ANNUAL REPORT AND FINANCIAL STATEMENTS

20 FEBRUARY 2018

BRITANNIA P&I

TRUSTED SINCE 1855

CONTENTS

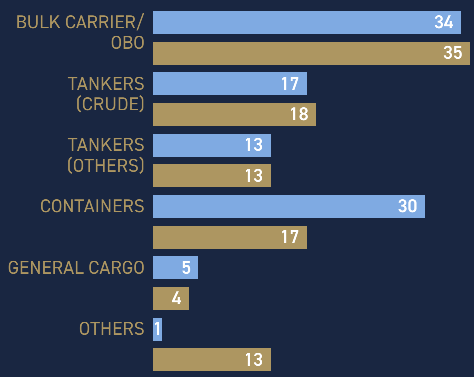
KEY STATISTICS

240
MEMBERS

30
COUNTRIES

3,200
SHIPS

SHIPS BY TYPE (% OF TOTAL)



ENTERED TONNAGE BY AREA OF MANAGEMENT CLASS 3 (% OF TOTAL)

45.3 ASIA

31.7 EUROPE

16.2 SCANDINAVIA

4.6 AMERICAS

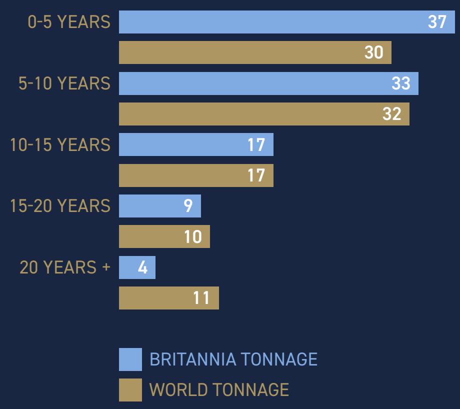
1.8 MIDDLE EAST

0.4 AUSTRALASIA

107m
OWNED TONNAGE

20m
CHARTERED TONNAGE

AGE OF SHIPS (% OF TOTAL)



	20 FEB 2018 (m gt)	20 FEB 2017 (m gt)	20 FEB 2016 (m gt)
ENTERED TONNAGE (OWNED)	107.0	100.9	105.9
ENTERED TONNAGE (CHARTERED)	20.0	15.0	35.5

KEY FINANCIAL DATA

	USD(000)	USD(000)	USD(000)
CALLS AND PREMIUMS	208,147	225,854	260,272
NET CLAIMS INCURRED	(93,552)	(130,268)	(167,654)
INVESTMENT INCOME	48,626	28,716	(23,500)
NET OPERATING EXPENSES	(25,666)	(25,719)	(26,986)
NET INCOME AFTER TAXATION	80,615	32,946	(24,871)
FREE RESERVES*	429,957	379,342	346,396
NET LOSS RATIO	61.4%	80.9%	86.1%
AVERAGE EXPENSE RATIO	9.73%	9.42%	9.12%
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).

	USD(000)	USD(000)	USD(000)
SURPLUS ASSETS IN BOUDICCA	211,600	221,700	166,300

Surplus investment assets in Boudicca available to meet future claims by the Association.

CHAIRMAN'S STATEMENT

AT LONG LAST WORLD TRADE HAS BEGUN TO PICK UP AND LIFT SHIPPING MARKETS WITH IT – THERE IS STILL A LONG WAY TO GO, BUT LOW ORDER BOOKS AND INCREASED SHIP RECYCLING WILL REDUCE CAPACITY AND THEREFORE HELP THE RECOVERY.

Britannia has seen 7% growth in owned tonnage over the year, together with an increase in the chartered entry. Much of this growth has been organic from existing Members, but we have also been pleased to welcome a number of new Members to the Club.

Service is a key part of Britannia's ethos and during the year we made the decision to convert our exclusive correspondent offices in Hong Kong and Singapore into full branch offices of the Association. I would like to take this opportunity to pay tribute to the sterling service provided over many years by our correspondents in both these locations; their contribution to the success of Britannia has been considerable.

Growth in our entry in Greece has led to the decision to establish a local Managers' office in Athens, expected to be open by the Autumn. Greek shipping now represents 9% of Britannia's tonnage and the new office will enable an appropriate level of Member service to be provided.

Our annual assessment by Standard & Poor's (S&P) confirmed the Club's overall 'A' rating, with financial strength rated 'AAA', and 'exceptional' liquidity. This reinforced the Board's decision to make two capital distributions to Members during the year, totalling USD30m. Our financial strength also enabled another 'as expiring' renewal for both P&I and FD&D, with release calls set at zero to reflect the solid underwriting performance of both classes. An investment return of 4.6% was a very satisfactory result from our diversified portfolio; further details are given in this report.

While 'Brexit' negotiations continue between the UK and the EU, there is no certainty on what will happen with the 'passporting' regime that enables us to insure ships throughout Europe. Following a review of locations, the Board concluded that establishing a regulated entity in Luxembourg to underwrite EU business provided the best contingency arrangement. This will entail some changes to our corporate structure to maintain a unified Club structure and further details will be provided in due course.

TWO CAPITAL DISTRIBUTIONS TO MEMBERS DURING THE YEAR TOTALLING USD30 MILLION.

CHAIRMAN'S STATEMENT

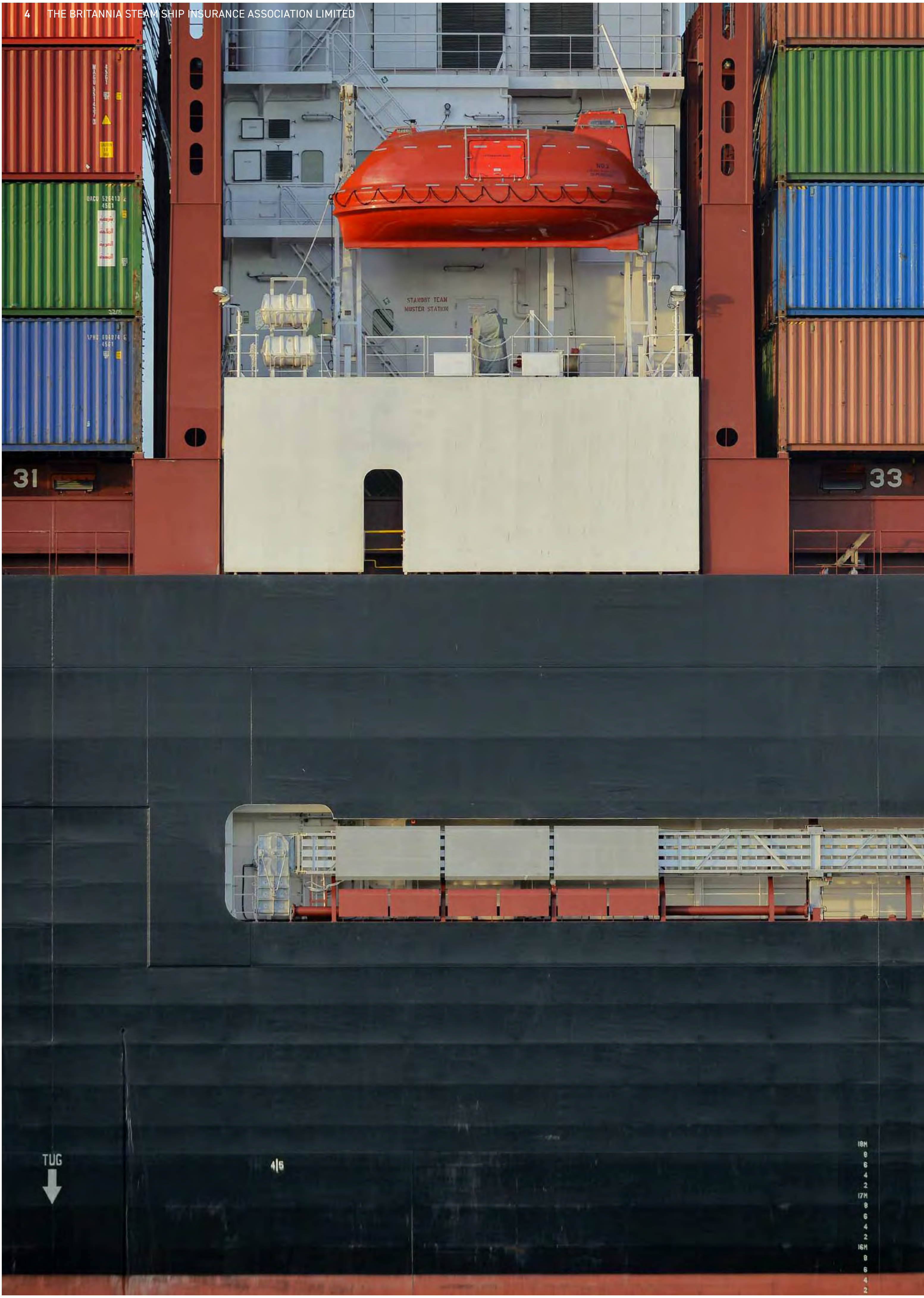
FINANCIAL STRENGTH RATED 'AAA', WITH 'EXCEPTIONAL' LIQUIDITY.

The Association's new governance structure, comprising a smaller Regulated Board (the Board) and a larger Members' Representative Committee (MRC), has been in place for 18 months and there have been the usual 'leavers and joiners' during the year. On the Board, we said goodbye to A Cieslinski, with L Martel, P Hunt and J Warwick joining. The MRC has seen P Cichocki and T Yokomizo departing and we welcome A Bisbas, H S Han, M Oyamada, E Verbeeck, C Chen, N Nolan and D Saracakis to the Britannia family.

After nearly 20 years with our old logo (itself a modern interpretation of the original company seal) it was time to refresh our brand to better reflect the modern Association. The new design is proudly displayed on this and all our publications – I hope you like it.

Nigel Palmer

Nigel Palmer OBE Chairman


STANDBY TEAM
MUSTER STATION
31
33
TUG
4|5

FINANCIAL REVIEW

THE ASSOCIATION HAS ONCE AGAIN PRODUCED A SET OF VERY STRONG FINANCIAL RESULTS, WITH A SOLID UNDERWRITING PERFORMANCE AND AN INVESTMENT RETURN THAT EXCEEDED EXPECTATIONS.

Despite the fact that a capital distribution of USD30m was made to Members during the year, the Association's capital resources are higher than they were 12 months ago and Britannia continues to be in a position to assist its membership over the coming years. In August 2017, Standard & Poor's confirmed the Association's credit rating as A (strong) with a stable outlook and increased the liquidity score to 'exceptional'.

The 2017/18 renewal saw a zero general increase and a further reduction in the cost of the International Group excess of loss reinsurance programme. These factors resulted in premiums net of reinsurance falling year on year by 5%, to the benefit of Members.

Following an exceptionally benign claims year in 2016/17, the 2017/18 policy year had a heavier first quarter, with five claims of USD1m or more being reported, two of which are currently reserved close to the club retention of USD10m. Fortunately, the subsequent three quarters reverted to a more benign claims environment and by 20 February 2018, the number of reported claims over USD1m was 13, four fewer than in 2016/17 (although with a significantly higher aggregate cost, driven by five claims over the USD4m attachment point for the Boudicca excess of loss reinsurance). The number of reported claims below USD1m, at 4,039, was down 5% on the prior year.

Claims in the older policy years continued the usual pattern of positive development which allowed the release of USD77.3m from the claims provisions in those years. These releases were achieved without compromising the very prudent approach taken to reserving claims and the confidence levels of the reserves at 20 February 2018 remain consistent with prior years. Claims incurred in the financial year were USD93.6m compared to USD130.3m in the prior year.

Operating expenses were at a similar level to last year. The balance on the technical account was a surplus of USD64.5m, of which USD57.9m was from P&I (Class 3) and USD6.6m from FD&D (Class 6).

Investments produced an even stronger return than the prior year – the overall return was 4.6%, with equities again contributing the lion's share. The Association also benefited from exchange gains on sterling assets, which is a reversal of the position last year, which saw exchange losses incurred as sterling weakened post the Brexit vote. The actual return was ahead of the longer-term rate of return that is used to allocate investment income to the technical account, which resulted in a transfer to the investment reserve of USD16.7m.

The result for the year after tax was a surplus of USD80.6m and the capital resources shown on the balance sheet, after allowing for the USD30m capital distribution, reached USD430m.

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 USD211.6m, slightly down from the position 12 months ago. Boudicca made a strong return on its investments in 2017/18 but three large claims within retention drove an increase in its claims reserves and hence reduced its surplus.

On the basis of the total resources available, the Association remains very well funded with capital in excess of both economic and regulatory requirements. In pursuance of its longer-term financial strategy, the Board will at its May meeting consider how best to support Members.

ON THE BASIS OF THE TOTAL RESOURCES AVAILABLE, THE ASSOCIATION REMAINS VERY WELL FUNDED WITH CAPITAL IN EXCESS OF BOTH ECONOMIC AND REGULATORY REQUIREMENTS. IN PURSUANCE OF ITS LONGER-TERM FINANCIAL STRATEGY, THE BOARD WILL AT ITS MAY MEETING CONSIDER HOW BEST TO SUPPORT MEMBERS.

INVESTMENT STRATEGY AND PERFORMANCE

The Association's investment strategy is the responsibility of the Board, assisted by its investment advisers Lane Clarke & Peacock LLP (LCP). There has been no change to the investment strategy during the year.

The investment strategy is a long-term one reflecting the long-tail nature of many of the liabilities and the nature of mutuality. Its objectives are twofold:

• 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'.

At 20 February 2018, the portfolio had the following composition:

ASSET CLASS	PROPORTION (%)
MATCHING PORTFOLIO:	
Government bonds and cash	**49**
GROWTH PORTFOLIO:	
Absolute return bond funds	**24**
Equities	**16**
Diversified growth fund	**11**
	100

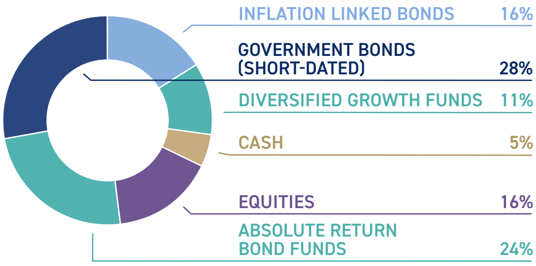
INVESTMENT PERFORMANCE

In the year ended 20 February 2018, the overall return on investments was 4.6%, which is equivalent to USD48.6m.

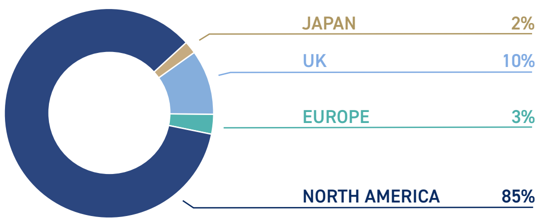
The best performing asset class was equities, which returned 14.6%. The diversified growth fund returned 3.3% and the absolute return bond funds returned 3.4%, while cash and government bond returned 1.3% and 2.1% respectively.

IN THE YEAR ENDED 20 FEBRUARY 2018, THE OVERALL RETURN ON INVESTMENTS WAS 4.6%, WHICH IS EQUIVALENT TO USD48.6M.

INVESTED FUNDS AT MARKET VALUE
20 FEBRUARY 2018
TYPE OF INVESTMENT



GEOGRAPHICAL DISTRIBUTION




4CH

CLASS 3 – PROTECTION AND INDEMNITY (P&I) CLAIMS

WHILST NOT AS FAVOURABLE AS 2016/17, CLAIMS IN THE 2017/18 POLICY YEAR WERE STILL RELATIVELY BENIGN WITH NET RETAINED CLAIMS REPORTED AT 20 FEBRUARY 2018 ESTIMATED AT USD129M.

Claims within the Club retention are categorised as either 'attritional' (estimated to cost USD1m or less) or 'high value' (estimated to cost in excess of USD1m). 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 2017/18 policy year is 4,039. This represents a modest decrease on the 4,276 notifications at the same time in the 2016/17 policy year and the 5,079 notified in 2015/16. This general trend of decreasing attritional claims continues to reflect a number of factors: a number of liner operators moving to higher cargo deductibles, a reduction in liner chartered tonnage and the move at the 2014 renewal to a combined deductible (which applies to the underlying claim, plus costs, fees and expenses). Club correspondents also continue to report a general drop in the number of routine cases reported to them locally.

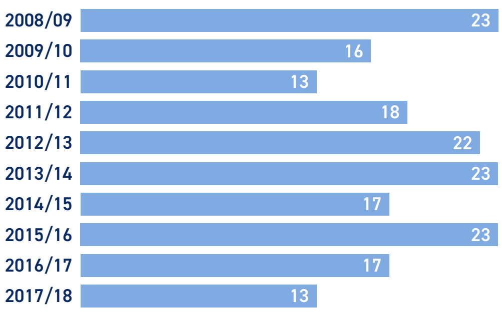
Although high value incidents are much less frequent than attritional claims, they can have a significant impact on the outcome of a policy year. At the 12-month stage, there were 22 such notifications in 2016/17 estimated at USD35m in aggregate, compared to 20 claims with an estimated value of USD84m in 2015/16. In 2017/18, a total of 13 high value incidents have been reported which are currently estimated at USD63m. This increase is attributed to the fact that five of the large claims are estimated to exceed USD7m whereas in the previous year only one of the high value claims exceeded USD3m.

The loss prevention department (LPD) continues to investigate the root causes of high value claims experienced by Members. Personal safety remains an area for concern within the membership, and the human element aspects of major claims are reviewed by the LPD with a view to identifying and minimising shortcomings in onboard operational procedures and practices. The misdeclaration of potentially dangerous cargoes has often resulted in serious incidents and the LPD is focusing on the safe carriage of such cargoes. It is also reviewing the practical responses to accidents and incorporating their findings into technical seminars given to Members.

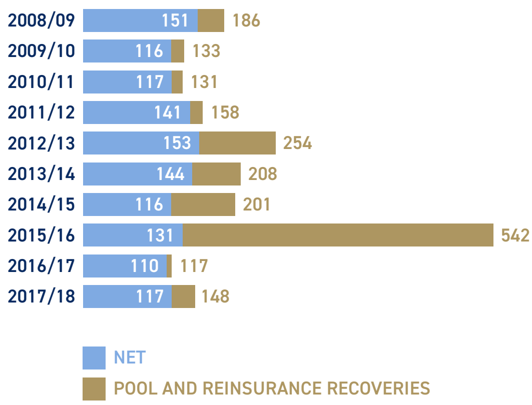
POOL CLAIMS

At 20 February 2018, Pool claims estimated at USD293m had been reported in the 2017/18 policy year, compared with USD76m and USD252m at the equivalent point in the 2016/17 and 2015/16 policy years respectively. The largest claim involves a 2017-built container ship which ran aground in July 2017 on a reef 50 miles off the New Caledonian island of Mare, a UNESCO world heritage site. Owing to the remote and exposed location, all bunkers and oil had to be removed from the ship by helicopter. Attempts to refloat the ship were unsuccessful and the wreck will have to be removed. The other major incident involved a collision in January 2018 between an oil tanker and a bulk carrier 150 miles off Shanghai, resulting in an explosion and fire on board the tanker. The fire could not be brought under control and the ship eventually drifted into the Japanese EEZ where it sank in 115m of water. Unfortunately, all 32 crewmembers of the tanker died. A number of Japanese islands have been affected by pollution and assessment of the impact on the marine environment is ongoing.

CLASS 3 P&I CLAIMS NUMBER OF CLAIMS ON THE ASSOCIATION THAT ARE GREATER THAN USD1M (NET) AT 20 FEBRUARY 2018



ASSOCIATION'S ESTIMATED RETAINED CLAIMS (USDM) AT 20 FEBRUARY 2018



CLASS 3 – PROTECTION AND INDEMNITY (P&I)
TONNAGE/MEMBERSHIP

THE ASSOCIATION'S OWNED TONNAGE GREW BY 6M GT DURING THE COURSE OF THE 2017/18 POLICY YEAR.

The number of entered ships remained static at around 2,600 as Members continued to replace some of their older tonnage with larger ships.

Ten new Members with combined tonnage of 1.9m gt joined the Club during the 2017/18 policy year, while one entry was withdrawn. Additionally, six new Members joined at renewal on 20 February 2018, marking a significant year of growth in the number of Members.

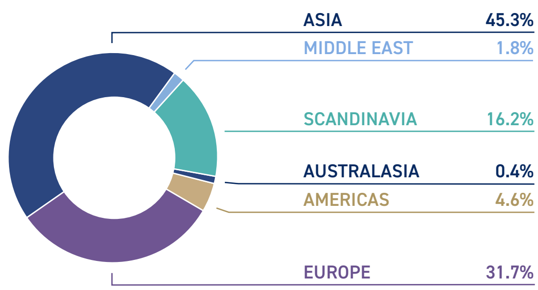
Combined growth from new Members (1.4m gt) and additions to existing fleets (1.6m gt) at renewal represented over 3m gt, though there was a loss of 2.25m gt, primarily as the result of one larger fleet entry withdrawing a significant number of ships. The net tonnage gain at renewal was therefore 735,000 gt.

After a decline at last year's renewal due to the loss of two large accounts, the 2017/18 policy year saw a net growth in chartered tonnage from 15.8m gt to approximately 20m gt. Four new chartered fleets joined during 2017/18, including one sizeable tanker fleet.

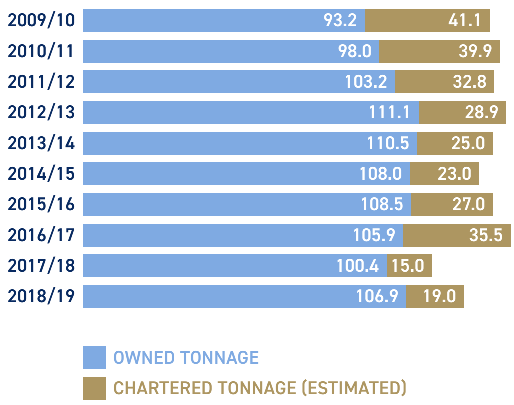
Growth in European business, in particular from the addition of a number of new entries in Greece, means that European fleets (excluding Scandinavia) now make up nearly 32% of the Association's owned tonnage. Asia now represents 45%, with significant entries from Japan (20%), Taiwan (8%) and South Korea (8%).

At the beginning of 2018/19 the Association's owned tonnage totalled approximately 107m gt, though this is expected to increase further once new commitments join the Club during the 2018/19 policy year.

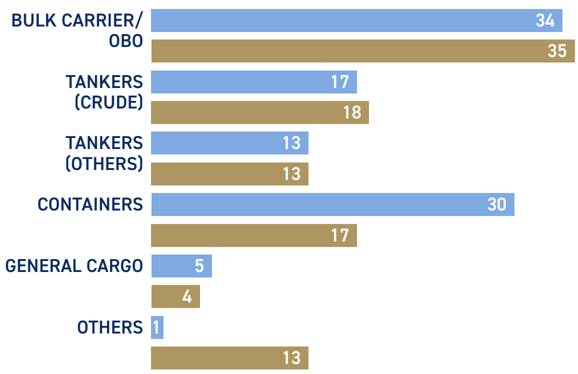
ENTERED TONNAGE BY AREA OF MANAGEMENT – CLASS 3



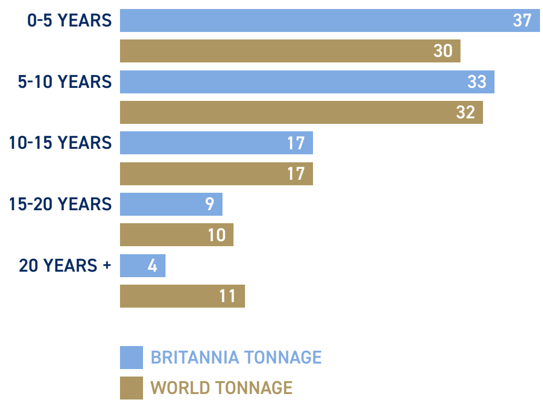
TONNAGE ENTERED – CLASS 3 (M GT) (BEGINNING OF POLICY YEAR)



SHIPS BY TYPE (% OF TOTAL)

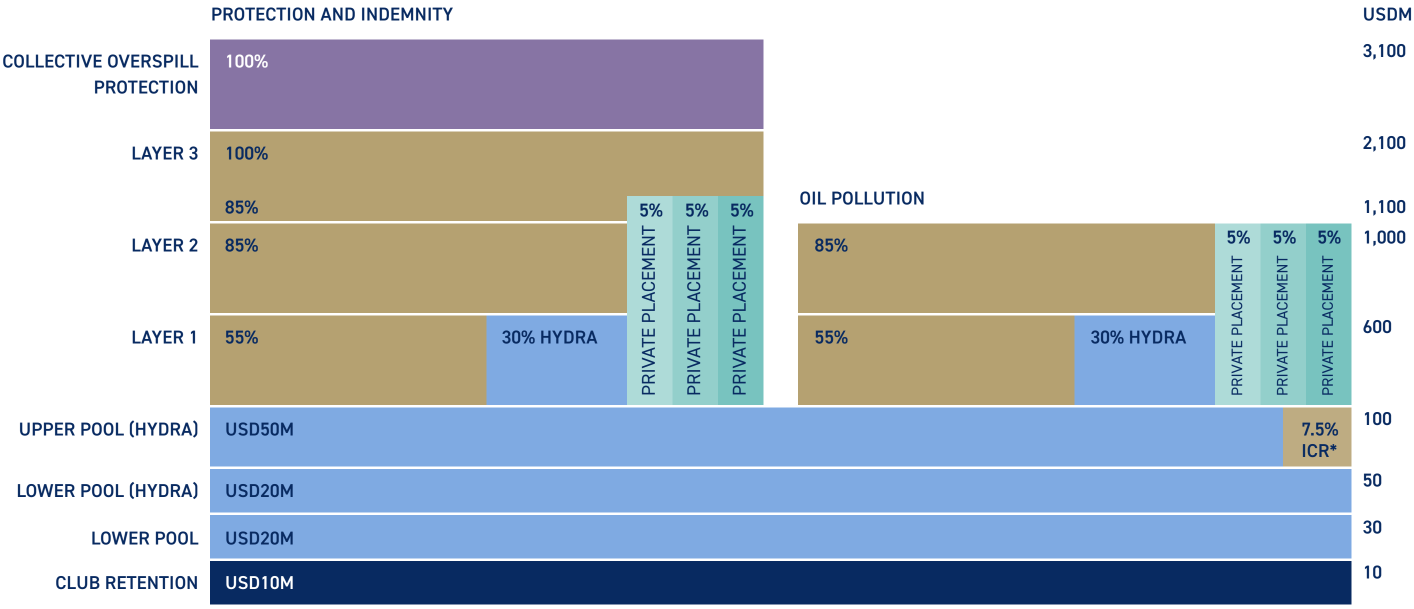


AGE OF SHIPS (% OF TOTAL)



CLASS 3 – PROTECTION AND INDEMNITY (P&I)
INTERNATIONAL GROUP REINSURANCE

INTERNATIONAL GROUP EXCESS OF LOSS REINSURANCE PROGRAMME
2018/19 POLICY YEAR (NOT TO SCALE)



*ICR – INDIVIDUAL CLUB RETENTION

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 USD500m each, plus one layer of USD1bn, provide reinsurance cover for claims up to USD2.1bn in excess of the Club and Pool retentions. There is a lower limit of cover for oil pollution claims of USD1bn. In addition, a Group overspill reinsurance protects clubs and their members against their share of overspill liabilities for claims up to USD1bn in excess of USD2.1bn (see the diagram above).

RENEWAL

The individual club retention for the 2018/19 policy year remains unchanged at USD10m and the attachment point on the GXL reinsurance programme remains at USD100m.

Favourable loss experience in previous years, combined with surplus market capacity and the ongoing positive effects of recent multi-year placements and the Hydra captive, have ensured that the previous three renewals have yielded meaningful reductions in premiums for shipowners. Continuing this trend, and based on its review of comparative performance by ship category, the Group achieved reductions in reinsurance costs for 2018/19 of approximately 1.85% across all ship categories.

The Group and its members have therefore benefited from another positive reinsurance renewal with further savings adding to the approximately USD100m saved in the previous three policy years.

HYDRA

The Group's long-standing objective is to become less susceptible to the unpredictable nature of the commercial reinsurance market. Hydra, the Group's protected-cell captive insurance company, has played an increasingly important role in fulfilling that objective.

After the increased involvement of Hydra throughout the Pool and lower levels of the GXL programme in recent years, the captive's involvement in these structures has been simplified for 2018/19. Hydra's reinsurance of the Pool remains unchanged at USD70m excess of USD30m. The first layer of the GXL reinsurance programme (USD500m excess of USD100m) is covered 55% by the market, 30% by Hydra and 15% through shorter-term private placements. These private placements also cover 15% of the second layer (USD500m excess of USD600m). The market covers the other 85%, as Hydra itself does not participate in the second layer.

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

CLASS 3 – PROTECTION AND INDEMNITY (P&I)
LOSS PREVENTION

The Managers continue to focus on initiatives to reduce the number of accidents and minimise the cost of claims.

The Association's ship inspection programme continues to be the primary means of reviewing the quality of the tonnage entered in the Association. The surveys provide an overview of maintenance and operational standards, the general physical condition of the ship and its fittings as well as shipboard management policies and practices.

68 condition surveys were commissioned during 2017. The majority were initiated in compliance with a benchmark of surveying a representative sample of each Member's ships at least every three years, while others were in response to port state control detentions, referrals from the claims or underwriting departments as well as entry surveys of ships over 12 years old. Tankers over ten years of age which carried heavy fuel oil as cargo during the previous policy year were also surveyed in accordance with the International Group's policy.

The survey programme has highlighted the need to continue monitoring the levels of shipboard maintenance and has identified a high number of cargoworthiness and safety-related matters which have been highlighted in the Association's publications and seminars conducted by the Managers' loss prevention department.

Analysis of the causes of larger claims continues, with poor bridge team management and a lack of situational awareness often identified as the underlying causes. Lessons learned from this work have been incorporated into two bridge simulation videos, used to help viewers to identify patterns of behaviour that they may not have experienced on board.

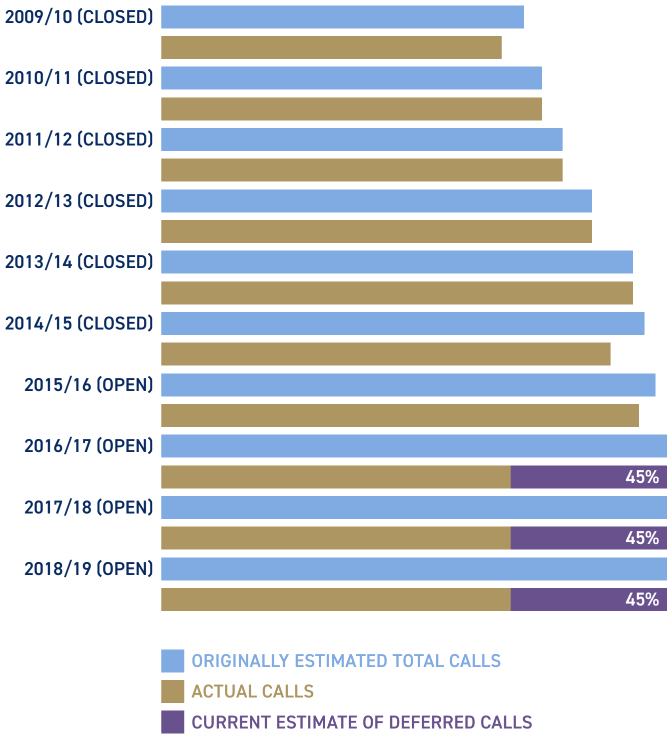
The Managers continue to organise technical seminars aimed at both seafarers who implement safety policy and senior managers who set that policy. These seminars provide an opportunity for important dialogue between the Club and those on the 'front line' of the industry. During 2017, more than 2,000 seafarers and DPAs (designated person ashore) have attended one of these seminars. Recent topics covered have included shipboard security, critical maintenance, implementation of ECDIS and a workshop highlighting failures in onboard work practices and the associated emergency response, which ultimately resulted in a fatality.

The quarterly publication *Risk Watch* remains the primary channel for sharing technical information with the membership and with crew serving on board ships entered with the Association. The renamed *Crew Watch* publication focuses on crew health and welfare and also highlights the importance of a good safety culture and effective safe working practices on board.

These loss prevention initiatives and the work of the Managers' loss prevention department are vitally important to the continued success of the Association and their progress is carefully monitored by the Standards Sub-Committee, which meets in May and October each year and reports to the MRC.

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 up to 2017/18 is shown in the policy year statement on page 50.

2014/15

The general increase in advance calls for this policy year was 2.5%. The budgeted deferred call was set at 45% but this was subsequently reduced to 35%. Retention claims are currently USD136.4m, an improvement of USD0.7m over the past 12 months. There are currently 17 claims expected to cost more than USD1m, of which two are estimated at more than the club retention. Pool claims are currently USD218m, with 17 notifications to date, one falling on the IG reinsurance.

Over the past 12 months, the policy year position has improved from a surplus of USD8.3m to a surplus of USD14.2m. The 2014/15 policy year was closed on 20 February 2018.

2015/16

The general increase in advance calls for this policy year was 2.5%. The budgeted deferred call was set at 45% but this was subsequently reduced to 40%. Retention claims are currently estimated at USD153.7m, an improvement of USD8m on the position last year. Currently there are 23 claims expected to cost more than USD1m, an increase of two. Three are currently estimated to exceed the club retention, with one falling on the IG reinsurance. Pool claims are estimated at USD422.5m, with 15 notifications to date, of which two have reached the IG reinsurance.

This time last year, the projected deficit on the policy year was USD28.4m. This has improved to a deficit of USD21.1m.

2016/17

The general increase in advance calls for this policy year was 2.5% and the budgeted deferred call was set at 45%. Retention claims are currently USD107m, which is USD9.3m higher than 12 months ago but still low by historical standards. There are 17 claims expected to cost more than USD1m but none of these currently exceeds the club retention. Pool claims are estimated at USD125.7m, with 13 notifications to date, the largest of which is currently estimated at USD47.5m, well below the Pool limit.

This time last year, the projected deficit on the policy year was USD4m. Over the past 12 months the position has improved significantly to a surplus of USD28.4m.

2017/18

The general increase in advance calls for this policy year was zero and the budgeted deferred call was set at 45%. Retention claims at 20 February 2018 are estimated at USD128.5m. Currently there are 13 claims expected to cost more than USD1m, but none are over the club retention. Pool claims are estimated at USD292.6m, with two notifications each expected to cost in excess of USD90m.

The policy year is showing a deficit of USD17.9m after the first 12 months.

2018/19

In October 2017, the Board decided, for the second year running, not to increase the general rates for the 2018/19 policy year, while the budgeted deferred call has been maintained at 45%.

CAPITAL DISTRIBUTION

At the Board meetings in May and October 2017, the Board agreed capital distributions of USD20m and USD10m respectively to Members with ships on risk at the date of the meetings.

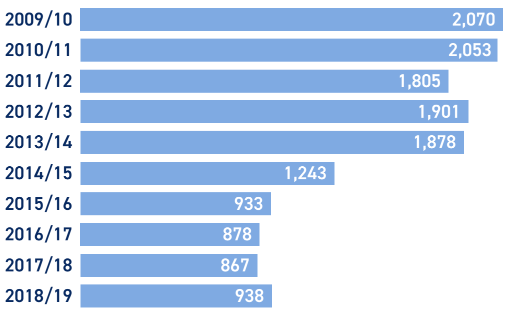
The chart above presents the originally estimated calls, the actual calls and the current estimate of deferred calls for the ten years up to and including 2018/19.

CLASS 6 – FREIGHT, DEMURRAGE AND DEFENCE (FD&D) CLAIMS

While the number of Class 6 claims notified to the Association in the 2017/18 policy year after 12 months was higher than it was in the 2016/17 policy year, their aggregate value was slightly lower than in each of the three prior policy years at the equivalent stage.

The ultimate cost of Class 6 claims is harder to assess. The most expensive claims are those that require resolution by an arbitration award or court judgment. Such claims usually involve the extensive disclosure of documents, the preparation of witness statements and expert reports and require the attendance of counsel and expert witnesses at a hearing. This means that the value of a Class 6 claim tends to increase the longer the case goes on, with most hearings only taking place a few years after the date on which the dispute arose. Having said that, the vast majority of claims are settled amicably, with only a small number leading to a full hearing. Furthermore, there is no suggestion that more cases are going to a hearing or are settling later than they did in previous years, so the number and aggregate value of claims in the policy year is a fairly reliable indicator of how much claims will eventually cost.

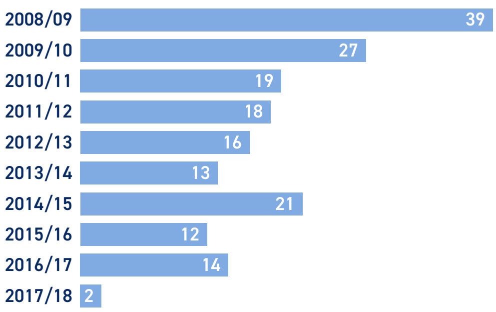
CLASS 6 FD&D SHIPS ENTERED



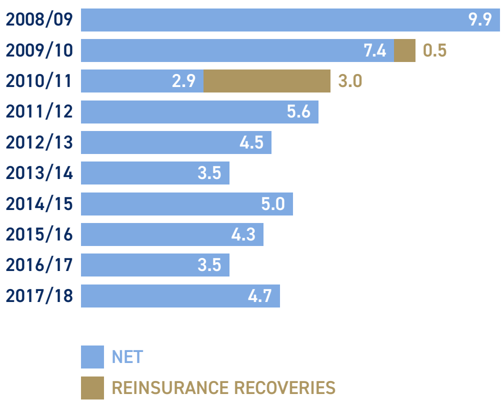
Accordingly, although the figures for Class 6 claims at the end of the policy year should be regarded with some caution, the 2017/18 policy year appears to confirm the continuation of the relatively stable claims environment established after the unprecedented level of maritime claims between 2008 and 2010 in the aftermath of the global financial crisis. The exception to this was the 2014/15 policy year, which saw a spike in claims mainly because of the collapse of OW Bunker, at that time the world's largest supplier of fuel to ships. This led to a large number of disputes in relation to non-payment between shipowners, OW Bunker's liquidators and banks and physical fuel suppliers.

The types of claims notified to the Association in the 2017/18 policy year did not reveal any particular trends, nor was there a major event such as OW Bunker or the collapse of Hanjin. The majority of claims were, therefore, typical FD&D disputes, e.g. claims relating to off-hire, demurrage, ship performance, hull damage where the value of the claim was below the ship's hull policy deductible and supply contract disputes (e.g. in relation to fuel quality). It is frequently mentioned that in a bad shipping market, some shipowners may delay repairs so as to cut costs, which leads to more charterparty disputes. Although hire and freight rates in the dry bulk market did improve in 2017/18, most markets remained depressed. In spite of this, the Association has not seen any evidence from FD&D claims of reduced ship maintenance. This does, of course, also reflect the high quality of the Association's membership.

CLASS 6 FD&D CLAIMS NUMBER OF CLAIMS ON THE ASSOCIATION NOTIFIED TO DATE THAT ARE GREATER THAN USD50,000 (NET)



ASSOCIATION'S ESTIMATED RETAINED CLAIMS (USDM) AS AT 20 FEBRUARY 2018



CLASS 6 – FREIGHT, DEMURRAGE AND DEFENCE (FD&D) POLICY YEAR DEVELOPMENT

2013/14
The general increase in advance calls for this policy year was 10%. The deferred call for Members with mutual tonnage was originally set at 50% but this was subsequently reduced to 25%. At 20 February 2018 the policy year was showing a surplus of USD2.3m, an increase of USD0.2m on the position reported this time last year, resulting from positive claims development. The 2013/14 policy year was closed on 20 February 2018.

2014/15
The general increase in advance calls for this policy year was set at zero. The deferred call for Members with mutual tonnage was originally set at 50% but this was subsequently reduced to 25%. At 20 February 2018, the policy year was showing a surplus of USD1.2m, an increase of USD0.6m on the position reported this time last year, resulting from positive claims development.

2015/16
The general increase in advance calls for this policy year was again set at zero and the deferred call for Members with mutual tonnage was reduced to 30%. Claims in this policy year have continued the positive development seen over the last couple of years. At 20 February 2018, the policy year was showing a surplus of USD1.8m, an increase of USD0.8m on the position reported this time last year.

2016/17
The general increase in advance calls for this policy year was again set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have continued developing positively. At 20 February 2018 the policy year was showing a surplus of USD1.3m, an increase of USD1.7m on the position reported this time last year.

2017/18
The general increase in advance calls for this policy year was again set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year are at a similar level to the last four policy years at the same stage of development. At 20 February 2018 the policy year was showing a surplus of USD0.4m.

2018/19
The general increase in advance calls for this policy year was again set at zero and the deferred call for Members with mutual tonnage remained at 30%. In addition, the Board increased the initial cost of cover absorbed by the Association from USD5,000 to USD7,500.

DEVELOPMENTS WITHIN BRITANNIA

OUR MISSION STATEMENT IS TO BE THE FINEST PROVIDER OF P&I AND FD&D INSURANCE, OFFERING THE ASSOCIATION'S MEMBERS THE HIGHEST LEVEL OF SERVICE WHILE MAINTAINING THE ASSOCIATION'S FINANCIAL STRENGTH AND SUPPORTING MUTUALITY.

Central to that statement is a high degree of professionalism and integrity throughout Britannia and the Managers. Mutuality is at our core, perhaps best summarised as doing 'the right thing' for our Members.

The past year has seen significant initiatives being announced, some of which have already been achieved and all of which are aimed at meeting our mission statement. The most noteworthy initiatives are:

IT TRANSFORMATION PROJECT

IT is a fundamental part of business, with the challenge of ensuring systems are reliable, up to date and user-friendly. 2017 saw a ground-up review of the Association's IT systems, with the Board agreeing at its January 2018 meeting to the rather grandly named 'IT Transformation' project. The aim is to overhaul how Members (and third parties) interact with us, streamline processes and enable greater transparency. The project is likely to take two years, with ambitious targets set for staggered roll-outs during that timeframe. Further updates will be provided over time, with Members invariably being involved with fine tuning the end product. No doubt readers will wish us and the project good luck.

BRANCH OFFICES

Providing the highest level of service is critical. Members have a choice in P&I insurance and ensuring they receive high levels of service repays their loyalty in entering their ships with Britannia. Historically, the Association has relied on the exclusive correspondent model in certain key areas, especially in Asia. That model continues to work well in Korea, in Spain and in Taiwan, with Taiwan seeing the establishment in February 2018 of a new exclusive correspondent, B Taiwan P&I Correspondent Co Ltd. However, the need to redevelop the Association's operations in both Hong Kong and Singapore has also been recognised. In both countries local regulatory requirements supported the decision taken last year to establish branches of the Association (to mirror the branch we have had for many years in Japan). The application for a Hong Kong branch was submitted in late 2017 and we hope to be granted a licence during 2018.

Similarly, we hope to have also been granted a licence during 2018 to establish a branch in Singapore.

Both Hong Kong and Singapore will see the Managers operating the branches, achieved seamlessly through their acquisition of Britannia Hong Kong Limited and Pandisea Pte Ltd respectively. The service that Members receive will be further enhanced by local underwriting and loss prevention capacity in those offices. This is in addition to the offices' claims capacity, which will include 'frontline' P&I and FD&D claims handling, always within the umbrella of the Managers' worldwide expertise and procedures.

To further enhance service, during 2018 the Managers will establish an office in Greece, which will focus on P&I and FD&D claims handling. Greece is rapidly becoming a significant area of membership and as with our Asian branches or exclusive correspondents, merited a local office.

BREXIT

Readers will have followed the news on Brexit, especially the continuing uncertainty as to whether UK insurers will still benefit from 'passporting' into the EU. During 2017 a significant amount of work was carried out, resulting in the choice of Luxembourg as the preferred location to ensure 'business as usual' for Members and the Association. This would see the creation of a parallel EU insurer, which along with the current UK insurer would be within the Britannia Group, thus allowing for a common approach across both insurers. This would achieve the minimum degree of change with Members not noticing any difference in their dealings with Britannia in practice. More information will be provided on our plans in due course. In the meantime, Members should be comforted that we are planning for the worst but hoping for the best.

BRANDING

Last but not least, 2017 saw the successful launch of the Association's new brand. The new iconography and sharper colour scheme emphasise Britannia's commitment to continue to serve its Members but always within its core principle of mutuality.
The more modern look has been rolled out across the public-facing aspect of Britannia, including a more user-friendly website, documentation such as certificates of entry and publications such as *Risk Watch* and *Crew Watch* (the relaunched *Health Watch*). The feedback on the rebranding has been overwhelmingly positive.

MEMBERS OF THE BOARD

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

S W Dio London[1, 3]
A J Firmin Hamburg[2]
P Hunt London[1]
J-B Kjaervik Copenhagen[2, 3]
S-C Lan Taipei[2]
L Martel Montreal

B T Nielsen Dallas[1]
J Warwick London
Y Yamawaki Tokyo[3]
J R L Youell London[1]
A J Cutler London (Manager)[2]
J P Rodgers London (Manager)[2]

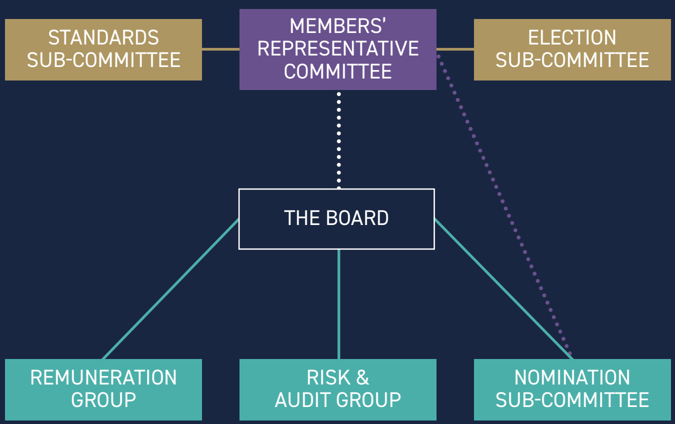
1 Risk & Audit Group
2 Nomination Sub-Committee
3 Remuneration Group

Taken at the Board meeting in October 2017 in Vancouver.

CORPORATE GOVERNANCE REPORT

THE ASSOCIATION REMAINS COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND IT THEREFORE COMPLIES WITH THE CORPORATE GOVERNANCE REQUIREMENTS SET OUT IN THE SOLVENCY II DIRECTIVE. CORPORATE GOVERNANCE IS SUBJECT TO AN ANNUAL REVIEW BY INTERNAL AUDIT.

THE ASSOCIATION'S CORPORATE GOVERNANCE STRUCTURE



THE BOARD

Overall responsibility for the management of the Association rests with the Board. The Board comprises a non-executive chairman, up to 10 non-executive directors drawn from the Association's shipowner Members, at least 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) Limited. 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 MRC)

The Members' Representative Committee (MRC) is a larger body, comprising all of the Board directors (other than the two Manager directors), plus up to 28 other representatives drawn from the Association's shipowner Members. The Chairman of the Board is also the Chairman of the MRC. The MRC does not carry out any regulated functions, but the Board has a duty to consult the MRC on key areas including strategy, investments, finance and call decisions. The MRC does have a key role in the Association's loss prevention activities, through the Standards Sub-Committee, and the consideration of claims trends and industry matters. It also retains the right to approve discretionary claims up to USD2m.

SUB-COMMITTEES OF THE MRC

ELECTION SUB-COMMITTEE

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

STANDARDS SUB-COMMITTEE

The role of the Standards Sub-Committee (SSC) is to monitor the composition of Britannia's membership, review loss prevention activities including the condition survey programme, and monitor claims trends. The SSC comprises up to five MRC members and three representatives of the Managers, including the Chief Underwriting Officer and the Director, P&I Claims.

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 17.

RISK & AUDIT GROUP

The Risk & Audit Group (RAG) comprises up to five 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 RAG meets three times a year.

REMUNERATION GROUP

This group comprises up to four 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, the appointment of the chairman of the Board and reviewing the skills, training requirements and performance of directors and Senior Insurance Management Function holders. The sub-committee meets as required during the year.

Britannia's website provides further 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

SENIOR INSURANCE MANAGERS REGIME

The Association complies with the requirements of the Senior Insurance Managers Regime (SIMR) and maintains 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. Changes to the Governance Map are reviewed and approved by the Board.

DIRECTORS' AND MRC REPRESENTATIVES' REMUNERATION

The table below sets out the fees payable to the directors and to the members of the MRC.

	ANNUAL FEE	ATTENDANCE FEE PER MEETING
Chairman	GBP75,000	–
Expert director	GBP45,000	–
Directors	–	USD5,000
Chairman of the Risk & Audit Group	USD9,000	–
Members of the Risk & Audit Group	USD6,000	–
MRC members	USD7,000	USD4,000

Each year there are five scheduled Board meetings, three scheduled Risk & Audit Group meetings and two scheduled MRC meetings.

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's risk management framework 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 planned 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 USD10m are pooled (and reinsured above USD100m 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 two main objectives as set out in the investment strategy and performance section above. In summary, the underlying strategy is to match insurance liabilities in terms of currency and duration with high quality government securities and to hold appropriate levels of other fixed-income 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 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 USD10m) and having in place a robust credit control system.

CORPORATE GOVERNANCE REPORT

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

Operational risk covers the risks arising from the failure of internal processes, people or systems, or from external events. The Managers have identified the key operational risks, which are recorded in the Risk Register. There is also 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 whole of the Association's risk and capital management processes. The ORSA is a detailed assessment of the risks faced by the Association 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 uses the standard formula for the calculation of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) and it has established procedures to ensure that the assumptions underlying the standard formula are appropriate for the Association's business. The Association made its first Solvency and Financial Condition Report (SFCR), based on the position at 20 February 2017, during the year, which is available on the Association's website. The 2018 SFCR will be published in June 2018.

INTERNAL AUDIT

The Association's internal audit function operates on a risk-based cycle to cover every aspect of the Association's business. Internal audit works to agreed terms of reference approved by the Board and reports to every meeting of the RAG. In addition, the Head of Internal Audit has interim meetings with the Chairman of the RAG between its meetings.

EXTERNAL AUDIT – AUDIT QUALITY REVIEW

The Association's external auditors are Moore Stephens LLP (MS). During the year, the Financial Reporting Council (FRC) carried out an Audit Quality Review of MS's audit of the Association's financial statements for the year ended 20 February 2017. This review looked at the audit work carried out by MS and included matters relating to ethics, independence and quality control, and the quality of communication with the Risk & Audit Group.

The Review highlighted only one finding, in relation to the procedures performed by MS's actuaries regarding the valuation of occupational disease technical provisions. The finding did not call into question the underlying figures; rather, it concerned the recording of audit evidence. MS have acknowledged the finding and have put in place steps to address it in future audits.

STATUTORY DIRECTORS' REPORT

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT TO THE 146TH ANNUAL GENERAL MEETING OF THE MEMBERS OF THE ASSOCIATION TOGETHER WITH THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR TO 20 FEBRUARY 2018.

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 5 to 17 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 17 of this report.

On 31 May 2017, A Cieslinski resigned as a director. On 9 May 2017, 11 July 2017 and 16 January 2018 respectively, L Martel, P Hunt and J W F Warwick were appointed as directors and in accordance with the Articles of Association offer themselves for re-election.

A J Cutler, S-C Lan and Y Yamawaki all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election as directors.

MEMBERS' REPRESENTATIVE COMMITTEE (MRC)

On 9 May 2017, A Bisbas, P Cichocki, H S Han, M Oyamada and E Verbeeck and on 17 October 2017, C Chen, N Nolan and D-F Saracakis, were appointed as representatives on the MRC. On 9 May and 6 November 2017 respectively, T Yokomizo and P Cichocki resigned as representatives on the MRC.

J C K Hsu, T K Y Hsu, F Bt Kamaruddin, K C K Koo, M Mattioli and K M Sheth all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election as representatives.

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 Risk & 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 5 to 17 and the Corporate Governance Report on pages 18 to 20 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
15 May 2018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C.O
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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 OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION LIMITED

Our opinion

We have audited the financial statements of The Britannia Steam Ship Insurance Association Limited (the 'Association') for the year ended 20 February 2018 which comprise the Consolidated Income and Expenditure Account, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Statement of Changes in Equity, Association (Parent Company) Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

• give a true and fair view of the state of the Group's and the Association's affairs as at 20 February 2018 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 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.

Basis for opinion

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

Use of our report

This report is made solely to the Association's 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.

Conclusions relating to going concern

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

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key audit matters

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION LIMITED

Area of focus	Work performed to address this risk	Observations and conclusions
Valuation of technical provisions		
Technical provisions relate to four main classes of business, Retained, Pool, FD&D and Occupational Disease. Claims estimation relies on the expertise and judgment of claims handlers and their experience of assessing claims in different jurisdictions and types. There is significant judgment and estimation when setting technical provisions.	We engaged our actuarial experts to perform a review of the appropriateness of the methodologies employed by the Association when setting technical provisions and to re-project technical provisions in order to conclude whether technical provisions are sufficient to cover the liabilities of the Association. For retained, Pool and FD&D claims, our actuarial experts re-projected the ultimate cost of the latest 15 policy years using a stochastic model based around chain ladder methodology in order to provide both an independent benchmark and to provide assurance on the reasonableness of the Association's own projections. For occupational disease, our actuarial experts reviewed the model employed by the Association. Our actuarial experts obtained, reviewed and challenged the report by the Association's actuary and held meetings with the Association's actuary to discuss process, assumptions, findings and the results of the re-projection. In addition to the work performed by our actuarial experts, we have also performed testing of controls surrounding paid claims and various substantive procedures including testing of (i) revisions to claims estimates, (ii) all material paid claims and case estimates and a sample below materiality, (iii) a sample of all claims movements in the year, (iv) long outstanding claims covering those with no review of the estimate during the year and those entered with no case estimate, and (v) the reconciliation of data provided to the actuarial expert and the accounting records.	Our actuarial experts consider that technical provisions are appropriate and adequate for the liabilities of the Association and that the methodologies employed are consistent with their expectations and best market practice. The re-projections did not identify any anomalies or fundamental differences in the valuation of technical provisions held. The review of the occupational disease model concluded that it was appropriate for the nature of the occupational disease liabilities of the Association. Having considered the work performed, we consider that the technical provisions are fairly disclosed in the financial statements.
Valuation of reinsurers' share of technical provisions		
Changes to the retention points and the Association's Pool share for each policy year create complexity and the risk of error.	Our work consisted of substantive testing. The principal procedures undertaken included (i) review of reinsurance programme to identify any changes, (ii) consideration of expected impact of changes to reinsurance arrangements (including retentions and premiums) on the financial statements and assessment on whether reported results are consistent with our understanding of the programme, (iii) testing of a sample of reinsurance recoveries, (iv) assessing the security of reinsurers and the potential impact on recoveries, (v) assessment and recalculation of reinsurers' share of outstanding claims, and (vi) testing of commutations.	Our testing did not identify any errors or matters of audit concern. Having considered the work performed, we consider that the reinsurers' share of technical provisions are fairly disclosed in the financial statements.
Investments valuation and disclosure		
Fluctuations in market value and foreign exchange increases the risk of inaccurate valuation. Risk of inaccurate valuation of sophisticated securities such as derivatives.	Our work consisted of (i) reperforming the market valuation of a sample of securities using an independent third party information provider, (ii) obtaining confirmations from investment custodians as at the year end, agreeing holdings to accounting records and investment managers' reports to gain comfort over existence of investments, (iii) considering the appropriateness of disclosures, and (iv) considering the valuation of the derivatives held including a second review by a technical partner.	No significant anomalies or discrepancies were identified as a result of planned procedures. Having considered the work performed, we consider that investments are appropriately valued and fairly disclosed in the financial statements.

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

Based on our professional judgment, we determined materiality for the financial statements as whole to be GBP7.8m. The principal determinant in this assessment was the Association's Net Assets, which we consider to be the most relevant benchmark, as this determines the availability of reserves to provide distributions or need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 2% of Net Assets.

An overview of the scope of the audit
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**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION LIMITED

Effectiveness of the audit on the identification of possible fraud
The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions. Our approach to these areas has been addressed within the areas of risk identified on page 26.

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

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

Opinions 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 financial statements are prepared is consistent with the financial statements; and

• the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

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

• the financial statements are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

Respective responsibilities of directors
As explained more fully in the statement of directors' responsibilities (set out on page 24), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Other matters which we are required to address
We were first appointed by the Risk & Audit Group in 1991 following merger with Bagshaw & Co who were the auditors prior to that date.

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

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

Thomas Reed Senior Statutory Auditor
For and on behalf of Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street London EC1A 4AB
15 May 2018

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

20 FEBRUARY 2018

		Consolidated		Class 3 P&I		Class 6 FD&D	
Technical account – general business	Note	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Earned premiums, net of reinsurance							
Calls and premiums	2	**208,147**	225,854	**200,711**	218,352	**7,436**	7,502
Reinsurance premiums	3	**(55,757)**	(64,748)	**(55,392)**	(64,336)	**(365)**	(412)
		152,390	161,106	**145,319**	154,016	**7,071**	7,090
Allocated investment return transferred from the non-technical account		**31,378**	33,830	**30,114**	32,504	**1,264**	1,326
Total income		**183,768**	194,936	**175,433**	186,520	**8,335**	8,416
Claims incurred net of reinsurance							
Net claims paid	4	**(148,024)**	(136,235)	**(143,710)**	(130,312)	**(4,314)**	(5,923)
Change in provision for claims	5	**54,472**	5,967	**50,525**	3,687	**3,947**	2,280
Net claims incurred		**(93,552)**	(130,268)	**(93,185)**	(126,625)	**(367)**	(3,643)
Net operating expenses	7	**(25,666)**	(25,719)	**(24,323)**	(24,303)	**(1,343)**	(1,416)
Total expenditure		**(119,218)**	(155,987)	**(117,508)**	(150,928)	**(1,710)**	(5,059)
Balance on technical account		**64,550**	38,949	**57,925**	35,592	**6,625**	3,357

Non-technical account							
Balance on the technical account		**64,550**	38,949	**57,925**	35,592	**6,625**	3,357
Net investment income	8	**48,626**	28,716	**46,695**	27,104	**1,931**	1,612
Allocated investment return transferred to the technical account	9	**(31,378)**	(33,830)	**(30,114)**	(32,504)	**(1,264)**	(1,326)
Net surplus before taxation		**81,798**	33,835	**74,506**	30,192	**7,292**	3,643
Taxation	10	**(1,183)**	(889)	**(1,117)**	(852)	**(66)**	(37)
Net surplus after taxation		**80,615**	32,946	**73,389**	29,340	**7,226**	3,606

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 2018

		Consolidated		Class 3 P&I		Class 6 FD&D	
Assets	Note	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Investments							
Financial investments	11	**944,265**	952,256	**906,669**	915,242	**37,596**	37,014
Reinsurers' share of technical provisions							
Claims outstanding	5	**421,398**	398,227	**421,083**	397,917	**315**	310
Debtors							
Direct insurance operations – Members	15	**76,086**	81,458	**73,966**	78,948	**2,120**	2,510
Reinsurance operations	16	**23,319**	45,438	**23,279**	45,250	**40**	188
Taxation		**672**	29	**672**	29	**–**	–
Other debtors	17	**1,863**	4,202	**1,863**	4,202	**–**	–
		101,940	131,127	**99,780**	128,429	**2,160**	2,698
Other assets							
Cash at bank		**122,876**	88,310	**111,155**	77,865	**11,721**	10,445
Prepayments and accrued income							
Accrued interest		**1,300**	1,724	**1,254**	1,662	**46**	62
Other prepayments and accrued income		**4,178**	3,147	**4,178**	2,892	**–**	255
Total assets		**1,595,957**	1,574,791	**1,544,119**	1,524,007	**51,838**	50,784
Liabilities							
Capital and reserves							
Investment reserve		**139,445**	122,769	**130,448**	114,402	**8,997**	8,367
General reserve		**55,000**	55,000	**50,000**	50,000	**5,000**	5,000
Income and expenditure account		**235,512**	201,573	**217,747**	190,404	**17,765**	11,169
		429,957	379,342	**398,195**	354,806	**31,762**	24,536
Technical provisions							
Gross outstanding claims	5	**1,142,577**	1,173,878	**1,125,435**	1,152,794	**17,142**	21,084
Creditors							
Direct insurance operations – Members		**14,564**	10,598	**13,655**	9,636	**909**	962
Derivative liabilities	18	**–**	8	**–**	8	**–**	–
Taxation		**39**	–	**–**	–	**39**	–
Reinsurance operations	19	**5,378**	5,150	**5,378**	5,113	**–**	37
Other creditors	20	**3,442**	5,815	**1,456**	1,650	**1,986**	4,165
Total liabilities		**1,595,957**	1,574,791	**1,544,119**	1,524,007	**51,838**	50,784

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

N J Palmer OBE Director

B T Nielsen Director
15 May 2018

J P Rodgers
Tindall Riley (Britannia) Limited Managers

CONSOLIDATED STATEMENT OF CASH FLOWS

20 FEBRUARY 2018

Cash flows from operating activities	2018 USD(000)	2017 USD(000)
Net income before tax	**81,798**	33,835
Adjustments for:		
Change in provision for claims (net of reinsurance)	**(54,472)**	(5,967)
Decrease in insurance and other debtors	**29,223**	10,162
Increase/(decrease) in insurance and other creditors	**1,821**	(7,591)
Investment income	**(48,626)**	(28,716)
Cash from operations	**9,744**	1,723
Income taxes paid	**(1,788)**	(918)
Net cash generated from operating activities	**7,956**	805
Cash flows from investing activities		
Purchase of equities	**(7,653)**	(105,739)
Purchase of fixed interest investments	**(293,233)**	(501,502)
Sale of equities	**3,143**	86,473
Sale of fixed interest investments	**301,494**	583,000
Net change to deposits with credit institutions	**35,168**	(36,776)
Income from equity investments	**3,613**	3,878
Income from fixed income investments	**8,569**	9,517
Bank and other interest	**2,119**	1,645
Investment management expenses	**(1,508)**	(1,812)
Net cash from investing activities	**51,712**	38,684
Cash flows from financing activities		
Capital distribution to Members	**(30,000)**	–
Net cash from financing activities	**(30,000)**	–
Net increase in cash at bank	**29,668**	39,489
Cash at bank at the beginning of the financial year	**88,310**	59,937
Effect of foreign exchange rate changes	**4,898**	(11,116)
Cash at bank at the end of the financial year	**122,876**	88,310

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

STATEMENT OF CHANGES IN EQUITY

20 FEBRUARY 2018

Class 3 P&I	Investment reserve USD(000)	General reserve USD(000)	Income and expenditure account USD(000)	Total USD(000)
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
Surplus for the financial year	–	–	73,389	73,389
Capital distribution	–	–	(30,000)	(30,000)
Transfer to investment reserve	16,046	–	(16,046)	–
At 20 February 2018	**130,448**	**50,000**	**217,747**	**398,195**
Class 6 FD&D				
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
Surplus for the financial year	–	–	7,226	7,226
Transfer to investment reserve	630	–	(630)	–
At 20 February 2018	**8,997**	**5,000**	**17,765**	**31,762**
Total				
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
Surplus for the financial year	–	–	80,615	80,615
Capital distribution	–	–	(30,000)	(30,000)
Transfer to investment reserve	16,676	–	(16,676)	–
At 20 February 2018	**139,445**	**55,000**	**235,512**	**429,957**

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.

The Association's Board approved two capital distributions at its meetings on 9 May 2017 and 17 October 2017 which amounted to USD20m and USD10m respectively for Class 3 Members with owned ships on risk as at midnight (BST) on the respective dates. Each Member's proportion of the distribution related to their share of owned net Class 3 premium in relation to the owned Class 3 premium for all ships on risk on the day of distribution. Owned net Class 3 premium is defined as gross Estimated Total Call less the cost of the International Group reinsurance.

ASSOCIATION (PARENT COMPANY) STATEMENT OF FINANCIAL POSITION

20 FEBRUARY 2018

Assets	Note	2018 USD(000)	2017 USD(000)
Investments			
Investment in group undertakings	12	**150**	2,338
Financial investments	11	**129,261**	126,246
		129,411	128,584
Reinsurers' share of technical provisions			
Claims outstanding	5	**1,069,481**	1,097,519
Debtors			
Direct insurance operations – Members	15	**76,086**	81,458
Reinsurance operations	16	**25,609**	48,727
Taxation		**672**	29
Other debtors	17	**1,863**	4,202
		104,230	134,416
Other assets			
Cash at bank		**100,518**	84,312
Prepayments and accrued income			
Accrued interest		**285**	190
Other prepayments and accrued income		**4,167**	3,091
Total assets		**1,408,092**	1,448,112
Liabilities			
Capital and reserves			
Investment reserve		**2,277**	(4,535)
Income and expenditure account		**146,758**	125,027
		149,035	120,492
Technical provisions			
Gross outstanding claims	5	**1,142,577**	1,173,878
Creditors			
Direct insurance operations – Members		**14,565**	10,598
Taxation		**39**	–
Reinsurance operations		**5,586**	5,158
Amounts owed to group undertakings		**93,458**	133,111
Other creditors	20	**2,832**	4,875
Total liabilities		**1,408,092**	1,448,112

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

N J Palmer OBE Director

B T Nielsen Director
15 May 2018

J P Rodgers
Tindall Riley (Britannia) Limited Managers

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2018

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 2018

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 on which 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.

2 CALLS AND PREMIUMS

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Advance calls and premiums						
2017/18 policy year	**146,330**	–	**140,072**	–	**6,258**	–
2016/17 policy year	**1,949**	174,819	**2,070**	168,783	**(121)**	6,036
2015/16 policy year	**817**	(3,301)	**834**	(3,281)	**(17)**	(20)
Closed years	**(30)**	(94)	**(11)**	(89)	**(19)**	(5)
	149,066	171,424	**142,965**	165,413	**6,101**	6,011
Deferred calls						
2017/18 policy year	**59,569**	–	**58,202**	–	**1,367**	–
2016/17 policy year	**(897)**	65,108	**(865)**	63,705	**(32)**	1,403
2015/16 policy year	**420**	(6,521)	**420**	(6,611)	**-**	90
Closed years	**(11)**	(4,157)	**(11)**	(4,155)	**-**	(2)
	59,081	54,430	**57,746**	52,939	**1,335**	1,491
Calls and premiums	**208,147**	225,854	**200,711**	218,352	**7,436**	7,502

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 USD6.6m 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 USD4.2m in calls for the 2014/15 policy year.

3 REINSURANCE PREMIUMS

Group excess of loss	**22,147**	26,682	**22,147**	26,682	**-**	–
Other	**33,610**	38,066	**33,245**	37,654	**365**	412
	55,757	64,748	**55,392**	64,336	**365**	412

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 USD4m in the 2014/15, 2015/16 and 2017/18 policy years, and claims that exceed USD5m in the 2016/17 policy year within the Association's retention.

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3 REINSURANCE PREMIUMS (CONTINUED)

Transactions with Boudicca during the year were as follows:	2018 USD(000)	2017 USD(000)
Reinsurance premiums paid to Boudicca		
Quota share/aggregate excess of loss cover	**7,250**	8,250
Individual excess of loss cover	**18,000**	17,000
	25,250	25,250
Claims recoverable from Boudicca		
Quota share/aggregate excess of loss cover	**24,917**	(13,782)
Individual excess of loss cover	**26,359**	(1,697)
	51,276	(15,479)
Claims recoverable from Boudicca		
On paid claims	**3,082**	27,513
Increase/(decrease) in provision for amounts recoverable	**48,194**	(42,992)
	51,276	(15,479)
As at 20 February 2018 the following amounts were recoverable from Boudicca		
Debtors – reinsurance operations	**1,520**	16,019
Reinsurers' share of technical provisions	**78,084**	29,890
	79,604	45,909

At the statement of financial position date surplus investment assets of Boudicca totalling USD211.6m (2017 – USD221.7m) 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	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Gross claims paid						
Members' claims	**237,581**	262,395	**233,155**	256,104	**4,426**	6,291
Other Clubs' Pool claims	**19,561**	27,967	**19,561**	27,967	**–**	–
	257,142	290,362	**252,716**	284,071	**4,426**	6,291
Recoveries on claims paid						
From the Group excess of loss reinsurance	**84,822**	58,047	**84,822**	58,047	**–**	–
From the Pool	**9,555**	57,745	**9,555**	57,745	**–**	–
Other reinsurers	**14,741**	38,335	**14,629**	37,967	**112**	368
	109,118	154,127	**109,006**	153,759	**112**	368
Net claims paid	**148,024**	136,235	**143,710**	130,312	**4,314**	5,923

5 CHANGE IN NET PROVISION FOR CLAIMS

Claims outstanding						
Members' claims	**924,763**	963,012	**907,621**	941,928	**17,142**	21,084
Other Clubs' Pool claims	**217,814**	210,866	**217,814**	210,866	**–**	–
	1,142,577	1,173,878	**1,125,435**	1,152,794	**17,142**	21,084
Reinsurers' share of claims outstanding						
From the Group excess of loss reinsurance	**156,334**	174,615	**156,334**	174,615	**–**	–
From the Pool	**133,064**	128,450	**133,064**	128,450	**–**	–
Other reinsurers	**132,000**	95,162	**131,685**	94,852	**315**	310
	421,398	398,227	**421,083**	397,917	**315**	310
Net claims outstanding carried forward	**721,179**	775,651	**704,352**	754,877	**16,827**	20,774
Net claims outstanding brought forward	**775,651**	781,618	**754,877**	758,564	**20,774**	23,054
Change in net provision for claims	**(54,472)**	(5,967)	**(50,525)**	(3,687)	**(3,947)**	(2,280)

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 USD82.8m (2016 – USD83.6m). 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 reinsurers' 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 USD655,166,407 (2017 – USD703,123,000). Total reinsurance recoveries due to the Association from affiliate companies and external reinsurers totalled USD1,069,481,000 (2016 – USD1,097,519,000).

CLAIM DEVELOPMENT 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

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)
End of reporting year	256,758	245,986	245,184	299,014	419,386	360,522	271,777	527,169	192,588	232,129
One year later	268,968	237,699	268,284	309,059	406,415	357,386	275,747	581,117	163,302	
Two years later	258,908	224,115	244,545	286,594	376,606	329,780	254,220	634,314		
Three years later	259,958	215,337	224,470	266,536	360,463	294,403	260,594			
Four years later	254,869	204,756	207,251	246,807	344,257	273,839				
Five years later	249,899	205,529	197,206	244,474	332,420					
Six years later	240,829	198,948	193,019	240,932						
Seven years later	237,024	193,614	191,462							
Eight years later	232,038	189,944								
Nine years later	233,311									
Current estimate of ultimate claims	233,311	189,944	191,462	240,932	332,420	273,839	260,594	634,314	163,302	232,129
Cumulative payments to date	202,187	174,536	168,874	220,524	269,572	191,864	141,482	369,113	65,397	48,2926
Liability recognised in the consolidated balance sheet	31,124	15,408	22,588	20,408	62,848	81,975	119,112	265,201	97,905	183,837
Total liability relating to the last ten policy years										900,406
Other claims liabilities										242,171
Total reserve included in the consolidated statement of financial position										**1,142,577**

Insurance claims – net (Consolidated)

Estimate of ultimate claims cost attributable to the policy year

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)
End of reporting year	226,770	222,181	228,784	243,590	248,434	258,836	214,694	233,575	183,273	170,582
One year later	229,943	202,986	229,964	238,864	243,071	253,737	195,587	223,349	152,058	
Two years later	222,808	194,877	214,112	239,157	238,168	231,204	176,652	216,650		
Three years later	213,894	190,751	199,217	222,931	237,845	220,104	170,087			
Four years later	209,258	180,822	182,117	204,449	235,470	202,004				
Five years later	203,758	179,422	171,367	201,327	223,470					
Six years later	197,358	174,222	168,567	198,127						
Seven years later	193,258	169,722	167,867							
Eight years later	191,458	166,122								
Nine years later	190,558									
Current estimate of ultimate claims	190,558	166,122	167,867	198,127	223,470	202,004	170,087	216,650	152,058	170,582
Cumulative payments to date	173,355	154,546	149,084	178,350	194,742	141,793	113,703	120,692	60,981	43,279
Liability recognised in the consolidated balance sheet	17,203	11,576	18,783	19,777	28,728	60,211	56,384	95,958	91,077	127,303
Total liability relating to the last ten policy years										527,000
Other claims liabilities										194,179
Total reserve included in the consolidated statement of financial position										**721,179**

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CLAIM DEVELOPMENT TABLES (CONTINUED)

Insurance claims – gross (Class 3 P&I)
Estimate of ultimate claims cost attributable to the policy year

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)
End of reporting year	242,945	232,589	233,312	287,964	408,322	352,130	263,676	519,176	185,309	225,542
One year later	253,605	224,389	258,412	299,259	398,351	350,194	267,646	573,915	157,798	
Two years later	243,845	210,689	235,127	277,544	369,292	323,588	246,568	627,913		
Three years later	247,645	202,793	214,930	258,236	353,649	288,561	253,492			
Four years later	243,056	192,592	196,274	239,007	337,792	268,197				
Five years later	238,186	194,363	185,667	236,774	326,356					
Six years later	229,516	188,526	182,238	233,832						
Seven years later	225,812	183,393	180,746							
Eight years later	220,825	180,240								
Nine years later	222,398									
Current estimate of ultimate claims	222,398	180,240	180,746	233,832	326,356	268,197	253,492	627,913	157,798	225,542
Cumulative payments to date	191,575	165,232	158,909	213,865	264,218	187,136	135,881	364,111	61,691	45,607
Liability recognised in the consolidated balance sheet	30,823	15,008	21,837	19,967	62,138	81,061	117,611	263,802	96,107	179,935
Total liability relating to the last ten policy years										888,289
Other claims liabilities										237,146
Total reserve included in the consolidated statement of financial position										**1,125,435**

Insurance claims – net (Class 3 P&I)
Estimate of ultimate claims cost attributable to the policy year

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/2018 USD(000)
End of reporting year	212,957	208,784	216,912	232,540	237,370	250,444	206,592	225,582	175,994	163,995
One year later	214,581	190,089	220,092	229,064	235,007	246,545	187,486	216,146	146,554	
Two years later	207,745	182,231	204,740	230,107	230,854	225,012	169,001	210,248		
Three years later	201,581	179,105	190,345	214,630	231,030	214,262	162,985			
Four years later	197,445	169,176	173,745	196,649	229,005	196,362				
Five years later	192,045	168,776	163,245	193,627	217,405					
Six years later	186,045	164,276	160,645	191,027						
Seven years later	182,045	159,976	160,145							
Eight years later	180,245	156,876								
Nine years later	179,645									
Current estimate of ultimate claims	179,645	156,876	160,145	191,027	217,405	196,362	162,985	210,248	146,554	163,995
Cumulative payments to date	162,743	145,640	141,858	171,691	189,387	137,064	108,102	115,690	57,275	40,594
Liability recognised in the consolidated balance sheet	16,902	11,236	18,287	19,336	28,018	59,298	54,883	94,558	89,279	123,401
Total liability relating to the last ten policy years										515,198
Other claims liabilities										189,154
Total reserve included in the consolidated statement of financial position										**704,352**

CLAIM DEVELOPMENT TABLES (CONTINUED)

Insurance claims – gross (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)
End of reporting year	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587
One year later	15,363	13,310	9,872	9,800	8,065	7,192	8,102	7,202	5,504	
Two years later	15,063	13,425	9,417	9,050	7,315	6,192	7,652	6,402		
Three years later	12,313	12,544	9,540	8,300	6,815	5,842	7,101			
Four years later	11,813	12,164	10,977	7,800	6,465	5,642				
Five years later	11,713	11,166	11,539	7,700	6,065					
Six years later	11,313	10,421	10,781	7,100						
Seven years later	11,213	10,221	10,716							
Eight years later	11,213	9,704								
Nine years later	10,913									
Current estimate of ultimate claims	10,913	9,704	10,716	7,100	6,065	5,642	7,101	6,402	5,504	6,587
Cumulative payments to date	10,612	9,304	9,965	6,659	5,355	4,729	5,600	5,002	3,706	2,685
Liability recognised in the consolidated balance sheet	301	400	751	441	710	913	1,501	1,400	1,798	3,902
Total liability relating to the last ten policy years										12,117
Other claims liabilities										5,025
Total reserve included in the consolidated statement of financial position										**17,142**

Insurance claims – net (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2008/09 USD(000)	2009/10 USD(000)	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)
End of reporting year	13,813	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587
One year later	15,363	12,896	9,872	9,800	8,065	7,192	8,102	7,202	5,504	
Two years later	15,063	12,646	9,372	9,050	7,315	6,192	7,652	6,402		
Three years later	12,313	11,646	8,872	8,300	6,815	5,842	7,102			
Four years later	11,813	11,646	8,372	7,800	6,465	5,642				
Five years later	11,713	10,646	8,122	7,700	6,065					
Six years later	11,313	9,946	7,922	7,100						
Seven years later	11,213	9,746	7,722							
Eight years later	11,213	9,246								
Nine years later	10,913									
Current estimate of ultimate claims	10,913	9,246	7,722	7,100	6,065	5,642	7,102	6,402	5,504	6,587
Cumulative payments to date	10,612	8,907	7,226	6,659	5,355	4,729	5,600	5,002	3,706	2,685
Liability recognised in the consolidated balance sheet	301	339	496	441	710	913	1,502	1,400	1,798	3,902
Total liability relating to the last ten policy years										11,802
Other claims liabilities										5,025
Total reserve included in the consolidated statement of financial position										**16,827**

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	Consolidated		Class 3 P&I		Class 6 FD&D	
	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)

6 MOVEMENT IN PRIOR YEARS' CLAIMS PROVISIONS

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 2017.

	Consolidated 2018	Consolidated 2017	Class 3 P&I 2018	Class 3 P&I 2017	Class 6 FD&D 2018	Class 6 FD&D 2017
Net provision at beginning of the year	**775,651**	781,618	**754,877**	758,564	**20,774**	23,054
Net payments in the year in respect of these provisions	**(104,491)**	(100,343)	**(102,862)**	(97,228)	**(1,629)**	(3,115)
Net provision at the end of the year in respect of claims provided for at the end of the previous year	**(593,876)**	(628,218)	**(580,951)**	(611,915)	**(12,925)**	(16,303)
Improvement in respect of prior years	**77,284**	53,057	**71,064**	49,421	**6,220**	3,636

7 NET OPERATING EXPENSES

	Consolidated 2018	Consolidated 2017	Class 3 P&I 2018	Class 3 P&I 2017	Class 6 FD&D 2018	Class 6 FD&D 2017
Directors' fees	**669**	674	**614**	619	**55**	55
Auditors' remuneration	**300**	238	**285**	223	**15**	15
Other expenses	**7,648**	7,105	**7,420**	6,867	**228**	238
Administrative expenses	**8,617**	8,017	**8,319**	7,709	**298**	308
Acquisition expenses	**17,049**	17,702	**16,004**	16,594	**1,045**	1,108
Net operating expenses	**25,666**	25,719	**24,323**	24,303	**1,343**	1,416

The highest paid director received USD99,525 (2017 – USD99,392). The auditors were paid USD8,625 for tax consultancy services relating to the 20 February 2017 year end (2017 – USD73,971 for non-audit services). 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 2018 was 9.73% (2017 – 9.42%). The ratio has been calculated in accordance with the schedule and guidelines issued by the International Group.

8 NET INVESTMENT INCOME

	Consolidated 2018	Consolidated 2017	Class 3 P&I 2018	Class 3 P&I 2017	Class 6 FD&D 2018	Class 6 FD&D 2017
Income from equity investments	**3,613**	3,878	**3,461**	3,715	**152**	163
Income from fixed income investments	**8,569**	9,517	**8,252**	9,159	**317**	358
Bank and other interest	**2,119**	1,645	**2,018**	1,568	**101**	77
Realised investment (loss)/gain	**(875)**	30,010	**(870)**	28,715	**(5)**	1,295
Unrealised investment gain/(loss)	**31,811**	(3,406)	**30,381**	(3,293)	**1,430**	(113)
Exchange gain/(loss) on cash balances	**4,897**	(11,116)	**4,900**	(11,021)	**(3)**	(95)
Investment income	**50,134**	30,528	**48,142**	28,843	**1,992**	1,685
Investment management expenses	**(1,508)**	(1,812)	**(1,447)**	(1,739)	**(61)**	(73)
Net investment income	**48,626**	28,716	**46,695**	27,104	**1,931**	1,612

9 LONGER-TERM INVESTMENT RETURN

Investment income is allocated to the technical account – general business 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 2018	Bonds 2017	Equities 2018	Equities 2017
US	**2.7%**	3.2%	**5.9%**	6.1%
UK	**3.0%**	3.3%	**7.1%**	7.0%
Europe	**–**	–	**7.0%**	7.0%
Pacific Basin	**–**	–	**7.0%**	7.0%
Japan	**0.5%**	1.5%	**7.0%**	7.0%

Comparison of actual return achieved with the return allocated to the technical account using longer-term rates	10 years to February 2018 USD(000)	10 years to February 2017 USD(000)
Actual return achieved	**302,011**	294,605
Longer-term return credited to the technical account	**279,493**	284,394
Excess of actual returns over longer-term returns	**22,518**	10,211

10 TAXATION	Consolidated 2018 USD(000)	Consolidated 2017 USD(000)	Class 3 P&I 2018 USD(000)	Class 3 P&I 2017 USD(000)	Class 6 FD&D 2018 USD(000)	Class 6 FD&D 2017 USD(000)
Analysis of charge for period						
UK Corporation tax charge	**487**	–	**451**	–	**36**	–
Overprovision in previous year	**(22)**	–	**(22)**	–	**–**	–
Unrelieved foreign withholding taxes	**718**	889	**688**	852	**30**	37
Taxation	**1,183**	889	**1,117**	852	**66**	37

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 lower than that produced by applying the standard rate of Corporation tax in the UK of 20% for the 39 days to 31 March 2017 and 19% for the 326 days to 20 February 2018 (2017 – 20%). The differences are explained below:

Net surplus before tax	**81,798**	33,835	**74,506**	30,192	**7,292**	3,643
Net surplus/(deficit) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 19% (2017 – 20%)	**15,629**	6,767	**14,236**	6,038	**1,393**	729
Effects of:						
Non-taxable mutual insurance underwriting operations	**(6,338)**	1,024	**(5,314)**	618	**(1,024)**	406
Non-taxable investment income	**(8,804)**	(7,791)	**(8,471)**	(6,656)	**(333)**	(1,135)
Current tax charge	**487**	–	**451**	–	**36**	–

11 FINANCIAL INVESTMENTS						
Group						
Market value						
Quoted shares and variable yield securities	**253,410**	227,882	**242,607**	218,213	**10,803**	9,669
Debt securities and other fixed income securities	**640,777**	639,621	**615,801**	615,547	**24,976**	24,074
Deposits with credit institutions	**49,651**	84,819	**47,852**	81,546	**1,799**	3,273
Derivatives at fair value through income	**197**	39	**189**	37	**8**	2
Unsettled investment transactions	**230**	(105)	**220**	(101)	**10**	(4)
	944,265	952,256	**906,669**	915,242	**37,596**	37,014
Cost						
Quoted shares and variable yield securities	**184,326**	181,972	**176,046**	173,791	**8,280**	8,181
Debt securities and other fixed income securities	**637,196**	644,789	**612,409**	620,504	**24,787**	24,285
Deposits with credit institutions	**49,651**	84,819	**47,852**	81,546	**1,799**	3,273
Derivatives at fair value through income	**2,575**	2,296	**2,467**	2,200	**108**	96
Unsettled investment transactions	**230**	(105)	**220**	(101)	**10**	(4)
	873,978	913,771	**838,994**	877,940	**34,984**	35,831
Included in investments at market value were:						
Listed on the UK stock exchange	**99,946**	90,867	**95,527**	86,856	**4,419**	4,011
Listed on other investment exchanges	**794,470**	776,531	**763,101**	746,803	**31,369**	29,728
	894,416	867,398	**858,628**	833,659	**35,788**	33,739
Association						
Market value						
Debt securities and other fixed income securities	**129,261**	126,246	**123,007**	120,197	**6,254**	6,049
Cost						
Debt securities and other fixed income securities	**131,707**	129,561	**124,955**	122,909	**6,752**	6,652
Included in investments at market value were:						
Listed on the UK stock exchange	**27,650**	24,306	**26,268**	23,091	**1,382**	1,215
Listed on other investment exchanges	**101,611**	101,940	**96,739**	97,106	**4,872**	4,834
	129,261	126,246	**123,007**	120,197	**6,254**	6,049

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12 INVESTMENT IN GROUP UNDERTAKINGS

	Country of incorporation	Share held	Class of shares	Principal activity	2018 USD(000)	2017 USD(000)
Universal Shipowners Marine Insurance Association Limited	Bermuda	100%	Ordinary	Reinsurance	**120**	120
Hydra Insurance Company Limited – Britannia Cell	Bermuda	100%	Preferred	Reinsurance	**10**	2,198
Hydra Insurance Company Limited – General Cell	Bermuda	7.69%	Ordinary	Reinsurance	**20**	20
Shares in subsidiary companies					**150**	2,338

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 2018, the Association's investment in Hydra comprised 20,000 ordinary shares at par in the company and preferred shares in the Britannia cell of Hydra amounting to USD10,000, following a USD2.2m capital distribution during the year. Furthermore, during the year, a dividend of USD27.1m was declared and paid to the Association by the Britannia cell of Hydra.

The following table summarises the financial statements of Britannia's Hydra cell for the year ended 20 February 2018	2018 USD(000)	2017 USD(000)
Net premiums	**16,184**	18,948
Net claims	**(12,886)**	(18,505)
Investment income (net of management expenses)	**(213)**	669
Other expenses	**(47)**	(54)
Surplus for the year	**3,038**	1,058
Government securities and deposits with credit institutions	**68,768**	88,777
Reinsurers' share of technical provisions	**7,084**	3,832
Other liabilities	**(1,848)**	(3,058)
Technical provisions	**(61,065)**	(50,352)
Shareholders' equity	**12,939**	39,199

During the current year the parent company's deficit for the year was USD4.4m (2017 – surplus for the year of USD7.0m).

13 RISK MANAGEMENT

The Association is governed by the Board which drives 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 seven risk appetite statements (RAS) that are used when setting strategy or making material decisions.

The framework of governance through which risk is managed as decisions are taken is as follows:

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 (including reserving) and proposed calls, reinsurance, investments, risk management, compliance matters, and capital adequacy as evidenced by the Own Risk Solvency Assessment (ORSA). The Board also oversees implementation of the Association's investment strategy.
2) The Risk & Audit Group comprises up to five non-executive directors of the Association. Its responsibilities include the financial statements and the regulatory returns to the Prudential Regulation Authority (PRA), 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 four 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 Nomination 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, the appointment of the chairman of the Board and 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.
6) **Strategic risk** – being the risk that strategy is poorly set, executed or is unresponsive to external developments.
7) **Group risk** – being the governance, capital, reputational or regulatory issues that can arise from having a Group structure.

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 established 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 sub-committees noted above.

The Association manages the risks relating to the operations of the Association through the quarterly Risk Register update, which uses metrics to monitor risk outcomes and the effect of controls, and receives attestation on less significant controls from risk owners. These risks are compared to the results of capital modelling, scenarios, self-reported risk incidents and internal audit findings to ensure that a rounded consideration of the Britannia risk profile is undertaken by the Britannia Enterprise Risk Group (BERG).

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 through 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 sets a target level of call at a target confidence level that the call and investment income will be sufficient to meet net claims incurred over the policy year. The development of claims is monitored monthly by the Managers and on a quarterly basis by the TRB Board and the Board of the Association.

Underwriting authority is delegated to specific individuals who apply set underwriting methodologies under the ongoing guidance and review of senior management. 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 predominantly 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 and designated persons ashore (DPAs), 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. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management and reserves are set at an appropriate level of confidence that they will prove adequate. The results are reviewed by the Risk & Audit Group.

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position is prudent. 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 the 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	2018 USD(000)	2017 USD(000)
Gross	**10,407**	11,293
Net	**7,619**	8,055

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 as a result of 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 (the growth portfolio) in assets which carry a greater risk but potentially higher return, such as equities, with the majority in lower risk investments that match liabilities and provide a cash buffer (the matching portfolio).

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 interest 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	
	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
0.5% increase in interest rates	**3,435**	3,648	**3,302**	3,510	**133**	138
0.5% decrease in interest rates	**(3,435)**	(3,648)	**(3,302)**	(3,510)	**(133)**	(138)

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% (2017 – 13%) of the investment portfolio. The Association also holds an investment in a diversified growth fund amounting to 11% (2017 – 12%) of the portfolio.

Where available, the Association uses closing bid market values to determine the fair value of an investment holding. The carrying value of non-quoted equity holdings at the year end amounted to USD2.3m (2017 – USD2.3m).

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	**7,502**	6,397	**7,179**	6,123	**323**	274
5% decrease in equity price	**(7,502)**	(6,397)	**(7,179)**	(6,123)	**(323)**	(274)

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, including other P&I Clubs**
- **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 through ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty.

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	
	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Debt securities	**640,777**	639,621	**615,801**	615,547	**24,976**	24,074
Derivatives at fair value through income	**197**	39	**189**	37	**8**	2
Reinsurers' share of technical provisions	**421,398**	398,227	**421,083**	397,917	**315**	310
Reinsurance debtors	**23,319**	45,438	**23,279**	45,250	**40**	188
Member and other debtors	**78,621**	85,689	**76,501**	83,179	**2,120**	2,510
Unsettled investment transactions	**230**	(105)	**220**	(101)	**10**	(4)
Deposits with credit institutions	**49,651**	84,819	**47,852**	81,546	**1,799**	3,273
Cash at bank and in hand	**122,876**	88,310	**111,155**	77,865	**11,721**	10,445
Total financial assets bearing credit risk	**1,337,069**	1,342,038	**1,296,080**	1,301,240	**40,989**	40,798

An analysis of this exposure by credit rating is shown below						
AAA	**–**	120,642	**–**	106,776	**–**	13,866
AA	**510,138**	430,381	**480,147**	413,464	**29,991**	16,917
A	**360,671**	434,790	**360,671**	433,926	**–**	864
BBB+ and below	**78,671**	78,929	**78,671**	77,462	**–**	1,467
No rating	**387,589**	277,296	**376,591**	269,612	**10,998**	7,684
Total financial assets bearing credit risk	**1,337,069**	1,342,038	**1,296,080**	1,301,240	**40,989**	40,798

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 three Absolute Return Bond Funds that are invested with M&G Investments, Newton 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 2018	Short term assets USD(000)	Within 1 year USD(000)	1-2 years USD(000)	2-5 years USD(000)	Over 5 years USD(000)	Consolidated Total USD(000)
Quoted shares and variable yield securities	**253,410**	**–**	**–**	**–**	**–**	**253,410**
Debt securities and other fixed income securities	**–**	**–**	**9,956**	**297,370**	**333,451**	**640,777**
Deposits with credit institutions	**49,651**	**–**	**–**	**–**	**–**	**49,651**
Derivatives at fair value through income	**197**	**–**	**–**	**–**	**–**	**197**
Unsettled investment transactions	**230**	**–**	**–**	**–**	**–**	**230**
Reinsurers' share of outstanding claims	**–**	**125,566**	**92,248**	**131,393**	**72,191**	**421,398**
Direct insurance operations – Members	**1,732**	**52,213**	**22,141**	**–**	**–**	**76,086**
Reinsurance operations	**23,319**	**–**	**–**	**–**	**–**	**23,319**
Taxation	**672**	**–**	**–**	**–**	**–**	**672**
Other debtors	**1,863**	**–**	**–**	**–**	**–**	**1,863**
Cash at bank	**122,876**	**–**	**–**	**–**	**–**	**122,876**
Accrued interest	**1,300**	**–**	**–**	**–**	**–**	**1,300**
Other prepayments and accrued income	**4,178**	**–**	**–**	**–**	**–**	**4,178**
Total assets	**459,428**	**177,779**	**124,345**	**428,763**	**405,642**	**1,595,957**
At 20 February 2017						
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**

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 2018					
Gross outstanding claims	**340,460**	**250,120**	**356,257**	**195,740**	**1,142,577**
Direct insurance operations – Members	**14,564**	**–**	**–**	**–**	**14,564**
Reinsurance operations	**5,378**	**–**	**–**	**–**	**5,378**
Taxation	**39**	**–**	**–**	**–**	**39**
Other creditors	**3,442**	**–**	**–**	**–**	**3,442**
Total liabilities	**363,883**	**250,120**	**356,257**	**195,740**	**1,166,000**
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**

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 a resilient 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 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, it 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 the SCR which is calibrated 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 outputs are assessed independently 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 that 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	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Level 1	**303,061**	312,701	**290,459**	299,759	**12,602**	12,942
Level 2	**641,203**	639,554	**616,209**	615,483	**24,994**	24,071
Level 3	**–**	–	**–**	–	**–**	–
	944,264	952,255	**906,668**	915,242	**37,596**	37,013

At 20 February 2018 and 20 February 2017, all of the Association (Parent company) investments were classified as Level 2.

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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 analysis of its tonnage from P&I cover from Members by geographical area is as follows:	2018 gt (000)	2017 gt (000)
Asia	**48,388**	47,841
Middle East	**1,966**	1,657
Scandinavia	**17,374**	16,648
Australasia	**412**	864
Americas	**4,912**	5,014
Europe	**33,906**	28,840
	106,958	100,864

	Consolidated		Class 3 P&I		Class 6 FD&D	
15 DEBTORS – DIRECT INSURANCE OPERATIONS	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
Group and Association						
Calls and premiums due from Members	**1,732**	4,093	**688**	2,752	**1,044**	1,341
Deferred call advised to Members	**74,354**	77,365	**73,278**	76,196	**1,076**	1,169
Debtors – direct insurance operations	**76,086**	81,458	**73,966**	78,948	**2,120**	2,510

The deferred call (Class 3 P&I) represents the estimated amount (net of brokerage) to be charged to Members in October 2018 following the Board's decision to make a 45% deferred call in respect of the 2016/17 policy year, of which 25% would not be collected for 12 months, and the 45% call in respect of the 2017/18 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 2015/16 policy year which was charged to Members in October 2017 and a 45% deferred call in respect of 2016/17 policy year, 25% of which was charged to Members in October 2017, and the remainder of which will be charged in October 2018.

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 2017/18 policy year (2016/17 – 30%).

16 DEBTORS – REINSURANCE OPERATIONS						
Reinsurance recoveries						
Amounts recoverable from the Pool	**3,085**	5,487	**3,085**	5,487	**–**	–
Other	**20,234**	39,951	**20,194**	39,763	**40**	188
Debtors – reinsurance operations – Group	**23,319**	45,438	**23,279**	45,250	**40**	188
Less recoverable from Hydra retrocession agreement	**–**	(110)	**–**	(110)	**–**	–
Due from Hydra Insurance Company Limited	**2,290**	3,399	**2,290**	3,399	**–**	–
Debtors – reinsurance operations – Association	**25,609**	48,727	**25,569**	48,539	**40**	188

17 OTHER DEBTORS (GROUP AND ASSOCIATION)	**1,863**	4,202	**1,863**	4,202	**–**	–

Included within other debtors for Class 3 P&I is a sum of USD1.9m (2017 – USD4.1m) that represents an inter-class debit balance between Class 3 P&I and Class 6 FD&D. There is a corresponding credit balance within Class 6 FD&D (see Note 20 below).

18 DERIVATIVE LIABILITIES						
Group						
Derivatives at fair value through income	**–**	8	**–**	8	**–**	–

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)	2018 USD(000)	2017 USD(000)
19 CREDITORS – REINSURANCE OPERATIONS						
Group and Association						
Amounts due to the Pool	**32**	292	**32**	292	**–**	–
Other	**5,346**	4,858	**5,346**	4,821	**–**	37
Creditors – reinsurance operations	**5,378**	5,150	**5,378**	5,113	**–**	37

20 OTHER CREDITORS

Subsidiaries	**610**	940	**586**	903	**24**	37
Association	**2,832**	4,875	**870**	747	**1,962**	4,128
Other creditors – Group	**3,442**	5,815	**1,456**	1,650	**1,986**	4,165

Included within other creditors for Class 6 FD&D is a sum of USD1.9m (2017 – USD4.1m) that represents an inter-class credit balance between Class 6 FD&D and Class 3 P&I. There is a corresponding debit balance within Class 3 P&I (see Note 17 above).

21 RELATED PARTY TRANSACTIONS

The Board, comprising up to ten 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. Because of the mutual nature of the Association and its Members, being both insured and insurers, the Members 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 USD26.3m (2017 – USD27.0m) 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 15 May 2018.

CLASS 3 – PROTECTION AND INDEMNITY POLICY YEAR STATEMENT

20 FEBRUARY 2018

	2017/18 USD(000)	2016/17 USD(000)	2015/16 USD(000)	Closed years USD(000)	Total USD(000)
Advance calls and premiums					
Year to 20 February 2018	140,072	2,070	834		
Year to 20 February 2017	–	168,783	(3,281)		
Year to 20 February 2016	–	–	186,758		
	140,072	170,853	184,311		
Deferred calls					
Year to 20 February 2018	58,202	(865)	420		
Year to 20 February 2017	–	63,705	(6,611)		
Year to 20 February 2016	–	–	67,143		
	198,274	233,693	245,263		
Reinsurance premiums					
Group excess of loss	(23,416)	(26,023)	(29,204)		
Other	(33,338)	(38,438)	(37,612)		
	(56,754)	(64,461)	(66,816)		
Allocated investment return	30,114	32,504	33,905		
Taxation	(582)	(735)	1,763		
	171,052	201,001	214,115		
Claims paid less reinsurance recoveries	40,594	57,275	115,690		
Acquisition costs	16,585	18,324	18,562		
Administrative expenses	8,319	7,709	6,368		
	65,498	83,308	140,620		
Balance available to meet outstanding claims	105,554	117,693	73,495	655,357	952,099
Estimated outstanding claims					
Own claims	122,865	76,596	223,282	484,878	907,621
Other Clubs' Pool claims	57,070	19,511	40,520	100,713	217,814
	179,935	96,107	263,802	585,591	1,125,435
Estimated reinsurance recoveries					
Group excess of loss	–	–	(120,447)	(35,887)	(156,334)
Pool	(3,539)	–	(7,188)	(122,337)	(133,064)
Other reinsurers	(52,995)	(6,829)	(41,609)	(30,252)	(131,685)
	(56,534)	(6,829)	(169,244)	(188,476)	(421,083)
Net estimated outstanding claims	123,401	89,278	94,558	397,115	704,352
(Deficit)/surplus	(17,847)	28,415	(21,063)	258,242	247,747
Capital distribution	–	–	–	(30,000)	(30,000)
Balance after distributions	**(17,847)**	**28,415**	**(21,063)**	**228,242**	**217,747**

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