842	**5,550**	6,365

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12 Investment in Group undertakings	Country of incorporation	Share held	Class of shares	Principal activity	2016 US$(000)	2015 US$(000)
Universal Shipowners Marine Insurance Association Limited	Bermuda	100%	Ordinary	Reinsurance	**120**	120
Hydra Insurance Company Limited – Britannia Cell	Bermuda	100%	Preferred	Reinsurance	**7,942**	7,942
Hydra Insurance Company Limited – General Cell	Bermuda	100%	Ordinary	Reinsurance	**20**	20
Shares in subsidiary companies					**8,082**	8,082

The Association's investment in its principal subsidiary Universal Shipowners Marine Insurance Association Limited is carried at an amount corresponding to its original cost since, in light of restrictions over the purposes to which the company's assets may be applied, the shares have only nominal value.

Hydra Insurance Company Limited is a Bermudian segregated cell-captive established by the Members of the International Group of P&I Clubs, to reinsure part of the risks which are shared under the Pooling Agreement. Under the terms of the Company's byelaws and the governing instrument, assets are segregated in separate cells in such a way that they can only be used to satisfy the liabilities of the 'owning' Club. Accordingly, the Association consolidates its Hydra cell in these financial statements. The investment in Hydra is carried at an amount corresponding to its original cost since, in light of restrictions over the purposes to which the company's assets may be applied, the shares have only nominal value.

As at 20 February 2016, the Association's investment in Hydra comprised 20,000 ordinary shares at par in the company and preferred shares and contributed surplus in the Britannia cell of Hydra amounting to US$7.9m.

The following table summarises the financial statements of Britannia's Hydra cell for the year ended 20 February 2016	2016 US$(000)	2015 US$(000)
Net premiums	**20,129**	20,567
Net claims	**(8,701)**	(6,379)
Investment income (net of investment management expenses)	**788**	283
Other expenses	**(64)**	24
Surplus for the year	**12,152**	14,495
Government securities and deposits with credit institutions	**87,067**	83,006
Reinsurers' share of technical provisions	**2,794**	4,242
Other liabilities	**(2,081)**	(7,315)
Technical provisions	**(43,895)**	(48,200)
Shareholders' equity	**43,885**	31,733

13 Risk management

The Association is governed by the Committee which drives decision making within the Association from board level through to operational decision making by the Managers. The Committee considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Committee has established a framework of governance through which risk is managed and decisions are taken. This framework operates through a number of sub committees, being:

1) The Finance, Risk and Investment Sub-Committee ('FRISC') meets four times a year and comprises 10 directors of the Association. Its responsibilities include undertaking reviews of the following matters: the Association's overall strategy, policy year results and proposed calls, reinsurance, investments, business risks, compliance matters including Solvency II, and Own Risk Solvency Assessment ('ORSA') and capital adequacy. FRISC also oversees implementation of the Association's investment strategy.
2) The Audit Group comprises four non-executive directors of the Association. Its responsibilities include the financial statements and the annual return to the Prudential Regulation Authority, internal and external audit, whistle-blowing arrangements and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Committee. The Audit Group meets twice a year.
3) The Remuneration Group comprises up to five members of FRISC. Its responsibilities include an annual review of the fee paid to the Managers and periodic reviews of directors' remuneration. The Group meets twice a year.
4) The Nominations Sub-Committee comprises four non-executive directors of the Association and both the Chairman and Chief Executive Officer of Tindall Riley (Britannia) Ltd, the Managers of the Association ('TRB'). Its principal responsibilities are to make recommendations to the Committee on the appointment of new directors, the re-election of existing directors, and the appointment of the chairman of the Committee. The Nominations Sub-Committee meets as required during the year.

The Association is focused 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 faced by the Association can be classified as follows:

13 Risk management (continued)

1) Underwriting risk – incorporating premium and reserving risk
2) Market risk – incorporating equity risk, interest rate risk, spread risk and currency rate risk
3) Counterparty default 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

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks through the ORSA process.

The Committee and Managers have sought to establish and embed risk management procedures within the business through a Compliance manual, internal quality management processes and a risk management framework which considers and logs potential risks and how they are to be managed. The Committee 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 (which reports to the Audit Group and TRB) and the sub-committees noted above.

The Association manages the risks relating to the operations of the Association through the Business Risk Review, which analyse exposures by degree and magnitude of risk. These risks include underwriting risk, market risk, counterparty default risk and operational risk.

13.1 Underwriting risk

The Association's exposure to insurance risk is initiated by the underwriting process which quantifies the extent to which insured events will occur, leading to claims on the Association from the Membership. The risk is managed by the underwriting process, acquisition of reinsurance cover, cover provided by the International Group Pooling Agreement, the management of claims cost and the reserving process. The Association's underwriting risk is limited to two classes of business, P&I and FD&D, which are written on a worldwide basis.

Underwriting process

The Association provides Members with cover for P&I and FD&D risks. The Association utilises an acceptable loss ratio method of pricing risks and development of claims is monitored monthly by the Managers and also on a quarterly basis by the TRB Board and FRISC.

Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management. These parameters cover areas such as screening of potential new Members and risks to ensure that they fall within the Association's guidelines for acceptable risk. Where required a pre-entry inspection of new ships is carried out. In addition, all new Members (usually before joining) are subject to a risk/management audit of their shore-based operations.

Reinsurance and International Group Pooling Agreement

The establishment of the Association's reinsurance programme is driven by the Committee's objective to manage risk to an acceptable level and to optimise the Association's capital position. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, facultative reinsurance to cover specific risks, cover against a single catastrophic event and an accumulation of smaller attritional claims.

The International Group Pooling Agreement provides a sharing of claims costs above an agreed retention between 13 member associations.

The Association's chartered business is reinsured outside the Pooling arrangements of the International Group. The programme is exclusively placed with Lloyd's underwriters and the liabilities from these risks are reinsured from the ground up, with the Association retaining a certain element of the risk.

Management of claims cost

The Association's strategy is to help its Members to prevent and avoid the occurrence of incidents while ensuring the efficient handling and management of claims when they occur. To facilitate this strategy, the Association has established programmes to ensure high levels of claims management and to reduce claims risk. This includes an extensive loss prevention programme comprising technical seminars for crew, information for Members on common claims and how they may be prevented, completion of ship inspections and the production of various guides for safe carriage of goods and the avoidance of incidents.

Reserving process

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 and the key methods used by the Association in estimating liabilities are the Chain ladder and Stochastic bootstrap modelling methods. The results are reviewed by the Audit Group. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management.

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.

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13 Risk management (continued)

13.1 Underwriting risk (continued)

Sensitivity

The Association carries out sensitivity testing on its claims reserves. The results of sensitivity testing are set out below, showing the impact on surplus/deficit before tax, 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.

	2016 US$(000)	2015 US$(000)
Increase in loss ratio by 5 percentage points		
Gross	**13,014**	13,486
Net	**9,730**	9,827

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

13.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The investment strategy, which is reviewed periodically, is set by the Committee with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return while holding risk to a level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority in investments such as government bonds and cash.

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, euro and yen. 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 those currencies.

The value of the assets held in foreign currency generally exceeds the value of the matched liabilities and therefore there is a low risk that unmatched liabilities will lead to currency losses.

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The group uses a number of sensitivity management tools to understand the volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
0.5% increase in interest rates	**3,873**	4,118	**3,726**	3,959	**147**	159
0.5% decrease in interest rates	**(3,873)**	(4,118)	**(3,726)**	(3,959)	**(147)**	(159)

Equity price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end, the holding in equity instruments amounted to 19% (2015 – 20%) of the investment portfolio.

Where available, the Association uses closing bid market values to determine the fair value of an equity holding. The carrying value of non-quoted equity holdings at the year end amounted to US$8.1m (2015 – US$8.1m).

The table below shows the anticipated change in equity investment market values from a 5% increase or decrease in underlying prices:

5% increase in equity price	**9,125**	10,225	**8,738**	9,790	**387**	435
5% decrease in equity price	**(9,125)**	(10,225)	**(8,738)**	(9,790)	**(387)**	(435)

The table above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be extrapolated or interpolated from these results. Management actions could include selling investments, changing investment portfolio allocation and taking other protective action. In addition, the financial position of the group may vary at the time that any actual market movement occurs.

13 Risk management (continued)

13.3. Counterparty default risk

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:
– Amounts recoverable from reinsurance contracts
– Amounts due from Members
– Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts

The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance. In order to manage this risk, the Managers consider the financial position of significant counterparties on a regular basis and monitor aggregate exposure to each reinsurer. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The majority of reinsurance is placed with Lloyd's underwriters (A rated) with the benefit of the Central Guarantee Fund. Non-Lloyd's reinsurance is monitored and reported on annually to the Board of TRB.

Amounts due from Members

Amounts due from Members 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 Members that fail to settle amounts payable. The Association's policy is that Members should have paid all outstanding calls prior to being issued with Blue Cards in advance of the coming Policy Year. In addition, the Directors reserve the right to offset outstanding debts against claim payments unless there is a contractual arrangement that prevents such offsetting. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below 'A' while 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, materially all 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.

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
Debt securities	**723,572**	714,546	**695,890**	686,970	**27,682**	27,576
Derivatives at fair value through income	**405**	64	**388**	61	**17**	3
Reinsurers' share of technical provisions	**527,337**	296,657	**526,100**	294,334	**1,237**	2,323
Reinsurance debtors	**46,501**	11,628	**46,467**	11,390	**34**	238
Member and other debtors	**90,596**	92,851	**86,405**	90,497	**4,191**	2,354
Unsettled investment transactions	**(842)**	(2,797)	**(807)**	(2,680)	**(35)**	(117)
Deposits with credit institutions	**48,044**	101,359	**46,400**	97,451	**1,644**	3,908
Cash at bank and in hand	**59,937**	61,359	**51,515**	54,227	**8,422**	7,132
Total financial assets bearing credit risk	**1,495,550**	1,275,667	**1,452,358**	1,232,250	**43,192**	43,417
An analysis of this exposure by credit rating is shown below						
AAA	**176,044**	241,380	**162,102**	224,386	**13,942**	16,994
AA	**485,109**	490,727	**465,432**	471,883	**19,677**	18,844
A	**506,720**	279,929	**504,536**	277,132	**2,184**	2,797
BBB+ and below	**154,186**	98,248	**150,971**	95,822	**3,215**	2,426
No rating	**173,491**	165,383	**169,317**	163,027	**4,174**	2,356
Total financial assets bearing credit risk	**1,495,550**	1,275,667	**1,452,358**	1,232,250	**43,192**	43,417

The unrated exposure relates principally to amounts due from Members in respect of deferred calls not yet debited and amounts recoverable from Boudicca Insurance Company Limited.

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13 Risk management (continued)

13.3. Counterparty default risk (continued)

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 cash funds and 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:

						Consolidated
At 20 February 2016	Short term assets US$(000)	Within 1 year US$(000)	1–2 years US$(000)	2–5 years US$(000)	Over 5 years US$(000)	Total US$(000)
Quoted shares and variable yield securities	182,503	–	–	–	–	182,503
Debt securities and other fixed income securities	7,542	15,137	142,154	284,928	273,811	723,572
Deposits with credit institutions	48,044	–	–	–	–	48,044
Derivatives at fair value through income	405	–	–	–	–	405
Unsettled investment transactions	(842)	–	–	–	–	(842)
Reinsurers' share of outstanding claims	–	156,350	115,360	164,376	91,251	527,337
Direct insurance operations – Members	4,920	56,857	23,413	–	–	85,190
Reinsurance operations	46,501	–	–	–	–	46,501
Taxation	–	–	–	–	–	–
Other debtors	5,406	–	–	–	–	5,406
Cash at bank	59,937	–	–	–	–	59,937
Accrued interest	3,487	–	–	–	–	3,487
Other prepayments and accrued income	5,547	–	–	–	–	5,547
Total assets	**363,450**	**228,344**	**280,927**	**449,304**	**365,062**	**1,687,087**
At 20 February 2015						
Quoted shares and variable yield securities	204,496	–	–	–	–	204,496
Debt securities and other fixed income securities	1,171	11,819	151,947	264,140	285,469	714,546
Deposits with credit institutions	101,359	–	–	–	–	101,359
Derivatives at fair value through income	64	–	–	–	–	64
Unsettled investment transactions	(2,797)	–	–	–	–	(2,797)
Reinsurers' share of outstanding claims	–	91,373	65,255	94,632	45,397	296,657
Direct insurance operations – Members	1,161	59,711	26,438	–	–	87,310
Reinsurance operations	11,628	–	–	–	–	11,628
Taxation	112	–	–	–	–	112
Other debtors	5,429	–	–	–	–	5,429
Cash at bank	61,359	–	–	–	–	61,359
Accrued interest	4,533	–	–	–	–	4,533
Other prepayments and accrued income	4,540	–	–	–	–	4,540
Total assets	**393,055**	**162,903**	**243,640**	**358,772**	**330,866**	**1,489,236**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timings 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:

At 20 February 2016					
Gross outstanding claims	388,091	286,346	408,015	226,503	1,308,955
Direct insurance operations – Members	16,673	–	–	–	16,673
Derivative liabilities	2,582	–	–	–	2,582
Reinsurance operations	4,929	–	–	–	4,929
Other creditors	7,552	–	–	–	7,552
Total liabilities	**419,827**	**286,346**	**408,015**	**226,503**	**1,340,691**
At 20 February 2015					
Gross outstanding claims	336,835	240,556	348,849	167,355	1,093,595
Direct insurance operations – Members	7,914	–	–	–	7,914
Derivative liabilities	526	–	–	–	526
Reinsurance operations	7,949	–	–	–	7,949
Other creditors	7,985	–	–	–	7,985
Total liabilities	**361,209**	**240,556**	**348,849**	**167,355**	**1,117,969**

13 Risk management (continued)

13.4 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 documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis by senior staff 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 TRB and the Audit Group. A staff handbook contains all key policies that have also been documented.

13.5 Limitation of the sensitivity analyses
The sensitivity analyses in sections 13.1, 13.2 and 13.3 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.

13.6 Capital risk management
The Association maintains an efficient capital structure, consistent with the Association's risk profile. 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 & Poor's, with a substantial margin in each case.

The Committee's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the Prudential Regulation Authority (PRA). The Solvency Capital Requirement (SCR) is monitored and updated annually, although if anything significant (such as large investment or claims movements) occurs in the year, this is updated immediately. Other capital measures used by the Committee include an Economic Capital benchmark, which is also monitored against actual capital resources.

In order to monitor capital requirements, the FRISC reviews the capital position on a quarterly basis and the Managers review performance monthly.

The Association is regulated by the PRA and Financial Conduct Authority (FCA). Throughout the period the Association complied with the regulators' capital requirements.

Under the Individual Capital Assessment (ICA) 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 per cent confidence level of solvency over one year or a longer time frame with an equivalent probability. The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Association is subject to these regulations. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile. In the period leading up to Solvency II's implementation the Association has been managing its capital having regard to Solvency II's capital requirements and definition of capital.

13.7 Fair value hierarchy
Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Association applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by the Managers. The Association has minimal exposure to financial assets or liabilities which are valued at other than quoted prices in an active market.

The classification criteria and their application to the group can be summarised as follows:
– Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level A)
– Inputs other than quoted prices included within Level A that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level B)
– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level C)

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2016	2015	2016	2015	2016	2015
Group	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)
Level A	**230,547**	305,855	**221,167**	293,248	**9,380**	12,607
Level B	**723,135**	711,813	**695,471**	684,351	**27,664**	27,462
Level C	**–**	–	**–**	–	**–**	–
	953,682	1,017,668	**916,638**	977,599	**37,044**	40,069

At 20 February 2016 and 20 February 2015, all of the Association (Parent company), investments were classified as Level B.

Notes to the financial statements

20 February 2016

14 Segment information

The Association provides Members with cover for P&I and FD&D risks. Members are only allowed to take up FD&D cover if they have taken up P&I cover and therefore there are no Members in the Association solely with FD&D cover. As this cover applies to ships at sea, it is not feasible to measure geographical concentration of insurance liabilities for either class of cover. Consequently, the Association has identified P&I risk to be the only reportable segment.

The result of its tonnage from P&I cover from Members by geographical area is as follows:	2016 gt (000)	2015 gt (000)
Asia	**54,462**	55,005
Middle East	**1,628**	1,470
Scandinavia	**16,811**	18,315
Australasia	**864**	864
Americas	**5,628**	6,651
Europe	**26,503**	26,237
	105,896	108,542

	Consolidated		Class 3 P&I		Class 6 FD&D	
15 Debtors – direct insurance operations	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)	2016 US$(000)	2015 US$(000)
Group and Association						
Calls and premiums due from Members	**4,920**	1,161	**1,885**	–	**3,035**	1,161
Deferred call advised to Members	**80,270**	86,149	**79,114**	84,972	**1,156**	1,177
Debtors – direct insurance operations	**85,190**	87,310	**80,999**	84,972	**4,191**	2,338

The deferred call (Class 3 P&I) represents the estimated amount (net of brokerage) to be charged to Members in October 2016 following the Committee's decision to make a 37.5% deferred call in respect of the 2014/15 policy year, of which 20% would not be collected for 12 months, and the 45% call in respect of the 2015/16 policy year for which Members have been advised to budget.

The figure for the prior year is the final 20% deferred call in respect of the 2013/14 policy year which was charged to Members in October 2015 and a 40% deferred call in respect of 2014/15 policy year, 17.5% of which was charged to Members in October 2015 (following the 2.5% waiver), the remainder of which will be charged in October 2016.

The deferred call (Class 6 FD&D) represents the estimated 30% amount (net of brokerage) for which Members have been advised to budget, in respect of the 2015/16 policy year (2014/15 – 30%).

16 Debtors – reinsurance operations						
Reinsurance recoveries						
Amounts recoverable from the Pool	**27,453**	1,400	**27,453**	1,400	–	–
Other	**19,048**	10,228	**19,014**	9,990	**34**	238
Debtors – reinsurance operations – Group	**46,501**	11,628	**46,467**	11,390	**34**	238
Less recoverable from Hydra retrocession agreement	**417**	(325)	**417**	(325)	–	–
Due from Hydra Insurance Company Limited	**1,922**	7,849	**1,922**	7,849	–	–
Debtors – reinsurance operations – Association	**48,840**	19,152	**48,806**	18,914	**34**	238

17 Other debtors	**5,406**	5,429	**5,406**	5,416	–	13

Included within other debtors for Class 3 P&I is a sum of US$5.2m (2015 – US$5.1m) that represents an inter-class debit balance between Class 3 P&I and Class 6 FD&D. There is a corresponding credit balance within Class 6 FD&D (see Note 20 below).

18 Derivative liabilities						
Group						
Derivatives at fair value through income	**2,582**	526	**2,474**	504	**108**	22

19 Creditors – reinsurance operations	Consolidated 2016 US$(000)	Consolidated 2015 US$(000)	Class 3 P&I 2016 US$(000)	Class 3 P&I 2015 US$(000)	Class 6 FD&D 2016 US$(000)	Class 6 FD&D 2015 US$(000)
Group and Association						
Amounts due to the Pool	–	577	–	577	–	–
Other	**4,929**	7,372	**4,904**	7,355	**25**	17
Creditors – reinsurance operations	**4,929**	7,949	**4,904**	7,932	**25**	17

20 Other creditors						
Subsidiaries	**481**	649	**461**	625	**20**	24
Association	**7,071**	7,336	**1,820**	2,165	**5,251**	5,171
Other creditors – Group	**7,552**	7,985	**2,281**	2,790	**5,271**	5,195

Included within other creditors for Class 6 FD&D is a sum of US$5.2m (2015 – US$5.1m) that represents an inter-class credit balance between Class 6 FD&D and Class 3 P&I. There is a corresponding debit balance within Class 3 P&I (see Note 17 above).

21 Related party transactions

The Committee, comprising up to 26 representatives of the Membership of the Association, two independent directors and two Manager nominees, is elected to oversee the management of the Association on behalf of the Members. However, because of the mutual nature of the Association and its Members (being both insured and insurers), they are in effect related parties. The aggregate of transactions with Members is disclosed in these financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, with Members, directors or their companies the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley & Co Limited, which manages the Association through its subsidiary Tindall Riley (Britannia) Limited, earned management fees of US$29.5m (2015 – US$29.4m) for the year. Three directors of the Association are also directors of Tindall Riley (Britannia) Limited.

22 Explanation of Transition to FRS 102 and 103

This is the first financial year for which the Association has presented its financial statements under FRS 102 and FRS 103 issued by the Financial Reporting Council. The following disclosures are required in the year of transition: The last financial statements under previous UK GAAP were for the financial year ended 20 February 2015 and the date of transition to FRS 102 was therefore 21 February 2015. Following the adoption of FRS 102 and FRS 103, there have been no material changes to accounting policies in order to comply with these standards and therefore the balance of the capital and reserves account at 20 February 2014 and 20 February 2015 has remained as reported at those dates.

23 Subsequent events

On 25 February 2016, it was announced that the Boards of the Association and the UK Club are in merger discussions. The talks are concurrent with discussions between the Managers and Thomas Miller (the managers of UK Club). The discussions are ongoing. The ultimate decision regarding the merger will be decided by the members at Special General Meetings to be convened later in the year. There are no further subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Committee on 10 May 2016.

Class 3 – Protection and Indemnity policy year statement

20 February 2016

	2015/16 US$(000)	2014/15 US$(000)	2013/14 US$(000)	Closed years US$(000)	Total US$(000)
Advance calls and premiums					
Year to 20 February 2016	186,758	1,954	447		
Year to 20 February 2015	–	195,259	897		
Year to 20 February 2014	–	–	195,884		
	186,758	197,213	197,228		
Deferred calls					
Year to 20 February 2016	67,143	(3,713)	(992)		
Year to 20 February 2015	–	65,405	(441)		
Year to 20 February 2014	–	–	79,008		
	253,901	258,905	274,803		
Reinsurance premiums					
Group excess of loss	(29,511)	(34,120)	(33,252)		
Other	(37,853)	(38,322)	(42,011)		
	(67,364)	(72,442)	(75,263)		
Allocated investment return	33,905	24,658	19,002		
Taxation	1,763	(4,647)	(317)		
	222,205	206,474	218,225		
Claims paid less reinsurance recoveries	55,359	82,100	121,507		
Acquisition costs	20,039	19,959	18,170		
Administrative expenses	6,368	5,953	5,779		
	81,766	108,012	145,456		
Balance available to meet outstanding claims	140,439	98,462	72,769	602,439	914,109
Estimated outstanding claims					
Own claims	368,023	131,013	143,691	426,861	1,069,588
Other Clubs' Pool claims	56,748	30,790	35,210	92,328	215,076
	424,771	161,803	178,901	519,189	1,284,664
Estimated reinsurance recoveries					
Group excess of loss	(145,037)	–	–	(33,340)	(178,377)
Pool	(56,259)	(37,948)	(32,389)	(76,712)	(203,308)
Other reinsurers	(53,252)	(18,469)	(43,007)	(29,687)	(144,415)
	(254,548)	(56,417)	(75,396)	(139,739)	(526,100)
Net estimated outstanding claims	170,223	105,386	103,505	379,450	758,564
(Deficit)/surplus	(29,784)	(6,924)	(30,736)	222,989	155,545

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