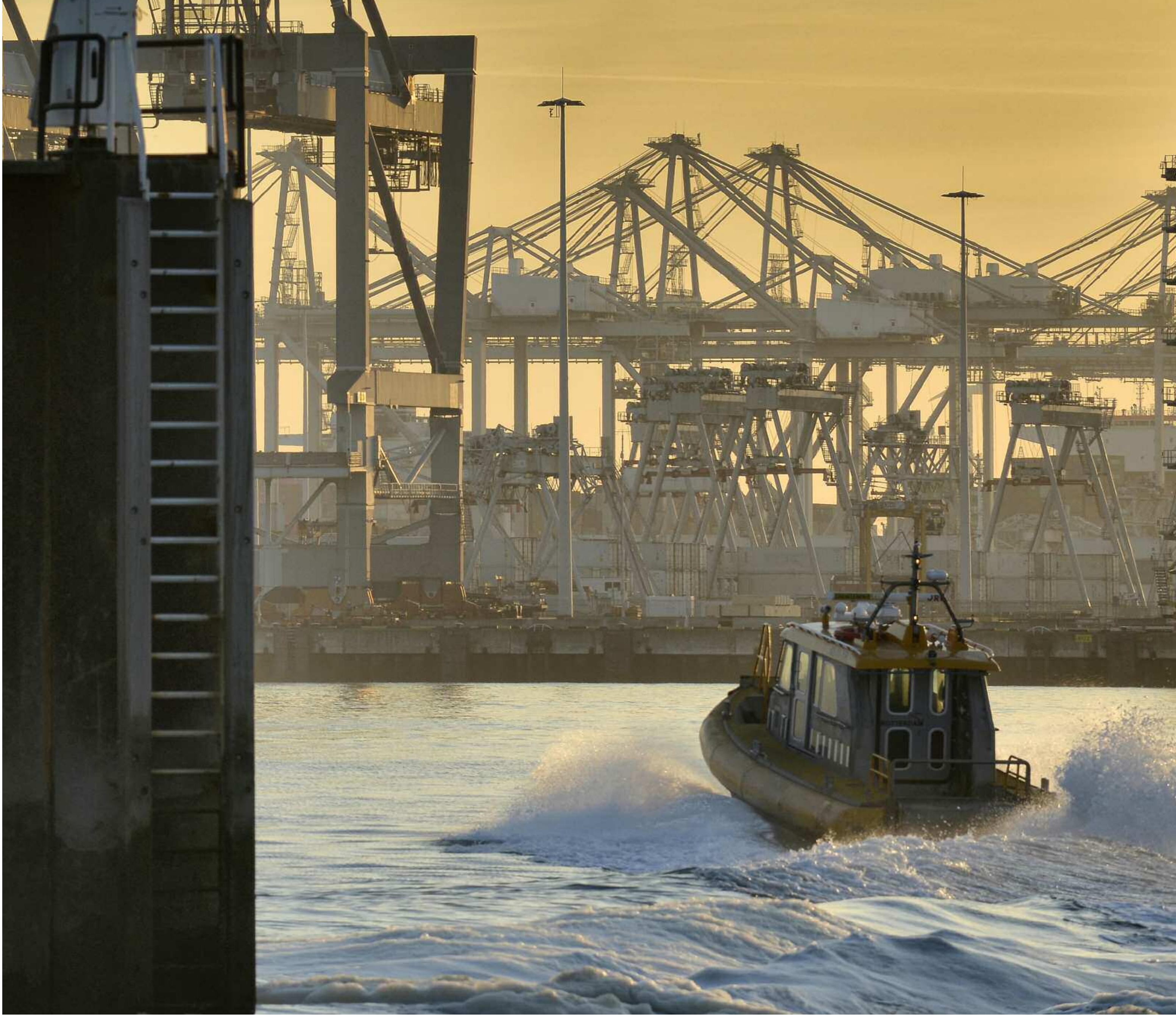
ANNUAL REPORT AND FINANCIAL STATEMENTS

20 FEBRUARY 2019

BRITANNIA P&I
TRUSTED SINCE 1855

CONTENTS



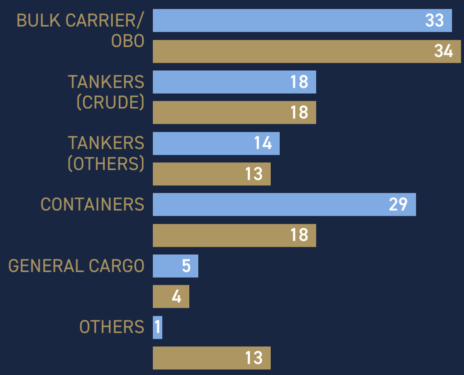
KEY STATISTICS

240
MEMBERS

30
COUNTRIES

3,260
SHIPS

SHIPS BY TYPE (% OF TOTAL)



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

44.5 ASIA

33.9 EUROPE

15.5 SCANDINAVIA

3.7 AMERICAS

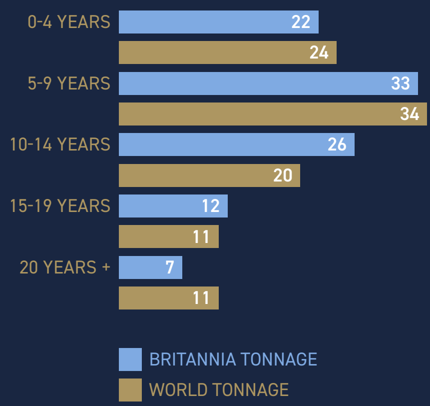
2.0 MIDDLE EAST

0.4 AUSTRALASIA

112m
OWNED TONNAGE

19m
CHARTERED TONNAGE

AGE OF SHIPS (% OF TOTAL)



	20 FEB 2019 (m gt)	20 FEB 2018 (m gt)	20 FEB 2017 (m gt)
ENTERED TONNAGE (OWNED)	111.9	107.0	100.9
ENTERED TONNAGE (CHARTERED)	19.0	20.0	15.0

KEY FINANCIAL DATA

	USD(000)	USD(000)	USD(000)
CALLS AND PREMIUMS	204,415	208,147	225,854
NET CLAIMS INCURRED	(119,599)	(93,552)	(130,268)
INVESTMENT INCOME	(2,643)	48,626	28,716
NET OPERATING EXPENSES	(28,649)	(25,666)	(25,719)
NET INCOME AFTER TAXATION	(9,296)	80,615	32,946
FREE RESERVES*	390,661	429,957	379,342
NET LOSS RATIO	83.8%	61.4%	80.9%
AVERAGE EXPENSE RATIO	10.90%	9.73%	9.42%
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	196,900	211,600	221,700

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

CHAIRMAN'S STATEMENT

SHIPPING MARKETS THROUGH 2018 HAVE CONTINUED TO BE CHALLENGING. ENCOURAGING SIGNS OF IMPROVEMENT HAVE, TO A GREAT EXTENT, BEEN DEPRESSED BY OVERCAPACITY, POLITICAL INSTABILITY, TRADE WARS AND INDUSTRIAL ACCIDENTS. THESE HAVE LED TO CONTINUING PRESSURE ON FREIGHT RATES, WITH THE INEVITABLE FOCUS ON COST BY SHIPPING COMPANIES.

P&I clubs have responded by utilising their financial resources to support their Members. Britannia has seen three consecutive renewals with 'as expiring' rate renewals and 2018/19 also saw further capital distributions to our mutual Members. As a 'not for profit' mutual, we aim to provide cover as close as possible to cost. Where rates go in the future will, of course, depend on the level of claims, including the effect that inflation has on their quantum, as well as investment returns which continue to be volatile.

Our financial strength and stability has again been endorsed by Standard & Poor's, who have confirmed Britannia's 'A' (Strong) rating, with a 'Stable' outlook, Within the overall rating, financial strength is at the 'AAA' level and liquidity is 'exceptional'. This has provided us with assurance that we can make robust financial decisions without undermining our strong financial position.

The disturbing rise in piracy and robbery in West Africa and other parts of the world is a reminder that our seafarers have to cope not only with the normal hazards of the sea but the dangers of lawlessness. We can only urge the authorities to use their resources to stamp out these outbreaks, to ensure that world trade can take place safely. To support this, I am pleased to report that Britannia has joined the Maritime Anti-Corruption Network (MACN). Expect more news from us on this in due course.

The impending implementation of the Global Sulphur Cap will undoubtedly present challenges to the P&I sector and we are working through the International Group to identify and mitigate issues in a consistent manner.

2018/19 has been dominated by two themes – enhancing our service to Members and dealing with the consequences of the UK's decision to leave the European Union (Brexit).

We have established regional hubs with licensed branches in Japan, Hong Kong and Singapore, a claims hub in Greece and an exclusive correspondent in Denmark. Together, these will ensure that we deliver a consistent global service in a way that suits our Members. We have also restructured our FD&D

WE CAN MAKE ROBUST FINANCIAL DECISIONS WITHOUT UNDERMINING OUR STRONG FINANCIAL POSITION.

CHAIRMAN'S STATEMENT

OUR NEW REGIONAL HUBS WILL ENSURE THAT WE DELIVER A CONSISTENT GLOBAL SERVICE IN A WAY THAT SUITS OUR MEMBERS.

class to make it more competitive and better suited to Members' needs. Looking forward, we are currently redeveloping our IT systems to keep pace with changing technology.

Brexit has necessitated a restructuring of the Britannia Group to ensure that we can offer uninterrupted cover to our Members in the EU. Britannia Europe is now licensed by the Luxembourg regulator and, together with Britannia in the UK, will enable Members to continue to enjoy the benefits of Britannia's insurance cover wherever they are based.

The year has seen a number of departures and arrivals on the Board and the Members' Representative Committee (MRC). Three long-standing Board Members, Richard Youell, Susan Dio and Jan Kjaervik, have retired – their experience and expertise will be missed and we thank them for their service. Richard, as our insurance expert, was a major contributor to the International Group response to the European Commission inquiry into P&I. Jan was a key member of the Board and its predecessor bodies and, most recently, chaired the Remuneration Group. Susan made a significant contribution to both the Remuneration and Risk & Audit Groups. Egied Verbeeck and Niall Nolan have subsequently joined the Board to bring it up to strength. The MRC has lost Naser M Al-Abdulkareem but has grown overall, with new members Carol Howle, Krzysztof Muszynski, C B Kim and Richard Sadler.

Nigel Palmer OBE Chairman

FINANCIAL REVIEW

THE ASSOCIATION BEGAN THE YEAR IN A VERY STRONG FINANCIAL POSITION, WITH CAPITAL RESOURCES WELL IN EXCESS OF THE TARGET SET BY THE BOARD.

At its meeting in May 2018, at which the financial statements for the year ended 20 February 2018 were approved, the Board took the decision to make a capital distribution of USD20m to the mutual P&I Members with ships on risk on 15 May 2018. In October 2018, the Board decided to make a further capital distribution of USD10m to the mutual P&I Members with ships on risk on 16 October, bringing the total distribution for the year to USD30m. Since May 2017, USD60m of surplus capital has been returned to Members.

In the year ended 20 February 2019, calls and premiums were lower year on year by 1.8% at USD204.4m. The Association's strong financial position had allowed a second consecutive renewal for 2018/19 with no general rate increase and many Members, given their individual claims records, benefited from a cut in their rates. Tonnage growth during the year was strong, which resulted in additional premiums being earned, and the impact of churn, which has had a negative impact in recent years, was counterbalanced.

The 2018/19 policy year experienced a higher cost of retained claims at the 12 month stage than the two prior policy years, and claims on the Pool are also at a higher level than recent years. As a result, the overall figure for claims incurred in the financial year is USD119.3m, which is higher than the prior year by around 27%. This illustrates the volatile nature of P&I claims and in particular the impact of high value claims (those expected to cost in excess of USD1m). As explained in more detail in the section on P&I claims, 2018/19 saw 18 such claims, with an aggregate estimated value of USD83.9m. This compares to 13 in 2017/18 at a cost of USD63.2m and 22 in 2016/17, costing USD35.4m, at the same stage.

An increase in operating costs to USD29.2m reflects additional costs incurred in planning for the UK's departure from the EU plus the costs of setting up licensed branches of the Association in Hong Kong and Singapore and establishing an office in Greece. These costs represent an investment by the Association to enhance its service to Members while ensuring a seamless operation post Brexit.

The balance on the technical account, including investment return based on the longer-term rate of USD29.9m, was a surplus of USD24.1m, which demonstrates the continuing underlying strength of the Association's underwriting.

The Association's investment portfolio experienced difficult market conditions and returned a loss of USD2.6m. Further details are set out in the section on investment performance. After taking account of the investment return, the Association's overall financial result for the year after tax was a loss of USD9.3m.

The total capital of the Association shown on the balance sheet was lower than last year by USD39.3m, but of this, USD30m was the result of the capital distribution referred to above. In a year of heavier claims and volatile investment markets, this represents a very satisfactory result.

SINCE MAY 2017, USD60M OF SURPLUS CAPITAL HAS BEEN RETURNED TO MEMBERS.

INVESTMENT STRATEGY AND PERFORMANCE

THE ASSOCIATION'S INVESTMENT STRATEGY IS THE RESPONSIBILITY OF THE BOARD.

There has been no material change to the Association's 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' sufficient to ensure appropriate liquidity; and

• To invest the assets in excess of the matching portfolio, 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 2019, the portfolio had the following composition:

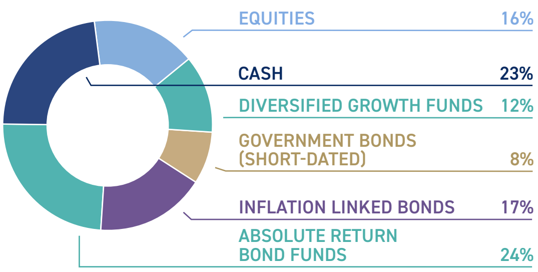
ASSET CLASS	PROPORTION (%)
MATCHING PORTFOLIO:	
Government bonds and cash	**48**
GROWTH PORTFOLIO:	
Absolute return bond funds	**24**
Equities	**16**
Diversified growth fund	**12**
	100

INVESTMENT PERFORMANCE

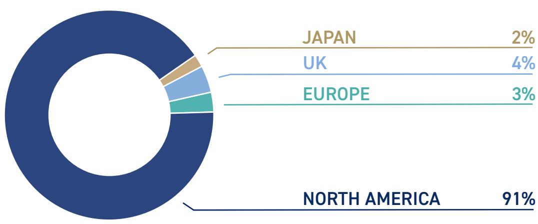
In the year ended 20 February 2019, the overall return on investments was negative 0.3%, which is equivalent to a loss of USD2.6m.

The best performing asset classes were cash, which returned 0.8%, and absolute return bonds, which returned 0.6%. The diversified growth fund returned negative 1.8% and equities returned negative 2.7%, while government bonds were flat.

INVESTED FUNDS AT MARKET VALUE
20 FEBRUARY 2019
TYPE OF INVESTMENT



GEOGRAPHICAL DISTRIBUTION



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

THE ASSOCIATION CONTINUES TO CATEGORISE CLAIMS WITHIN THE CLUB RETENTION AS EITHER 'ATTRITIONAL' (ESTIMATED TO COST USD1M OR LESS) OR 'HIGH VALUE' (ESTIMATED TO COST IN EXCESS OF USD1M).

RETENTION CLAIMS

Attritional claims constitute the vast majority of claims by number, while high value claims, although far fewer by number, constitute a very high proportion of the total estimated claims cost.

As at 20 February 2019, the total number of attritional claims notified in respect of the 2018/19 policy year was 4,364. This represents a slight increase on the 4,039 claims notified at the same time in the 2017/18 policy year. Despite this increase, the overall trend since 2012 shows a reduction from the 7,351 attritional claims notified as at 20 February 2012. This trend reflects a number of factors, such as a number of liner operators moving to higher deductibles and the move to combined deductibles (which apply to the underlying claim, plus costs, fees and expenses). Club correspondents also continue to report a general fall in the number of routine cases notified locally.

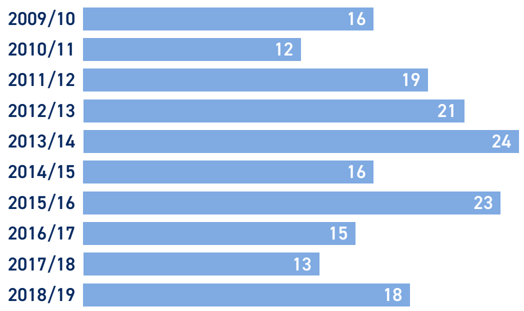
However, the aggregate cost of retention claims, including the estimates for outstanding amounts, increased to USD165m at 20 February 2019. This compares to USD129m at the same stage in the prior year.

Although high value incidents are much less frequent than attritional claims, they can have a significant impact on the outcome of a policy year. In 2018/19, 18 high value claims were reported with a current estimate of USD83.9m. This compares with 13 claims estimated at USD63.2m at the end of the 2017/18 policy year. Whilst the number of high value claims has increased compared to the prior year, it remains within the historical range. The increased aggregate cost of high value claims reflects three significant collisions – in the Suez canal, off the coast of Corsica and off the coast of Norway. There was also a significant container stow collapse, resulting in the loss of 81 containers off the coast of Newcastle, Australia.

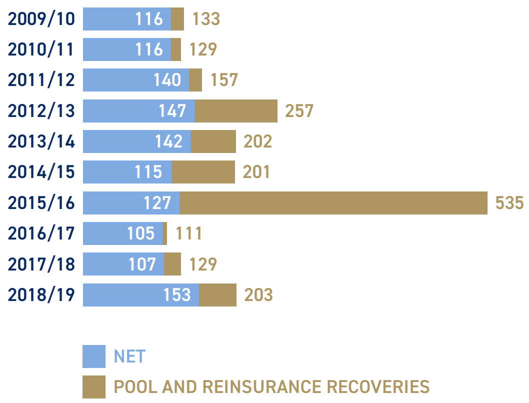
POOL CLAIMS

At 20 February 2019, 18 Pool claims had been notified in the 2018/19 policy year, with an aggregate estimated cost of USD304m. This compares to 13 notifications and a cost of USD293m at the equivalent point in the 2017/18 policy year. The largest claims included a significant fire onboard a 15,000 teu container ship which resulted in the death of five crewmen and damage to 1,952 containers. Another significant incident related to the grounding of a container feeder ship off the east coast of India, 16 miles from a UNESCO world heritage site. Given the location, the cargo and wreck removal costs are expected to be very high. Finally, another container feeder ship grounded on the approach to Tripoli Port in poor weather and broke in two. This claim is likely to involve a complex wreck removal operation.

CLASS 3 P&I CLAIMS NUMBER OF CLAIMS ON THE ASSOCIATION THAT ARE GREATER THAN USD1M (NET) AT 20 FEBRUARY 2019



ASSOCIATION'S ESTIMATED RETAINED CLAIMS (USDM) AT 20 FEBRUARY 2019



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

THE ASSOCIATION SAW ANOTHER SATISFACTORY YEAR OF OWNED TONNAGE GROWTH, WITH A 5M GT (OR 4.7%) INCREASE TO APPROXIMATELY 112M GT.

The majority of the growth came from existing Members, particularly those who have joined in the last five years.

Seven new Members joined the Association during the 2018/19 policy year, while three left. In addition, one new Member joined at renewal on 20 February 2019.

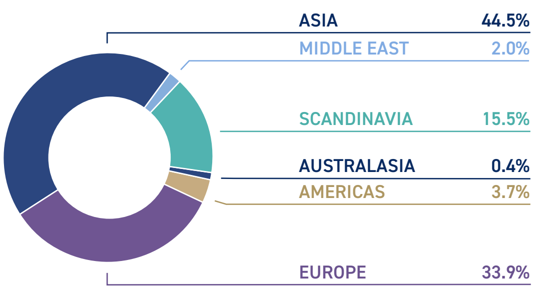
The Association's chartered entry remained broadly stable during the 2018/19 policy year.

The number of new ships committed from existing Members at renewal was pleasing, with over 5.4m gt expected to join the Club during 2019/20.

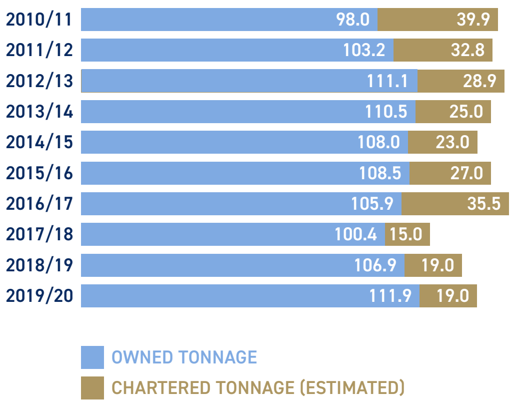
European fleets (excluding Scandinavia) now make up 33.9% of the Association's owned tonnage with Scandinavia at 15.5%. Our Asian membership now represents 44.5%, with entries from Japan (19%), Taiwan (8%) and South Korea (8%).

THE NUMBER OF NEW SHIPS COMMITTED FROM EXISTING MEMBERS AT RENEWAL WAS PLEASING, WITH OVER 5.4M GT EXPECTED TO JOIN THE CLUB DURING 2019/20.

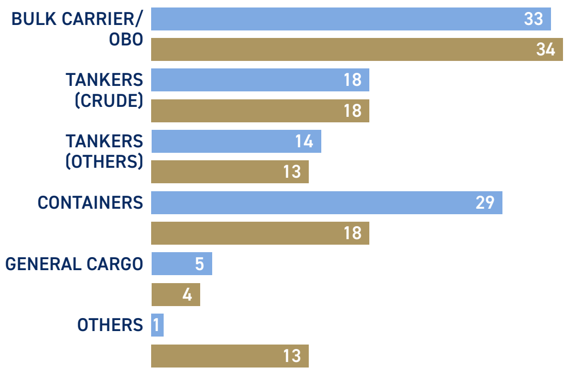
ENTERED TONNAGE BY AREA OF MANAGEMENT – CLASS 3



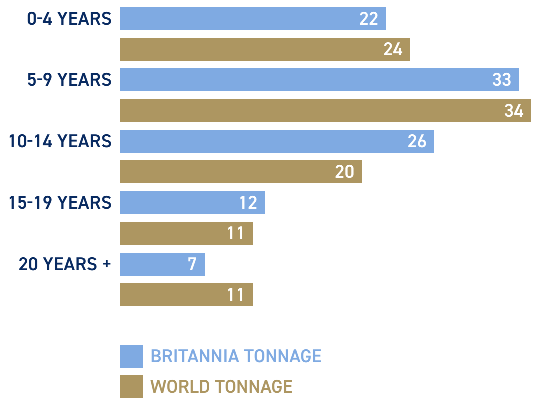
TONNAGE ENTERED – CLASS 3 (M GT) (BEGINNING OF POLICY YEAR)



SHIPS BY TYPE (% OF TOTAL)

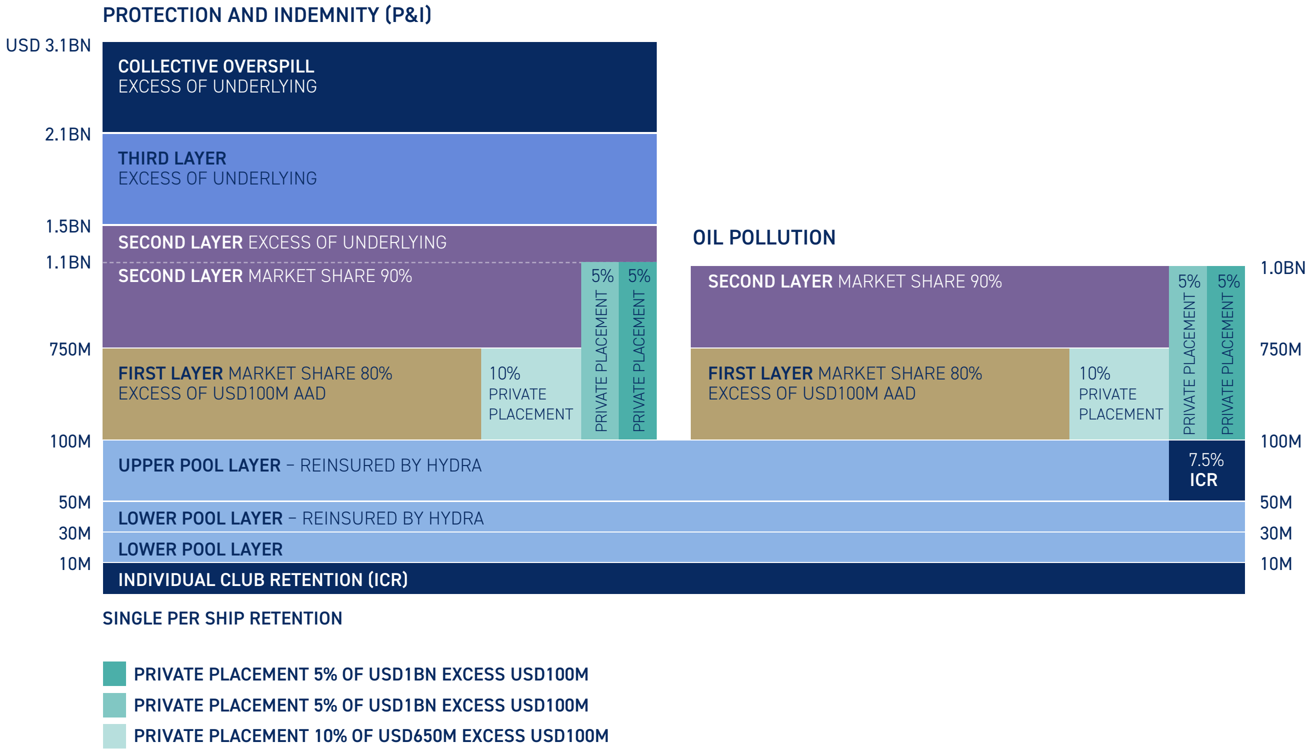


AGE OF SHIPS (% OF TOTAL)



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

INTERNATIONAL GROUP EXCESS OF LOSS REINSURANCE PROGRAMME
2019/20 POLICY YEAR (NOT TO SCALE)



STRUCTURE

The Association is a party to the International Group Pooling Agreement and therefore participates in the Group's general excess of loss (GXL) reinsurance programme, which provides reinsurance cover for claims up to USD2.1bn excess of the Pool retention. There is a lower limit of cover for oil pollution claims of USD1bn. In addition, a Group Collective Overspill reinsurance protects clubs and their Members against their share of overspill liabilities for claims up to USD1bn excess USD2.1bn.

RENEWAL

The individual club retention for the 2019/20 policy year remains unchanged at USD10m and the attachment point on the GXL reinsurance programme (the Pool retention) remains at USD100m.

The loss experience of the reinsurance programme on the 2012/13 to 2018/19 policy years remains acceptable to reinsurers. This factor, combined with continuing surplus market capacity, an increased retention for the Group's captive, Hydra, and the effective use of multi-year private placements, enabled the Group to achieve satisfactory reinsurance renewal terms, which resulted in a further year of reinsurance rate reduction of approximately 1.7% across all ship categories.

Following a Group reinsurance broker tender process undertaken in 2018, Miller and Aon were appointed as co-brokers on the GXL and Collective Overspill reinsurance programmes. Following these appointments, a review was undertaken of the GXL programme, and a number of recommendations for changes to the current structure were made. These are aimed at ensuring sustainability while improving the cost-efficiency of the collective reinsurance arrangements. The changes were reviewed and approved by the IG's Reinsurance Sub-Committee.

The main changes to the programme's structure for 2019/20 involve adjustments to the second and third layer attachment points, the introduction of a new multi-year private placement, and the introduction of a USD100m annual aggregate deductible (AAD) within the 80% market share in the first layer of the programme, which will be retained by the Group's captive, Hydra.

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

For 2019/20, the first layer of the revised programme will provide cover from USD100m to an increased upper limit of USD750m, the second layer will cover from USD750m to USD1.5bn, and the third layer from USD1.5bn to USD2.1bn. There will be no change to the Collective Overspill layer which will provide USD1bn of cover excess USD2.1bn.

One of the three 5% multi-year private placements (USD1bn excess USD100m) expired on 20 February 2019, and has been replaced by a new multi-year 10% private placement within the new first layer (USD650m excess USD100m), increasing the private placement participation in the first layer from 15% to 20%.

HYDRA

From 20 February 2019, following the changes to the reinsurance structure, Hydra will continue to retain 100% of the Pool layer from USD30m to USD50m and 92.5% of the Pool layer from USD50m to USD100m. In addition, Hydra will retain the USD100m AAD in the 80% market share referred to above (net of the private placements).

MARITIME LABOUR CONVENTION (MLC) COVER

The market reinsurance cover for MLC liabilities was renewed for a further 12 months for 2019/20 with the expiring cover limit of USD200m (excess USD10m) at a competitive cost, which is included within the Association's overall reinsurance cost.

WAR RISKS COVER

The excess War risks P&I cover was renewed for 2019/20 at a reduced premium which is included in the total rates charged to owners.

THE GROUP ACHIEVED A RENEWAL THAT RESULTED IN REINSURANCE RATE REDUCTIONS OF 1.7% ACROSS ALL SHIP CATEGORIES.

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

NEW RECRUITS TO THE LOSS PREVENTION DEPARTMENT (LPD) LAST YEAR INCLUDED A DUAL-QUALIFIED MARINER AND A CHARTERED NAVAL ARCHITECT WITH EXPERIENCE IN ACCIDENT INVESTIGATION AND OPERATIONAL RISK MANAGEMENT.

Armed with this broader experience, 2019 will see us refocus the loss prevention initiatives provided to our Members.

One such new initiative will be Maritime Risk Management, which incorporates a review of operational risk management and incident investigation processes in order to identify best practices and any deviations from procedures.

The condition survey programme continues to help Members to identify issues that might lead to potential claims, and our technical seminars aimed at Members' management, superintendents and seafarers will continue. Safety continues to be a key focus area, which is supplemented by a new LP video and a new safety poster campaign.

The LPD's third video, released early in 2019, is based on an actual incident involving a bulk carrier which had anchored off Gibraltar to conduct engine repairs. When weather conditions deteriorated, the ship started dragging her anchors and eventually ran aground. This video focuses on the interaction between the ship and shore managers and considers the Master's authority when an emergency situation develops.

The LPD also contributes to a range of Britannia publications and provides timely advice to Members directly, via the Club's website and in loss prevention bulletins and news items. A new series of safety posters is currently at the development stage.

The LPD's activities are essential to the continued success of the Club and their progress is carefully monitored by the Standards Sub-Committee, which reports to the Members' Representative Committee.

CLASS 3 – PROTECTION AND INDEMNITY (P&I) POLICY YEAR DEVELOPMENT

THE UNDERWRITING POSITION FOR THE CLOSED AND OPEN POLICY YEARS UP TO 2018/19 IS SHOWN IN THE POLICY YEAR STATEMENT ON PAGE 50.

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 USD146.7m, an improvement of USD7m on the position last year. Currently there are 23 claims expected to cost more than USD1m. Three are currently estimated to exceed the club retention, with one falling on the IG reinsurance. Pool claims are estimated at USD394.5m, with 16 notifications to date, of which two have reached the IG reinsurance.

This time last year, the projected deficit on the policy year was USD21.1m. This has improved to a deficit of USD8.9m. The 2015/16 policy year was closed on 20 February 2019.

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 USD102.9m, an improvement of USD4.1m on the position last year. There are 15 claims expected to cost more than USD1m but none of these currently exceed the club retention. Pool claims are estimated at USD145m, with 19 notifications to date, the largest of which is currently estimated at USD37m, well below the IG reinsurance threshold.

This time last year, the projected surplus on the policy year was USD28.4m. Over the past 12 months the position has improved to a surplus of USD32.9m.

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 are currently USD123m, an improvement of USD5.5m on the position last year. Currently there are 13 claims expected to cost more than USD1m, but none are over the club retention. Pool claims are estimated at USD339m, with 20 notifications to date, of which two have reached the IG reinsurance.

This time last year, the projected deficit on the policy year was USD17.9m. Over the past 12 months the position has improved to a deficit of USD14.8m.

2018/19

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 2019 are estimated at USD165.1m. Currently there are 18 claims expected to cost more than USD1m, but none are over the club retention. Pool claims are estimated at USD304m, with two notifications each expected to cost in excess of USD60m.

The policy year is showing a deficit of USD26m after the first 12 months.

2019/20

In October 2018, the Board decided, for the third year running, not to increase the general rates for the 2019/20 policy year, while the budgeted deferred call has been maintained at 45%.

CAPITAL DISTRIBUTION

At the Board meetings in May and October 2018, the Board agreed capital distributions of USD20m and USD10m respectively to mutual P&I Members with ships on risk at midnight on the date of the meetings.

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

AS INSURANCE FOR THE LEGAL COSTS OF SHIPPING DISPUTES, THE LEVEL AND TYPE OF FD&D CLAIMS ARE FAIRLY RELIABLE INDICATORS OF WHAT HAS BEEN HAPPENING IN THE SHIPPING MARKET DURING THE POLICY YEAR.

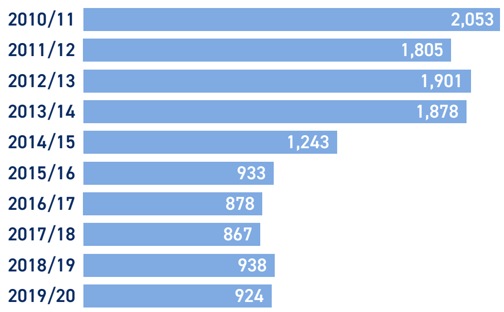
Periods of market volatility, involving dramatic movements in hire and freight rates, tend to result in more disputes than when the market is stable, as some shipowners and charterers try to find ways of getting out of charters that have become unattractive in a changed market. Nevertheless, where markets have been stable but weak for long periods, there can still be a modest upturn in claims if more shipowners decide to take a stricter approach than they would normally take in more profitable times to sums that charterers are disputing or being slow to pay.

The tanker market was both quiet and weak for most of 2018 before making a brief recovery towards the end of the year, while the dry bulk market saw modest movements early in 2018 before slumping as 2019 began. This partly helps to explain why the number of Class 6 FD&D claims notified to the Association in the 2018/19 policy was higher than it has been for a few years. However, the types of claim that normally arise in a prolonged low market tend to be relatively low value off-hire and demurrage claims. This may explain why the increase in the aggregate value of claims has been fairly modest despite the increase in the number of claims. The value of claims in 2018/19 was higher than the values recorded at the equivalent stage in the previous two policy years but was somewhat lower than the figure for 2015/16.

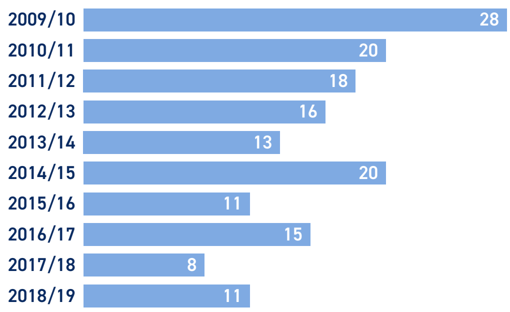
One event in 2018/19 worth noting is the supply of contaminated bunker fuel, which appears to have originated in the US Gulf in mid-2018 but subsequently spread to Panama and Singapore. It has been estimated that more than 200 ships were affected by quality issues in connection with the bunker supplies, typically involving problems with the fuel-injection system and fuel filters. The Association has dealt with a number of these cases as Class 6 cover disputes in respect of the supply of fuel as well as claims for damage to the entered ship that come within the hull deductible. Such cases tend to generate relatively high costs at the outset as experts have to be appointed to analyse the suspect fuel and assess the extent of any engine damage.

It should be noted that 2018/19 was the first policy year to be completed following the increase from USD5,000 to USD7,500 of costs that the Association retains before Members are required to contribute under the Class 6 deductible. As anticipated, this has inevitably increased the aggregate value of claims, although the effect has clearly not yet proved to be significant when comparing 2018/19 with previous years.

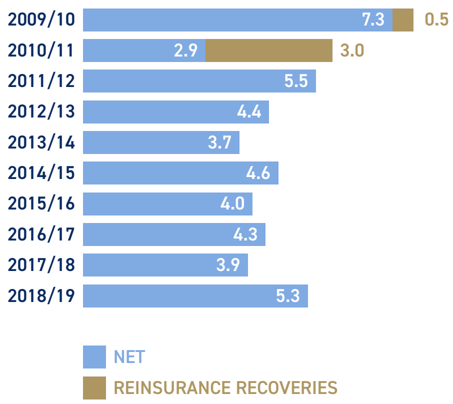
CLASS 6 FD&D SHIPS ENTERED



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 2019



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

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 2019, the policy year was showing a surplus of USD1.6m, an increase of USD0.4m on the position reported this time last year, resulting from positive claims development. The 2014/15 policy year was closed on 20 February 2019.

2015/16

The general increase in advance calls for this policy year was 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 2019, the policy year was showing a surplus of USD2.1m, an increase of USD0.3m on the position reported this time last year.

2016/17

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have seen some adverse development during the last year. At 20 February 2019 the policy year was showing a surplus of USD0.5m, a decrease of USD0.8m on the position reported this time last year.

2017/18

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have resumed the positive development seen over the last couple of years. At 20 February 2019, the policy year was showing a surplus of USD1.3m, an increase of USD0.9m on the position reported this time last year.

2018/19

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year are at a higher level than the last four policy years at the same stage of development and as a result, at 20 February 2019 the policy year was showing a deficit of USD0.8m.

2019/20

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 capped the deductible that Members bear on any claim to a maximum of USD150,000.

DEVELOPMENTS WITHIN BRITANNIA

THE ASSOCIATION'S MISSION IS TO PROVIDE THE BEST P&I AND FD&D INSURANCE. 2018 SAW US TAKE NUMEROUS STEPS TO CONTINUE THAT MISSION.

REGIONAL HUBS

In 2017, the Association's Managers acquired our Japanese exclusive correspondent, which was renamed Tindall Riley (Britannia) Japan, or TR(B)J. 2018 saw the Managers acquire our Hong Kong and Singapore exclusive correspondents, now called TR(B)HK and TR(B)S respectively. TR(B)HK and TR(B)S were fundamental to the Association being granted its branch licences in Hong Kong and Singapore in 2018. The financial strength and well-earned reputation of the Association, as well as the support of the local regulators, were all factors in the impressive feat of obtaining those licences within the year.

The Association now has three branches in Asia, where nearly 45% of our membership is based and to where an even greater percentage of our Members' ships trade. This expansion of our network of regional hubs emphasises the fact that we are a global insurer with a local presence, with each regional hub having claims and underwriting capacity together with an Asia-based loss prevention capability. To reflect their importance, we have seen further recruitment in those hubs, especially Hong Kong and Singapore, through local hires as well as colleagues relocating from London.

Our presence in Europe has also been enhanced, with a claims hub being established in Greece in September 2018. We were delighted with the warm welcome given by our local Members to that office, whose opening was marked with a very well attended reception in January 2019.

Europe also saw us setting up a new exclusive correspondent, B Denmark, in the summer of 2018. B Denmark adds to the worldwide support given to Members through our other exclusive correspondents, P&I Bros (South Korea), Correduria (Spain) and B Taiwan (Taiwan). We remain grateful to those offices for their invaluable service.

GENERAL MATTERS

We previously reported on IT, with the upgrade of our offering under way. Inevitably a major project takes time, but we remain committed to providing leading underwriting and claims handling interactivity between the Association, Members and third parties. In the meantime, our website has been enhanced with the creation of Japanese and Chinese language mini-sites. We are also reviewing our publications, recognising that we need to refresh how they are delivered to our Members.

Finally, readers are referred to the Member survey that was carried out in 2018 and the analysis of the results which is set out in the December 2018 bulletin: **https://britanniapandi.com/publication/2018-member-survey-results/**

2019 will see a further survey and we very much hope that all Members will share with us their thoughts and feedback on how their Club can be improved.

2019 WILL SEE A FURTHER MEMBER SURVEY AND WE VERY MUCH HOPE THAT ALL MEMBERS WILL SHARE WITH US THEIR THOUGHTS AND FEEDBACK ON HOW THEIR CLUB CAN BE IMPROVED.

MEMBERS OF THE BOARD

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

A J Firmin Hamburg[1, 2]
P Hunt London[1]
S-C Lan Taipei[2]
L Martel Montreal
B T Nielsen Dallas[1]
N J Nolan London[1]

E Verbeeck Antwerp
J Warwick London[3]
Y Yamawaki Tokyo[3]
A J Cutler London (Manager)[2]
J P Rodgers London (Manager)[2]

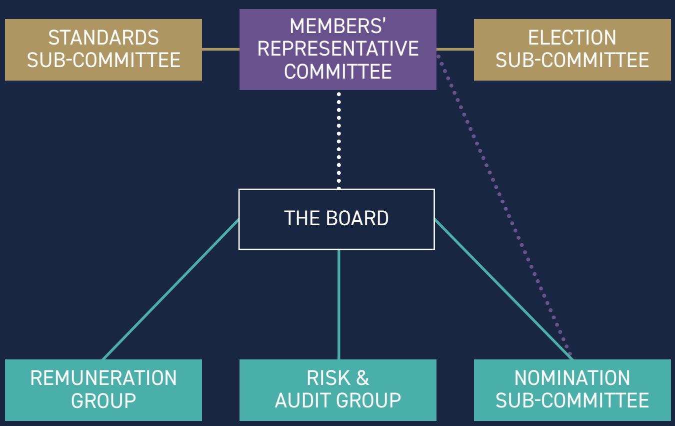
1 Risk & Audit Group
2 Nomination Sub-Committee
3 Remuneration Group

Taken at the Board meeting in October 2018 in Hamburg.

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) Ltd. The Managers are responsible for ensuring that appropriate information, which is adequate to enable the Board to discharge its duties and to oversee the business effectively, is provided on a timely basis. There are nevertheless a number of matters that are reserved exclusively for decision by the Board and these are reviewed and updated at least annually. The Board meets five times a year.

THE MEMBERS' REPRESENTATIVE COMMITTEE (THE MRC)

The Members' Representative Committee (the 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 also has an important 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 review of the financial statements and the Solvency & Financial Condition Report ahead of Board consideration, 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 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 MANAGERS AND CERTIFICATION REGIME

The Association complies with the requirements of the Senior Managers and Certification Regime (SMCR) and maintains a Management Responsibilities Map which sets out the governance structure of the Association and identifies senior management functions, the notified non-executive directors and other significant roles that carry additional responsibility called Certification Functions. It also shows reporting lines and the allocation of prescribed responsibilities. Changes to the Management Responsibilities 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	GBP50,000	–
Directors	–	USD5,000
Chairman of the Risk & Audit Group	USD9,000	–
Members of the Risk & Audit Group	USD6,000	–
Other sub-committee Chairs	USD2,000	–
MRC members	–	USD6,000

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

The Association has licensed branches in Japan (regulated by the Japanese Financial Services Agency), Hong Kong (regulated by the Insurance Authority) and Singapore (regulated by the Monetary Authority of Singapore).

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 Board of Tindall Riley (Britannia) Ltd, the Association's Managers, which prepares a report on risk management for the RAG. 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 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 reinsurance 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, which is reviewed regularly and 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 fixed-interest government securities and to hold appropriate levels of corporate bonds and equities.

Credit risk arises from the possibility of default by one or more counterparties, which include reinsurers and deposit-takers as well as Members. This risk is managed by carrying out appropriate 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 totality 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 timescale.

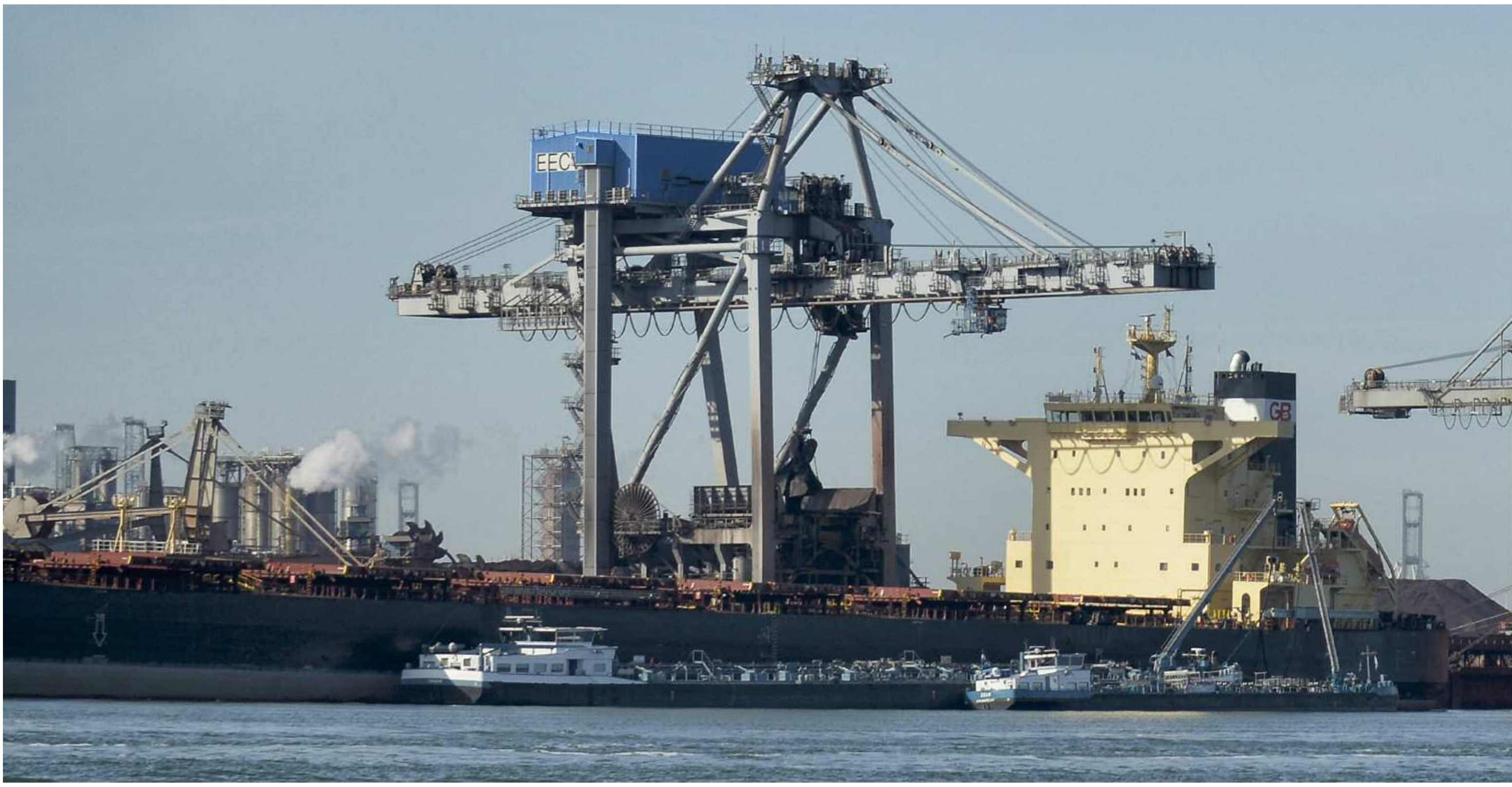
REGULATORY REPORTING

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's most recent Solvency and Financial Condition Report (SFCR) is available on the Association's website and the 2019 SFCR will be published in July 2019.

The Association complies with all local regulatory reporting requirements in respect of its licensed branches.

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.



CORPORATE GOVERNANCE REPORT

PREPARATIONS FOR BREXIT

The prospect of the UK leaving the European Union ('Brexit') and thereby losing the right to 'passport', that is, to underwrite insurance business in other EU countries from the UK, has resulted in a corporate restructuring to ensure that, post-Brexit, Britannia will be able to continue its current operations uninterrupted and allow its Members to continue to enjoy the full benefits of membership.

The restructuring had three stages:
1) The establishment of a new, EU-based mutual insurer, with a licence to underwrite business in its country of incorporation and, through passporting, the rest of the EU;

2) The creation of a Britannia Group, whereby the current Britannia and the new European mutual become subsidiaries of a new holding company; and

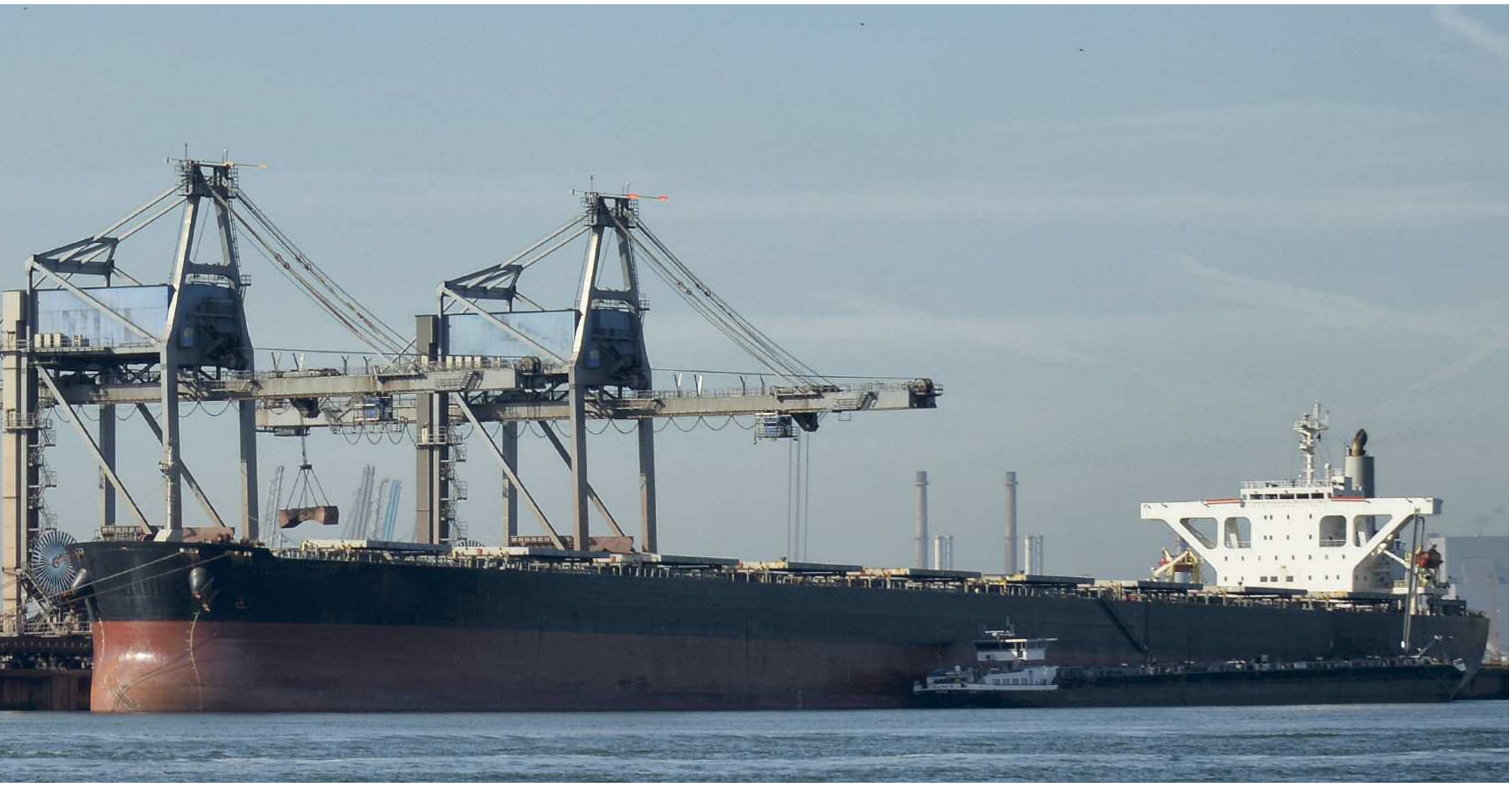
3) The rearrangement of the ownership of Britannia's reinsurance subsidiary, Universal Shipowners Marine Insurance Association Ltd (USMIA), such that it is 50% co-owned by Britannia and the European mutual.

On 30 November 2018, The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe) was incorporated as a mutual association in Luxembourg and on 10 December 2018, the Luxembourg insurance regulator, the Commissariat aux Assurances (CAA), granted Britannia Europe a licence to underwrite (stage 1 above). On 20 November 2018, The Britannia Steam Ship Insurance Association Holdings Limited (Britannia Holdings) was incorporated in the UK and the structure creating the Britannia Group was effected on 29 March 2019 (stage 2 above). On 25 February 2019, the Board of USMIA adopted revised byelaws which created two new share classes, following which Britannia transferred two non-voting shares to Britannia Holdings and 59,999 class B shares to Britannia Europe (stage 3 above).

The provisions of the Articles of Association of Britannia, Britannia Europe and Britannia Holdings ensure that Britannia Holdings is the controlling Member of Britannia and Britannia Europe.

The constitution of the Boards of Britannia, Britannia Holdings and Britannia Europe are identical, thus ensuring a consistency of approach across the entire business. All Members of Britannia and Britannia Europe are also Members of Britannia Holdings. The Members' Representative Committee of Britannia will now sit at the level of Britannia Holdings in order that it will have an overview of Britannia and Britannia Europe.

Britannia Europe will not commence underwriting until, at the earliest, the date of the UK's departure from the EU. On the date that this annual report was approved by the Board, in the absence of any prior agreement by the UK Parliament, this will be 1 November 2019. In the meantime, Britannia in its current form will continue to operate on a 'business as usual' basis. Members will be kept up-to-date on any further developments as they occur.



STATUTORY DIRECTORS' REPORT

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT TO THE 147TH ANNUAL GENERAL MEETING OF THE MEMBERS OF THE ASSOCIATION TOGETHER WITH THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR TO 20 FEBRUARY 2019.

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 30 April 2018, S Dio resigned as a director and J R L Youell and J Kjaervik resigned as directors on 15 May 2018 and 16 October 2018 respectively. On 15 May 2018, N J Nolan and E Verbeeck were appointed as directors and in accordance with the Articles of Association offer themselves for re-election.

L Martel, J P Rodgers and J W F Warwick all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election as directors.

DIRECTORS INDEMNITY INSURANCE

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

FINANCIAL INSTRUMENTS

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

FUTURE DEVELOPMENTS

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

AUDIT

The Managers are responsible for the preparation of the financial statements and have confirmed they have provided all relevant audit information of which they are aware. The 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.

On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in their place. BDO 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
9 May 2019

FINANCIAL STATEMENTS

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') and its subsidiaries (the 'Group') for the year ended 20 February 2019 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of Changes in Equity, the 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 Financial Reporting Standard 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 2019 and of the Group's result for the year then ended;

• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

We have examined the appendix on page 50, showing the policy year position for Class 3. In our opinion, the appendix has been properly prepared in accordance with the accounting policies set out on pages 33 to 35.

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 Group and 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.

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 Group's and the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional 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.

Key audit matter	How our audit addressed the key audit matter
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. They re-projected 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 fifteen 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 actuarial function and held meetings with the Association's actuarial function to discuss process, assumptions, findings and the results of the re-projection including appropriateness of assumptions and processes and why other bases were considered less appropriate. In addition to the work performed by our actuarial experts, we have also performed: • testing of controls surrounding paid claims by assessing the appropriateness of the control and then selecting a random sample of paid claims and obtaining evidence that the expected controls were operating effectively; • substantive procedures including selecting a sample and testing that; (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; and (iv) long outstanding claims covering those with no review of the estimate during the year and those entered with no case estimate, were supported by appropriate documentation and evidence. • testing that the actuarial data used by the Association's actuarial function and our appointed actuarial experts was the same by reconciling the actuarial data to the accounting records.

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

Key audit matter	How our audit addressed the key audit matter
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: • reviewing the reinsurance programme to identify any changes to the prior year or to our understanding of the structure of the programme; • considering the 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; • testing of a sample of reinsurance recoveries by recalculating the expected recovery based on the details of the claims and our understanding of the programme; • assessing the security of reinsurers through comparing credit ratings to third party agencies and the potential impact on recoveries; and • assessing and recalculating a sample of reinsurers' share of outstanding claims based on the details of outstanding claims and our understanding of the programme.

Our application of materiality
In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

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 a whole to be USD7,500,000 (2018: USD7,800,000). The principal determinant in this assessment was the Association's Net Assets, which we consider to be the most relevant benchmark, as this reflects the availability of reserves to provide distributions or the need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 1.9% (2018: 1.8%) of Net Assets.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at USD5.25m (2018: USD5.46m) which represents 70% (2018: 70%) of the above lower level materiality levels.

We agreed with the Risk & Audit Group that we would report to them any misstatements in excess of USD75,000 (2018: USD78,000) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit
The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Association when determining the level of work to be performed. We do not place reliance on the work of component auditors and instead undertake our own audit procedures and testing to gain comfort on transactions and balances recorded within the financial statements. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of the valuation of technical provisions which are subject to management judgment and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Association and the industry in which it operates, and considered the risk of acts by the Association which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training, and the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

• agreement of the financial statement disclosures to underlying supporting documentation;
• enquiries of management;
• review of minutes of board and management meetings throughout the period;
• obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
• review of correspondence with the PRA and FCA; and
• review of the Association's compliance manuals, breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement 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 Group's and 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 Group or the Association or to cease operations, or have no realistic alternative but to do so.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters which we are required to address
We were first appointed 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.

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.

Thomas Reed Senior Statutory Auditor
For and on behalf of BDO LLP
Statutory Auditor
London UK
13 May 2019

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

20 FEBRUARY 2019

		Consolidated		Class 3 P&I		Class 6 FD&D	
Technical account – general business	Note	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Earned premiums, net of reinsurance							
Calls and premiums	2	**204,415**	208,147	**196,477**	200,711	**7,938**	7,436
Reinsurance premiums	3	**(61,683)**	(55,757)	**(61,290)**	(55,392)	**(393)**	(365)
		142,732	152,390	**135,187**	145,319	**7,545**	7,071
Allocated investment return transferred from the non-technical account		**29,873**	31,378	**28,742**	30,114	**1,131**	1,264
Total income		**172,605**	183,768	**163,929**	175,433	**8,676**	8,335
Claims incurred net of reinsurance							
Net claims paid	4	**(126,324)**	(148,024)	**(118,977)**	(143,710)	**(7,347)**	(4,314)
Change in provision for claims	5	**6,725**	54,472	**6,795**	50,525	**(70)**	3,947
Net claims incurred		**(119,599)**	(93,552)	**(112,182)**	(93,185)	**(7,417)**	(367)
Net operating expenses	7	**(28,649)**	(25,666)	**(27,032)**	(24,323)	**(1,617)**	(1,343)
Total expenditure		**(148,248)**	(119,218)	**(139,214)**	(117,508)	**(9,034)**	(1,710)
Balance on technical account		**24,357**	64,550	**24,715**	57,925	**(358)**	6,625

Non-technical account	Note						
Balance on the technical account		**24,357**	64,550	**24,715**	57,925	**(358)**	6,625
Net investment income	8	**(2,643)**	48,626	**(2,531)**	46,695	**(112)**	1,931
Allocated investment return transferred to the technical account		**(29,873)**	(31,378)	**(28,742)**	(30,114)	**(1,131)**	(1,264)
Net (deficit)/surplus before taxation		**(8,159)**	81,798	**(6,558)**	74,506	**(1,601)**	7,292
Taxation	10	**(1,137)**	(1,183)	**(1,087)**	(1,117)	**(50)**	(66)
Net (deficit)/surplus after taxation		**(9,296)**	80,615	**(7,645)**	73,389	**(1,651)**	7,226

All amounts are derived from continuing operations. The notes on pages 33 to 49 form part of these financial statements. There are no items of other comprehensive income and therefore no consolidated statement of other comprehensive income has been prepared.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

20 FEBRUARY 2019

		Consolidated		Class 3 P&I		Class 6 FD&D	
Assets	Note	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Investments							
Financial investments	11	**879,514**	944,265	**846,855**	906,669	**32,659**	37,596
Reinsurers' share of technical provisions							
Claims outstanding	5	**449,097**	421,398	**448,807**	421,083	**290**	315
Debtors							
Direct insurance operations – Members	15	**76,157**	76,086	**73,164**	73,966	**2,993**	2,120
Reinsurance operations	16	**28,087**	23,319	**28,039**	23,279	**48**	40
Taxation		**715**	672	**715**	672	**–**	–
Other debtors	17	**6,481**	–	**16,978**	1,863	**(10,497)**	(1,863)
		111,440	100,077	**118,896**	99,780	**(7,456)**	297
Other assets							
Cash at bank		**126,030**	122,876	**103,663**	111,155	**22,367**	11,721
Prepayments and accrued income							
Accrued interest		**964**	1,300	**934**	1,254	**30**	46
Other prepayments and accrued income		**5,098**	4,178	**4,798**	4,178	**300**	–
Total assets		**1,572,143**	1,594,094	**1,523,953**	1,544,119	**48,190**	49,975

Liabilities							
Capital and reserves							
Investment reserve		**102,328**	139,445	**94,783**	130,448	**7,545**	8,997
General reserve		**55,000**	55,000	**50,000**	50,000	**5,000**	5,000
Income and expenditure account		**233,333**	235,512	**215,767**	217,747	**17,566**	17,765
		390,661	429,957	**360,550**	398,195	**30,111**	31,762
Technical provisions							
Gross outstanding claims	5	**1,163,551**	1,142,577	**1,146,364**	1,125,435	**17,187**	17,142
Creditors							
Direct insurance operations – Members		**12,519**	14,564	**11,732**	13,655	**787**	909
Taxation		**15**	39	**–**	–	**15**	39
Reinsurance operations	18	**4,197**	5,378	**4,197**	5,378	**–**	–
Other creditors	19	**1,200**	1,579	**1,110**	1,456	**90**	123
Total liabilities		**1,572,143**	1,594,094	**1,523,953**	1,544,119	**48,190**	49,975

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

N J Palmer OBE Director

B T Nielsen Director
9 May 2019

J P Rodgers
Tindall Riley (Britannia) Limited Managers

CONSOLIDATED STATEMENT OF CASH FLOWS
20 FEBRUARY 2019

Cash flows from operating activities	2019 USD(000)	2018 USD(000)
Net income before tax	**(8,159)**	81,798
Adjustments for:		
Change in provision for claims (net of reinsurance)	**(6,725)**	(54,472)
(Increase)/decrease in insurance and other debtors	**(11,904)**	29,223
(Decrease)/increase in insurance and other creditors	**(3,605)**	1,821
Investment income	**2,643**	(48,626)
Cash from operations	**(27,750)**	9,744
Income taxes paid	**(1,204)**	(1,788)
Net cash generated from operating activities	**(28,954)**	7,956
Cash flows from investing activities		
Purchase of equities	**(23,499)**	(7,653)
Purchase of fixed interest investments	**(220,406)**	(293,233)
Sale of equities	**29,015**	3,143
Sale of fixed interest investments	**435,954**	301,494
Movement in deposits with credit institutions	**(170,372)**	35,168
Income from equity investments	**4,399**	3,613
Income from fixed income investments	**6,001**	8,569
Bank and other interest	**3,661**	2,119
Investment management expenses	**(1,553)**	(1,508)
Net cash from investing activities	**63,200**	51,712
Cash flows from financing activities		
Capital distribution to Members	**(30,000)**	(30,000)
Net cash from financing activities	**(30,000)**	(30,000)
Net increase in cash at bank	**4,245**	29,668
Cash at bank at the beginning of the financial year	**122,876**	88,310
Effect of foreign exchange rate changes	**(1,091)**	4,898
Cash at bank at the end of the financial year	**126,030**	122,876

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

STATEMENT OF CHANGES IN EQUITY

20 FEBRUARY 2019

Class 3 P&I	Investment reserve USD(000)	General reserve USD(000)	Income and expenditure account USD(000)	Total USD(000)
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
Deficit for the financial year	–	–	(7,645)	(7,645)
Capital distribution	–	–	(30,000)	(30,000)
Transfer from investment reserve	(35,665)	–	35,665	–
At 20 February 2019	**94,783**	**50,000**	**215,767**	**360,550**

Class 6 FD&D				
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
Deficit for the financial year	–	–	(1,651)	(1,651)
Transfer from investment reserve	(1,452)	–	1,452	–
At 20 February 2019	**7,545**	**5,000**	**17,566**	**30,111**

Total				
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 from investment reserve	16,676	–	(16,676)	–
At 20 February 2018	139,445	55,000	235,512	429,957
Deficit for the financial year	–	–	(9,296)	(9,296)
Capital distribution	–	–	(30,000)	(30,000)
Transfer from investment reserve	(37,117)	–	37,117	–
At 20 February 2019	**102,328**	**55,000**	**233,333**	**390,661**

The Association is incorporated and registered in England and Wales 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 15 May 2018 and 16 October 2018 which amounted to USD20.0m and USD10.0m 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 net 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 2019

Assets	Note	2019 USD(000)	2018 USD(000)
Investments			
Investment in group undertakings	12	**150**	150
Financial investments	11	**179,821**	129,261
		179,971	129,411
Reinsurers' share of technical provisions			
Claims outstanding	5	**1,095,417**	1,069,481
Debtors			
Direct insurance operations – Members	15	**76,157**	76,086
Reinsurance operations	16	**31,653**	25,609
Taxation		**700**	672
Other debtors	17	**6,481**	1,863
		114,991	104,230
Other assets			
Cash at bank		**106,084**	100,518
Prepayments and accrued income			
Accrued interest		**485**	285
Other prepayments and accrued income		**5,084**	4,167
Total assets		**1,502,032**	1,408,092
Liabilities			
Capital and reserves			
Investment reserve		**1,265**	2,277
Income and expenditure account		**151,050**	146,758
		152,315	149,035
Technical provisions			
Gross outstanding claims	5	**1,163,551**	1,142,577
Creditors			
Direct insurance operations – Members		**12,518**	14,565
Taxation		**–**	39
Reinsurance operations		**4,203**	5,586
Amounts owed to group undertakings		**168,799**	93,458
Other creditors	19	**646**	2,832
Total liabilities		**1,502,032**	1,408,092

The Association has taken advantage of the exemption in section 408 of the Companies Act 2006 from presenting its own Statement of Comprehensive Income and related notes as it prepares consolidated accounts. The Association's surplus and total comprehensive income for the year was USD34.3m (2018 – USD51.7m). A capital distribution of USD30m (2018 – USD30m) was made resulting in a total movement on the Income and Expenditure account of USD4.3m (2018 – USD21.7m).

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

N J Palmer OBE Director

J P Rodgers
Tindall Riley (Britannia) Limited Managers

B T Nielsen Director
9 May 2019

NOTES TO THE FINANCIAL STATEMENTS

20 FEBRUARY 2019

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 2019

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.

1 ACCOUNTING POLICIES (CONTINUED)

Policy year accounting
The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. The allocated investment return and operating expenses are allocated to the current policy year.

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

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

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2019	2018	2019	2018	2019	2018
2 CALLS AND PREMIUMS	USD(000)	USD(000)	USD(000)	USD(000)	USD(000)	USD(000)
Advance calls and premiums						
2018/19 policy year	**148,095**	–	**141,509**	–	**6,585**	–
2017/18 policy year	**(621)**	146,330	**(604)**	140,072	**(16)**	6,258
2016/17 policy year	**217**	1,949	**217**	2,070	**–**	(121)
Closed years	**200**	787	**200**	823	**–**	(36)
	147,891	149,066	**141,322**	142,965	**6,569**	6,101
Deferred calls						
2018/19 policy year	**58,450**	–	**57,039**	–	**1,410**	–
2017/18 policy year	**(814)**	59,569	**(772)**	58,202	**(41)**	1,367
2016/17 policy year	**(1,109)**	(897)	**(1,109)**	(865)	**–**	(32)
Closed years	**(3)**	409	**(3)**	409	**–**	–
	56,524	59,081	**55,155**	57,746	**1,369**	1,335
Calls and premiums	**204,415**	208,147	**196,477**	200,711	**7,938**	7,436

All business is written in the UK.

3 REINSURANCE PREMIUMS						
Group excess of loss	**23,022**	22,147	**23,022**	22,147	**–**	–
Other	**38,661**	33,610	**38,268**	33,245	**393**	365
	61,683	55,757	**61,290**	55,392	**393**	365

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, 2017/18 and 2018/19 policy years, and claims that exceed USD5m in the 2016/17 policy year within the Association's retention.

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2019

3 REINSURANCE PREMIUMS (CONTINUED)

Transactions with Boudicca during the year were as follows:	2019 USD(000)	2018 USD(000)
Reinsurance premiums paid to Boudicca		
Quota share/aggregate excess of loss cover	**8,250**	7,250
Individual excess of loss cover	**21,000**	18,000
	29,250	25,250
Claims recoverable from Boudicca		
Quota share/aggregate excess of loss cover	**23,627**	24,917
Individual excess of loss cover	**21,715**	26,359
	45,342	51,276
Claims recoverable from Boudicca		
On paid claims	**20,796**	3,082
Increase in provision for amounts recoverable	**24,546**	48,194
	45,342	51,276
As at 20 February 2019 the following amounts were recoverable from Boudicca		
Debtors – reinsurance operations	**13,210**	1,520
Reinsurers' share of technical provisions	**102,630**	78,084
	115,840	79,604

At the statement of financial position date surplus investment assets of Boudicca totalling USD196.9m (2018 – USD211.6m) 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	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Gross claims paid						
Members' claims	**144,402**	237,581	**137,033**	233,155	**7,369**	4,426
Other Clubs' Pool claims	**23,765**	19,561	**23,765**	19,561	**–**	–
	168,167	257,142	**160,798**	252,716	**7,369**	4,426
Recoveries on claims paid						
From the Group excess of loss reinsurance	**17,849**	84,822	**17,849**	84,822	**–**	–
From the Pool	**1,940**	9,555	**1,940**	9,555	**–**	–
Other reinsurers	**22,054**	14,741	**22,032**	14,629	**22**	112
	41,843	109,118	**41,821**	109,006	**22**	112
Net claims paid	**126,324**	148,024	**118,977**	143,710	**7,347**	4,314

5 CHANGE IN NET PROVISION FOR CLAIMS						
Claims outstanding						
Members' claims	**969,160**	924,763	**951,974**	907,621	**17,187**	17,142
Other Clubs' Pool claims	**194,390**	217,814	**194,390**	217,814	**–**	–
	1,163,551	1,142,577	**1,146,364**	1,125,435	**17,187**	17,142
Reinsurers' share of claims outstanding						
From the Group excess of loss reinsurance	**142,080**	156,334	**142,080**	156,334	**–**	–
From the Pool	**148,330**	133,064	**148,330**	133,064	**–**	–
Other reinsurers	**158,687**	132,000	**158,397**	131,685	**290**	315
	449,097	421,398	**448,807**	421,083	**290**	315
Net claims outstanding carried forward	**714,454**	721,179	**697,557**	704,352	**16,897**	16,827
Net claims outstanding brought forward	**721,179**	775,651	**704,352**	754,877	**16,827**	20,774
Change in net provision for claims	**(6,725)**	(54,472)	**(6,795)**	(50,525)	**70**	(3,947)

Claims outstanding includes a 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 USD82.1m (2018 – USD82.8m). 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 (Britannia and General Cells) totalled USD648,456,587 (2018 – USD655,166,407). Total reinsurance recoveries due to the Association from affiliate companies and external reinsurers totalled USD1,095,417,000 (2018 – USD1,069,481,000).

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

	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)	2018/19 USD(000)
End of reporting year	245,986	245,184	299,014	419,386	360,522	271,777	527,169	192,588	232,129	274,101
One year later	237,699	268,284	309,059	406,415	357,386	275,747	581,117	163,302	198,771	
Two years later	224,115	244,545	286,594	376,606	329,780	254,220	634,314	157,210		
Three years later	215,337	224,470	266,536	360,463	294,403	260,594	618,293			
Four years later	204,756	207,251	246,807	344,257	273,839	250,121				
Five years later	205,529	197,206	244,474	332,420	266,194					
Six years later	198,948	193,019	240,932	331,371						
Seven years later	193,614	191,462	239,344							
Eight years later	189,944	189,702								
Nine years later	188,849									
Current estimate of ultimate claims	188,849	189,702	239,344	331,371	266,194	250,121	618,293	157,210	198,771	274,101
Cumulative payments to date	175,090	171,575	222,961	273,835	197,528	148,482	396,520	88,123	83,340	55,310
Liability recognised in the consolidated statement of financial position	13,759	18,127	16,383	57,536	68,666	101,639	221,773	69,087	115,431	218,791
Total liability relating to the last ten policy years										901,192
Other claims liabilities										262,358
Total reserve included in the consolidated statement of financial position										**1,163,551**

Insurance claims – net (Consolidated)

Estimate of ultimate claims cost attributable to the policy year

	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)	2018/19 USD(000)
End of reporting year	222,181	228,784	243,590	248,434	258,836	214,694	233,575	183,273	170,582	174,988
One year later	202,986	229,964	238,864	243,071	253,737	195,587	223,349	152,058	166,266	
Two years later	194,877	214,112	239,157	238,168	231,204	176,652	216,650	147,687		
Three years later	190,751	199,217	222,931	237,845	220,104	170,087	204,224			
Four years later	180,822	182,117	204,449	235,470	202,004	158,476				
Five years later	179,422	171,367	201,327	223,470	197,604					
Six years later	174,222	168,567	198,127	214,120						
Seven years later	169,722	167,867	196,527							
Eight years later	166,122	166,467								
Nine years later	165,022									
Current estimate of ultimate claims	165,022	166,467	196,527	214,120	197,604	158,476	204,224	147,687	166,266	174,988
Cumulative payments to date	155,096	151,230	180,530	198,583	148,734	119,821	118,433	82,003	75,130	50,310
Liability recognised in the consolidated statement of financial position	9,926	15,237	15,997	15,537	48,870	38,655	85,791	65,684	91,136	124,678
Total liability relating to the last ten policy years										511,510
Other claims liabilities										202,944
Total reserve included in the consolidated statement of financial position										**714,454**

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2019

CLAIM DEVELOPMENT TABLES (CONTINUED)

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

	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)	2018/19 USD(000)
End of reporting year	232,589	233,312	287,964	408,322	352,130	263,676	519,176	185,309	225,542	266,341
One year later	224,389	258,412	299,259	398,351	350,194	267,646	573,915	157,798	192,934	
Two years later	210,689	235,127	277,544	369,292	323,588	246,568	627,913	150,906		
Three years later	202,793	214,930	258,236	353,649	288,561	253,492	612,191			
Four years later	192,592	196,274	239,007	337,792	268,197	243,420				
Five years later	194,363	185,667	236,774	326,356	260,352					
Six years later	188,526	182,238	233,832	325,457						
Seven years later	183,393	180,746	232,344							
Eight years later	180,240	178,983								
Nine years later	179,251									
Current estimate of ultimate claims	179,251	178,983	232,344	325,457	260,352	243,420	612,191	150,906	192,934	266,341
Cumulative payments to date	165,737	161,535	216,288	268,302	192,298	142,642	391,332	83,088	79,488	51,829
Liability recognised in the consolidated statement of financial position	13,514	17,448	16,056	57,155	68,054	100,778	220,859	67,818	113,446	214,512
Total liability relating to the last ten policy years										889,639
Other claims liabilities										256,725
Total reserve included in the consolidated statement of financial position										**1,146,364**

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

	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)	2018/19 USD(000)
End of reporting year	208,784	216,912	232,540	237,370	250,444	206,592	225,582	175,994	163,995	167,228
One year later	190,089	220,092	229,064	235,007	246,545	187,486	216,146	146,554	160,429	
Two years later	182,231	204,740	230,107	230,854	225,012	169,001	210,248	141,383		
Three years later	179,105	190,345	214,630	231,030	214,262	162,985	198,122			
Four years later	169,176	173,745	196,649	229,005	196,362	151,774				
Five years later	168,776	163,245	193,627	217,405	191,762					
Six years later	164,276	160,645	191,027	208,205						
Seven years later	159,976	160,145	189,527							
Eight years later	156,876	158,745								
Nine years later	155,876									
Current estimate of ultimate claims	155,876	158,745	189,527	208,205	191,762	151,774	198,122	141,383	160,429	167,228
Cumulative payments to date	146,145	143,947	173,858	193,051	143,504	113,981	113,245	76,968	71,278	46,828
Liability recognised in the consolidated statement of financial position	9,731	14,798	15,669	15,154	48,258	37,793	84,877	64,415	89,151	120,400
Total liability relating to the last ten policy years										500,246
Other claims liabilities										197,311
Total reserve included in the consolidated statement of financial position										**697,557**

CLAIM DEVELOPMENT TABLES (CONTINUED)

Insurance claims – gross (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	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)	2018/19 USD(000)
End of reporting year	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587	7,760
One year later	13,310	9,872	9,800	8,065	7,192	8,102	7,202	5,504	5,837	
Two years later	13,425	9,417	9,050	7,315	6,192	7,652	6,402	6,304		
Three years later	12,544	9,540	8,300	6,815	5,842	7,101	6,102			
Four years later	12,164	10,977	7,800	6,465	5,642	6,702				
Five years later	11,166	11,539	7,700	6,065	5,842					
Six years later	10,421	10,781	7,100	5,915						
Seven years later	10,221	10,716	7,000							
Eight years later	9,704	10,719								
Nine years later	9,598									
Current estimate of ultimate claims	9,598	10,719	7,000	5,915	5,842	6,702	6,102	6,304	5,837	7,760
Cumulative payments to date	9,353	10,040	6,672	5,532	5,230	5,840	5,188	5,035	3,853	3,481
Liability recognised in the consolidated statement of financial position	245	679	328	383	612	862	914	1,269	1,984	4,279
Total liability relating to the last ten policy years										11,554
Other claims liabilities										5,633
Total reserve included in the consolidated statement of financial position										**17,187**

Insurance claims – net (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	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)	2018/19 USD(000)
End of reporting year	13,396	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587	7,760
One year later	12,896	9,872	9,800	8,065	7,192	8,102	7,202	5,504	5,837	
Two years later	12,646	9,372	9,050	7,315	6,192	7,652	6,402	6,304		
Three years later	11,646	8,872	8,300	6,815	5,842	7,102	6,102			
Four years later	11,646	8,372	7,800	6,465	5,642	6,702				
Five years later	10,646	8,122	7,700	6,065	5,842					
Six years later	9,946	7,922	7,100	5,915						
Seven years later	9,746	7,722	7,000							
Eight years later	9,246	7,722								
Nine years later	9,146									
Current estimate of ultimate claims	9,146	7,722	7,000	5,915	5,842	6,702	6,102	6,304	5,837	7,760
Cumulative payments to date	8,951	7,283	6,672	5,532	5,230	5,840	5,188	5,035	3,853	3,481
Liability recognised in the consolidated statement of financial position	195	439	328	383	612	862	914	1,269	1,984	4,279
Total liability relating to the last ten policy years										11,264
Other claims liabilities										5,633
Total reserve included in the consolidated statement of financial position										**16,897**

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2019

	Consolidated 2019 USD(000)	Consolidated 2018 USD(000)	Class 3 P&I 2019 USD(000)	Class 3 P&I 2018 USD(000)	Class 6 FD&D 2019 USD(000)	Class 6 FD&D 2018 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 2018.

	2019	2018	2019	2018	2019	2018
Net provision at beginning of the year	**721,179**	775,651	**704,352**	754,877	**16,827**	20,774
Net payments in the year in respect of these provisions	**(75,763)**	(104,491)	**(71,897)**	(102,862)	**(3,866)**	(1,629)
Net provision at the end of the year in respect of claims provided for at the end of the previous year	**(589,776)**	(593,876)	**(577,158)**	(580,951)	**(12,618)**	(12,925)
Improvement in respect of prior years	**55,640**	77,284	**55,297**	71,064	**343**	6,220

7 NET OPERATING EXPENSES

	2019	2018	2019	2018	2019	2018
Directors' fees	**752**	669	**691**	614	**61**	55
Auditors' remuneration	**244**	300	**244**	285	**–**	15
Other expenses	**9,956**	7,648	**9,639**	7,420	**317**	228
Administrative expenses	**10,952**	8,617	**10,574**	8,319	**378**	298
Acquisition expenses	**17,697**	17,049	**16,458**	16,004	**1,239**	1,045
Net operating expenses	**28,649**	25,666	**27,032**	24,323	**1,617**	1,343

The highest paid director received USD94,990 (2018 – USD99,525). 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 2019 was 10.90% (2018 – 9.73%). The ratio has been calculated in accordance with the schedule and guidelines issued by the International Group.

8 NET INVESTMENT INCOME

	2019	2018	2019	2018	2019	2018
Income from equity investments	**4,399**	3,613	**4,214**	3,461	**185**	152
Income from fixed income investments	**6,001**	8,569	**5,793**	8,252	**208**	317
Bank and other interest	**3,661**	2,119	**3,493**	2,018	**168**	101
Realised investment loss	**(4,854)**	(875)	**(4,673)**	(870)	**(181)**	(5)
Unrealised investment (loss)/gain	**(9,206)**	31,811	**(8,774)**	30,381	**(432)**	1,430
Exchange (loss)/gain on cash balances	**(1,091)**	4,897	**(1,095)**	4,900	**4**	(3)
Investment income	**(1,090)**	50,134	**(1,042)**	48,142	**(48)**	1,992
Investment management expenses	**(1,553)**	(1,508)	**(1,489)**	(1,447)	**(64)**	(61)
Net investment income	**(2,643)**	48,626	**(2,531)**	46,695	**(112)**	1,931

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 2019	Bonds 2018	Equities 2019	Equities 2018
US	**2.3%**	2.7%	**6.1%**	5.9%
UK	**2.2%**	3.0%	**7.0%**	7.1%
Europe	**–**	–	**7.0%**	7.0%
Pacific Basin	**–**	–	**7.0%**	7.0%
Japan	**0.5%**	0.5%	**7.0%**	7.0%

Comparison of actual return achieved with the return allocated to the technical account using longer-term rates	10 years to February 2019 USD(000)	10 years to February 2018 USD(000)
Actual return achieved	**317,641**	302,011
Longer-term return credited to the technical account	**277,123**	279,493
Excess of actual returns over longer-term returns	**40,518**	22,518

10 TAXATION	Consolidated 2019 USD(000)	Consolidated 2018 USD(000)	Class 3 P&I 2019 USD(000)	Class 3 P&I 2018 USD(000)	Class 6 FD&D 2019 USD(000)	Class 6 FD&D 2018 USD(000)
Analysis of charge for period						
UK Corporation tax charge	**288**	487	**274**	451	**14**	36
Overprovision in previous year	**–**	(22)	**–**	(22)	**–**	–
Unrelieved foreign withholding taxes	**849**	718	**813**	688	**36**	30
Taxation	**1,137**	1,183	**1,087**	1,117	**50**	66

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 19% for the 365 days to 20 February 2019 (2018 – 20% for 39 days and 19% for 326 days). The differences are explained below:

Net (deficit)/surplus before tax	**(8,159)**	81,798	**(6,558)**	74,506	**(1,601)**	7,292
multiplied by standard rate of Corporation tax in the UK of 19% (2018 - 20% for 39 days and 19% for 326 days)	**(1,559)**	15,629	**(1,253)**	14,236	**(306)**	1,393
Effects of:						
Non-taxable mutual insurance underwriting operations	**1,053**	(6,338)	**769**	(5,314)	**284**	(1,024)
Non-taxable investment income	**794**	(8,804)	**758**	(8,471)	**36**	(333)
Current tax charge	**288**	487	**274**	451	**14**	36

11 FINANCIAL INVESTMENTS						
Group						
Market value						
Quoted shares and variable yield securities	**239,259**	253,410	**229,050**	242,607	**10,209**	10,803
Debt securities and other fixed income securities	**419,892**	640,777	**404,310**	615,801	**15,582**	24,976
Deposits with credit institutions	**220,024**	49,651	**213,170**	47,852	**6,854**	1,799
Derivatives at fair value through income	**125**	197	**120**	189	**5**	8
Unsettled investment transactions	**214**	230	**205**	220	**9**	10
	879,514	944,265	**846,855**	906,669	**32,659**	37,596
Cost						
Quoted shares and variable yield securities	**182,711**	184,326	**174,499**	176,046	**8,212**	8,280
Debt securities and other fixed income securities	**412,428**	637,196	**397,152**	612,409	**15,276**	24,787
Deposits with credit institutions	**220,024**	49,651	**213,170**	47,852	**6,854**	1,799
Derivatives at fair value through income	**3,056**	2,575	**2,928**	2,467	**128**	108
Unsettled investment transactions	**214**	230	**205**	220	**9**	10
	818,433	873,978	**787,954**	838,994	**30,479**	34,984
Included in investments at market value were:						
Listed on the UK stock exchange	**35,733**	99,946	**34,011**	95,527	**1,722**	4,419
Listed on other investment exchanges	**623,631**	794,470	**599,553**	763,101	**24,078**	31,369
	659,364	894,416	**633,564**	858,628	**25,800**	35,788
Association						
Market value						
Debt securities and other fixed income securities	**179,821**	129,261	**173,541**	123,007	**6,280**	6,254
Cost						
Debt securities and other fixed income securities	**181,907**	131,707	**175,148**	124,955	**6,759**	6,752
Included in investments at market value were:						
Listed on the UK stock exchange	**27,687**	27,650	**26,303**	26,268	**1,384**	1,382
Listed on other investment exchanges	**152,134**	101,611	**147,238**	96,739	**4,896**	4,872
	179,821	129,261	**173,541**	123,007	**6,280**	6,254

NOTES TO THE FINANCIAL STATEMENTS

20 FEBRUARY 2019

12 INVESTMENT IN GROUP UNDERTAKINGS

	Country of incorporation	Share held	Class of shares	Principal activity	2019 USD(000)	2018 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**	10
Hydra Insurance Company Limited – General Cell	Bermuda	7.69%	Ordinary	Reinsurance	**20**	20
Shares in subsidiary companies					**150**	150

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 Hydra'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 and its share of the general 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 2019, 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. Furthermore, during the year, a dividend of USD5.8m (2018 – 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 2019	2019 USD(000)	2018 USD(000)
Net premiums	**18,914**	16,184
Net claims	**(11,582)**	(12,886)
Investment income (net of management expenses)	**1,592**	(213)
Other expenses	**(52)**	(47)
Surplus for the year	**8,872**	3,038
Government securities and deposits with credit institutions	**71,612**	68,768
Reinsurers' share of technical provisions	**2,137**	7,084
Other liabilities	**(3,239)**	(1,848)
Technical provisions	**(54,481)**	(61,065)
Shareholders' equity	**16,029**	12,939

13 RISK MANAGEMENT

The Association is governed by the Board which drives decision making within the Association from board level through to operational decision making by the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop seven Risk Appetite Statements (RAS) that are used when setting strategy or making material decisions.

The framework of governance through which risk is managed and 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, at least 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 review of the financial statements and Solvency & Financial Condition Report ahead of Board consideration, 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, reviewing the skills, training requirements and performance of directors and Senior 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. 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 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 Association's Risk & Audit Group and the Board of Tindall Riley (Britannia) Limited ('TRB'), the Managers of the Association).

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 achieved.

13.1 Underwriting risk

The Association's exposure to insurance risk is initiated by the underwriting process which selects the Members and sets the call based on assumed claims on the Association from the membership. The risk is managed through the underwriting process, acquisition of reinsurance cover, including 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 both 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 for calls at a confidence level which should ensure 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 their expertise and 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 are usually subject to a risk management audit of their shore-based operations before joining.

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, 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 a high quality 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 to give a high 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.

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2019

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 test, 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 (reducing surplus/increasing deficit)	2019 USD(000)	2018 USD(000)
Gross	**10,221**	10,407
Net	**7,137**	7,619

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, including 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	
	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
0.5% increase in interest rates	**3,164**	3,435	**3,053**	3,302	**111**	133
0.5% decrease in interest rates	**(3,164)**	(3,435)	**(3,053)**	(3,302)	**(111)**	(133)

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% (2018 – 16%) of the investment portfolio. The Association also holds an investment in a diversified growth fund amounting to 12% (2018 – 11%) 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 USD0.2m (2018 – USD0.2m).

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

5% increase in equity price	**6,695**	7,502	**6,406**	7,179	**289**	323
5% decrease in equity price	**(6,695)**	(7,502)	**(6,406)**	(7,179)	**(289)**	(323)

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	
	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Debt securities	**419,892**	640,777	**404,310**	615,801	**15,582**	24,976
Derivatives at fair value through income	**125**	197	**120**	189	**5**	8
Reinsurers' share of technical provisions	**449,097**	421,398	**448,807**	421,083	**290**	315
Reinsurance debtors	**28,087**	23,319	**28,039**	23,279	**48**	40
Member and other debtors	**83,353**	78,621	**90,857**	76,501	**(7,504)**	2,120
Unsettled investment transactions	**214**	230	**205**	220	**9**	10
Deposits with credit institutions	**220,024**	49,651	**213,170**	47,852	**6,854**	1,799
Cash at bank and in hand	**126,030**	122,876	**103,663**	111,155	**22,367**	11,721
Total financial assets bearing credit risk	**1,326,822**	1,337,069	**1,289,171**	1,296,080	**37,651**	40,989

An analysis of this exposure by credit rating is shown below						
AAA	**–**	–	**–**	–	**–**	–
AA	**477,429**	510,138	**440,735**	480,147	**36,694**	29,991
A	**325,802**	360,671	**325,794**	360,671	**8**	–
BBB+ and below	**83,346**	78,671	**83,346**	78,671	**–**	–
No rating	**440,245**	387,589	**439,296**	376,591	**949**	10,998
Total financial assets bearing credit risk	**1,326,822**	1,337,069	**1,289,171**	1,296,080	**37,651**	40,989

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.

NOTES TO THE FINANCIAL STATEMENTS
20 FEBRUARY 2019

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 2019	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	**239,259**	**–**	**–**	**–**	**–**	**239,259**
Debt securities and other fixed income securities	**–**	**–**	**–**	**164,938**	**254,954**	**419,892**
Deposits with credit institutions	**220,024**	**–**	**–**	**–**	**–**	**220,024**
Derivatives at fair value through income	**125**	**–**	**–**	**–**	**–**	**125**
Unsettled investment transactions	**214**	**–**	**–**	**–**	**–**	**214**
Reinsurers' share of outstanding claims	**–**	**133,820**	**98,311**	**140,029**	**76,936**	**449,096**
Direct insurance operations – Members	**4,105**	**50,367**	**21,685**	**–**	**–**	**76,156**
Reinsurance operations	**28,087**	**–**	**–**	**–**	**–**	**28,087**
Taxation	**715**	**–**	**–**	**–**	**–**	**715**
Other debtors	**6,481**	**–**	**–**	**–**	**–**	**6,481**
Cash at bank	**126,030**	**–**	**–**	**–**	**–**	**126,030**
Accrued interest	**964**	**–**	**–**	**–**	**–**	**964**
Other prepayments and accrued income	**5,098**	**–**	**–**	**–**	**–**	**5,098**
Total assets	**631,101**	**184,187**	**119,996**	**304,967**	**331,890**	**1,572,141**
At 20 February 2018						
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**

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 2019	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	**346,710**	**254,712**	**362,797**	**199,332**	**1,163,551**
Direct insurance operations – Members	**12,519**	**–**	**–**	**–**	**12,519**
Derivative liabilities	**4,197**	**–**	**–**	**–**	**4,197**
Reinsurance operations	**15**	**–**	**–**	**–**	**15**
Other creditors	**1,200**	**–**	**–**	**–**	**1,200**
Total liabilities	**364,641**	**254,712**	**362,797**	**199,332**	**1,181,482**
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**

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 within 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 appetite. 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 Solvency II regime has been in effect since 1 January 2016 and established a new set of EU-wide capital requirements and 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.

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.

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	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Level 1	**459,283**	303,061	**442,220**	290,459	**17,063**	12,602
Level 2	**420,231**	641,203	**404,634**	616,209	**15,597**	24,994
Level 3	**–**	–	**–**	–	**–**	–
	879,514	944,264	**846,854**	906,668	**32,660**	37,596

At 20 February 2019 and 20 February 2018, all of the Association (Parent company) investments were classified as Level 2.

NOTES TO THE FINANCIAL STATEMENTS

20 FEBRUARY 2019

14 TONNAGE 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 of 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 tonnage.

The analysis of its tonnage from P&I cover from Members by geographical area is as follows:	2019 gt (000)	2018 gt (000)
Asia	**49,686**	48,388
Middle East	**2,282**	1,966
Scandinavia	**17,350**	17,374
Australasia	**412**	412
Americas	**4,140**	4,912
Europe	**38,015**	33,906
	111,885	106,958

15 DEBTORS – DIRECT INSURANCE OPERATIONS

	Consolidated		Class 3 P&I		Class 6 FD&D	
	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Group and Association						
Calls and premiums due from Members	**4,105**	1,732	**2,231**	688	**1,874**	1,044
Deferred call advised to Members	**72,052**	74,354	**70,933**	73,278	**1,119**	1,076
Debtors – direct insurance operations	**76,157**	76,086	**73,164**	73,966	**2,993**	2,120

The deferred call (Class 3 P&I) represents the estimated amount (net of brokerage) to be charged to Members in October 2019 following the Board's decision to make a 45% deferred call in respect of the 2017/18 policy year, of which 25% would not be collected for 12 months, and the 45% call in respect of the 2018/19 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 2016/17 policy year which was charged to Members in October 2018 and a 45% deferred call in respect of 2017/18 policy year, 25% of which was charged to Members in October 2018, and the remainder of which will be charged in October 2019.

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 2018/19 policy year (2017/18 – 30%).

16 DEBTORS – REINSURANCE OPERATIONS

	Consolidated 2019	Consolidated 2018	Class 3 P&I 2019	Class 3 P&I 2018	Class 6 FD&D 2019	Class 6 FD&D 2018
Reinsurance recoveries						
Amounts recoverable from the Pool	**4,110**	3,085	**4,110**	3,085	**–**	–
Other	**23,977**	20,234	**23,929**	20,194	**48**	40
Debtors – reinsurance operations – Group	**28,087**	23,319	**28,039**	23,279	**48**	40
Less recoverable from Hydra retrocession agreement	**(726)**	–	**(726)**	–	**–**	–
Due from Hydra Insurance Company Limited	**4,292**	2,290	**4,292**	2,290	**–**	–
Debtors – reinsurance operations – Association	**31,653**	25,609	**31,605**	25,569	**0**	40

17 OTHER DEBTORS (GROUP AND ASSOCIATION)

	Consolidated 2019	Consolidated 2018	Class 3 P&I 2019	Class 3 P&I 2018	Class 6 FD&D 2019	Class 6 FD&D 2018
OTHER DEBTORS (GROUP AND ASSOCIATION)	**6,481**	–	**16,978**	1,863	**(10,497)**	(1,863)

Included within other debtors for Class 3 P&I is a sum of USD10.5m (2018 – USD1.9m) 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. Furthermore, USD6.5m has been loaned to The Britannia Steam Ship Association Europe in order to capitalise that company and this balance is repayable on demand.

	Consolidated		Class 3 P&I		Class 6 FD&D	
18 CREDITORS – REINSURANCE OPERATIONS	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)	2019 USD(000)	2018 USD(000)
Group and Association						
Amounts due to the Pool	**332**	32	**332**	32	**–**	–
Other	**3,865**	5,346	**3,865**	5,346	**–**	–
Creditors – reinsurance operations	**4,197**	5,378	**4,197**	5,378	**–**	–

19 OTHER CREDITORS

Subsidiaries	**554**	610	**531**	586	**23**	24
Association	**646**	969	**579**	870	**67**	99
Other creditors – Group	**1,200**	1,579	**1,110**	1,456	**90**	123

20 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 USD29.0m (2018 – USD26.3m) for the year. Three directors of the Association are also directors of Tindall Riley (Britannia) Limited.

21 SUBSEQUENT EVENTS

As more fully explained in the Strategic Report on page 21, on 29 March 2019 the Association's ownership was rearranged. There are no subsequent events which require adjustment in the financial statements. The financial statements were authorised for issue by the Board on 9 May 2019.

CLASS 3 – PROTECTION AND INDEMNITY POLICY YEAR STATEMENT

20 FEBRUARY 2019

	2018/19 USD(000)	2017/18 USD(000)	2016/17 USD(000)	Closed years USD(000)	Total USD(000)
Advance calls and premiums					
Year to 20 February 2019	141,509	(604)	217		
Year to 20 February 2018	–	140,072	2,070		
Year to 20 February 2017	–	–	168,783		
	141,509	139,468	171,070		
Deferred calls					
Year to 20 February 2019	57,039	(772)	(1,109)		
Year to 20 February 2018	–	58,202	(865)		
Year to 20 February 2017	–	–	63,705		
	198,548	196,898	232,799		
Reinsurance premiums					
Group excess of loss	(23,939)	(22,498)	(26,023)		
Other	(38,020)	(33,341)	(38,683)		
	(61,959)	(55,839)	(64,706)		
Allocated investment return	28,742	30,114	32,504		
Taxation	3,303	(582)	(735)		
	168,634	170,591	199,862		
Claims paid less reinsurance recoveries	46,828	71,278	76,968		
Acquisition costs	16,786	16,616	17,896		
Administrative expenses	10,574	8,319	7,709		
	74,188	96,213	102,573		
Balance available to meet outstanding claims	94,446	74,378	97,289	707,212	973,325
Estimated outstanding claims					
Own claims	172,210	80,208	51,882	647,674	951,974
Other Clubs' Pool claims	42,302	33,238	15,936	102,914	194,390
	214,512	113,446	67,818	750,588	1,146,364
Estimated reinsurance recoveries					
Group excess of loss	–	–	–	(142,080)	(142,080)
Pool	(14,368)	(1,147)	–	(132,815)	(148,330)
Other reinsurers	(79,745)	(23,148)	(3,403)	(52,101)	(158,397)
	(94,113)	(24,295)	(3,403)	(326,996)	(448,807)
Net estimated outstanding claims	120,400	89,151	64,415	423,592	697,558
(Deficit)/surplus	(25,954)	(14,773)	32,874	283,620	275,767
Capital distribution	–	–	–	(60,000)	(60,000)
Balance after distributions	**(25,954)**	**(14,773)**	**32,874**	**223,620**	**215,767**

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