Britannia

The Britannia Steam Ship Insurance Association Limited

Annual Report and Financial Statements

20 February 2017

Contents

Key statistics

30 Countries

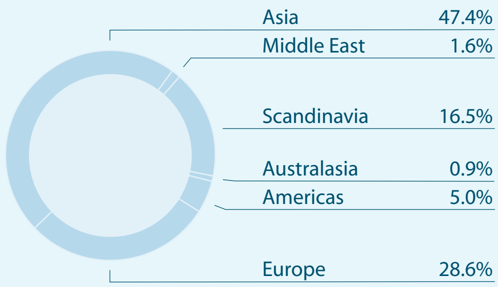
240 Members

3,100 Ships

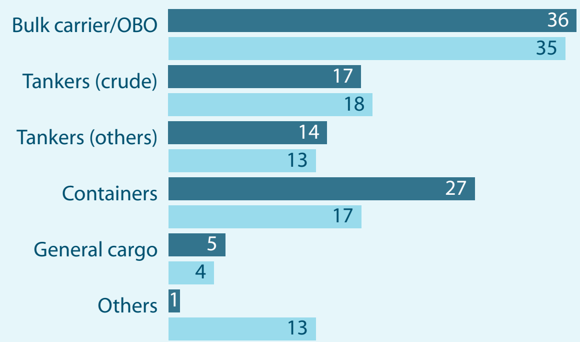
101m gt Owned tonnage

15m gt Chartered tonnage

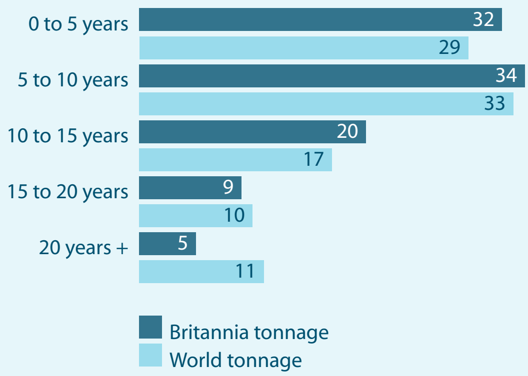
Entered tonnage by area of management – Class 3



Ships by type (% of total)



Age of ships (% of total)



	20 February 2017 (m gt)	20 February 2016 (m gt)	20 February 2015 (m gt)
Entered tonnage (owned)	**100.9**	105.9	108.5
Entered tonnage (chartered)	**15.0**	35.5	27.0

	US$(000)	US$(000)	US$(000)
Calls and premiums	**225,854**	260,272	269,726
Net claims incurred	**(130,268)**	(167,654)	(156,241)
Investment income	**28,716**	(23,500)	3,954
Net operating expenses	**(25,719)**	(26,986)	(24,963)
Net income after taxation	**32,946**	(24,871)	18,269
Free reserves*	**379,342**	346,396	371,267

Net loss ratio	**80.9%**	86.1%	79.5%
Average expense ratio	**9.42%**	9.12%	8.43%

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

* 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	**221,700**	**166,300**	**174,300**

Chairman's statement

I am delighted to introduce Britannia's 2016/17 report and financial statements, which underline the financial strength expected by the Association's Members. That strength has allowed Members to again benefit from further deferred call waivers (from the 2014/15 and 2015/16 policy years) while enabling various strategic initiatives to be carried out in the past year and planned for the coming year and beyond.

Those strategic initiatives include enhanced service, most visibly through the expansion of our Hong Kong office, and also the Managers' acquisition of our Exclusive Correspondent in Japan, Cornes P&I – now rebranded Tindall Riley (Britannia) Japan. Both steps will raise our service standards in Asia, the home of over 50% of Britannia's membership and where most of our Members trade regularly.

Britannia has also completed its corporate governance restructuring, embracing a smaller (regulated) Board and an enhanced Members' Representative Committee. Further details are contained later in this report, but I take the opportunity to welcome the formation of a new Standards Sub-Committee. Maintaining standards and learning lessons to reduce claims is the bedrock of the Association and its commitment to mutuality; this Sub-Committee will work closely with the Managers to assist and support Members in this key area.

Some of these initiatives stem from last year's potential merger with another IG Club. The due diligence exercise concluded that the merger would not have materially benefited Britannia's Members, so the discussions were not pursued further. Nevertheless, the review revealed opportunities to improve and strengthen the Association in areas beyond its finances, while maintaining the core values of Britannia.

The past year has seen little general improvement in the shipping markets. While the dry bulk sector has shown some signs of reaching a turning point, the container sector's overcapacity has only just started to be addressed. During the year we saw the failure of Hanjin Shipping, one of our long-standing and loyal major Members. In contrast, there is good news in that the 2016/17 policy year has been a remarkably light one for claims,

Chairman's statement

both retained and Pool. 2016/17 was also a good year for investments, with our recently restructured diversified portfolio returning just under US$29m, equivalent to 3%.

Against a background of continuing poor shipping markets, Britannia's Members can at least take comfort that their Club is actively taking steps to ease some of their burden.

Last, the UK's decision to leave the European Union ('Brexit') raises a number of issues for the Association as a UK regulated entity. There remains uncertainty on the terms on which the UK will trade with the EU in the future. However, Britannia's Board is actively monitoring this process and evaluating the options open to the Association to ensure it will continue to provide our Members with the highest level of service, underpinned by its unparalleled financial strength.

On a more personal note, we said goodbye during the year to Messrs Carmelo de las Morenas, P H Lee, Sokhyon (Peter) Paek, Cedric Foo, Frank Lu, Grantley Berkeley and John Trew (Manager Director) for whose contributions we are very grateful.
We have welcomed onto the Members' Representative Committee Fadzillah Bt Kamaruddin, Naser Al-Abdulkareem, Morten Ligaard and Bronson Hsieh and onto the Board, Jo Rodgers (Manager Director). I would like to pay particular note to the service of Carmelo de las Morenas, who chaired our Audit Group for over nine years; his contribution to the strength of the Association will be missed.

Nigel Palmer

Nigel Palmer OBE Chairman

Financial review

The Association has produced another year of strong financial performance, assisted by a benign claims environment and investment returns that exceeded expectations. A combination of positive underwriting and investment returns has driven the capital resources to a record high and places the Association in a unique position from which to assist the membership over the coming years.

In October 2016 the Committee, at its last meeting before handing over responsibility to the new Board, agreed a further waiver of 2.5% from the deferred call from 2014/15. The deferred call from that year has now been reduced from the original 45% to 35% over the past three years. The Committee was also able to agree a 5% waiver from the deferred call from 2015/16, bringing the total down from 45% to 40%. Together, these two waivers in 2016 have benefited the membership by a further US$10.8m. In addition, at the 2017/18 renewal there was no general increase and many Members were able to renew their cover at a lower cost than the prior year.

Britannia's financial strength has allowed these measures to be taken without any risk to its future financial stability.

In September 2016 Standard & Poor's confirmed the Association's rating as A (Strong), with a Stable outlook. Within that rating, the financial risk score was well in excess of the triple-A level based on S&P's capital model.

Total calls and premiums were down year on year by around US$34m. A number of factors were behind this fall: despite a modest general rate increase, there was some loss of tonnage at the 2016/17 renewal and the reduction in rates on the general excess of loss reinsurance contract, which is passed on to Members, also drove premiums down. There was also a write off of outstanding calls from Hanjin Shipping, one of the Association's long-standing Members that fell into insolvency during the year. Another important impact was the Committee's decision to waive further deferred calls which, as noted above, cost US$10.8m.

Reinsurance premiums overall were down marginally year on year, the saving on the general excess of loss contract referred to above being offset by higher premiums paid to Boudicca.

Incurred claims within the Club retention in the 2016/17 policy year were, after 12 months, at their lowest level for 13 years. The major factor behind this was a much lower impact from claims expected to cost more than US$1m. While the number of such claims was similar to the last two years – 19 in 2016/17 against 20 in 2015/16 and 15 in 2014/15 – the aggregate cost was significantly lower. The largest claim is currently expected to cost just US$2.4m. The lack of claims over US$5m benefited Boudicca, which had started the year with projected liabilities on the individual claims excess of loss contract of US$17m, but ended it with a provision of zero. The total number of claims in the year was 4,295, which is well down on the prior year and contributed to the exceptional low claims costs for 2016/17.

Financial review

Incurred claims to date on the Pool have also been remarkably light. Seven claims had been notified by 20 February 2017, with an estimated aggregate cost to the Pool of US$76m. In the prior year, ten claims had been notified at a cost of over US$252m.

The year also saw the usual positive development on the claims position of older years. This improvement results from the Association's consistent policy of reserving individual claims on a very conservative basis and of holding contingency reserves at very high levels of confidence. As actual claims outcomes emerge over time, the redundancy is released and because claims incurred in three of the four prior policy years have been relatively high by historical standards, the releases in dollar terms have also been high. In 2016/17, the total amount released from prior years' claims provisions was US$53.1m.

The underwriting result for the year ended 20 February 2017, represented by the balance of the technical account, was a surplus of US$38.9m. This compares to a surplus of US$35.3m in the prior year. Of the total underwriting surplus, US$35.6m was contributed by P&I (Class 3) and US$3.3m by FD&D (Class 6).

As noted in the investment performance review below, the actual return on the portfolio for the year was US$28.7m, with equities being the strongest performer. There were some currency losses on sterling bonds and cash, resulting from the post-Brexit vote devaluation of sterling, but these are matched by reductions to sterling denominated liabilities and operating costs. The currency losses resulted in the actual return being lower than the longer term return that is credited to the underwriting account, and this resulted in a transfer from the investment reserve of US$5.2m.

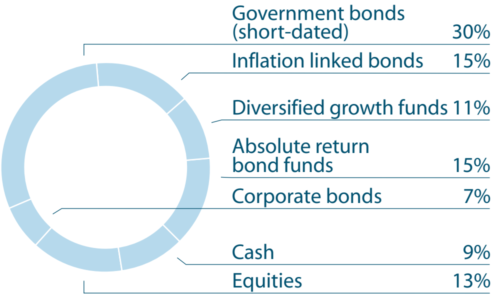
The surplus for the year after tax was US$32.9m, which resulted in the total capital shown in the balance sheet at 20 February 2017 rising to US$379.3m.

The total resources available to the Association include potential future recoveries from Boudicca. The surplus funds available in Boudicca as disclosed in note 3 to the financial statements were US$221.7m, a significant increase on the position reported last year, which has resulted from improvements to Britannia's claims (and therefore lower claims reserves in Boudicca's books) and positive investment returns on Boudicca's investment portfolio.

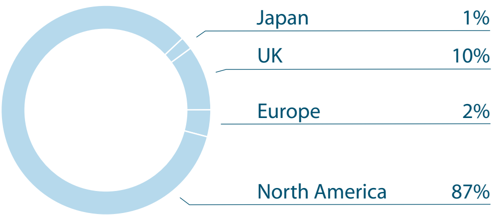
On the basis of the total resources available, the Association remains very well funded, with capital in excess of both economic and regulatory capital requirements. As noted above, it is therefore uniquely well placed to assist its Members in the future.

Investment strategy

Invested funds at market value
20 February 2017
Type of investment



Geographical distribution



The Association's investment strategy is the responsibility of the Board, assisted by its investment advisers Lane Clarke & Peacock LLP (LCP). During the past year, LCP carried out a review of the Association's investment strategy, which has been a long-term one reflecting the long-tail nature of many of the liabilities and the nature of mutuality.

More specifically, the objectives of the strategy are two fold:

- to hold a portfolio of government bonds and cash which matches, in terms of average duration and currency, the claims liabilities of the Association. This is known as the 'matching portfolio'. The matching portfolio includes a 'cash buffer' which is sufficient to ensure appropriate liquidity; and

- to invest the assets in excess of the matching portfolio and the cash buffer, in accordance with the 'prudent person principle', in such a way as to achieve the maximum return for a level of risk consistent with the Association's investment risk appetite. This is known as the 'growth portfolio'.

The LCP strategy review resulted in some reallocation of asset classes within the growth portfolio, the main ones being:

- a reallocation of 50% of the equity portfolio to a diversified growth fund managed by Standard Life; and

- a reorganisation of the corporate bonds to create three equally sized portfolios, managed respectively by Standish Mellon on an active basis against a benchmark, and M&G and Schroders on an absolute return basis.

Following the reallocation, the portfolio has the following composition:

Asset class	Proportion (%)
Matching portfolio:	
Government bonds and cash	54.0
Growth portfolio:	
Corporate bonds	22.0
Equities	13.0
Diversified growth fund	11.0
	100.0

Investment performance

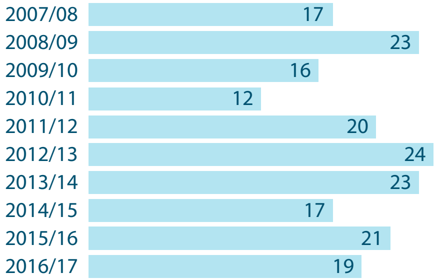
In the year ended 20 February 2017, the overall return on investments was 3.0%, which is equivalent to US$28.7m.

The best performing asset class was equities, which returned 19.3%. Corporate bonds returned 5.0%, while cash and government bond returns were flat.

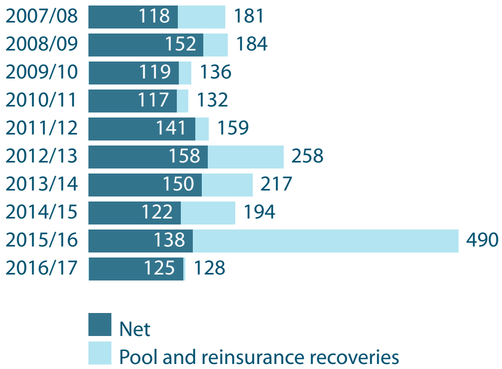
Class 3 – Protection and Indemnity (P&I)

Claims

Class 3 P&I claims
Number of claims on the Association that are greater than US$1m (net) as at 20 February 2017



Association's estimated retained claims
(US$m) as at 20 February 2017



Britannia retained claims

Last year it was reported that the 2015/16 policy year had seen net retained claims return to a more 'normal' level of approximately US$168.6m. This followed claims being higher than estimated in 2013/14, at US$204.6m and the unusually low level of claims in 2014/15 then estimated at US$132.6m. The 2013/14 policy year has improved with net retained claims currently estimated at US$178m. The 2015/16 policy year has also improved with net retained claims currently being estimated at US$162m.

Against this background the 2016/17 policy year has been very favourable with claims currently estimated at only US$97.7m. This is significantly lower than even the 2014/15 policy year at the equivalent point in the policy year.

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 2016/17 policy year is 4,276. This represents a significant decrease on the 5,079 notifications at the same time in the 2015/16 policy year and the 4,766 notified in 2014/15. This general trend of decreasing attritional claims continues to reflect that a number of liner operators moved 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). The Association's Correspondents also continue to report 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, they can have a significant impact on the policy year. There were 20 such notifications in 2015/16 estimated at US$84m compared to 15 claims with an estimated value of

Class 3 – Protection and Indemnity (P&I)

Claims

US$59m in 2014/15. In 2016/17 a total of 19 high value incidents have been reported but are currently estimated at only US$29m. The significant reduction in the cost of large claims is attributed to the fact that only three claims exceeded US$2m and none are over US$3m, whereas in 2014/15 and 2015/16 a total of two and three of the high value claims respectively exceeded the Association's retention which was US$9m at the time.

The Association continues to investigate the root causes of high value claims and near miss incidents. A lack of effective risk assessments has been found to be a contributory factor in a number of incidents and accidents, particularly relating to personal injury. As in previous years, poor bridge and engine team management and a lack of communication, both internally and with pilots and shore authorities, are significant issues in many major incidents.

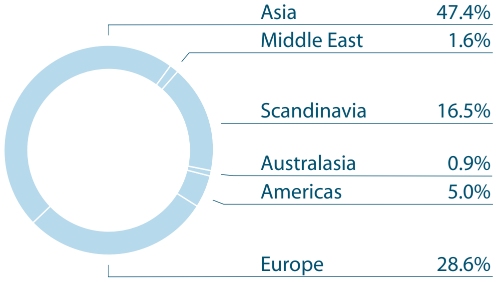
Pool claims

2016/17 was also a favourable year for Pool claims with seven being reported to date with a combined estimated value of US$76m compared to estimated combined values of US$252m and US$177m reported in 2015/16 and 2014/15 respectively. One of the claims in the 2016/17 policy year was a personal injury claim in the US, two arose from damage to subsea cables, three arose from groundings, and three from damage to shore side installations. The largest claim involved a tanker berthing at an oil terminal in Russia prior to loading a cargo of crude oil. The ship was under pilot and assisted by two tugs with another on standby. During berthing manoeuvres, following the apparent parting of a tow wire connection, it is reported that despite releasing an anchor, the ship struck the mooring dolphins causing the dolphins and pilings to collapse. Significant claims for repairs and business interruption are expected. The other large claim involved a container ship running aground off Taipei. The crew were all rescued by helicopter but the ship subsequently broke into two sections spilling 110mt of fuel oil. Significant claims are expected for pollution and pollution prevention measures, the costs of removing and disposing of the containers and cargo and wreck removal. As in previous years most of these incidents appear to arise from issues with bridge team management or navigational practices in one form or another which remain the focus of the Association's loss prevention activities.

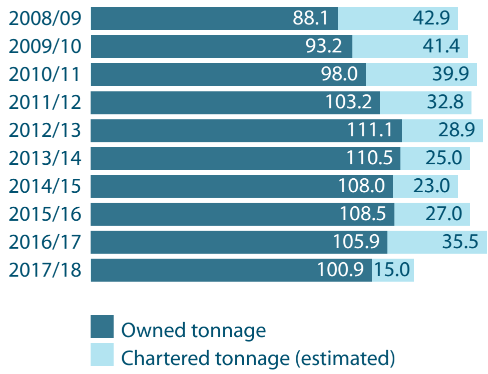
Class 3 – Protection and Indemnity (P&I)

Tonnage

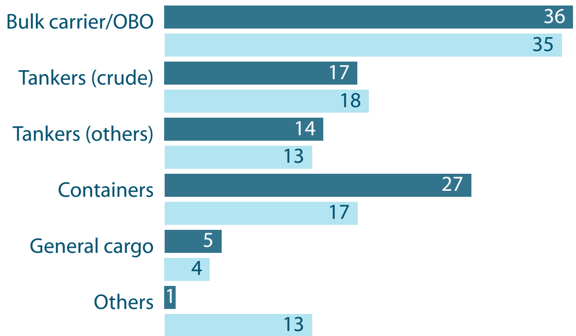
Entered tonnage by area of management – Class 3



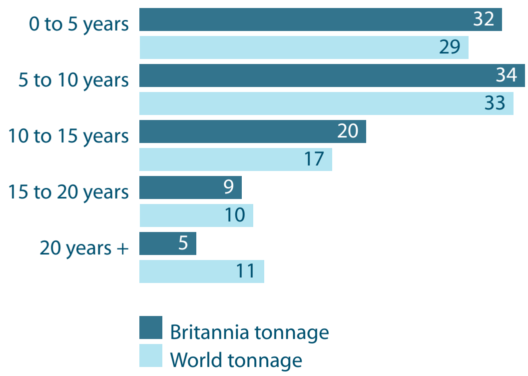
Tonnage entered – Class 3 (m gt)
(Beginning of policy year)



Ships by type (% of total)



Age of ships (% of total)



The Association's owned entered tonnage for the 2016/17 policy year reduced on a net basis by approximately 5.6m gt, largely as a result of the loss of two major fleets during the course of the policy year. One fleet went into liquidation and the other was subject to a takeover by another shipping company. The combined tonnage of these two fleets was more than 5.25m gt.

Chartered tonnage decreased significantly as a consequence of one Member continuing its strategic reallocation to an increased number of P&I insurers.

The number of Members entered in the Association remained stable overall, with four new Members joining and four withdrawing. The majority of the losses were the result of continuing poor market conditions. Most of the new ships entered during the policy year were newbuildings. In addition, two new fleets joined Britannia at 20 February 2017, representing nearly 600,000 gt.

The geographical spread of the Association's business has remained largely unchanged over the past year. Fleets based in Asia still make up 50% of the Association's tonnage, with fleets from Europe representing around 40% of all entered tonnage.

At renewal on 20 February 2017, the Association's overall tonnage increased by approximately 650,000 gt, mainly owing to additions to existing fleets, but also the result of new Members entering ships for the first time. Encouragingly, a large number of new owned ships are committed to joining the Association during the 2017/18 policy year, totalling nearly 7m gt. Once these are taken into account, the Association will have gained nearly 2m gt on a net basis over the last 12 months.

At the beginning of 2017/18 the Association's owned tonnage amounted to approximately 101m gt.

Class 3 – Protection and Indemnity (P&I)

International Group reinsurance

Structure

The Association is party to the International Group Pooling Agreement and therefore participates in the Group's excess of loss (GXL) reinsurance programme. Two layers of US$500m each, plus one layer of US$1bn, provide reinsurance cover for claims up to US$2.1bn 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$2.1bn (see the diagram below).

Renewal

The individual Club retention, which was increased with effect from 20 February 2016 to US$10m, remains unchanged for the 2017/18 policy year. The attachment point on the Group GXL reinsurance programme, which had remained at US$80m since 2014, was increased to US$100m from 20 February 2017.

The loss experience on the reinsurance programme on the 2012/13 to 2016/17 policy years remains favourable to reinsurers, notwithstanding some deterioration in prior years. This factor, combined with surplus market capacity, the positive financial development of the Group captive Hydra and the effective use of multi-year private placements, enabled the Group to achieve advantageous reinsurance renewal terms. There were reductions across all layers of the main programme and on the Excess War P&I cover, which meant there was a further year of reinsurance rate reductions across all ship categories.

The first of the three current 5% private placements covering the first and second layers of the GXL programme (US$1bn excess US$100m) expired at the end of the 2016/17 policy year. This was replaced from 20 February 2017 with a new 5% three-year private placement, on more favourable terms and pricing. In addition, the Group has negotiated an extension to the second 5% three-year private placement for two years beyond 20 February 2018, again on more favourable terms and pricing.

As part of the solution developed by the Group Clubs to assist and meet shipowners' certification requirements under the financial security provisions of the Maritime Labour Convention, which entered into force in January 2017, the Group Clubs collectively arranged a market reinsurance cover (US$190m excess US$10m) at a competitive price to be included within the overall reinsurance cost for allocation at 20 February 2017.

Based on its review of comparative performance by ship category, and reflecting the most improved performance within the dry cargo and dirty tanker categories, the Group approved reductions in reinsurance costs for 2017/18 of approximately 9.3% for dry cargo ships and dirty tankers and approximately 5% for clean tankers and passenger ships.

Overall, this was another positive reinsurance renewal for the Group and its Members and over the last three renewals there have been premium savings of approximately US$100m from the Group programme.

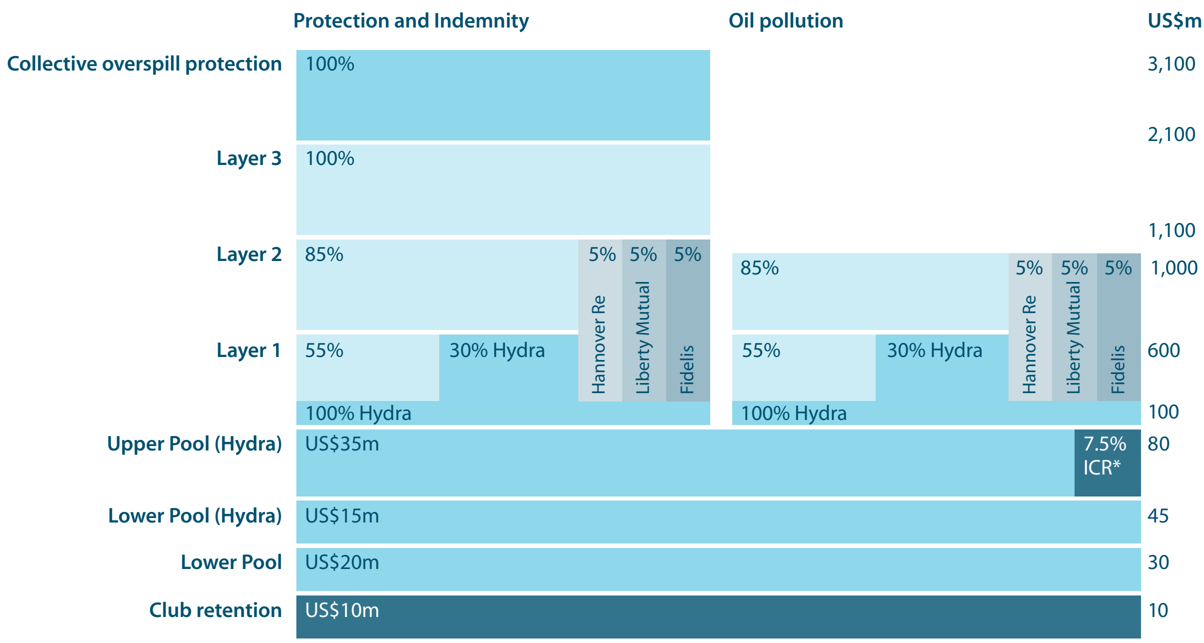
Because of the continuing application of US primary sanctions to US persons and US domiciled reinsurers participating on the 2016/17 programme, it has been decided not to renew the lines of such reinsurers on the 2017/18 contract; these have been replaced with alternative capacity. As a result, there was no need to renew the 'fall back' reinsurance arrangements beyond 20 February 2017.

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 2017/18, Hydra's reinsurance of the Group Pool remains unchanged at US$50m excess of US$30m. Above this, a Hydra layer now covers claims between US$80m and US$100m. Hydra then co-insures 30% of the first layer of the GXL programme (US$500m excess of US$100m).

International Group excess of loss reinsurance programme 2017/18 policy year (not to scale)



*ICR – Individual Club retention

Class 3 – Protection and Indemnity (P&I)

Loss prevention

The Association has continued to devote significant resources to loss prevention in support of Members' efforts to reduce and prevent accidents and minimise the cost of claims. This has included the usual condition surveys and root cause analysis, the lessons learned from these investigations being disseminated through the Association's range of publications, which can be found on the Britannia website. The continuing series of technical seminars has been very well received and the loss prevention team has also introduced seminars aimed at senior managers and Designated Person Ashore (DPAs) in order to target the decision makers within the Association's membership.

Condition surveys

The regular ship inspection programme is still the main way that the Managers review the quality of the tonnage entered in the Association. The surveys help to monitor maintenance and operational standards, and also focus on the overall physical condition of the ship and its fittings as well as looking in detail at shipboard management policies and practices.

During 2016, 129 condition surveys were carried out. The majority of the surveys formed part of the annual inspection of a representative sample of Members' ships, while others were instigated in response to port state control (PSC) detentions, referrals from the claims or underwriting departments as well as entry surveys of ships over 12 years old. As in past years, a number of tankers were also inspected in accordance with the International Group's programme of surveying tankers over ten years of age which have carried heavy fuel oil (HFO) as cargo during the previous policy year.

Of the ships surveyed, 57% returned 'good' and 11% 'very good' results. While 32% of the surveys returned 'acceptable' results, multiple deficiencies were noted on a number of surveys. There has continued to be noticeable deterioration in the levels of maintenance, and a worryingly higher percentage of cargoworthiness issues and on-board safety-related matters have come to light.

Class 3 – Protection and Indemnity (P&I)

Loss prevention

Findings from the survey programme have been incorporated into the loss prevention seminar materials. There has been a special focus on cargo matters, particularly dangerous goods cargoes, with the seminars reiterating the principles of safe working procedures and practices on board.

Root cause analysis (RCA)

Analysis of the cause of the larger claims, usually involving collisions, groundings and damage to property, continues to underpin the day to day RCA work. Often the underlying cause of these incidents has been poor bridge team management and oversight together with a lack of situational awareness.

To highlight these issues, the Association has produced a bridge simulation video, featuring ex-mariners who work in the Managers' loss prevention team. The team enacts some of the navigational and seamanship shortcomings which have been highlighted by the RCA investigations. The video has been very well received in the worldwide technical seminar programme. The training package is now available to Members via Britannia's website, and includes a transcript of the dialogues and a training guide. If Members wish to use the video and materials in their own training programmes, the Managers can provide the necessary materials on a USB drive.

The popular series of collision regulations (*COLREGs*) posters, which are distributed with *Risk Watch*, continued in 2016/17.

Further root cause analysis work has led to three specific articles in *Risk Watch* featuring:

- injuries caused by the lack of a proper risk assessment prior to undertaking routine tasks (April 2016);
- the hazards of carriage of charcoal and other carbon cargoes, particularly highlighting the fact that these cargoes are often not correctly declared as being dangerous (April 2016); and
- the lessons learned following the grounding of a pure car and truck carrier (PCTC) in the UK, highlighting complacency based on incorrect assumptions by the senior management team (August 2016).

Technical seminars

The Association's popular technical seminar programme has been running for more than eight years. The seminars are focused on locations where the Members' crew supply is concentrated. During the course of 2016 the loss prevention team hosted 13 separate seminars, in India, the Philippines, the People's Republic of China, Poland and Taiwan. They were attended by more than 1,100 delegates, including master mariners, senior officers, ratings, superintendents and office staff.

Subjects covered included trends arising out of the condition survey programme and port state control ship detentions together with an emphasis on navigation issues, particularly ECDIS. Cargo care focused on the safe carriage of dangerous goods, whether in bulk, liquid or packaged form.

Analysis of navigation-related claims indicated that while the number of claims are decreasing, there is clear indication of failures in the use of basic procedures and practices, including:

- lack of basic seamanship;
- poor bridge team management;
- complacency;
- lack of situational awareness;
- lack of effective mentoring.

The loss prevention team's new seminar programme includes films which use simulations to make the presentations easily accessible. The visual impact of simulations can help viewers to identify patterns of behaviour that they may well have experienced in their everyday work.

Another new initiative was interactive navigational workshops. The team used the loss prevention video, created with the assistance of Warsash Maritime Academy in the UK, and highlighted many worrying trends, including the various responsibilities of the master and duty officer when interacting with a pilot, navigation in close proximity with ferries, fishing vessels and inshore craft as well as allisions with jetties and berth structures caused by approaching the berth too fast.

In previous years the loss prevention technical seminars have been aimed at serving crew, senior officers, superintendents and trainers. Aware that there is only so much that seafarers can do to promote safety on board their ships, the loss prevention team hosted the inaugural 'senior manager and DPAs' seminar in Singapore in October 2016, which was aimed at an audience of senior staff and DPAs who ultimately represent the management of the company.

The aim of this seminar was to encourage a dialogue with those who have most influence in ensuring that a good safety culture exists and is followed on board ship. Effective safety management requires effective training and this initiative should be seen as a positive investment in the future rather than as another cost for Members to bear. The results and feedback from the seminar were presented to Members at the Britannia Member forums in Rome and Taipei in November 2016 and these seminars will continue throughout 2017.

The loss prevention team have also given presentations at Members' offices and participated in their officers' conferences, presenting at over 20 locations during the course of the year.

Publications

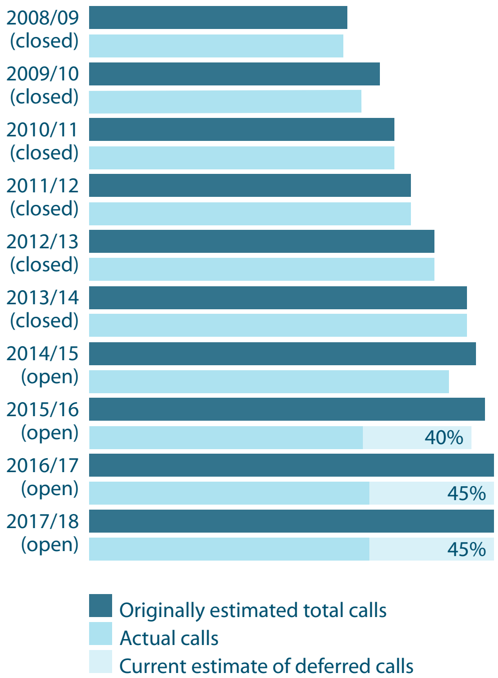
The Association continues to produce regular news items and bulletins for Members to raise awareness of safety and health related issues. The quarterly publication *Risk Watch*, together with its *Claims and Legal* supplement, remains the primary channel for sharing technical information with the membership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

During 2016, *Health Watch* highlighted the importance of a good safety culture and effective safe working practices on board. It is often the case that seafarers do not feel sufficiently empowered to be able to stop work and call attention to an unsafe practice without fear of repercussions. Junior crew are particularly liable to suffer accidents as a result of their lack of experience, knowledge and awareness, and a targeted risk assessment aimed at the least experienced person in the team is essential prior to undertaking any task.

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, for all policy years up to and including 2016/17.

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 reached a record level, exceeding the record high of the previous policy year at the same stage by 5%. 24 claims of more than US$1m have been reported in this policy year, of which two 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 19 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 2017, the value of incurred claims on the Pool was US$382.7m.

This time last year, the projected deficit on the policy year was US$30.7m. Over the past 12 months this position has improved so that the deficit is now US$19.9m. The 2013/14 policy year was closed on 20 February 2017.

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$137.1m, are at their lowest level for nine years at the 36-month stage. This is a remarkably low level, following the two preceding years of exceptionally high claims. Currently there are only 17 claims expected to cost more than US$1m, an increase of one on the number reported last year. Of these, two are currently estimated at more than the Club retention of US$9m and have 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$201.3m. There have been 16 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 meetings in October 2015 and October 2016, the Committee approved further waivers of 2.5%, which reduced the total deferred call from 40% two years ago to 35% currently. The total waivers of deferred call from this policy year have benefited Members by approximately US$16.9m.

This time last year, the projected deficit on the policy year was US$6.9m. Over the past 12 months the position has improved and, taking full account of the deferred call waivers, this policy year is now showing a surplus of US$8.3m.

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 have improved marginally from the prior year and are currently estimated to cost US$161.7m, slightly higher than claims in the 2014/15 policy year at the same stage, but well below the high points seen between 2011/12 and 2013/14. Currently there are 21 claims expected to cost more than US$1m, an increase of one on the number reported last year. Of these, three 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.

Class 3 – Protection and Indemnity (P&I)

Policy year development

Pool claims in the 2015/16 policy year are estimated to cost US$353.7m and are slightly above the level reported in the prior policy year but well below the levels seen in the 2011/12 and 2012/13 policy years. There have been 15 notifications to the Pool to date, of which two have reached the first layer of the IG excess of loss reinsurance programme. It should be noted that two Pool claims account for almost 62% of the amounts notified to the Pool.

At its meeting in October 2016, mindful of the financial burden currently facing its Members, the Committee decided to reduce the estimated deferred call from 45% to 40%. The 25% which was due to be collected in October 2016 was reduced to 20%, giving Members an immediate cash flow benefit amounting to US$6.6m.

This time last year, the projected deficit on the policy year was US$29.8m. Over the past 12 months the position has improved such that the deficit is now US$28.4m (this includes the impact of the waivers of the deferred call).

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.

Retention claims are at their lowest levels for 13 years at the 12-month stage of development ignoring any adjustments for tonnage growth and claims inflation. Currently there are 19 claims expected to cost more than US$1m, slightly lower than the previous policy year, but the size of the individual claims in excess of US$1m is well down compared to previous years. There are currently no claims which are expected to exceed the Club retention of US$10m.

Pool claims in this policy year are also at their lowest level at the 12-month stage for many years, at US$75.8m. The number of Pool claims notified by 20 February 2017 was seven. It is difficult to predict how the Pool will develop after the year end, but the Association has adopted a cautious view in relation to its provisions for Pool claims, reflecting the inherent uncertainty in the development of Pool claims.

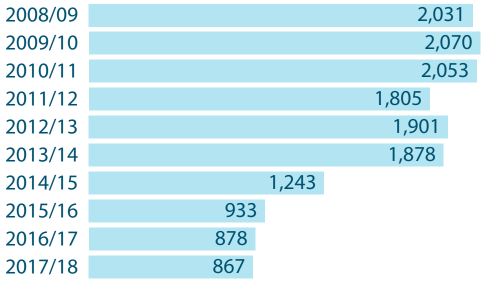
2017/18

In October 2016, the Committee decided not to increase the general rates for the 2017/18 policy year, while the budgeted deferred call has been maintained at 45%. The Association's strong finances allowed it to take this positive step, which assists Members in the most mutual way during the continuing difficult shipping market.

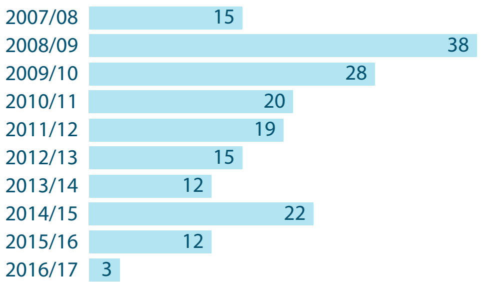
The chart on page 14 presents the originally estimated calls, the actual calls and the current estimate of deferred calls for the ten years up to and including 2017/18.

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

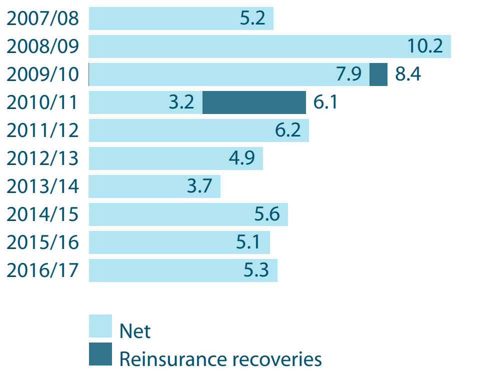
Class 6 – FD&D ships entered



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 2017



The 2016/17 policy year saw a reduction in both the number and aggregate value of FD&D claims notified to the Association compared with the previous policy year. The aggregate value of claims was also less than that recorded at the equivalent time in the 2013/14 and 2014/15 policy years. This was a slightly surprising development because, at the midway point of the year, it appeared that the number and value of claims would be slightly higher than it had been for several years. As it turned out, there was a marked improvement in claims experience during the last six months of the policy year.

Figures for Class 6 claims at the end of the policy year should always be regarded with a degree of caution because of the way in which such claims develop. Unlike Class 3 claims, there is often many months' time lag between the occurrence of an incident and its notification to the Association, as Members seek to find an amicable solution to the dispute with their counterparty before involving the Association. Furthermore, because the vast majority of disputes are settled before there has been a final court or arbitration hearing, it is those incidents that cannot be settled without a hearing and are, therefore, some years old that are the most costly. This is because preparation for, and attendance at, the hearing is normally the most expensive part of the dispute, especially where witnesses and experts have to give oral evidence. Nevertheless, a benign claims experience during the policy year is usually a good indication of how the year will develop.

There are no obvious explanations for the reduction in claims in 2016/17. However, the fact that most sectors of the shipping market remained flat, seeing little movement in charterparty hire and freight rates, almost certainly limited the number of potential disputes between owners and charterers. Claims experience in Class 6 frequently reflects what is happening in the market. Therefore, when hire and freight rates are changing rapidly, there is usually an increase in the number of disputes as parties try to take advantage of the changes, e.g. in a rising market owners may seek to get out of relatively unprofitable charterparties, while charterers may try to get out of their charterparty commitments when the market is falling. A lack of volatility in the market reduces the likelihood of such disputes.

Rumours that shipping companies are in financial difficulties and, indeed, actual insolvency proceedings (whether that be some form of administration, receivership or liquidation) can also lead to an increase in FD&D claims as the troubled company's creditors seek security for their claims. This happened in connection with Hanjin Shipping, which went into receivership in September 2016 before being declared bankrupt in February 2017. Hanjin was South Korea's biggest shipping company and one of the world's largest container lines. It therefore had significant commitments under its charterparties and service and supply contracts. However, although there was inevitably a degree of logistical chaos as a result of Hanjin's collapse, and the Association was notified of several Class 6 claims, the impact was reduced because Hanjin's receivers obtained an order from the South Korean court staying claims against the company which was, in turn, recognised in a number of other important jurisdictions (including the US, UK and Singapore). The effect was to protect many of Hanjin's assets from creditors and to funnel its claims into the Korean receivership proceedings which, eventually, became liquidation proceedings once Hanjin was declared bankrupt. The demise of Hanjin has, therefore, produced only a fraction of the claims that resulted from the collapse of OW Bunker in 2014 (and which actually affected the Association less than many other FD&D insurance providers).

The vast majority of claims notified to the Association in 2016/17 were typical Class 6 disputes, displaying no obvious trends, e.g. claims relating to off-hire, demurrage, underperformance, supply contracts (usually in relation to fuel quality) and hull damage (to the extent that the claim falls within the Member's hull policy deductible). In spite of the continuing poor state of the shipping market, there has been no discernible indication that reduced ship maintenance is leading to more FD&D claims. The concern has frequently been raised that, in a bad market, some owners may delay repairs in order to cut costs with a resulting increase in the risk of charterparty disputes. That has not, however, been the experience of the Association in the current market.

As mentioned above, the most expensive Class 6 claims are those that cannot be settled and result in a hearing. One very substantial claim arising from an incident in the 2010/11

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

policy year took a major step towards a final resolution in 2016/17. The claim involved a ship chartered by Members under a bareboat charterparty for a minimum period of five years. When the charterparty ended, owners alleged that there were over 800 defects in the ship's equipment and made a claim of US$5m against Members for the cost of repairs, associated expenses and loss of earnings. The dispute was complicated by the fact that the subsequent charterers of the ship made a claim against owners related to the condition of the ship on delivery to them, which owners sought to pass on to Members. Members also had a significant counter claim against owners for the value of bunkers and lube oils remaining on board at the time Members redelivered the ship, which owners refused to pay for.

Costs were significant due to the huge volume of supporting evidence relating to the alleged defects and owners' failure to identify the alleged breach involved for each defect. Members were, therefore, obliged to evidence the maintenance performed on each defect over the charter period, leading to a review of over 250,000 documents. Experts were appointed by the Association to assist with the technical issues that arose.

Owners refused to participate in a mediation with Members and the case proceeded to a hearing, which took place over three weeks during which witnesses and experts gave evidence.

In order to protect the position on costs, Members made a sealed offer to owners which was not accepted. The arbitration tribunal made its final award in late 2016 and ruled that, although Members had a liability to owners, this fell well below the amount of the sealed offer. This means that Members and the Association expect to limit the costs that will be payable to owners up to a proportion of those incurred prior to the sealed offer being made and to recover Members' own costs incurred after the date of the sealed offer.

The total costs incurred exceeded US$1m, albeit the Association's liability was reinsured on the London market excess that amount. The case illustrates the level of costs that can be incurred in claims involving a substantial number of technical issues, such as shipbuilding and maintenance disputes, and the value of taking steps to protect costs exposure, including making sealed bids or Part 36 type offers.

Most of the FD&D claims that are notified to the Association involve disputes under charterparties, the vast majority of which are governed by English law. For that reason, English case law is of great importance. Three important judgments were given by the English courts in 2016 that will have a significant effect on English shipping law.

In the Annual Report of 20 February 2016, reference was made to the *RES COGITANS* case, which arose out of the bankruptcy of OW Bunker. The English Supreme Court has now ruled that the bunker sale contract between the ship's owners and OW Bunker (who acted as an intermediary trader between the owners and the physical bunker supplier) allowed OW to claim payment for the bunkers from the owners even though OW had not, nor would ever, pay the actual supplier. The effect of this decision is to expose owners who had contracted with OW to the risk that, in certain countries, an unpaid physical supplier may be able to exercise a lien against ships for the price of the fuel despite the fact that owners already have a contractual liability under English law to pay OW.

The Supreme Court decided an important case relating to off-hire, the *GLOBAL SANTOSH*. In this case owners had time chartered the ship to Cargill who, in turn, had entered into a voyage charter to carry a cargo sold by Transclear SA to IBG Investments Ltd. Transclear were also sub-charterers though had no contractual relationship with Cargill. A dispute arose under the sale contract and Transclear arrested the cargo. That prevented the ship from berthing and Cargill deducted hire due to owners for the period of the arrest. Owners argued that Cargill was unable to do this because Transclear was acting as Cargill's agent.

The Supreme Court decided the case in Cargill's favour, holding that the relevant issue was whether what Transclear (as a party interested in the cargo on board the ship) did amounted to a vicarious breach of an obligation by Cargill under the charterparty. The Court said that steps taken by Transclear under their sale contract for the cargo did not amount to the exercise of a right or the breach of an obligation by Cargill under the charterparty. The decision shows that English law will not necessarily regard acts or omissions further down the charterparty chain as being acts or omissions of the head charterers.

In Grand China Logistics Holding (Group) Co. v. Spar Shipping AS the Court of Appeal decided that a breach of a time charter giving owners the right to terminate the charter in the event that hire is not paid in full and on time will not automatically entitle owners to claim damages for loss of hire/earnings for the remainder of the charter period. Owners will only be able to claim such damages if they can demonstrate that the failure to make punctual and full hire payments deprives them of substantially the whole benefit of the charterparty, which will depend on the facts of each case.

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 because of the unpredictable nature of litigation, despite the fact that the Managers endeavour to exercise close control over the conduct of all notified disputes. However, 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 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, however, the cost of claims appears to have abated and there has been a modest fall in the number and total value of claims over the last year.

Unlike P&I, FD&D does not have the benefit of pooling or joint reinsurance arrangements and therefore the Association purchases its own reinsurance protection.

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

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 a waiver of approximately US$1.4m to Members' benefit.

Claims in this policy year are at a lower level than the last seven policy years at the equivalent stage of development. At 20 February 2017 the policy year was showing a surplus of US$2.6m, an increase of US$0.4m on the position reported this time last year. The 2012/13 policy year was closed on 20 February 2017.

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, again amounting to a waiver of US$1.4m to Members' benefit.

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

Claims in this policy year have continued to develop positively. At 20 February 2017 the policy year was showing a surplus of US$2.1m, an increase of US$0.3m 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$1m. 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 2017, the policy year was showing a surplus of US$0.6m, an increase of US$0.4m on the position reported this time last year.

2015/16
In October 2014 the Committee decided once again 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) had been achieved but a deferred call (albeit reduced)still provides sufficient financial flexibility.

Claims in this policy year have continued the positive development seen over the last couple of years. At 20 February 2017, the policy year was showing a surplus of US$1m, an increase of US$1m on the position reported this time last year.

2016/17
In October 2015 the Committee decided for the third year in succession that there should be no general increase to calls and that the deferred call for Members with mutual tonnage should remain at 30%.

Claims in this policy year are at a similar level to the last three policy years at the same stage of development. At 20 February 2017 the policy year is showing a deficit of US$0.4m but in the absence of any deterioration in claims, it is expected that there will be some improvement to this position over time.

2017/18
In October 2016 the Committee again decided that there should be no general increase to calls and that the deferred call for Members with mutual tonnage should remain at 30%. The Association's strong finances allowed it to take this positive step, which assists Members in the most mutual way during the continuing difficult shipping market.

P&I industry developments

Maritime Labour Convention (the MLC)

The second phase of the MLC came into force on 18 January 2017. Ships that are subject to the MLC are now required to display certificates issued by an insurer or other financial security provider (e.g. their P&I Club) confirming that insurance or other financial security is in place for the cost and expense of crew repatriation, as well as up to four months' contractually entitled arrears of wages and entitlements following abandonment (MLC Regulation 2.5.2, as amended). A further certificate is required for liabilities for contractual claims arising from seafarer personal injury, disability or death (MLC Standard A4.2, as amended).

The International Group (IG) agreed that liability to back wages be included as a P&I covered risk, although not one subject to pooling. The past year saw extensive dialogue between the IG and MLC Signatory States, with agreement having been reached on common IG wording for the endorsements evidencing the required insurance. In addition, the IG has arranged reinsurance in the event that any claim that exceeds an individual's IG Club's retention (currently US$10m). The IG Clubs have also issued a Circular with FAQs on the MLC, its requirements and the cover provided by the Clubs.

Ballast Water Management Convention (the BWMC)

After some initial uncertainty, the BWMC has achieved the required 35 Signatory States as well as the required 35% plus of the world's merchant shipping tonnage, with the Entry into Force (EIF) date being 8 September 2017. This is primarily an operational issue and it will therefore be important for shipowners and operators to continue to monitor the situation. Nevertheless critical issues remain, including:

• whether the equipment being developed meets the D2 discharge criteria when used at sea in varying levels of salinity and sea temperature;

• the impact of some States having deferred signing the BWMC until the doubts over equipment have been addressed, while other States have implemented their own unilateral requirements; and

• the US not being a party to the BWMC, rather the United States Coast Guard (USCG) has issued its own regulations with regard to treatment of ballast water. Again, questions over the availability of suitable equipment meant that the USCG allowed ships with an upcoming compliance deadline to apply for an extension, although extensions are not automatic or guaranteed and must be applied for by the shipowner/operator in plenty of time. As an additional compromise, the USCG is temporarily accepting a number of IMO approved ballast water treatment systems as 'Alternate Management Systems' for five years from the ship's compliance date.

Cyber attack risks

A cyber attack is defined as 'any type of offensive manoeuvre employed by individuals or whole organisations that targets computer information systems, infrastructures, computer networks, and/or personal computer devices by various means of malicious acts usually originating from an anonymous source that either steals, alters, or destroys a specified target by hacking into a susceptible system'. There has been an increasing number of such attacks, e.g. the attack on Sony and reports of interference with the November 2016 US Presidential election.

The losses which can result may be tangible or intangible and in a shipping context may include damage to a ship's hull from a collision resulting from interference with navigation equipment, power failure resulting in reefer cargo loss, or theft of cargo by criminal manipulation of discharge orders.

While many of the potential losses which can arise from a cyber attack are outside the scope of P&I cover, regardless of causation, generally there is no specific exclusion of usual P&I liabilities (including 1/4 RDC) incurred as a result of a cyber attack. However, the nature of cyber attack resulting liabilities might be excluded by the application of the war/terrorism exclusion, depending on the precise causation. Therefore a Member would be covered, for example, in the case of a non-war/terrorism, criminally or maliciously motivated or accidental cyber attack which disables or interferes with a ship's navigation or mechanical systems resulting in a casualty. However, it may be that the shipowner would be protected from certain resulting liabilities to third parties by virtue of a third party deliberate/intentional act defence to the consequent liabilities (under applicable conventions or legislation). Of course, this will be subject to the Member having to establish the loss was 'wholly caused' by the cyber attack.

Not surprisingly, this approach is mirrored in the Pooling Agreement and the Group Excess of Loss Contract (which is on full follow on terms). In contrast to P&I, H&M cover (including those Members who place 3/4 FFO/RDC with H&M) and War covers through the market almost invariably exclude cyber through standard wordings, e.g. CL 380 (10/11/03) (H&M) and CL 380 (10/11/03) (War).

STOPIA/TOPIA

The Small Tanker Oil Pollution Indemnification Agreement (STOPIA) and the Tanker Oil Pollution Indemnification Agreement (TOPIA) reflect the desire of the IG Clubs to ensure the continuing success of the international oil pollution compensation regime. Both agreements are aimed at ensuring that the costs of responding to spills of persistent oil from tankers should be more equitably borne by shipowners and the receivers of oil. Accordingly, STOPIA provides for shipowners to make payments to the IOPC Fund which are designed to adjust the financial effect of the limitation of liability provisions contained in the 1992 Civil Liability Convention (CLC 92) for spills from tankers of less than 29,548 GT. TOPIA provides for shipowners to indemnify the Supplementary Fund for 50% of the compensation that it pays under the 2003 Supplementary Fund Protocol for pollution damage caused by tankers in States party to the Protocol.

Both agreements have been subject to a recent review, which will see a number of changes. These include protecting shipowners and the International Group Clubs in circumstances where, for reasons beyond their control, they are prevented from reimbursing the 1992 Fund and/or the Supplementary Fund in accordance with the agreements, as a result of legislation preventing shipowners and/or insurers from making payments that would fall within the scope of any applicable sanctions regime.

Brexit

On 23 June 2016 the UK voted to leave the EU. As a result of this decision, there might be a need for structural and governance changes to address the possible loss of the right to 'passport', by which Britannia as a UK domiciled insurer can currently provide P&I or FD&D insurance for any EU domiciled shipowner without having to establish a branch in any (or all) of the 27 other EU countries. The Board, with the Managers, have reviewed the current options and are well placed to take appropriate steps depending on how matters develop over the coming year.

Service to Members

Claims handling

The handling of claims is the core service provided by the Association to the membership and the Managers employ a team of more than 50 experienced claims handlers. Individual claims handlers have developed close working relationships with their Members over the years. They are very familiar with the problems that Members face and are fully aware of the service that Members expect to receive. The claims handlers work in teams, sharing their knowledge and experience to ensure that they make that extra effort to provide the right help and support to the Members. Another critical element of this service is the expertise and local knowledge of the Association's exclusive Correspondents which operate in Japan, Hong Kong, Korea, Singapore, Taiwan and Spain, together with the network of listed Correspondents worldwide. In addition, the Association has links to many specialist lawyers, surveyors and other experts, who can be called upon to assist. The claims handling teams also work closely with the loss prevention team, underwriters and senior management to provide a hands on, constructive approach to the handling of each Member's claims. Responses to queries are prompt; advice given is clear and timely and costs associated with the handling of claims are closely monitored and controlled. Most importantly, the claims teams work together to do everything possible to get the best result for the membership and for the Association.

Member visits

Britannia is the Members' Club and as such, meeting the membership is the starting point for the service provided. Notwithstanding advances in technology which have made communication easier and quicker, the Managers believe that personal contact remains more important than ever. They or the exclusive Correspondents aim to see each Member at least once a year, on the basis that a face to face meeting is still the best way of providing the personalised service that each Member wants and expects. As the Association continually seeks to improve the service provided, Members' feedback is encouraged, either verbally or via the website.

Claims workshop

Claims workshops were held this year in Imabari and Taipei and were very well-received by those who attended. Following this success, the planned schedule for the coming year's workshops will be expanded. Sharing lessons learned is a core part of the Association's loss prevention philosophy and the workshops and seminars have proved to be an effective way of communicating such lessons to the membership.

Secondments

In 2016 the Managers started a programme of secondments to the Association's exclusive Correspondents by some of the London based claims handlers, underwriters and members of the loss prevention team. Individuals spent between one and two months getting to know Members, the people that they employ , the trades in which they operate and the practical problems that they face, all information that is important to gain a proper understanding of each Member and to provide the tailored personal service that Members deserve from their Club. Positive feedback from Members, brokers and staff means that more secondments are planned for the coming year to continue to strengthen relations with Members.

Website

The Britannia website, which was redesigned in 2014, remains a key way of communicating with the membership. The site is updated regularly with breaking industry news and developments on current topics such as sanctions, ballast water management, cargo liquefaction, piracy and the MLC. Further improvements are planned to ensure that it contains the information that Members need in a way that is easy to use.

Publications

The Association continues to produce a wide range of publications which are placed on its website and sent to Members and their ships in hard copy. Publications, including *Risk Watch, Claims and Legal* and *Health Watch* focus on the lessons learned from the claims that the Association has encountered. In addition, Britannia News Supplement is a fortnightly news round up sent by email. Circulars and bulletins are sent out as necessary, with news of the Association, International Group messages and information on topics such as the MLC, sanctions and ballast water management.

Training week

A regular fixture in the Association's calendar, last year's training week saw a record 42 delegates enjoy the week-long programme of lectures and workshops given by the Managers' claims, loss prevention and underwriting teams. The talks covered a wide range of shipping, P&I and FD&D topics. All the talks are given a practical slant, using real examples to illustrate the theory whenever possible. The week concludes with a workshop where the delegates are divided into groups, each headed by a senior director from the Managers, to resolve various scenarios based on recent claims.

The hard work was offset by a lively social programme which provided an opportunity for the training week guests to get to know the Britannia staff, putting faces to names and networking with fellow guests from around the world. Training week continues to provide an enjoyable and productive way of providing Members with a deeper understanding of their P&I Club and building an ever closer working relationship.

Members' Forums

It is very important to ensure that the membership has the opportunity to meet the Managers in order to hear first hand about topics such as the financial health of the Association, claims trends and loss prevention initiatives and to hear about industry developments.
As part of Britannia's commitment to personal service and open communication, each year the Association holds an annual Members' Forum in Europe and in Asia, with the senior management on hand to make presentations, answer questions and demonstrate commitment to looking after the membership. In 2016 the venues were Rome, where around 60 delegates attended and Taipei, where a further 80 Members took part. As well as an opportunity to report on the robust financial health of the Association, the call decisions for 2017/18 and recent claims trends, the talks were balanced with a review of industry developments and provided opportunity for Members to clarify points of interest and share their view with the Managers and other Members.

Regional presentations

The Association's well-established network of exclusive Correspondents is an integral part of the Britannia family and strengthens the ability to provide personalised assistance to Members worldwide. On 1 May 2016, Chiang Marine Services hosted its 35th anniversary reception in Taipei, attended by senior managers and local Members, brokers, and industry, government and maritime agencies. The following week a reception was held in Hong Kong for local Members and brokers to review the Association's recently announced financial performance.

Members of the Board

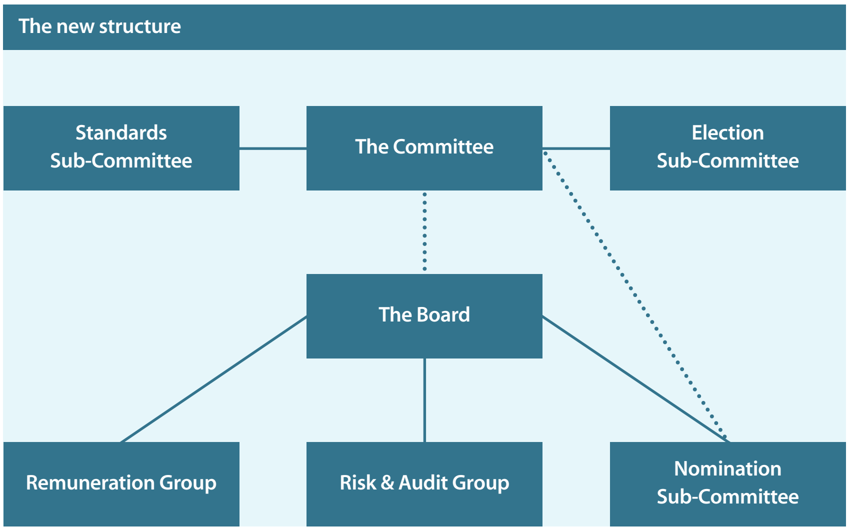
N J Palmer OBE Felixstowe[1, 2, 3]
(Chairman)

A Cieslinski Szczecin[1, 2]
S W Dio London[1, 3]
A J Firmin Hamburg
J-B Kjaervik Copenhagen[2, 3]
S-C Lan Taipei
B T Nielsen Dallas[1]
Y Yamawaki Tokyo[3]
J R L Youell London[1]
A J Cutler London (Manager)[2]
J P Rodgers London (Manager)[2]

1 Risk & Audit Group
2 Nomination Sub-Committee
3 Remuneration Group

Members of the old Committee at its final meeting at Leeds Castle in October 2016.

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 systems of governance are also reviewed to confirm that they comply with regulatory requirements, including those introduced as part of Solvency II. In the light of the latest developments, during the year there were some important changes to the Association's corporate governance arrangements and a revised governance structure has been put in place. This new structure is shown in the diagram opposite.

Overall responsibility for the management of the Association now rests with the Board. The Board comprises a non-executive chairman, up to ten non-executive directors drawn from the Association's shipowner Members, one non-executive director who is expert in insurance matters, and two executive directors from the Association's Managers. The Board 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 Board 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 Board and these are reviewed and updated at least annually. The Board meets five times a year.

The Members' Representative Committee (the Committee) is a larger body, comprising all of the Board directors (other than the two Manager Directors), plus up to 28 others representatives drawn from the Association's shipowner Members. The Chairman of the Board is also the Chairman of the Committee. The Committee does not carry out any regulated functions, but the Board has a duty to consult the Committee on key areas including strategy, investments, finance and call decisions. The Committee does have a key role in the Association's loss prevention activities, through the newly created Standards Sub-Committee, and the consideration of claims trends and industry matters. It also retains the right to approve discretionary claims up to US$2m.

Senior Insurance Managers Regime

The Association has implemented the requirements of the Senior Insurance Managers Regime (SIMR) and prepared a Governance Map which sets out the governance structure of the Association, identifies the SIMR function holders, the notified non-executive directors and other key function holders, shows reporting lines and the allocation of prescribed responsibilities. The Governance Map is reviewed at each Board meeting.

Sub-committees of the Board

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

Risk & Audit Group

This group comprises up to four non-executive directors of the Association. Its responsibilities include the financial statements and the regulatory returns to the Prudential Regulation Authority, the risk management framework, internal and external audit, and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Board. The Risk & Audit Group meets three times a year.

Remuneration Group

The group comprises up to five non-executive directors of the Association. 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.

Nomination Sub-Committee

This sub-committee consists of up to four non-executive directors of the Association and the two Manager directors. Its principal responsibilities are to make recommendations to the Board on the appointment of new directors, the re-election of existing directors, and the appointment of the chairman of the Board, reviewing the skills, training requirements and performance of directors and Senior Insurance Management Function holders. The sub-committee meets as required during the year.

Sub-committees of the Committee

Election Sub-Committee

The Election Sub-Committee's role is to consider and make recommendations to the Committee in respect of potential new Member representatives and potential new directors of the Board, which would then be recommend to the Nomination Sub-Committee.

Standards Sub-Committee

The Standards Sub-Committee's role is to monitor the composition of Britannia's membership, oversee loss prevention activities including the condition survey programme, and monitor claims trends. The sub-committee comprises a Chairman, the Chairman of the Committee, three other Committee members and from the Managers, the Chief Underwriting Officer, the Chief Service Director and the Director, P&I Claims.

Britannia's website provides details of the roles and responsibilities of the various bodies (including their individual Terms of Reference), as well as listing the individuals who sit on them: www.britanniapandi.com/about/corporate-governance

Corporate governance report

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 introduced an updated risk management framework during the year, which is documented in a set of risk management policies approved by the Board. The basis of the framework is seven risk appetite statements, to each of which are attached a number of risk outcomes. These in turn link to the Association's risk register, which records all the individual risks that have been identified as posing a threat to the achievement by the Association of its strategic objectives. These risks are monitored on a quarterly basis by the Britannia Enterprise Risk Group, which prepares a report on risk management for the Risk & Audit Group. The risk management framework considers risks under a number of headings, which together with a summary of the Association's risk mitigation approach, are set out below.

Underwriting risk arises from two sources – adverse claims development (reserve risk) and inappropriate underwriting (premium 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. Premium 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 are pooled (and reinsured above US$100m through the GXL 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 and which is consistent with the prudent person principle. The strategy 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.

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

Corporate governance report

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. 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 Business Risk Register. 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 in the risk register 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.

Regulatory reporting

The Association has further developed its procedures for the calculation of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) using the standard formula. This has included an exercise to confirm that the assumptions underlying the standard formula are appropriate to the Association's business model and further refinement to the process for calculating technical provisions in accordance with the Solvency II Delegated Acts. The Association will make its first Solvency and Financial Condition Report (SFCR), based on the position at 20 February 2017, later this year.

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 2017.

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

On 30 June 2016, C Foo resigned as a director. On 18 October 2016, C de las Morenas, F Lu and G W A Berkeley all retired as directors and J A Trew resigned as a Manager director. In addition, the changes to the Association's corporate governance arrangements resulted in the resignations, on 18 October 2016, of D von Appen, V Boluda, Ms S Chao, J C K Hsu, T K Y Hsu, K C K Koo, P H Lee, L Martel, M Mattioli, S Paek, K M Sheth, K Takigawa, J Warwick and T Yokomizo, although these individuals were re-elected as members of the newly created Members' Representative Committee. In December 2016, Messrs Lee and Paek resigned as members of that Committee.

On 18 October 2016, J P Rodgers was appointed as a Manager director and in accordance with the Articles of Association offers himself for re-election.

N J Palmer, A Firmin and B T Nielsen all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election as directors.

Directors indemnity insurance

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

Financial instruments

Information on the use of financial instruments by the Association and its management of financial risk is addressed in Note 13 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Credit risk, Liquidity risk and Market risk in that note.

Future developments

Likely future developments of the Association are discussed in the Strategic Report.

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 Board.

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 25 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 Board
J A Young Secretary
9 May 2017

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 Limited for the year ended 20 February 2017 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 auditor
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/auditscopeukprivate.

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 2017 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, based on the work undertaken in the course of the audit:

• the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and

• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

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

• adequate accounting records have not been kept by the Association, or returns adequate for our audit have not been received from branches not visited by us; or

• the Association's 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
19 May 2017

Consolidated income and expenditure account

20 February 2017

		Consolidated		Class 3 P&I		Class 6 FD&D	
Technical account – general business	Note	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Earned premiums, net of reinsurance							
Calls and premiums	2	**225,854**	260,272	**218,352**	251,591	**7,502**	8,681
Reinsurance premiums	3	**(64,748)**	(65,663)	**(64,336)**	(65,214)	**(412)**	(449)
		161,106	194,609	**154,016**	186,377	**7,090**	8,232
Allocated investment return transferred from the non-technical account		**33,830**	35,285	**32,504**	33,905	**1,326**	1,380
Total income		**194,936**	229,894	**186,520**	220,282	**8,416**	9,612
Claims incurred net of reinsurance							
Net claims paid	4	**(136,235)**	(182,974)	**(130,312)**	(176,545)	**(5,923)**	(6,429)
Change in provision for claims	5	**5,967**	15,320	**3,687**	16,918	**2,280**	(1,598)
Net claims incurred		**(130,268)**	(167,654)	**(126,625)**	(159,627)	**(3,643)**	(8,027)
Net operating expenses	7	**(25,719)**	(26,986)	**(24,303)**	(25,514)	**(1,416)**	(1,472)
Total expenditure		**(155,987)**	(194,640)	**(150,928)**	(185,141)	**(5,059)**	(9,499)
Balance on technical account		**38,949**	35,254	**35,592**	35,141	**3,357**	113

Non-technical account							
Balance on the technical account		**38,949**	35,254	**35,592**	35,141	**3,357**	113
Net investment income	8	**28,716**	(23,500)	**27,104**	(22,458)	**1,612**	(1,042)
Allocated investment return transferred to the technical account	9	**(33,830)**	(35,285)	**(32,504)**	(33,905)	**(1,326)**	(1,380)
Net surplus/(deficit) before taxation		**33,835**	(23,531)	**30,192**	(21,222)	**3,643**	(2,309)
Taxation	10	**(889)**	(1,340)	**(852)**	(1,283)	**(37)**	(57)
Net surplus/(deficit) after taxation		**32,946**	(24,871)	**29,340**	(22,505)	**3,606**	(2,366)
Balance from previous year		**163,385**	131,294	**155,545**	118,641	**7,840**	12,653
Net transfers to general reserve		**–**	(5,000)	**–**	–	**–**	(5,000)
Net transfers from/(to) investment reserve		**5,242**	61,962	**5,519**	59,409	**(277)**	2,553
Balance to consolidated statement of financial position		**201,573**	163,385	**190,404**	155,545	**11,169**	7,840

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 2017

		Consolidated		Class 3 P&I		Class 6 FD&D	
		2017	2016	2017	2016	2017	2016
Assets	Note	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)	US$(000)
Investments							
Financial investments	11	**952,256**	953,682	**915,242**	916,638	**37,014**	37,044
Reinsurers' share of technical provisions							
Claims outstanding	5	**398,227**	527,337	**397,917**	526,100	**310**	1,237
Debtors							
Direct insurance operations – Members	15	**81,458**	85,190	**78,948**	80,999	**2,510**	4,191
Reinsurance operations	16	**45,438**	46,501	**45,250**	46,467	**188**	34
Taxation		**29**	–	**29**	–	**–**	–
Other debtors	17	**4,202**	5,406	**4,202**	5,406	**–**	–
		131,127	137,097	**128,429**	132,872	**2,698**	4,225
Other assets							
Cash at bank		**88,310**	59,937	**77,865**	51,515	**10,445**	8,422
Prepayments and accrued income							
Accrued interest		**1,724**	3,487	**1,662**	3,350	**62**	137
Other prepayments and accrued income		**3,147**	5,547	**2,892**	5,235	**255**	312
Total assets		**1,574,791**	1,687,087	**1,524,007**	1,635,710	**50,784**	51,377

Liabilities							
Capital and reserves							
Investment reserve		**122,769**	128,011	**114,402**	119,921	**8,367**	8,090
General reserve		**55,000**	55,000	**50,000**	50,000	**5,000**	5,000
Income and expenditure account		**201,573**	163,385	**190,404**	155,545	**11,169**	7,840
		379,342	346,396	**354,806**	325,466	**24,536**	20,930
Technical provisions							
Gross outstanding claims	5	**1,173,878**	1,308,955	**1,152,794**	1,284,664	**21,084**	24,291
Creditors							
Direct insurance operations – Members		**10,598**	16,673	**9,636**	15,921	**962**	752
Derivative liabilities	18	**8**	2,582	**8**	2,474	**–**	108
Reinsurance operations	19	**5,150**	4,929	**5,113**	4,904	**37**	25
Other creditors	20	**5,815**	7,552	**1,650**	2,281	**4,165**	5,271
Total liabilities		**1,574,791**	1,687,087	**1,524,007**	1,635,710	**50,784**	51,377

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

N J Palmer OBE Director

B T Nielsen Director
9 May 2017

J P Rodgers
Tindall Riley (Britannia) Limited Managers

Consolidated statement of cash flows

20 February 2017

Cash flows from operating activities	2017 US$(000)	2016 US$(000)
Net income/(loss) before tax	**33,835**	(23,531)
Adjustments for:		
Change in provision for claims (net of reinsurance)	**(5,967)**	(15,320)
Decrease/(increase) in insurance and other debtors	**10,162**	(32,691)
(Decrease)/increase in insurance and other creditors	**(7,591)**	5,306
Investment income	**(28,716)**	23,500
Cash from operations	**1,723**	(42,736)
Income taxes paid	**(918)**	(1,228)
Net cash generated from operating activities	**805**	(43,964)
Cash flows from investing activities		
Purchase of equities	**(105,739)**	(12,437)
Purchase of fixed interest investments	**(501,502)**	(519,097)
Sale of equities	**86,473**	7,894
Sale of fixed interest investments	**583,000**	495,309
Net change to deposits with credit institutions	**(36,776)**	53,316
Income from equity investments	**3,878**	5,244
Income from fixed income investments	**9,517**	13,413
Bank and other cash	**1,645**	160
Investment management expenses	**(1,812)**	(1,364)
Net cash from investing activities	**38,684**	42,438
Net increase/(decrease) in cash at bank	**39,489**	(1,526)
Cash at bank at the beginning of the financial year	**59,937**	61,359
Effect of foreign exchange rate changes	**(11,116)**	104
Cash at bank at the end of the financial year	**88,310**	59,937

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

Statement of changes in equity

20 February 2017

Class 3 P&I	Investment reserve US$(000)	General reserve US$(000)	Income and expenditure account US$(000)	Total US$(000)
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
Surplus for the financial year	–	–	29,340	29,340
Transfer from investment reserve	(5,519)	–	5,519	–
At 20 February 2017	**114,402**	**50,000**	**190,404**	**354,806**
Class 6 FD&D				
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
Surplus for the financial year	–	–	3,606	3,606
Transfer to investment reserve	277	–	(277)	–
At 20 February 2017	**8,367**	**5,000**	**11,169**	**24,536**
Total				
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
Surplus for the financial year	–	–	32,946	32,946
Transfer from investment reserve	(5,242)	–	5,242	–
At 20 February 2017	**122,769**	**55,000**	**201,573**	**379,342**

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. The general reserve can also be used by the Board to make a distribution to Members of such amount in such manner as it thinks fit.

Association (parent company) statement of financial position

20 February 2017

Assets	Note	2017 US$(000)	2016 US$(000)
Investments			
Investment in group undertakings	12	**2,338**	8,082
Financial investments	11	**126,246**	116,752
		128,584	124,834
Reinsurers' share of technical provisions			
Claims outstanding	5	**1,097,519**	1,232,388
Debtors			
Direct insurance operations – Members	15	**81,458**	85,190
Reinsurance operations	16	**48,727**	48,840
Taxation		**29**	–
Other debtors	17	**4,202**	5,406
		134,416	139,436
Other assets			
Cash at bank		**84,312**	47,700
Prepayments and accrued income			
Accrued interest		**190**	237
Other prepayments and accrued income		**3,091**	5,534
Total assets		**1,448,112**	1,550,129
Liabilities			
Capital and reserves			
Investment reserve		**(4,535)**	5,726
Income and expenditure account		**125,027**	121,760
		120,492	127,486
Technical provisions			
Gross outstanding claims	5	**1,173,878**	1,308,955
Creditors			
Direct insurance operations – Members		**10,598**	16,673
Reinsurance operations		**5,158**	4,929
Amounts owed to group undertakings		**133,111**	85,015
Other creditors	20	**4,875**	7,071
Total liabilities		**1,448,112**	1,550,129

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

N J Palmer OBE Director

B T Nielsen Director
9 May 2017

J P Rodgers
Tindall Riley (Britannia) Limited Managers

Notes to the financial statements

20 February 2017

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'), FRS 103 and the Companies Act 2006.

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 mutual 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 statement of financial position 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 statement of financial position date. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year-end 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 Board and advances made on account of claims during the year. They include the Association's share of claims under the Pooling Agreement, together with internal management 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 2017

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 above.

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 statement of financial position 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 statement of financial position 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 Board 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.

	Consolidated		Class 3 P&I		Class 6 FD&D	
2 Calls and premiums	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Advance calls and premiums						
2016/17 policy year	**174,819**	193,926	**168,783**	186,758	**6,036**	7,168
2015/16 policy year	**(3,301)**	1,964	**(3,281)**	1,954	**(20)**	10
2014/15 policy year	**(298)**	449	**(296)**	447	**(2)**	2
Closed years	**204**	(76)	**207**	(76)	**(3)**	–
	171,424	196,263	**165,413**	189,083	**6,011**	7,180
Deferred calls						
2016/17 policy year	**65,108**	68,568	**63,705**	67,143	**1,403**	1,425
2015/16 policy year	**(6,521)**	(3,641)	**(6,611)**	(3,713)	**90**	72
2014/15 policy year	**(4,184)**	(988)	**(4,182)**	(992)	**(2)**	4
Closed years	**27**	70	**27**	70	**–**	–
	54,430	64,009	**52,939**	62,508	**1,491**	1,501
Calls and premiums	**225,854**	260,272	**218,352**	251,591	**7,502**	8,681

All business is written in the UK. At its meeting in October 2016, the Board agreed to reduce the deferred call, for which Members had been advised to budget, from 45% to 40% for P&I amounting to a reduction of US$6.6m in calls for the 2015/16 policy year. Furthermore, the Board agreed to waive a further 2.5% of the P&I deferred call amounting to a reduction of US$4.2m in calls for the 2014/15 policy year. At its meeting in October 2015, the Board 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.

3 Reinsurance premiums						
Group excess of loss	**26,682**	28,567	**26,682**	28,567	**–**	–
Other	**38,066**	37,096	**37,654**	36,647	**412**	449
	64,748	65,663	**64,336**	65,214	**412**	449

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 in the 2014/15 and 2015/16 policy years and exceed US$5m in the 2016/17 policy year within the Association's retention.

Notes to the financial statements

20 February 2017

3 Reinsurance premiums (continued)

Transactions with Boudicca during the year were as follows:	2017 US$(000)	2016 US$(000)
Reinsurance premiums paid to Boudicca		
Quota share/aggregate excess of loss cover	**8,250**	8,250
Individual excess of loss cover	**17,000**	14,000
	25,250	22,250
Claims recoverable from Boudicca		
Quota share/aggregate excess of loss cover	**(13,782)**	(3,507)
Individual excess of loss cover	**(1,697)**	28,129
	(15,479)	24,622
Claims recoverable from Boudicca		
On paid claims	**27,513**	15,538
(Decrease)/increase in provision for amounts recoverable	**(42,992)**	9,084
	(15,479)	24,622
As at 20 February 2017 the following amounts were recoverable from Boudicca		
Debtors – reinsurance operations	**16,019**	10,367
Reinsurers' share of technical provisions	**29,890**	72,882
	45,909	83,249

At the balance sheet date surplus investment assets of Boudicca totalling US$221.7m (2016 – US$166.3m) 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	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Gross claims paid						
Members' claims	**262,395**	221,465	**256,104**	213,182	**6,291**	8,283
Other Clubs' Pool claims	**27,967**	26,589	**27,967**	26,589	**–**	–
	290,362	248,054	**284,071**	239,771	**6,291**	8,283
Recoveries on claims paid						
From the Group excess of loss reinsurance	**58,047**	–	**58,047**	–	**–**	–
From the Pool	**57,745**	40,819	**57,745**	40,819	**–**	–
Other reinsurers	**38,335**	24,261	**37,967**	22,407	**368**	1,854
	154,127	65,080	**153,759**	63,226	**368**	1,854
Net claims paid	**136,235**	182,974	**130,312**	176,545	**5,923**	6,429

5 Change in net provision for claims

Claims outstanding						
Members' claims	**963,012**	1,093,879	**941,928**	1,069,588	**21,084**	24,291
Other Clubs' Pool claims	**210,866**	215,076	**210,866**	215,076	**–**	–
	1,173,878	1,308,955	**1,152,794**	1,284,664	**21,084**	24,291
Reinsurers' share of claims outstanding						
From the Group excess of loss reinsurance	**174,615**	178,377	**174,615**	178,377	**–**	–
From the Pool	**128,450**	203,308	**128,450**	203,308	**–**	–
Other reinsurers	**95,162**	145,652	**94,852**	144,415	**310**	1,237
	398,227	527,337	**397,917**	526,100	**310**	1,237
Net claims outstanding carried forward	**775,651**	781,618	**754,877**	758,564	**20,774**	23,054
Net claims outstanding brought forward	**781,618**	796,938	**758,564**	775,482	**23,054**	21,456
Change in net provision for claims	**(5,967)**	(15,320)	**(3,687)**	(16,918)	**(2,280)**	1,598

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$83.6m (2016 – US$75.0m). 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 quasi-subsidiary Hydra Insurance Company Limited totalled US$703,123,000 (2016 – US$707,846,000). Total reinsurance recoveries due to the Association from affiliate companies and external reinsurers totals US$1,097,519,000 (2016 – US$1,232,388,000).

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

	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$(000)	2016/17 US$(000)
End of reporting year	339,649	256,758	245,986	245,184	299,014	419,386	360,522	271,777	527,169	192,588
One year later	312,449	268,968	237,699	268,284	309,059	406,415	357,386	275,747	581,117	
Two years later	295,339	258,908	224,115	244,545	286,594	376,606	329,780	254,220		
Three years later	308,149	259,958	215,337	224,470	266,536	360,463	294,403			
Four years later	299,249	254,869	204,756	207,251	246,807	344,257				
Five years later	298,542	249,899	205,529	197,206	244,474					
Six years later	283,148	240,829	198,948	193,019						
Seven years later	280,233	237,024	193,614							
Eight years later	278,680	232,038								
Nine years later	276,883									
Current estimate of ultimate claims	276,883	232,038	193,614	193,019	244,474	344,257	294,403	254,220	581,117	192,588
Cumulative payments to date	259,295	201,443	169,112	159,247	208,815	265,193	178,863	135,128	248,066	41,976
Liability recognised in the consolidated balance sheet	17,588	30,595	24,502	33,772	35,659	79,064	115,540	119,092	333,051	150,612
Total liability relating to the last ten policy years										939,475
Other claims liabilities										234,403
Total reserve included in the consolidated balance sheet										**1,173,878**

Insurance claims – net (Consolidated)

Estimate of ultimate claims cost attributable to the policy year

	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$(000)	2016/17 US$(000)
End of reporting year	223,179	226,770	222,181	228,784	243,590	248,434	258,836	214,694	233,575	183,273
One year later	222,435	229,943	202,986	229,964	238,864	243,071	253,737	195,587	223,349	
Two years later	220,305	222,808	194,877	214,112	239,157	238,168	231,204	176,652		
Three years later	221,535	213,894	190,751	199,217	222,931	237,845	220,104			
Four years later	208,094	209,258	180,822	182,117	204,449	235,470				
Five years later	208,090	203,758	179,422	171,367	201,327					
Six years later	200,544	197,358	174,222	168,567						
Seven years later	196,907	193,258	169,722							
Eight years later	195,407	191,458								
Nine years later	193,663									
Current estimate of ultimate claims	193,663	191,458	169,722	168,567	201,327	235,470	220,104	176,652	223,349	183,273
Cumulative payments to date	180,951	172,728	149,145	139,636	166,746	190,576	135,421	107,672	95,934	35,840
Liability recognised in the consolidated balance sheet	12,712	18,730	20,577	28,931	34,581	44,894	84,683	68,980	127,415	147,433
Total liability relating to the last ten policy years										588,936
Other claims liabilities										186,715
Total reserve included in the consolidated balance sheet										**775,651**

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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

	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$(000)	2016/17 US$(000)
End of reporting year	332,080	242,945	232,589	233,312	287,964	408,322	352,130	263,676	519,176	185,309
One year later	305,280	253,605	224,389	258,412	299,259	398,351	350,194	267,646	573,915	
Two years later	288,120	243,845	210,689	235,127	277,544	369,292	323,588	246,568		
Three years later	300,380	247,645	202,793	214,930	258,236	353,649	288,561			
Four years later	291,480	243,056	192,592	196,274	239,007	337,792				
Five years later	290,873	238,186	194,363	185,667	236,774					
Six years later	276,129	229,516	188,526	182,238						
Seven years later	273,214	225,812	183,393							
Eight years later	271,861	220,825								
Nine years later	270,539									
Current estimate of ultimate claims	270,539	220,825	183,393	182,238	236,774	337,792	288,561	246,568	573,915	185,309
Cumulative payments to date	253,340	190,893	159,859	149,499	202,108	259,909	174,386	129,734	243,488	39,168
Liability recognised in the consolidated balance sheet	17,199	29,932	23,534	32,739	34,666	77,883	114,175	116,834	330,427	146,141
Total liability relating to the last ten policy years										923,530
Other claims liabilities										229,264
Total reserve included in the consolidated balance sheet										**1,152,794**

Insurance claims – net (Class 3 P&I)

Estimate of ultimate claims cost attributable to the policy year

	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$(000)	2016/17 US$(000)
End of reporting year	215,610	212,957	208,784	216,912	232,540	237,370	250,444	206,592	225,582	175,994
One year later	215,266	214,581	190,089	220,092	229,064	235,007	246,545	187,486	216,146	
Two years later	213,086	207,745	182,231	204,740	230,107	230,854	225,012	169,001		
Three years later	213,766	201,581	179,105	190,345	214,630	231,030	214,262			
Four years later	200,325	197,445	169,176	173,745	196,649	229,005				
Five years later	200,421	192,045	168,776	163,245	193,627					
Six years later	193,525	186,045	164,276	160,645						
Seven years later	189,888	182,045	159,976							
Eight years later	188,588	180,245								
Nine years later	187,319									
Current estimate of ultimate claims	187,319	180,245	159,976	160,645	193,627	229,005	214,262	169,001	216,146	175,994
Cumulative payments to date	174,996	162,178	140,267	132,537	160,039	185,292	130,944	102,278	91,356	33,032
Liability recognised in the consolidated balance sheet	12,323	18,067	19,709	28,108	33,588	43,713	83,318	66,723	124,790	142,962
Total liability relating to the last ten policy years										573,301
Other claims liabilities										181,576
Total reserve included in the consolidated balance sheet										**754,877**

Development claim tables (continued)

Insurance claims – gross (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	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$(000)	2016/17 US$(000)
End of reporting year	7,569	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279
One year later	7,169	15,363	13,310	9,872	9,800	8,065	7,192	8,102	7,202	
Two years later	7,219	15,063	13,425	9,417	9,050	7,315	6,192	7,652		
Three years later	7,769	12,313	12,544	9,540	8,300	6,815	5,842			
Four years later	7,769	11,813	12,164	10,977	7,800	6,465				
Five years later	7,669	11,713	11,166	11,539	7,700					
Six years later	7,019	11,313	10,421	10,781						
Seven years later	7,019	11,213	10,221							
Eight years later	6,819	11,213								
Nine years later	6,344									
Current estimate of ultimate claims	6,344	11,213	10,221	10,781	7,700	6,465	5,842	7,652	7,202	7,279
Cumulative payments to date	5,955	10,550	9,253	9,748	6,707	5,284	4,477	5,394	4,578	2,808
Liability recognised in the consolidated balance sheet	389	663	968	1,033	993	1,181	1,365	2,258	2,624	4,471
Total liability relating to the last ten policy years										15,945
Other claims liabilities										5,139
Total reserve included in the consolidated balance sheet										**21,084**

Insurance claims – net (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	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$(000)	2016/17 US$(000)
End of reporting year	7,569	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279
One year later	7,169	15,363	12,896	9,872	9,800	8,065	7,192	8,102	7,202	
Two years later	7,219	15,063	12,646	9,372	9,050	7,315	6,192	7,652		
Three years later	7,769	12,313	11,646	8,872	8,300	6,815	5,842			
Four years later	7,769	11,813	11,646	8,372	7,800	6,465				
Five years later	7,669	11,713	10,646	8,122	7,700					
Six years later	7,019	11,313	9,946	7,922						
Seven years later	7,019	11,213	9,746							
Eight years later	6,819	11,213								
Nine years later	6,344									
Current estimate of ultimate claims	6,344	11,213	9,746	7,922	7,700	6,465	5,842	7,652	7,202	7,279
Cumulative payments to date	5,955	10,550	8,878	7,099	6,707	5,284	4,477	5,394	4,578	2,808
Liability recognised in the consolidated balance sheet	389	663	868	823	993	1,181	1,365	2,258	2,624	4,471
Total liability relating to the last ten policy years										15,635
Other claims liabilities										5,139
Total reserve included in the consolidated balance sheet										**20,774**

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	Consolidated		Class 3 P&I		Class 6 FD&D	
	2017	2016	2017	2016	2017	2016
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 2016.

Net provision at beginning of the year	**781,618**	796,938	**758,564**	775,482	**23,054**	21,456
Net payments in the year in respect of these provisions	**(100,343)**	(124,243)	**(97,228)**	(121,185)	**(3,115)**	(3,058)
Net provision at the end of the year in respect of claims provided for at the end of the previous year	**(628,218)**	(606,764)	**(611,915)**	(588,341)	**(16,303)**	(18,423)
Improvement in respect of prior years	**53,057**	65,931	**49,421**	65,956	**3,636**	(25)

7 Net operating expenses

Directors' fees	**674**	667	**619**	613	**55**	54
Auditors' remuneration	**238**	263	**223**	244	**15**	19
Other expenses	**7,105**	5,761	**6,867**	5,511	**238**	250
Administrative expenses	**8,017**	6,691	**7,709**	6,368	**308**	323
Acquisition expenses	**17,702**	20,295	**16,594**	19,146	**1,108**	1,149
Net operating expenses	**25,719**	26,986	**24,303**	25,514	**1,416**	1,472

The highest paid director received US$99,392 (2016 – US$115,192). The auditors were paid US$73,971 for non-audit services – tax consultancy US$53,295, other US$20,676 (2016 – US$279,632 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 2017 was 9.42% (2016 – 9.12%). The ratio has been calculated in accordance with the schedule and guidelines issued by the International Group.

8 Net investment income

Income from equity investments	**3,878**	5,244	**3,715**	5,024	**163**	220
Income from fixed income investments	**9,517**	13,413	**9,159**	12,876	**358**	537
Bank and other interest	**1,645**	160	**1,568**	153	**77**	7
Realised investment gain/(loss)	**30,010**	(18,254)	**28,715**	(17,511)	**1,295**	(743)
Unrealised investment loss	**(3,406)**	(22,803)	**(3,293)**	(21,777)	**(113)**	(1,026)
Exchange (loss)/gain on cash balances	**(11,116)**	104	**(11,021)**	86	**(95)**	18
Investment income	**30,528**	(22,136)	**28,843**	(21,149)	**1,685**	(987)
Investment management expenses	**(1,812)**	(1,364)	**(1,739)**	(1,309)	**(73)**	(55)
Net investment income	**28,716**	(23,500)	**27,104**	(22,458)	**1,612**	(1,042)

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	
	2017	2016	2017	2016
US	**3.2%**	2.5%	**6.1%**	7.0%
UK	**3.3%**	0.7%	**7.0%**	7.0%
Europe	–	3.7%	**7.0%**	7.0%
Pacific Basin	–	2.0%	**7.0%**	7.0%
Japan	**1.5%**	2.8%	**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 2017 US$(000)	10 years to February 2016 US$(000)
Actual return achieved	**294,605**	334,916
Longer-term return credited to the technical account	**284,394**	283,383
Excess of actual returns over longer-term returns	**10,211**	51,533

	Consolidated		Class 3 P&I		Class 6 FD&D	
10 Taxation	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Analysis of charge for period						
UK Corporation tax charge	**–**	–	**–**	–	**–**	–
Overprovision in previous year	**–**	(7)	**–**	(7)	**–**	–
Unrelieved foreign withholding taxes	**889**	1,347	**852**	1,290	**37**	57
Taxation	**889**	1,340	**852**	1,283	**37**	57

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% (2016 – 20%). The differences are explained below:

Net surplus/(deficit before tax	**33,835**	(23,531)	**30,192**	(21,222)	**3,643**	(2,309)
Net surplus/(deficit) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 20% (2016 – 20%)	**6,767**	(4,706)	**6,038**	(4,244)	**729**	(462)
Effects of:						
Non-taxable mutual insurance underwriting operations	**1,024**	(6)	**618**	247	**406**	(253)
Non-taxable investment income	**(7,791)**	4,712	**(6,656)**	3,997	**(1,135)**	715
Current tax charge	**–**	–	**–**	–	**–**	–

11 Financial investments						
Group						
Market value						
Quoted shares and variable yield securities	**227,882**	182,503	**218,213**	174,767	**9,669**	7,736
Debt securities and other fixed income securities	**639,621**	723,572	**615,547**	695,890	**24,074**	27,682
Deposits with credit institutions	**84,819**	48,044	**81,546**	46,400	**3,273**	1,644
Derivatives at fair value through income	**39**	405	**37**	388	**2**	17
Unsettled investment transactions	**(105)**	(842)	**(101)**	(807)	**(4)**	(35)
	952,256	953,682	**915,242**	916,638	**37,014**	37,044
Cost						
Quoted shares and variable yield securities	**181,972**	134,538	**173,791**	128,349	**8,181**	6,189
Debt securities and other fixed income securities	**644,789**	727,477	**620,504**	699,635	**24,285**	27,842
Deposits with credit institutions	**84,819**	48,044	**81,546**	46,400	**3,273**	1,644
Derivatives at fair value through income	**2,296**	–	**2,200**	–	**96**	–
Unsettled investment transactions	**(105)**	(842)	**(101)**	(807)	**(4)**	(35)
	913,771	909,217	**877,940**	873,577	**35,831**	35,640
Included in investments at market value were:						
Listed on the UK stock exchange	**90,867**	101,375	**86,856**	96,910	**4,011**	4,465
Listed on other investment exchanges	**776,531**	803,858	**746,803**	772,940	**29,728**	30,918
	867,398	905,233	**833,659**	869,850	**33,739**	35,383
Association						
Market value						
Debt securities and other fixed income securities	**126,246**	116,752	**120,197**	111,202	**6,049**	5,550
Cost						
Debt securities and other fixed income securities	**129,561**	117,515	**122,909**	111,465	**6,652**	6,050
Included in investments at market value were:						
Listed on the UK stock exchange	**24,306**	25,895	**23,091**	24,600	**1,215**	1,295
Listed on other investment exchanges	**101,940**	90,857	**97,106**	86,602	**4,834**	4,255
	126,246	116,752	**120,197**	111,202	**6,049**	5,550

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12 Investment in Group undertakings

	Country of incorporation	Share held	Class of shares	Principal activity	2017 US$(000)	2016 US$(000)
Universal Shipowners Marine Insurance Association Limited	Bermuda	100%	Ordinary	Reinsurance	**120**	120
Hydra Insurance Company Limited – Britannia Cell	Bermuda	100%	Preferred	Reinsurance	**2,198**	7,942
Hydra Insurance Company Limited – General Cell	Bermuda	100%	Ordinary	Reinsurance	**20**	20
Shares in subsidiary companies					**2,338**	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 2017, 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$2.2m, following a US$5.7m capital distribution during the year.

The following table summarises the financial statements of Britannia's Hydra cell for the year ended 20 February 2017	2017 US$(000)	2016 US$(000)
Net premiums	**18,948**	20,129
Net claims	**(18,505)**	(8,701)
Investment income (net of investment management expenses)	**669**	788
Other expenses	**(54)**	(64)
Surplus for the year	**1,058**	12,152
Government securities and deposits with credit institutions	**88,777**	87,067
Reinsurers' share of technical provisions	**3,832**	2,794
Other liabilities	**(3,058)**	(2,081)
Technical provisions	**(50,352)**	(43,895)
Shareholders' equity	**39,199**	43,885

During the current year the parent company's deficit for the year was US$7.0m (2016 – surplus for the year of US$3.8m).

13 Risk management

The Association is governed by the Board which drives decision making within the Association from board level through to operational decision making by the Managers. The Board 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 Board 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 Board meets five times a year and comprises a non-executive chairman, up to 10 non-executive directors drawn from the Association's shipowner Members, one non-executive director who is an expert in insurance matters and two executive directors from the Association's Managers. 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 and Solvency Assessment ('ORSA') and capital adequacy. The Board also oversees implementation of the Association's investment strategy.
2) The Risk & Audit Group comprises up to four non-executive directors of the Association. Its responsibilities include the financial statements and the regulatory returns to the Prudential Regulation Authority, the risk management framework, internal and external audit, and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Board. The Risk & Audit Group meets three times a year.
3) The Remuneration Group comprises up to five non-executive directors of the Association. 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 up to four non-executive directors of the Association and the two Manager directors. Its principal responsibilities are to make recommendations to the Board on the appointment of new directors, the re-election of existing directors, and the appointment of the chairman of the Board, reviewing the skills, training requirements and performance of directors and Senior Insurance Management Function holders. The 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 Board and Managers have sought to establish and embed risk management procedures within the business through a Compliance manual, an internal quality management system and a risk management framework which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function (which reports to the Risk & Audit Group and the Board of Tindall Riley (Britannia) Limited ('TRB'), the Managers of the Association) and various sub-committees noted above.

The Association manages the risks relating to the operations of the Association through the Business Risk Review, which analyses 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 Board of the Association.

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 Board'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 Risk & 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.

Increase in loss ratio by 5 percentage points	2017 US$(000)	2016 US$(000)
Gross	**11,293**	13,014
Net	**8,055**	9,730

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 Board 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 Association 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	
	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
0.5% increase in interest rates	**3,648**	3,873	**3,510**	3,726	**138**	147
0.5% decrease in interest rates	**(3,648)**	(3,873)	**(3,510)**	(3,726)	**(138)**	(147)

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 16% (2016 – 19%) of the investment portfolio. The Association also invested in a diversified growth fund during the year and the holding in the fund at year end amounted to 12%.

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$2.3m (2016 – 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	**6,397**	9,125	**6,123**	8,738	**274**	387
5% decrease in equity price	**(6,397)**	(9,125)	**(6,123)**	(8,738)	**(274)**	(387)

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 represent premiums 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
	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Debt securities	**639,621**	723,572	**615,547**	695,890	**24,074**	27,682
Derivatives at fair value through income	**39**	405	**37**	388	**2**	17
Reinsurers' share of technical provisions	**398,227**	527,337	**397,917**	526,100	**310**	1,237
Reinsurance debtors	**45,438**	46,501	**45,250**	46,467	**188**	34
Member and other debtors	**85,689**	90,596	**83,179**	86,405	**2,510**	4,191
Unsettled investment transactions	**(105)**	(842)	**(101)**	(807)	**(4)**	(35)
Deposits with credit institutions	**84,819**	48,044	**81,546**	46,400	**3,273**	1,644
Cash at bank and in hand	**88,310**	59,937	**77,865**	51,515	**10,445**	8,422
Total financial assets bearing credit risk	**1,342,038**	1,495,550	**1,301,240**	1,452,358	**40,798**	43,192
An analysis of this exposure by credit rating is shown below						
AAA	**120,642**	176,044	**106,776**	162,102	**13,866**	13,942
AA	**430,381**	485,109	**413,464**	465,432	**16,917**	19,677
A	**434,790**	506,720	**433,926**	504,536	**864**	2,184
BBB+ and below	**78,929**	154,186	**77,462**	150,971	**1,467**	3,215
No rating	**277,296**	173,491	**269,612**	169,317	**7,684**	4,174
Total financial assets bearing credit risk	**1,342,038**	1,495,550	**1,301,240**	1,452,358	**40,798**	43,192

The unrated exposure relates principally to amounts due from Members in respect of deferred calls not yet debited, amounts recoverable from Boudicca Insurance Company Limited and the two Absolute Return Bond Funds that are invested with M&G Investments and Schroders.

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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:

At 20 February 2017	Short term assets US$(000)	Within 1 year US$(000)	1-2 years US$(000)	2-5 years US$(000)	Over 5 years US$(000)	Consolidated Total US$(000)
Quoted shares and variable yield securities	**227,882**	–	–	–	–	**227,882**
Debt securities and other fixed income securities	**145,671**	**12,759**	**126,955**	**230,839**	**123,397**	**639,621**
Deposits with credit institutions	**84,819**	–	–	–	–	**84,819**
Derivatives at fair value through income	**39**	–	–	–	–	**39**
Unsettled investment transactions	**(105)**	–	–	–	–	**(105)**
Reinsurers' share of outstanding claims	–	**118,662**	**87,175**	**124,168**	**68,222**	**398,227**
Direct insurance operations – Members	**4,093**	**53,906**	**23,459**	–	–	**81,458**
Reinsurance operations	**45,438**	–	–	–	–	**45,438**
Taxation	**29**	–	–	–	–	**29**
Other debtors	**4,202**	–	–	–	–	**4,202**
Cash at bank	**88,310**	–	–	–	–	**88,310**
Accrued interest	**1,724**	–	–	–	–	**1,724**
Other prepayments and accrued income	**3,147**	–	–	–	–	**3,147**
Total assets	**605,249**	**185,327**	**237,589**	**355,007**	**191,619**	**1,574,791**
At 20 February 2016						
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**

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 2017					
Gross outstanding claims	**349,787**	**256,972**	**366,017**	**201,102**	**1,173,878**
Direct insurance operations – Members	**10,598**	–	–	–	**10,598**
Derivative liabilities	**8**	–	–	–	**8**
Reinsurance operations	**5,150**	–	–	–	**5,150**
Other creditors	**5,815**	–	–	–	**5,815**
Total liabilities	**371,358**	**256,972**	**366,017**	**201,102**	**1,195,449**
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**

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 continual 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 Risk & 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 show 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 Board'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 Board include an Economic Capital benchmark, which is also monitored against actual capital resources.

In order to monitor capital requirements, the Board 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.

The Solvency II regime has been effective from 1 January 2016 and established 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.

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:
– The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date (Level 1)
– Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly (Level 2)
– Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

	Consolidated		Class 3 P&I		Class 6 FD&D	
Group	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Level 1	**312,701**	230,547	**299,759**	221,167	**12,942**	9,380
Level 2	**639,554**	723,135	**615,483**	695,471	**24,071**	27,664
Level 3	**–**	–	**–**	–	**–**	–
	952,255	953,682	**915,242**	916,638	**37,013**	37,044

At 20 February 2017 and 20 February 2016, all of the Association (Parent company) investments were classified as Level 2.

Notes to the financial statements

20 February 2017

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:	2017 gt (000)	2016 gt (000)
Asia	**47,841**	54,462
Middle East	**1,657**	1,628
Scandinavia	**16,648**	16,811
Australasia	**864**	864
Americas	**5,014**	5,628
Europe	**28,840**	26,503
	100,864	105,896

	Consolidated		Class 3 P&I		Class 6 FD&D	
15 Debtors – direct insurance operations	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)	2017 US$(000)	2016 US$(000)
Group and Association						
Calls and premiums due from Members	**4,093**	4,920	**2,752**	1,885	**1,341**	3,035
Deferred call advised to Members	**77,365**	80,270	**76,196**	79,114	**1,169**	1,156
Debtors – direct insurance operations	**81,458**	85,190	**78,948**	80,999	**2,510**	4,191

The deferred call (Class 3 P&I) represents the estimated amount (net of brokerage) to be charged to Members in October 2017 following the Board's decision to make a 40% deferred call in respect of the 2015/16 policy year, of which 20% would not be collected for 12 months, and the 45% call in respect of the 2016/17 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 2014/15 policy year which was charged to Members in October 2016 and a 45% deferred call in respect of 2015/16 policy year, 20% of which was charged to Members in October 2016 (following the 5% waiver), the remainder of which will be charged in October 2017.

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 2016/17 policy year (2015/16 – 30%).

16 Debtors – reinsurance operations						
Reinsurance recoveries						
Amounts recoverable from the Pool	**5,487**	27,453	**5,487**	27,453	**–**	–
Other	**39,951**	19,048	**39,763**	19,014	**188**	34
Debtors – reinsurance operations – Group	**45,438**	46,501	**45,250**	46,467	**188**	34
Less recoverable from Hydra retrocession agreement	**(110)**	417	**(110)**	417	**–**	–
Due from Hydra Insurance Company Limited	**3,399**	1,922	**3,399**	1,922	**–**	–
Debtors – reinsurance operations – Association	**48,727**	48,840	**48,539**	48,806	**188**	34

17 Other debtors (Group and Association)	**4,202**	5,406	**4,202**	5,406	**–**	–

Included within other debtors for Class 3 P&I is a sum of US$4.1m (2016 – US$5.2m) 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	**8**	2,582	**8**	2,474	**–**	108

19 Creditors – reinsurance operations	Consolidated 2017 US$(000)	Consolidated 2016 US$(000)	Class 3 P&I 2017 US$(000)	Class 3 P&I 2016 US$(000)	Class 6 FD&D 2017 US$(000)	Class 6 FD&D 2016 US$(000)
Group and Association						
Amounts due to the Pool	**292**	–	**292**	–	**–**	–
Other	**4,858**	4,929	**4,821**	4,904	**37**	25
Creditors – reinsurance operations	**5,150**	4,929	**5,113**	4,904	**37**	25

20 Other creditors						
Subsidiaries	**940**	481	**903**	461	**37**	20
Association	**4,875**	7,071	**747**	1,820	**4,128**	5,251
Other creditors – Group	**5,815**	7,552	**1,650**	2,281	**4,165**	5,271

Included within other creditors for Class 6 FD&D is a sum of US$4.1m (2016 – US$5.2m) 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 Board, comprising up to 10 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. The members of the Board are directors of the Association and as such are related parties. 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$27.0m (2016 – US$29.5m) for the year. Three directors of the Association are also directors of Tindall Riley (Britannia) Limited.

22 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 9 May 2017.

Class 3 – Protection and Indemnity policy year statement

20 February 2017

	2016/17 US$(000)	2015/16 US$(000)	2014/15 US$(000)	Closed years US$(000)	Total US$(000)
Advance calls and premiums					
Year to 20 February 2017	168,783	(3,281)	(296)		
Year to 20 February 2016	–	186,758	1,954		
Year to 20 February 2015	–	–	195,259		
	168,783	183,477	196,917		
Deferred calls					
Year to 20 February 2017	63,705	(6,611)	(4,182)		
Year to 20 February 2016	–	67,143	(3,713)		
Year to 20 February 2015	–	–	65,405		
	232,488	244,009	254,427		
Reinsurance premiums					
Group excess of loss	(27,284)	(29,212)	(33,817)		
Other	(38,791)	(37,348)	(38,322)		
	(66,075)	(66,560)	(72,139)		
Allocated investment return	32,504	33,905	24,658		
Taxation	(735)	1,763	(4,647)		
	198,182	213,117	202,299		
Claims paid less reinsurance recoveries	33,032	91,356	102,278		
Acquisition costs	18,464	19,022	19,068		
Administrative expenses	7,709	6,368	5,952		
	59,205	116,746	127,298		
Balance available to meet outstanding claims	138,977	96,371	75,001	634,932	945,281
Estimated outstanding claims					
Own claims	108,374	282,401	98,094	453,059	941,928
Other Clubs' Pool claims	37,768	48,026	18,741	106,331	210,866
	146,142	330,427	116,835	559,390	1,152,794
Estimated reinsurance recoveries					
Group excess of loss	–	(139,225)	–	(35,390)	(174,615)
Pool	–	(13,576)	(36,460)	(78,414)	(128,450)
Other reinsurers	(3,180)	(52,836)	(13,652)	(25,184)	(94,852)
	(3,180)	(205,637)	(50,112)	(138,988)	(397,917)
Net estimated outstanding claims	142,962	124,790	66,723	420,402	754,877
(Deficit)/surplus	(3,985)	(28,419)	8,278	214,530	190,404

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Registered office as above
Registered in England No. 10340