BRITANNIA P&I
TRUSTED SINCE 1855

The Britannia Steam Ship Insurance Association Ltd

Group Solvency and Financial Condition Report

As at 20 February 2019

Contents

Group Solvency and Financial Condition Report

1. Introduction

The Britannia Steam Ship Insurance Association Limited (Britannia or the Association) is the oldest Protection and Indemnity (P&I) Club in the world. Trusted by its Members since 1855, the Association has built a reputation for providing an exceptional standard of service based on its core values of Integrity, Specialisation, Excellence, and Mutuality.

This is the Group Solvency and Financial Condition Report (SFCR) of the Association as at 20 February 2019, covering the preceding twelve months.

1.1 Review of the year ended 20 February 2019

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 USD24.4m, 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.

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.

Investment strategy

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'.

The portfolio had the following composition at 20 February 2019:

Asset class	**Proportion %**
Matching portfolio	
Government bonds and cash	48%
Growth portfolio	
Absolute return bond funds	24%
Equities	16%
Diversified growth fund	12%
	100%

Claims

Class 3 – Protection and Indemnity (P&I)

Retained claims

Claims within the Association's retention are categorised as either 'attritional' (estimated to cost USD1m or less) or 'high value' (estimated to cost in excess of USD1m). Attritional claims constitute the vast majority of claims by number, while high value claims, although 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 heavy weather incident, 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 6 – Freight, Demurrage and Defence (FD&D)

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.

2. Directors' responsibility statement

We acknowledge our responsibility for preparing the Association's Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a. throughout the financial year in question, the Association has complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II Regulations; and

b. it is reasonable to believe that the Association has continued to so comply subsequently and will continue to so comply in future.

For and on behalf of the Board of The Britannia Steam Ship Insurance Association Limited

B T Nielsen
Director

J P Rodgers
Director

Date : 2 July 2019

3. Independent Auditors' Report

1. Report of the external independent auditor to the Directors of the Britannia Steam Ship Insurance Association Limited ('the Association') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Association as at 20 February 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Association as at 20 February 2019, ('**the Narrative Disclosures subject to audit**'); and

- Association templates S.02.01.02, S.23.01.22, S.25.01.22, S.32.01.22 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Group Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;

- Association templates S.05.01.02, S.05.02.01;

- the written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report includes amounts that are total, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Association as at 20 February 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report 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 SFCR is not appropriate; or

- the Directors' have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the Valuation for solvency purposes and Capital Management sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report, 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 relevant elements of the Group Solvency and Financial Condition Report 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.

Responsibilities of Directors' for the Group Solvency and Financial Condition Report

The Directors' are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors' are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Britannia Steam Ship Insurance Association Limited statutory financial statements. 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.

Thomas Reed (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

4 July 2019

4. Business and performance

4.1 General information

Name and legal form of the company

The Britannia Steam Ship Insurance Association Limited (Britannia or the Association) is a Company Limited by Guarantee registered in England and Wales (Company number 10340).

Name and contact details of the authorities responsible for financial supervision of the Association

The Association is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA), firm reference number 202047. The PRA is the Group Supervisor for the purposes of Solvency II regulation.

Contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pra
www.fca.org.uk

Name and contact details of the Association's external auditor

BDO LLP, 150 Aldersgate Street, London, EC1A 4AB.

Group legal structure

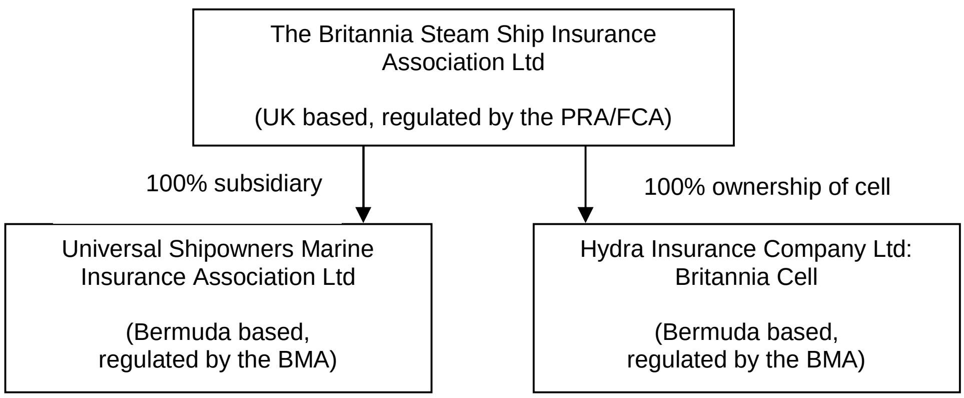
The Association is 100% owned by its Members. It has one subsidiary, Universal Shipowners Marine Insurance Association Limited (USMIA) registered in Bermuda and regulated by the Bermudian Monetary Authority.

As a member of the International Group of P&I Clubs (the IG) and a signatory to the IG Pooling Agreement, the Association participates in Hydra Insurance Company Limited (Hydra), a Bermuda registered segregated cell company.

The Association's cell in Hydra is treated for the purposes of internal management and GAAP accounting as a subsidiary of the Association. However, for the purposes of Solvency II, the Prudential Regulation Authority (PRA) has stated that the Association's cell in Hydra is to be treated as a third-party reinsurer.

Chart 1 below shows the group structure of the Association at 20 February 2019.

Chart 1: Britannia's corporate structure



Revised group structure post 20 February 2019

Subsequent to 20 February 2019, 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 license 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, 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 license 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 now sits 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 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.

USMIA

The Association reinsures 90% of its Class 3 (Protection & Indemnity) and Class 6 (Freight, Demurrage & Defence) business on a quota share basis to USMIA. USMIA, which is not a mutual, has an independent Board of Directors responsible for stewardship of the company, and, in particular, for monitoring the operation of the quota share reinsurance and taking investment decisions. Day-to-day management of USMIA is carried out by independent managers, Marsh Management Services (Bermuda) Limited, a specialist captive and investment management company.

Hydra

Hydra reinsures:

- The Pool's layers from USD30m to USD50m;
- 92.5% of the layer USD50m excess USD50m; and
- the annual aggregate deductible of USD100m in the first layer of the USD650m excess of USD100m layer of the IG's reinsurance contract.

The purpose of Hydra is to enable each club individually to reinsure its exposure to other clubs' Pool claims, in other words its own pooling contributions. In addition, Hydra is used strategically by the IG depending upon reinsurance market conditions and pricing.

Boudicca

The final entity which is important to gain a full understanding of the Association's financial position is Boudicca Insurance Company Limited (Boudicca), a Bermuda registered company, regulated by the Bermudian Monetary Authority.

Boudicca provides the Association with quota share and excess of loss P&I reinsurance. It is owned by a Bermudian purpose trust called the Iceni Trust.

The Trustee of the Iceni Trust (currently a Bermudian Trust company) is appointed by a Protector Committee whose members are drawn from the non-executive members of the Association's Members' Representative Committee.

The Members of the Protector Committee (the Protectors) are responsible for ensuring that the Iceni Trust discharges its responsibilities appropriately.

The Association has historically held free reserves over and above the statutory minimum margin of solvency required by EU insurance companies. These reserves have been maintained to provide protection against the possibility of unexpected or exceptional claims not covered by technical (claims) provisions. Their existence has enabled the Association to avoid exceeding its deferred call estimates for over 40 years.

Since 20 February 1997, equivalent protection has been provided partly by means of a reinsurance policy with Boudicca. In summary, the policy provides cover for the following:

- Charges which would previously have fallen on the General Reserve i.e. amounts necessary:
    - (i) to meet the Association's regulatory capital requirement (SCR and MCR);
    - (ii) to keep open and closed policy years in balance,
    - (iii) to meet losses from an overspill claim;
- Any excess (above an agreed excess point) of claims in any policy year;
- Britannia's share of Pool claims not met by the IG excess of loss or Hydra contracts due to the failure of any of the reinsurers;
- A percentage quota share of each policy year's claims (currently 4%);
- Excess of loss cover for larger claims (excess of USD4 million in 2019/20) within the Association's retention.

The Directors of Boudicca are all Bermudian residents. The company is managed on a day-to-day basis by an independent management company, Symphony Management Limited.
Boudicca's assets are separately held by an independent custodian and are subject to a security interest agreement which ensures that they cannot be dissipated to the detriment of the reinsurance contract with the Association.

As Boudicca is wholly-owned by the Iceni Trust and is independent of the Association, its financial statements are not consolidated with those of the Association. However, the basis of the reinsurance contract and the funds held by Boudicca are disclosed in the Association's annual financial statements.

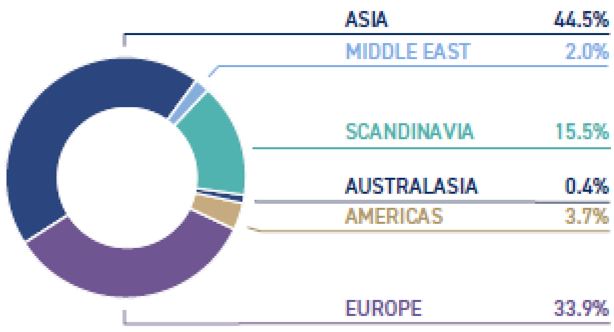
As at 20 February 2019, assets of Boudicca totalling USD196.9m (20 February 2018 – USD211.6m) were available to support the Association should they be required. These funds do not form part of the Association's Solvency II own funds, but nevertheless, under the terms of the reinsurance contract, they are available should the Association's actual own funds fall below the level of the SCR or MCR.

4.2 Underwriting performance

The Association writes two lines of business: Protection and Indemnity (P&I) risks (known as Class 3) and Freight Demurrage and Defence (FD&D) risks (known as Class 6), although for the purposes of capital reporting, both are combined into the Marine Aviation and Transport category.

Underwriting is carried out from Britannia's office in London and its licensed branches. The Association's Members are spread throughout the world, as illustrated by Chart 2.

Chart 2: Entered tonnage by area of management



In the year ended 20 February 2019, the Association produced an underwriting surplus of USD24.4m, including investment returns based on the longer-term rate of USD29.9m.

The following table shows a summary of the technical (underwriting) account for the year ended 20 February 2019 (UK GAAP basis) and prior year.

Sources of income and expenditure	**USD'000 2018/19**	**USD'000 2017/18**
Calls and premiums	204,415	208,147
Reinsurance premiums	(61,683)	(55,757)
Investment income (LTRR basis*)	29,873	31,378
Net claims incurred	(119,599)	(93,552)
Net operating expenses	(28,649)	(25,666)
Balance of the technical account	**24,357**	**64,550**

*Longer-term rate of return

The underwriting result was generated principally by the P&I class, USD24.7m (2018 – USD57.9m), while the FD&D class generated a loss of USD0.3m (2018 – USD6.6m).

The Association currently purchases market reinsurances for both P&I and FD&D classes, which mitigate the impact of individual large losses and losses in the aggregate on the Association. The external reinsurances in place on the two classes of business (excluding those relating to USMIA, Boudicca and Hydra) are as follows:

P&I Class 3 reinsurance

Charterers' and non-Poolable reinsurance

The Association provides a combined charterers' and non-Poolable reinsurance programme with retentions for P&I risks of USD2m and USD250,000 for both charterers' damage to hull risks and non-Poolable additional insurances. The Association is able to provide limits of up to USD750m for charterers' and non-Poolable risks.

Stop loss protection

Commencing in 2017/18 policy year, the Association arranged a three year stop loss contract to protect the Association's retention (owned, chartered and non-Poolable). For the 2019/20 policy year, the protection provides an annual aggregate limit of USD20m excess an annual aggregate deductible of USD166m which is adjusted for tonnage growth.

Maritime Labour Convention (MLC) protection

For the 2019/20 policy year, the IG has arranged collective reinsurance to provide a limit of USD200m excess of USD10m in respect of MLC risks, specifically for each wage of abandoned crew. The Association has placed additional reinsurance to protect its retention for a limit of USD8m excess USD2m per fleet (with two paid reinstatements).

International Group reinsurance

The Association is a signatory to the International Group Pooling Agreement, which pools individual claims excess USD10m with the 12 other signatories of the Pooling Agreement. This arrangement currently provides cover for owned P&I risks excess USD10m up to a limit of USD100m with Hydra reinsuring USD70m xs USD30m as described in section 4.1.4 above. Once this limit is exceeded, market reinsurance is purchased in four layers with a limit per claim of USD2.1bn excess USD100m. The first USD650m, i.e., USD650m excess USD100m, is written by reinsurers. The Group retains an annual aggregate deductible (AAD) of USD100m before the market reinsurance responds. This AAD is reinsured by Hydra.

Under the terms of the Pooling Agreement, the Members of each Club are liable for its share of a non-oil pollution claim that exceeds the limit of the Pool's excess reinsurance contract which in the current year covers claims up to USD2.1 billion each accident or occurrence (an 'Overspill Claim'). The IG purchases reinsurance to protect clubs and their Members from overspill claims up to USD1 billion excess the Pool's reinsurance limit. Above this limit and up to the maximum possible overspill claim of just under USD8 billion, any potential claim falls back on the Pool.

FD&D Class 6

The Association has purchased excess of loss reinsurance to protect Class 6 against the financial impact of an individual event. The insurance currently provides a limit of USD5m excess USD2.0m with unlimited free reinstatements. The FD&D class also benefits from an aggregate cover from Boudicca, which has an annual aggregate limit of USD7.5m.

4.3 Investment Performance

The Association has an investment strategy which complies with the requirements of the 'prudent person principle'.

The aim of the strategy is to match technical provisions in terms of currency and duration with low risk government bonds, and to invest funds in excess of technical provisions in assets that will produce a return for the Association without taking undue risk.

At 20 February 2019, the Association's investment portfolio (UK GAAP basis) comprised the following asset classes:

Matching portfolio		
Government bonds	134.2	15%
Corporate bonds	84.2	10%
Cash	220.0	25%
Growth portfolio	0.0	
Equities	138.1	16%
Diversified growth fund	101.5	12%
Absolute return bond funds	201.5	23%
	879.5	**100%**

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.

The following table sets out the investment return by asset class (UK GAAP basis):

Government bonds	(461)	8,624
Cash	3,661	2,118
Equities	(2,455)	21,407
Diversified growth fund	(1,853)	3,399
Corporate bonds	0	2,389
Absolute return bond funds	1,109	7,300
Exchange gain/(loss) on cash balances	(1,091)	4,897
Investment management expenses	(1,553)	(1,508)
	(2,643)	**48,626**

The Association has outsourced arrangements with the following investment managers

- State Street Global Advisors
- Aberdeen Standard Investments
- Schroders
- M&G Investments
- Newton Investment Management

Each of the above charges the Association an annual fee for its services based on the total value of investments under management.

4.4 Overall Business Performance

In the year ended 20 February 2019, the Association produced a deficit of USD9.3m. Balance sheet reserves reduced to USD390.7m after taking into account the USD30m capital distributions to Members of the Association that were approved by the Board in May 2018 and October 2018. The surplus funds available to the Association in Boudicca decreased to USD196.9m. Own funds for Solvency II purposes (which exclude the Boudicca funds), measured on a best estimate basis, stood at USD557.2m.

The overall solvency position of the Association at 20 February 2019 is set out in more detail in section 6 of this report.

5. Systems of Governance

5.1 General information on systems of governance

The Association's mission statement is to be the finest provider of P&I and FD&D insurance, offering its Members the highest level of service while maintaining the Association's financial strength and supporting mutuality. Central to the success of this mission statement is an ongoing commitment to the highest standards of corporate governance, including compliance with the corporate governance standards set out in the Solvency II Directive.

Role and responsibilities of the administrative, management or supervisory body and key functions

The Board

Overall responsibility for the management of the Association rests with the Board. The Board comprises a non-executive chairman, up to ten 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, Tindall Riley (Britannia) Limited (the Managers).

The Board is responsible for all strategic aspects of the business. In practice, the Association delegates day to day responsibility for particular matters to one or more Board sub-committees and executives of the Managers.

The Managers are responsible for ensuring that appropriate information is provided to the Board on a timely basis to enable it to discharge its duties effectively.

The Board's Terms of Reference include details of specific matters reserved for its exclusive decision. These include:

- Overall strategy
- Investment strategy
- Reinsurance strategy
- Financial reporting and controls
- Economic and regulatory capital
- Capital calls and distributions
- System of Governance, Risk Management and Compliance
- Appointment and remuneration of the Managers; and
- Appointment and remuneration of the Non -Executive Directors

The Board's Terms of reference are reviewed and updated at least annually. The Board meets five times a year.

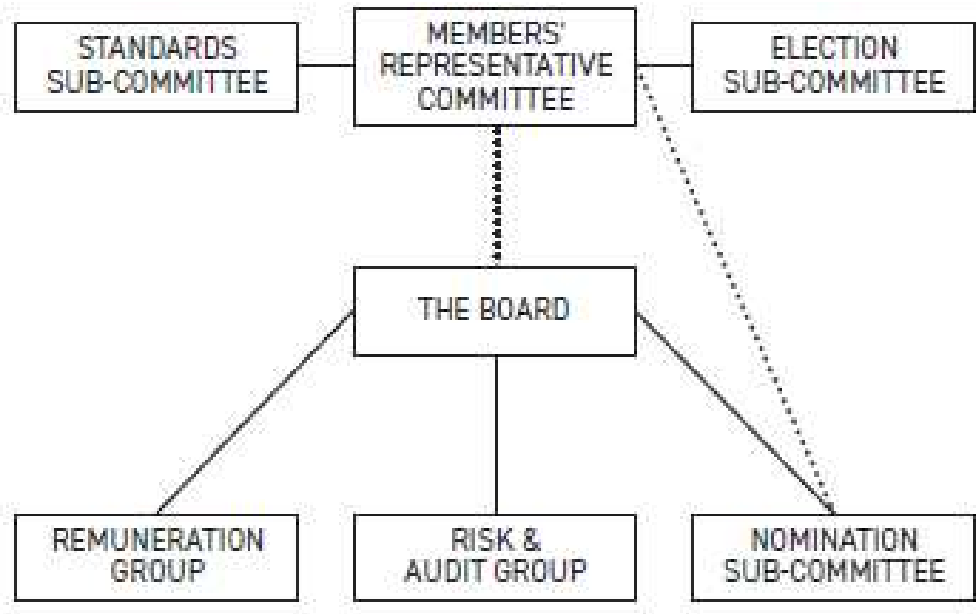
The Members' Representative Committee

The Members' Representative Committee (the MRC) comprises all Board directors (other than the two Manager Directors), plus up to 28 other representatives drawn from the Association's shipowner Members. These MRC members, on recommendation by the Election Sub-Committee, are selected for their individual skill and experience and as a body for being broadly representative of the wider membership, in terms of geographical location, ship type and size of the fleet.

The Chairman of the Board is also the Chairman of the MRC. The MRC does not carry out any regulated functions, but the Board has a duty to consult the MRC on key areas including strategy, investments, finance and call decisions. The MRC does have a key role in the Association's loss prevention activities through the Standards Sub-Committee, and the consideration of claims trends and industry matters. It also retains the right to approve discretionary claims up to USD2m.

The Board and MRC have appointed a number of sub-committees to assist them in discharging their responsibilities. The corporate governance structure is set out in Chart 3 below.

Chart 3: The Association's governance structure



Sub-Committees of the Board

There are three sub-committees of the board: the Risk and Audit Group, the Remuneration Group and the Nomination Sub-Committee.

Risk & Audit Group

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

Remuneration group

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.

Nomination sub-committee

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

Sub-Committees of the MRC

Election Sub-Committee

The Election Sub-Committee's role is to:

- make recommendations to the MRC in respect of the appointment, re-appointment or removal of Directors of the Board;
- make recommendations to the MRC in respect of the appointment, re-appointment or removal of representatives on the MRC; and
- ensure that the MRC comprises suitably qualified individuals who are of good standing in the insurance and maritime industries and as a body is broadly representative of the Association's membership in terms of geographical location, ship type and size of fleet.

Standards Sub-Committee

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

The Association's Board and sub-committee structure is supported by the effective distribution of responsibilities across holders of Senior Managers Functions (SMFs) and other Key Functions, notified non-executive and independent non-executive directors. The Association's integrated responsibility and corporate governance model is recorded in its Management Responsibilities Map.

The Association's website provides details of the roles and responsibilities of the Board, the MRC and their respective sub-committees (including their individual Terms of Reference), as well as listing the individuals who sit on them:

www.britanniapandi.com/about/corporate-governance

Key Functions

Key functions are those functions whose operation *"if not properly managed and overseen could, depending on the nature and complexity of the business, potentially lead to significant losses being incurred or to a failure in the ongoing ability of the firm to meet its obligations to policyholders"*

In accordance with the rules in the Conditions Governing Business part of the PRA Rulebook and the Solvency II Directive, the following business functions have been designated as Key Functions: Compliance, Risk Management, Internal Audit and Actuarial.

Compliance function

The Compliance function is responsible for:

- identifying, assessing, monitoring and reporting on the Association's compliance risk exposures;
- assessing possible impact of legislative change and monitoring the appropriateness of compliance procedures; and
- assisting, supporting and advising the Association in fulfilling its responsibilities to manage compliance risks.

The Chief Risk Officer (CRO) is responsible for day to day monitoring of, and reporting to the Board on, all compliance related matters.

Risk Management function

The Risk function is responsible for:

- identifying, managing, monitoring and reporting on current and emerging risks;
- setting the overall risk management and strategic framework; and
- monitoring and assisting in the effective operation of the Association's risk-management framework and maintaining an accurate view of the Association's risk profile.

The CRO manages the day to day risk monitoring of, and reports to the Board on, all aspects of risk management.

Internal Audit function

The Association's internal audit function operates a risk-based internal audit cycle to provide assurance over the appropriateness operation and effectiveness of the system of governance including the internal control system.

Internal Audit's remit covers review of the Association's processes and controls, how these are being adhered to and implemented by all business areas and the timing and frequency of management reporting. Corporate governance is also subject to an annual review by internal audit.

The Head of Internal Audit reports findings and recommendations, deadlines for and progress with completion and assigned action owners to the RAG.

Actuarial function

The Association has an in-house actuarial team which carries out the day-to-day actuarial activity, including claims reserving and maintenance of the Association's internal models. The formal regulatory role of Chief Actuary Function under Article 48 of the Solvency II Directive – to report formally to the Board on technical provisions, reinsurance and underwriting policy - is carried out by Lane Clark & Peacock (LCP) under an outsourcing agreement. The Chief Actuary is a partner of LCP.

Segregation of responsibilities

All the designated key functions are provided with the necessary authority, resource and independence that they require to effectively fulfil their roles. They each report to the Association's Board either directly or through designated Board sub-committees. Their reports are standing items on the Board and sub-committees' agenda.

Material changes to the system of governance

The 12 months from 20 February 2018 to 20 February 2019 saw the continuation and achievement of a number of new initiatives aimed at meeting the Association's mission statement. The most material of these are as follows:

IT Transformation Project

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.

Branch Operations

To support the Association's highest possible service standards and to continue to meet local regulatory requirements, the Board took the decision in 2017 to establish licenced branches in Hong Kong and Singapore. The necessary licence applications were submitted in late 2017 and mid-2018 respectively, with a view to completion in 2018. The respective regulators, the IA in Hong Kong and the MAS in

Singapore, granted the licences in late 2018 and early 2019 respectively and both branches are now fully operational.

Both the Hong Kong and Singapore branches are operated by the Managers through their subsidiaries Tindall Riley (Britannia) Hong Kong Limited and Tindall Riley (Britannia) Singapore PTE Ltd. The service that Members receive will be further enhanced by local underwriting and loss prevention capacity, as well as expanded claims handling expertise.

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.

Remuneration policy and practices

The Association has a Remuneration Policy which sets out the principles and procedures under which the Remuneration Group operates.

All the Association's key functions and services, with the exception of its Non-Executive Directors, are provided by the Managers or a third party appointed by the Managers (and approved by the Association's Board).

Managers' Remuneration

The Managers are paid a Management Fee by the Association under the terms of the Management Agreement between the two parties.

The Association's Remuneration Group sets the fee in accordance with the Management Agreement's management fee formula. In addition, 10% of the fee is awarded based on the achievement of an agreed set of KPIs. The fee is paid on a quarterly basis and there is no element of it that is variable by reference to the Association's financial performance.

Remuneration of the Directors

The Association's Chairman and the Senior Independent ('expert') Director receive a fixed fee paid monthly in arrears. Other non-executive directors (except for the two Manager directors) receive a fee per meeting attended, with the Chairman and members of the Risk & Audit Group receiving additional fees for attending the meetings of the RAG. These fees are paid in arrears at the end of each financial year. Members of the MRC receive a fee per meeting attended. The level of remuneration is considered annually by the Association's Remuneration Group, which makes recommendations to the Board.

The only variable component of the remuneration is that linked to attendance at meetings, but as noted above, this variable element is not available to the Chairman of the Association and the Senior Independent Director. The two Manager directors receive no remuneration directly from the Association but are remunerated by the Managers.

No remuneration paid by the Association to its non-executive Directors is based on the performance of the Association.

Material Transactions

In the 2018/19 financial year, a USD30m capital distribution was made by the Association to its Members with ships on risk on the day on which the distribution was announced.

5.2 Fit and proper requirements

The Association has well established procedures in place to ensure that all controlled function holders remain fit and proper to carry out their duties and to discharge their responsibilities. In particular these individuals must:

- meet the requirements of the Regulators' 'fit and proper' test and follow its principles;
- comply with the Statement of Responsibilities; and
- report anything that could affect their ongoing suitability.

When considering an individual's fitness and propriety the following are considered:

- their competence and capability;
- their integrity and reputation; and
- their financial soundness.

When assessing an individual's competence and capability to take on a controlled function role, all relevant matters are considered prior to their appointment. These include a review and assessment of:

- the competencies and capabilities required to fulfil the intended role. This is assessed throughout the recruitment process, particularly through interviews;
- the experience of the candidate and any additional training required; and
- whether the candidate's reputation would suit the role for which they are being considered, bearing in mind the factors set out within the FCA Handbook section 2.1.3 on fitness and propriety.

Fitness and propriety checks are made before an individual is appointed to carry out a controlled function and periodically thereafter. These include:

- with the knowledge and agreement of the candidate, the completion of civil and criminal checks through the use of a third -party provider;
- checking the veracity of any professional or other qualifications that are relevant to the role being applied for;
- obtaining references from the candidate's former employers; and
- consideration of any disclosures made by candidates (full supporting documentation will also be requested).

In determining a candidate's financial soundness, the following factors will be taken into account:

- any judgment debt or award in the United Kingdom or elsewhere;
- whether this remains outstanding or was not satisfied within a reasonable period; and
- whether the individual has made any arrangements with creditors, filed for bankruptcy, had a bankruptcy petition served on them, been the subject of a bankruptcy restriction order or any other related matter.

As noted in section 5.1.1, selection of suitable Member Representatives for the MRC requires additional consideration of a candidate's location, ship type and size of the fleet to ensure that, as a body, the profile of the MRC membership is consistent with that of the wider Association.

Prior to consideration for appointment, all new Member Representatives of the MRC and directors of the Association complete a self-assessment of their skills, experience and capabilities relative to the responsibilities assigned to them under the new role. The results, which are added to the Skills Matrix maintained for all MRC representatives and directors, are reviewed by the CRO, discussed as necessary with the individuals concerned and fed into individual training and further recruitment plans.

5.3 Risk management system

The Association's risk management system consists of its risk strategy, risk management policies, risk appetite statements, oversight and review processes necessary for effective risk and control assessment, monitoring and reporting.

The risk management strategy is aligned to the business strategy and sets out the risk management objectives, key principles and the assignment of risk management responsibilities across the Managers working on behalf of the Association. The overarching risk management policy implements the risk strategy by setting out the approach to categorising, managing and reporting current and future risks faced by the Association.

The risk management policy, associated procedures and process documentation provide demonstrable evidence that the Association's undernoted key risk areas are managed effectively in accordance with the requirements of Solvency II regulation.

- underwriting and reserving;
- asset-liability management;
- investment, derivatives and similar commitments;
- liquidity and concentration risk management;
- operational risk management; and
- reinsurance and other risk mitigation techniques.

In managing its risk exposures, the Association seeks to balance the risks and opportunities associated with its business strategy and objectives. The review and assessment of key risks to the business strategy both before and after the application of controls is conducted by the respective risk and control owners each quarter and recorded by the CRO in the Association's risk register.

Exposure to these risks is monitored against the Board approved risk appetite; recorded as a set of qualitative statements and quantitative thresholds (Appendix 1) defining the type and level of risk that the Board is prepared to accept in order to deliver its business strategy.

The risk appetite, which underpins the Association's three-year projected business plans, is used to assess and report to the RAG and to the Board current, mid-term and emerging risks to the business on a quarterly basis.

To augment the Association's ongoing risk monitoring and reporting processes, the CRO conducts an annual review of its risk management system and more frequently if there are major changes in the risk profile of the business. Findings and recommendations arising from this review are also reported to the RAG and to the Board.

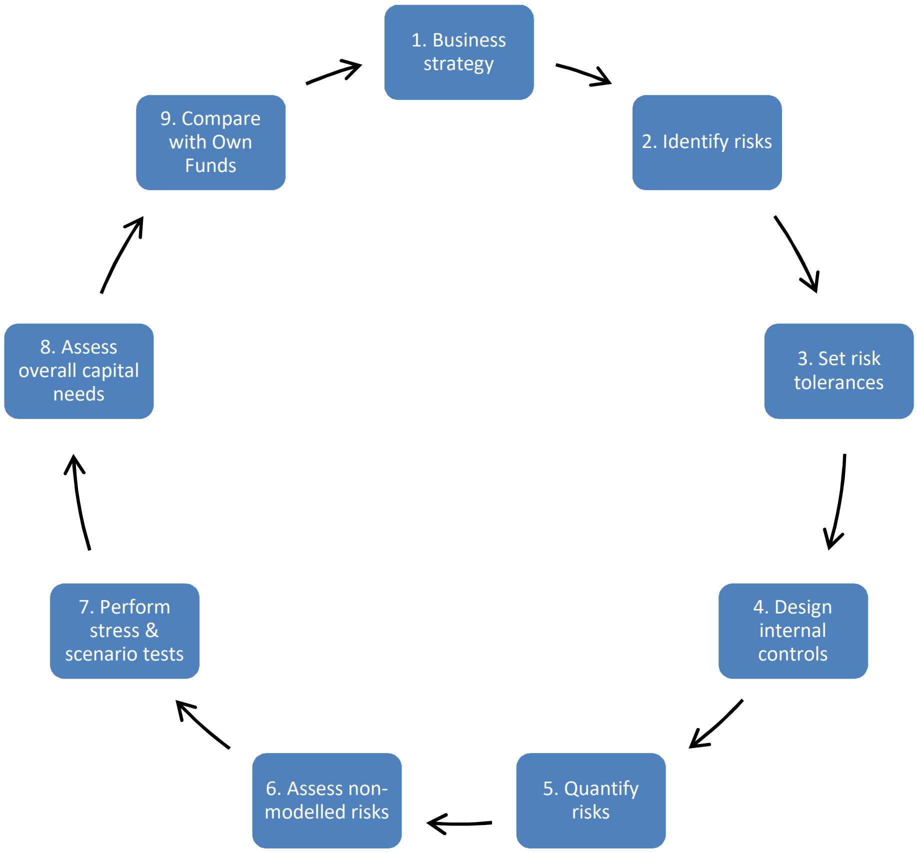
The Association's risk management system allows the Board and the senior management team to review and challenge credible risk information and make informed decisions about the risk profile of the business.

5.4 Conducting the Own Risk and Solvency Assessment (ORSA)

The ORSA is carried out in accordance with the Association's ORSA Policy (the Policy). The policy sets out required standards and guidance for conducting the ORSA process and reporting to ensure all relevant regulatory and business requirements are continuously met. The purpose of the policy is to assist the Board in implementing consistent processes to demonstrate the link between business strategy, risk appetite, risk profile and solvency needs. The Policy is reviewed and approved by the Board.

The ORSA process, which incorporates the risk monitoring and reporting activities performed by the Association's Key Control Functions, operates continuously throughout the year as part of day to day business operations. Outcomes of the process and conclusions drawn are recorded in an annual report presented to and signed off by the Board. Key steps within the ORSA process are set out in chart 4 below.

Chart 4: Summary of ORSA process



From a strategic perspective, the annual ORSA report provides the Board with a comprehensive assessment of the capital required to meet the Association's strategic objectives over the next three years, based its projected business plan and the risk profile it generates. From an operational point of view, ORSA processes and results are used to inform and support the Board when making key decisions, for example on calls on Members, capital distributions, pricing, reinsurance purchase and investment strategy.

The 2019 ORSA includes an assessment of both the economic and regulatory capital position of the business for the next three years as at 20 February 2019 by reference to the Economic Capital Benchmark (ECB), Solvency Capital Requirement (SCR) and Minimum Capital Requirements (MCR).

The ECB defines the amount of capital that must be held to implement the business strategy for the next three years to cover the risk of losses from all potential sources that exceed risk appetite up to the 99.5th level of confidence.

The SCR defines the amount of capital that the Association must hold to satisfy regulatory requirements. The benchmark set for the SCR is also at the 99.5th level of confidence, but measured over a one-year period.

The MCR, which represents the absolute minimum level of capital that the Association must hold to avoid regulatory action, is also measured over a one-year period but reflects the 85th level of confidence.

The Association has used the Solvency II Standard Formula to calculate its SCR and MCR.

The annual ORSA report is reviewed by the Board to ensure that it is accurate and provides the necessary information for capital allocation and strategic planning purposes. Once the Board is satisfied, it approves the report which is then submitted to the PRA.

The annual nature of the ORSA report is consistent with the stable nature of the Association's capital needs over time.

The ORSA is undertaken more frequently if specific triggers occur which are set out in the Policy. However, none of these events have occurred since the last ORSA was prepared.

5.5 Internal control system

The Association's internal control system refers to a combination of activities carried out to eliminate or reduce the likelihood of risks materialising that are beyond the level of risk appetite considered within business plans and strategy.

Activities include:

- control management undertaken by the business, including quarterly control attestations provided to the CRO. Each identified control owner attests to the performance and effectiveness of their control environment over the quarter. The CRO reports the results and any associated recommendations to the quarterly meeting of the Tindall Riley (Britannia) Ltd Board (TRB) and to the RAG at each meeting;
- annual review and re-assessment of the Association's key risks by relevant risk owners, independently challenged by the CRO and reported to TRB quarterly and to the RAG;
- Annual stress and scenario testing (including reverses stress tests) of the assumptions within the business plan to determine the financial, reputational, operational and capital impact of extreme adverse events. An agreed set of tests relevant to the Association's business plan and strategy are run by relevant members of the Finance and Actuarial Functions, reported to the CRO and included within the annual ORSA report;
- annual independent validation of capital calculations, including underlying assumptions and associated projections both within the Actuarial team and by the Chief Actuary;
- annual review and assessment of the effectiveness of the Association's risk management framework by the CRO;
- regulatory guidance, 'horizon scanning', recording and quarterly reporting of operational losses (actual, potential and near misses) and compliance breaches to the Board;
- quarterly compliance monitoring and reporting to TRB, the RAG and Board; and
- independent assurance reviews conducted by Internal Audit.

Where control deficiencies exist, remedial actions, the person responsible for taking them and the timeframe within which the control deficiency will be addressed, are recorded and monitored by the CRO.

Implementation of the Compliance Function

The Compliance Function is implemented by the Managers to support appropriate risk taking by the Association and proactively manage regulatory risk.

There are seven key areas in which the Compliance Function operates:

1. Advisory
    - active engagement with the Association/Britannia to identify and advise on regulatory matters, whether internally or externally generated, to mitigate regulatory risk including financial crime risk and support business objectives; and
    - Proactive involvement in new strategic initiatives to provide guidance on regulatory matters.

2. Horizon scanning
    - Interpreting and communicating new or revised regulations;
    - Assessing and reporting the potential impact of these changes and proposing amendments to processes to meet requirements;
    - Identifying and evaluating compliance risk to the Association's strategic plans and business transactions; and
    - Regularly reviewing sources of emerging risk, maintaining a record within the emerging risk log, noting any potential impact and action planned or taken to avoid or mitigate the risk of loss.

3. Incident management
    - Coordinating the management and recording of any regulatory breaches and financial crime incidents, liaising between all relevant stakeholders to bring matters to a satisfactory conclusion;
    - Advising on remedial action for the business to take to reduce the impact and avoid re-occurrence; and
    - Undertaking incident root cause analysis as required.

4. Regulatory relationship management
    - Acting as the primary contact point between the Association, its regulators (in the UK and in other territories as necessary) and other relevant authorities such as law enforcement agencies, to facilitate and assist with the management of those relationships; and
    - Acting as a portal for routine communication and contact between the Association and its regulators, managing responses to information requests outside standard regulatory reporting.

5. Compliance training
    - Providing direction, education and formal training on compliance and regulatory matters; and
    - Monitoring staff completion of mandated compliance and financial crime training.

6. Reporting
    - Reporting on Regulatory and Financial Crime matters to the Board and other relevant stakeholders; and
    - Providing input to and co-managing, with Finance, external regulatory reports.

7. Oversight and assurance
    - Assessing and monitoring compliance across the business using agreed indicators and reporting the results to the RAG and to the Board;
    - Conducting investigations and process reviews where regulatory controls are found to be weak or not consistently applied; or in response to demands by the regulator or at the request of management; and
    - Overseeing projects to implement operational changes within the business in order to comply with new or revised regulations.

5.6 Implementation and Independence of the Internal Audit Function

Internal Audit, provided by the Managers on behalf of the Association, provides independent assurance, advice and insight to the Board, designed to add value to the business and improve its operational effectiveness. It helps the Association to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation of the effectiveness of its governance, risk management and control processes.

The Internal Audit Function is governed by written Terms of Reference (TOR), setting out the function's role, mandate, independence and authority to act. According to the TOR, the Head of Internal Audit is responsible for preparing:

- an internal audit universe based on the risks within the Association's risk register;
- a five-year strategic internal audit plan using a risk based approach for the timing and frequency of intended reviews; and
- an annual internal audit programme taking into consideration previous audit findings or those arising from compliance monitoring activities; the occurrence and cause of material unexpected losses, regulatory breaches or incidents involving financial crime as well as in response to feedback from regulators and management.

The internal audit universe and the annual internal audit programme are presented annually to the RAG.

The Head of Internal Audit and holder of the associated regulatory role for the Association under the Senior Insurance Managers Regime, reports all findings and recommendations arising from the review work performed to the RAG at each meeting and has regular discussions with the chairman of the RAG between meetings. Included within the Head of Internal Audit's reports is an update on the implementation by assigned individuals of previous recommendations. Material issues not addressed within agreed timescales are escalated to the Board.

The Internal Audit Function has no direct operational responsibility or authority over any of the activities audited and is not permitted to implement internal controls, develop operational procedures, prepare records or engage in any other activity that may impair its judgment. The Head of Internal Audit is obligated to report to the RAG any interference and related implications in determining the scope of internal audit reviews, performing work and communicating results.

5.7 The Implementation of the Actuarial Function

The Association's Actuarial Function is made up of an internal actuarial team employed by the Managers, supported by a Chief Actuary provided by LCP under the terms of an outsourcing agreement between LCP and the Association.

The Function's organisation is designed to provide the Association with the necessary 'Approved Person' role and flexible actuarial support, whilst enabling the Association's Managers to maintain operational control of the work performed.

The internal actuarial team report to and are managed by the Association's CFO. The Function has responsibilities for the calculation of the Association's reserves and Solvency II technical provisions, its capital modelling, risk pricing and for providing analytical support to underwriters.

In accordance with Article 48 of the Solvency II Directive, The Chief Actuary has four main duties:

- to assess the appropriateness and adequacy of the Association's Solvency II technical provisions;
- to provide an opinion on the underwriting policy;
- to provide an opinion on the adequacy of reinsurance arrangements; and
- to contribute to the Association risk management.

Given the structure of the Association's actuarial function, some actuarial function duties are the responsibility of the CFO. These include:

- responsibility for, and oversight of, the outsourced actuarial function and notifying the PRA of any subsequent material developments with respect to the function;
- coordinating and managing the calculation of the UK GAAP and Solvency II technical provisions; and
- acting as line manager for internal actuarial personnel employed by the Association's Managers.

5.8 Outsourcing policy

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the Association. The third party to whom an activity is outsourced is a ‘service provider’.

The Association’s approach to outsourcing is governed by the principles and standards set out in its Outsourcing Policy. The policy acts as a guide to the Managers for assessing the materiality of risks associated with outsourcing any given activity or service and the steps that must therefore be taken to mitigate and manage this risk effectively.

The policy establishes two fundamental principles:

- that the decision to outsource activities assessed as Critical (C) or Important (I) to the Association will be reserved for the Board; and
- the control framework through which outsourcing benefits and risks are assessed, controlled and monitored will be sufficiently robust to ensure that Association’s outsourcing arrangements will give advantage in practice.

Outsourcing is categorised under Solvency II as C or I if it would jeopardise adherence to the regulators’ Threshold Conditions, which are required for the Association to maintain its UK regulatory authorisation.

The assessment of materiality determines at the outset whether the nature of the outsourced arrangement will make it C or I, after which the same stages for approval will be followed, although proportionate to the nature and materiality of the activities to be outsourced.

The starting point is to compare the potential benefits with the foreseeable risks, to see whether there is sufficient value in the proposition to go through a tender process. The scoring used in this viability check to assess whether the benefits outweigh the risk, is set out as an appendix to the Outsourcing policy.

Where the viability check is passed, the Business sponsor will arrange for specific due diligence on a number of providers before presenting a value proposition and preferred service provider to either the Managers’ Board or, for C and I arrangements, the Board of the Association, for consideration and approval. The necessary due diligence, minimum contractual terms and approval process to be followed are set out in various appendices to the Outsourcing policy and designed to ensure that:

- adequate review and assessment has been carried out on the impact of the outsourcing on the Association’s risk profile and contingency plans in the event of service failure by the selected provider;
- the selected service provider has the ability, capability and legal authority to meet the Association’s business requirements and is free of any conflicts of interest relevant to the outsourcing;
- the service provider is financially sound, professionally competent, appropriately experienced and has adequate insurance cover to meet its contractual obligations;
- contracts between the service provider and the Association setting out the duties and responsibilities of both parties, are signed-off by appropriately authorised signatories and comply with all relevant legal and regulatory requirements;
- control mechanisms established by the Managers for monitoring the performance and quality of services provided by a third party are commensurate with the nature and materiality of the risk to which they expose the Association; and
- the outsourcing does not impair the Association’s systems of governance or increase the level of Operational risk.

The Association's C and I outsourcing arrangements relate to:

- the appointment of its Managers, Tindall Riley (Britannia) Limited and its parent Tindall Riley & Co Ltd;
- the role of Chief Actuary provided by LCP; and
- the management of its investments to the following managers:
    - State Street Global Advisors;
    - Aberdeen Standard Investments;
    - Schroders;
    - M&G Investments; and
    - Newton Investment Management

Assessment of the adequacy of the system of governance

The Board considers that the System of Governance is appropriate for the nature, scale and complexity of the inherent risks facing the Association.

6. Risk profile

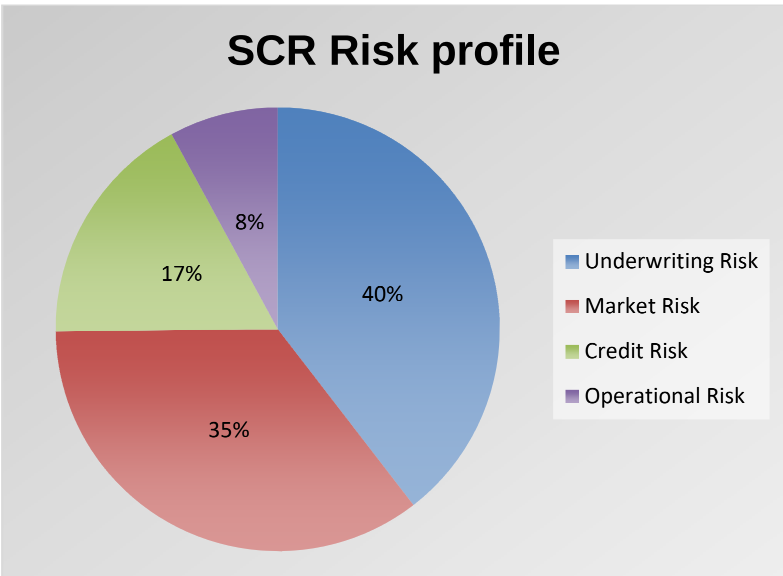
The Association is focused on the identification and management of exposure to risk through its core activity as a provider of insurance services. The key areas of risk faced by the Association can be classified as follows:

- Underwriting risk – incorporating premium and reserving risk;
- Market risk – incorporating equity risk, interest rate risk, spread risk and currency rate risk;
- Counterparty default risk – being the risk that a counterparty is unable to pay amounts in full when due;
- Liquidity risk - being the risk that cash may not be available to pay obligations as they fall due;
- Operational risk – being the risk of failure of internal processes or controls;
- Strategic risk – being the risk that strategy is poorly set, executed or is unresponsive to external developments; and
- Group risk – being the governance, capital, reputational or regulatory issues that can arise from having a Group structure.

The Association manages these risks through the quarterly Risk Register update, which uses metrics to monitor risk outcomes and control effectiveness and receives attestation on less significant controls from Risk Owners. Risk outcomes are compared to the results of the Association's SCR, outcomes of stress and scenario testing, self-reported Risk Incidents and Internal Audit findings to ensure that a rounded consideration of the Association's risk profile is provided to TRB each quarter and to the RAG and the Board of the Association.

The assumptions underlying the Association's standard formula SCR are considered to be a good fit with its risk profile, noting that Group and Strategic risk capital is captured within operational risk and liquidity risk is incorporated within market risk.

The Association's standard formula SCR risk profile as at 20 February 2019 is as follows:



Underwriting risk, representing the Association's core activity, is the largest risk category, constituting 40% of the SCR. Underwriting risk is actively sought and managed by the Association.

The second largest risk category is Market (including Liquidity) risk, constituting 35% of the total SCR. The Association's exposure to market risk reflects its cautious investment risk appetite and investment strategy, accepting risk only where sufficient value is available.

The remaining contributions are from risks that are tolerated in order to pursue the Association's overall strategy.

6.1 Underwriting risk

The Association's exposure to Underwriting risk is managed through the underwriting process, acquisition of reinsurance cover, cover provided by the IG Pooling Agreement, the management of claims costs and the reserving process. Underwriting risk exposure arises from the Association's two classes of business, P&I and FD&D, which are written on a worldwide basis.

Underwriting process

The Association provides Members with cover for P&I and FD&D risks. The Association sets a projected level of Call based on a target confidence level, such that the Call and investment income will be sufficient to meet net claims incurred over the full development of the policy year. The development of claims is monitored monthly by the Managers and on a quarterly basis by the Managers' Board and the Board of the Association.

Reinsurance and International Group Pooling Agreement

The establishment of the Association's reinsurance programme is driven by the Board's objective of managing 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 IG, facultative reinsurance to cover specific risks, cover against a single catastrophic event and an accumulation of smaller attritional claims.

The IG Pooling Agreement provides a sharing of claims costs above an agreed retention between the 13-member associations.

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

Management of claims cost – Loss Prevention

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 do occur. To facilitate this strategy, the Association has established programmes to ensure high levels of claims management and to reduce claims risk. This includes an extensive loss prevention programme comprising technical seminars for crew, information for Members on common claims and how they may be prevented, root cause analysis of major incidents, 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, Bornhuetter Ferguson and Stochastic bootstrap modelling methods. The results are presented to the Association's Reserving Group, which meets quarterly in order to review and challenge the setting of reserves, and then reviewed by the RAG. 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 meet a given level of confidence that they will prove adequate.

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position and the Solvency II balance sheet are appropriately recognised, with the understanding that actual experience will differ from the expected outcome.

Sensitivity testing of underwriting risk

The Association carries out sensitivity testing on its claims reserves. The results of sensitivity testing are set out below, showing the impact on surplus/deficit before tax, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged.

The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

	USD'000 2019	USD'000 2018
Gross	10,221	10,407
Net	7,137	7,619

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

6.2 Market risk

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

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return while holding risk to a level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return (the growth portfolio), such as equities, with the majority in lower risk investments that match liabilities and provide a cash buffer (the matching portfolio).

Foreign currency risk management

The Association is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollars. The most significant currencies to which the Association is exposed are sterling, euro and yen. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in those currencies.

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

Interest rate risk management

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

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

	Consolidated		Class 3 P&I		Class 6 FD&D	
	USD'000 2019	USD'000 2018	USD'000 2019	USD'000 2018	USD'000 2019	USD'000 2018
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 to equities is limited to a controlled proportion of the overall portfolio. At 20 February 2019, the holding in equity instruments amounted to 16% (2018 – 16%) of the investment portfolio. The Association also invested in a diversified growth fund during the year and the holding in the fund at year end amounted to 12% (2018 – 11%).

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:

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

6.3 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 under reinsurance contracts, including other P&I Clubs;
- amounts due from Members; and
- 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 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 the Managers.

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 Association has the right to offset outstanding debts against claim payments unless there is a contractual arrangement that prevents such offsetting. The Managers’ Creditworthiness

Group monitors the membership by reference to credit reports, aged debt analysis and market commentary. 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.

	Consolidated		**Class 3 P&I**		**Class 6 FD&D**	
	USD'000 2019	**USD'000 2018**	**USD'000 2019**	**USD'000 2018**	**USD'000 2019**	**USD'000 2018**
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	76,758	90,857	76,501	(7,504)	257
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	126,030	122,876	103,663	111,155	22,367	11,721
Total financial assets bearing credit risk	1,326,822	1,335,206	1,289,170	1,296,080	37,651	39,126

An analysis of this exposure by credit rating is shown below

	Consolidated		**Class 3 P&I**		**Class 6 FD&D**	
	USD'000 2019	**USD'000 2018**	**USD'000 2019**	**USD'000 2018**	**USD'000 2019**	**USD'000 2018**
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	385,726	439,296	376,591	949	10,998
Total financial assets bearing credit risk	1,326,822	1,335,206	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, Schroders and Newton.

6.4 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in 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 tables provide a maturity analysis of the Association's financial assets and liabilities representing the date that a contract will mature, amounts are due for payment or the asset/liability could be realised without significant additional costs:

Financial assets:

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	Total USD'000
	Consolidated					
Quoted shares and variable yield securities	239,259	-	-	-	-	239,259
Debt securities and other fixed income securities	-	-	-	164,939	254,954	419,893
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	-	-	76,157
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	5,098	-	-	-	-	5,098
Total assets	**631,102**	**184,187**	**119,996**	**304,968**	**331,890**	**1,572,143**

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:

Financial liabilities:

At 20 February 2019	Within 1 year USD'000	1-2 years USD'000	2-5 years USD'000	Over 5 years USD'000	Total USD'000
	Consolidated				
Gross outstanding claims	346,710	254,712	362,797	199,332	1,163,551
Direct insurance operations - Members	12,519	-	-	-	12,519
Reinsurance operations	4,197	-	-	-	4,197
Taxation	15	-	-	-	15
Other Creditors	1,200	-	-	-	1,200
Total liabilities	364,641	254,712	362,797	199,332	1,181,482

As further disclosed in appendix S.23.01.g, expected profit in future premium is estimated to be USD70.6m. However, it should be noted that the Solvency II balance sheet does not reflect all future expense cash flows and the actual expected profit over the year is expected to be lower than this.

6.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. Operational risk is tolerated, but minimised by the Managers on behalf of the Association through the application of key mitigating controls.

The assessment of key operational risks and associated controls is recorded in the Association's Risk Register which is updated and reported to the Risk & Audit Group on a quarterly basis. This assessment is informed by the Association's incident and compliance breach logs and through the assessment of adverse scenarios linked to its particular business model, strategy and risk profile.

Scenario identification, assessment and analysis is designed to:

- confirm that the current risk and control assessment, including emerging risk estimation and assumptions used for capital modelling, is robust; and
- probe possible vulnerabilities in the business model.

For the purposes of a), scenario assessments are reported to the Board through the annual review of Risk Management effectiveness and the Validation routine conducted over the SCR ad ECB calculations. Business model scenarios in b) are used to stimulate discussions when reappraising strategy and conducting the Association's ORSA.

Operational risk scenarios used in the Association's ECB as at 20 February 2019 relate to the following operational aspects of the strategy and business model:

- Reliance on third parties;
- Compliance failure;
- Loss of key staff;
- Underwriting;
- Reinsurance;
- Claims;
- Business interruption;
- Inaccurate Management Information; and
- Internal or External Fraud.

Operational risks relating to 'people' are controlled by the Managers through succession planning; staff training; having adequate Errors and Omissions insurance; validation of references; background checks and the segregation of duties.

Systems are controlled through data back up; Disaster Recovery design and regular testing of the Association's Business Continuity Plan.

All key control processes are documented in the Association's various operational policies and procedure manuals. Compliance is tested and monitored by the Association's Compliance, Risk Management and Internal Audit functions and reported to the RAG by the CRO and Head of Internal Audit respectively.

6.6 Strategic Risk

Strategic risk can arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

Strategic risk is accepted where sufficient value is available.

Strategy is a matter reserved to the Board but in the Risk Register is used to track sustainability of the Association / the Managers to ensure that a reliance is not built up for a significant proportion of tonnage as this can skew strategic options.

6.7 Group risk

As noted in section 5, the Association is legally structured as a group with a single subsidiary USMIA and an interest in the Britannia cell within Hydra. For the purposes of capital and risk management, however, the 'group' is considered as a single entity.

However, if the Association were to be considered as a standalone legal entity, there would be two significant ‘group risks’ in the form of the reinsurance exposure to USMIA and Hydra and the location of group capital held by USMIA and Hydra.

In addition, although the surplus funds in Boudicca do not form part of the Association’s ‘own funds’ for Solvency II purposes, those funds nevertheless form a significant part of the Association’s economic capital and are considered as part of the group capital and risk management strategy.

There are mechanisms in place to manage and mitigate these group risks as set out below.

USMIA

Under resolution of the Association, recoveries under the reinsurance contract with USMIA would continue to be paid as the Association ran off its claims. In addition, as its parent undertaking, the Association could place USMIA into liquidation, in which case as the sole shareholder and creditor of USMIA (save for some minor balances such as accrued professional fees), the balance of USMIA’s assets would be paid to Britannia.

In addition, there are two security measures in place over the assets of USMIA, which would ensure that, in the event of default by USMIA or the insolvency of either party, the capital held by USMIA would be available to the Association.

Account Pledge Agreement

There is a tripartite account pledge agreement (the Agreement) between the Association, USMIA and USMIA’s investment custodian. The Agreement defines ‘secured obligations’, being “all monies and liabilities which are now or may be at any time hereafter be due, owed or payable by [USMIA] to [the Association] under or in connection with the reinsurance agreement”. In the event of default by USMIA in relation to its obligations to the Association (for example the payment of claims under the run-off of Britannia) or the insolvency of USMIA, the agreement allows the Association to enforce the security interest direct and require the custodian to sell investments and remit the proceeds to Britannia.

Debenture

The Debenture creates a floating charge over all of the assets of USMIA in favour of the Association. Under clause 7.1.3 of the Debenture, if the reinsurance agreement between USMIA and the Association is terminated, or if USMIA becomes insolvent, the Association may exercise its power of sale under the Debenture and thus recover all amounts owing to it as a creditor and the shareholder.

Hydra

Under resolution of the Association, recoveries under the reinsurance contract with Hydra would continue to be paid as the Association ran off its claims.

The Hydra governing instrument contains winding up procedures which allow the board to terminate the operations of Hydra from the end of the then current policy year. Under these circumstances, the Britannia cell would be run off and eventually wound up, with any residual assets being transferred to the Association as the shareholder.

Boudicca

Under resolution of the Association, recoveries under the reinsurance contract with Boudicca would continue to be paid as the Association ran off its claims.

In addition, there is a Security Interest Agreement in place over the assets of Boudicca, which would ensure that, in the event of default by Boudicca or the insolvency of either party, the capital held by Boudicca would be available to the Association. This agreement, which is formally acknowledged by Boudicca’s investment custodian, gives the Association the power to sell Boudicca’s assets held by the custodian in the event of the default by or insolvency of Boudicca.

7. Valuation of assets and liabilities for solvency purposes

7.1 Assets

The following table sets out the value of the Association's assets at 20 February 2019.

	Assets per GAAP USD'm	Assets per Solvency II USD'm	Variance USD'm
Financial investments and cash and cash equivalents	1,005.5	949.8	55.8
Reinsurance recoverable	449.1	450.1	(1.0)
Other assets	117.5	44.1	73.4
Total Assets	**1,572.1**	**1,444.0**	**128.2**

In general, the valuation method of assets is aligned with the statutory accounts and therefore the basis of preparation aligns with the accounting policies outlined in the Association's Annual Report and Financial Statements, Note 1. Exceptions to these methods are outlined in the relevant sections below.

Financial investments and cash and cash equivalents

The Association's investments are valued for Solvency II purposes on the same basis as the annual financial statements, which follow UK GAAP. All of the Association's investments are traded on mainstream exchanges.

The difference in valuation between GAAP and Solvency II relates to the treatment of Hydra and the allocation of accrued interest. Hydra is treated as a third-party reinsurer for Solvency II purposes rather than a group entity. This change of treatment results in the deconsolidation of the investments held by Hydra on the group accounting balance sheet and Hydra instead being accounted for as an equity related party investment on the Solvency II balance sheet. This accounts for the bulk of the difference shown above in the value of financial investments.

Accrued interest for the purposes of Solvency II has been included in financial investments whereas for UK GAAP this is included in other assets.

Reinsurance recoverable (reinsurers' share of technical provisions)

The difference between the UK GAAP and Solvency II values for reinsurers' share of technical provisions reflects the difference in methodology used to calculate the underlying technical provisions under the two bases. This is set out in more detail in the Technical Provisions section below. As mentioned in the section above Hydra is treated as a third-party reinsurer for Solvency II purposes. Therefore, the recoveries from the Hydra retrocession contract that are recognised in the GAAP balance sheet are not recognised in the Solvency II balance sheet, and instead, recoveries from Hydra on the excess of loss layer and co-insurance layer that it reinsures for the Association are recognised in the Solvency II balance sheet as though they were due from a third party.

Other assets

The differences in the valuation between UK GAAP and Solvency II relates to the recognition of accrued interest which has been recognised for Solvency II purposes under financial investments and for UK GAAP purposes under 'other assets'. The remaining difference relates to the accounting treatment for the accrued deferred call. In the UK GAAP balance sheet this accrual is accounted for under 'other assets', while for Solvency II purposes the accrual has been reclassified to Gross Technical Provisions. All other assets are valued for Solvency II purposes on the same basis as the GAAP financial statements.

Other than the changes detailed in the investments and reinsurance recoverable sections above, there were no changes to any of the recognition criteria or valuation methods during the year.

7.2 Technical provisions – Solvency II basis

At 20 February 2019, the Association held technical provisions, valued for solvency purposes, of USD1,002.7m.

The assessment of the technical provisions is based on commonly accepted actuarial techniques applied in a consistent manner. Whilst professional judgment has been exercised in all instances, projections of future ultimate losses and loss expenses are inherently uncertain due to the random nature of claim occurrences. The accuracy of the results is dependent upon the accuracy of the underlying data and additional information supplied to the actuarial team.

The following table shows the analysis of these provisions between best estimate and risk margin at 20 February 2019.

	Gross USD'm	**RI USD'm**	**Net USD'm**
Balance per UK GAAP	1,163.6	(449.1)	714.5
Reclassification of Hydra as 3rd party	-	(52.3)	(52.3)
Prudence Margin (GAAP to BE)	(236.5)	59.7	(176.8)
Reclassification of deferred calls	(79.6)	4.3	(75.4)
Bound but not incepted (“BBNI”) business	95.1	(39.9)	55.2
RI credit default	-	6.6	6.6
ENIDs	30.3	(14.3)	16.0
Discounting	(59.2)	35.0	(24.3)
Investment expenses	2.8	-	2.8
Balance per Solvency II before risk margin adjustment	**916.4**	**(450.1)**	**466.3**
Risk Margin	86.3	-	86.3
Balance per SII	**1,002.7**	**(450.1)**	**552.6**
Variance between SII and GAAP	**160.9**	**1.0**	**161.9**

** The net amount in the table above is calculated as Gross less RI*

Since the Solvency II technical provisions figure is a best estimate, the UK GAAP technical provisions are adjusted for the following items:

- all margins for prudence are removed;
- a provision is made for events not in data (ENID) to represent a true average of future outcomes;
- Technical provisions are stated both gross and net of reinsurance;
- an allowance is made for business which is ‘bound but not incepted’(BBNI) as at 20 February 2019; and
- an additional Solvency II risk margin is added, which is intended to represent a notional market value adjustment.

The Association values technical provisions (TPs) using the methodology prescribed by the Solvency II Directive and the regulations made under the Directive.

Solvency II Technical Provisions methodology

Technical provisions (TPs) for Solvency II purposes are made up of a best estimate of claims, premiums and expense cashflows, which are then discounted. Finally, a risk margin is added. The best estimate cashflows are the amounts expected to be paid/received in the future without any margin of prudence. Each element of the TPs is described in more detail below.

Homogeneous risk groups

The Association uses four homogeneous risk groups when calculating the best estimate reserves. These are:

1. P&I Retention – Class 3 protection and indemnity claims where Britannia is the originating club.
2. P&I Pool – Class 3 protection and indemnity claims where Britannia pays a share of the claim through the IG pooling arrangement. This includes such claims originating from Britannia.
3. FD&D – Class 6 freight, demurrage and defence claims.
4. Asbestos-related claims – this group is further divided between mesothelioma and non-mesothelioma claims.

Gross claims cashflows and reinsurance recoveries

Gross claims are projected to ultimate cost using standard actuarial techniques including Bornhuetter-Ferguson and chain ladder with some judgment overlaid. This judgment is important because of the nature of the historical data and the need to apply relevant information regarding specific claims. The key assumptions made include the projected development patterns (both incurred and paid), initial expected loss ratio for the most recent policy years and the credibility assigned to the loss ratio.

These methods are considered appropriate given that the data includes policy years which are fully run off, where the business written has been stable and where there have been no material changes in the way that claims are handled.

At the valuation date, 20 February 2019, the Association had no unearned business except for business that was bound but not incepted (BBNI). This is because all coverage is annual, renews prior to year-end and incepts on the first day of the policy year. For the purposes of Solvency II, any business that is bound to be written before the beginning of the Association's financial year (i.e. from 21 February 2019) is included in the calculation of TPs. However, this concept is not applicable under UK GAAP where only business that has incepted is included in the TPs at the valuation date. BBNI includes all cash inflows as well as outflows and in the Association's case, this includes advance call, acquisition and administration expenses, reinsurance premiums, projected gross claims and corresponding reinsurance recoveries. The BBNI cashflow inputs of premiums and associated expenses are obtained from the calls projections (business plan) and the ultimate gross claims and reinsurance recoveries are outputs from the Association's premium risk model. This is a stochastic model which projects future gross claims by applying a statistical distribution (based on historical claims experience) to the exposure. The gross claims are then subjected to the applicable reinsurance programme to obtain the expected reinsurance recoveries.

A percentage loading is added to both earned and BBNI business to allow for events not in data (ENIDs), which allows for severe events to which the Association could be exposed but which are absent from the historical data. The ENIDs percentage loading has been calculated using the Lloyd's Approximation Method 1, which is a simple and pragmatic calculation based on the assumption that the underlying data is a good fit with the log-normal distribution. The model uses the estimated coefficient of variation from the underlying data and an estimated return period to calculate the percentage loading.

Projected cashflows are estimated by applying payment patterns to the estimates of the ultimate gross claims and recoveries. The assumed payment patterns are derived using chain ladder methodology on historical gross paid claims triangles.

Premiums

Future amounts and timing of premium cashflows are assumed to be in line with the latest call setting decisions. This includes deferred calls on open policy years plus both advanced and deferred calls on BBNI business.

Gross and reinsurance premiums for the BBNI business are taken from the projected 2019/20 policy year, which forms the Association's business plan.

Expenses

Acquisition and administrative expenses

- There are no internal acquisition or administrative expenses relating to earned business.
- Brokerage is paid when deferred calls are received; therefore, there are external acquisition costs for the most recent two policy years.
- For BBNI business, internal acquisition costs and administrative costs are calculated as a percentage of the total operating costs from the business plan for the forthcoming policy year. The brokerage is taken from the business plan.

Claims handling expenses

Allocated claims handling expenses are assumed to be included in the best estimate claims reserves and, therefore, no explicit allowance is made.

Unallocated claims handling expenses are split between expenses paid in the 2019/20 policy year and expenses paid in subsequent years. The expenses paid in 2019/20 are calculated as an assumed percentage of the total operating costs for the forthcoming year. The expenses paid beyond 2018/19 are the same as those included in the GAAP reserves. The unallocated claims handling expenses are allocated between claims and premium provisions in proportion to claims payments.

Investment management expenses

The investment management expenses are calculated as an assumed percentage of the sum of the projected and discounted TPs (excluding investment expenses) at each future valuation date. The assumed percentage is calculated as the annual investment management expenses divided by funds under management.

Discounting

All future cashflows (including claims, premium and expense) have been discounted using a weighted average yield curve based on the GBP, USD and EUR EIOPA yield curves as at 28 February 2019 and an assumed mix of cashflows in GBP, USD and EUR.

Risk Margin

The risk margin for the Association is the sum of the individual risk margins of:

- Britannia's subsidiary USMIA; and
- Britannia as a standalone (solo) entity, assuming USMIA to be a third-party reinsurer.

The method used to estimate the individual risk margins is to:

- estimate the SCR for the Association using the standard formula;
- project the future SCRs using different runoff patterns for different elements of the SCR as follows:
    - non-life underwriting risk and operational risk are combined and run off in proportion to the square root of the percentage of future gross claims cashflows;
    - counterparty default risk is run off in proportion to the square root of the percentage of future reinsurance recovery cashflows; and
    - discount and sum the projected SCRs and multiply by the cost of capital.

This is a change to last year's methodology, where the Association's risk margin was calculated using the above method but based on its consolidated (group) data only. The change in the methodology has been necessary to satisfy Solvency II requirements for group undertakings.

Uncertainty associated with the value of technical provisions

The estimate of the Solvency II technical provisions is considered to be an accurate assessment of future obligations. However, it remains an approximation. Factors affecting the level of uncertainty are both internal and external and the nature of these factors is such that they are difficult to quantify in both likelihood and magnitude. The issues that affect the certainty of the technical provisions include:

- the projection of numerous cash-flows, including future premiums, claim payments and reinsurance recoveries on these payments. None of these will develop exactly as projected and deviations from these projections are normal and to be expected;
- the assumptions used to calculate the Premium Provision are based on the expectation of an 'average year'. Actual underwriting performance for that business may vary significantly from the assumed position at the outset;
- the yield curves used to discount future cash-flows can vary from one year to the next which introduces additional balance sheet volatility that does not exist on a UK GAAP balance sheet;
- there is greater uncertainty associated with more recent policy years as these are still in an early stage of development; and
- for certain elements of the technical provisions, for example ENIDs, very little data exists on which to base the assumptions and hence a high degree of judgement is required, which could lead to increased uncertainty in the estimates.

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was necessary. Improvements to the data governance procedures are planned for 2019/20 including the introduction of a data governance policy and data controls.

Changes since the last reporting period

There have been no other changes in the TPs methodology since the previous period.

7.3 Other liabilities

The following table sets out the value of the Association's other liabilities at 20 February 2019.

	Liabilities per GAAP USD'm	**Liabilities per Solvency II USD'm**	**Variance USD'm**
Creditors	13.7	13.7	0.0
Reinsurance creditors	4.2	(0.1)	4.3
Other liabilities	**17.9**	**13.6**	**4.3**

The differences in the valuation between UK GAAP and Solvency II relates to the recognition of payments on reinsurance contracts for the 2018/19 and prior policy years that have been accrued in the UK GAAP figures but reclassified to reinsurers' share of technical provisions under Solvency II. All other liabilities are valued for Solvency II purposes on the same basis as the financial statements.

Alternative methods of valuation

The Association does not use any alternative valuation methods.

8. Capital management

8.1 Own funds

The Association's Business Plan and ORSA process measure the current and projected capital and solvency position over a three-year time horizon. The core capital management objective over this period is for the Association to maintain Tier 1 basic own funds at a level which provides a capital buffer in excess of the higher of its SCR and its ORSA derived solvency needs (the economic capital benchmark).

The Association has a simple capital structure, with balance sheet reserves comprising a single item: tier 1 capital derived from past underwriting and investment surpluses. There were no restrictions on the availability of the Association's own funds to support the SCR and MCR.

For the year ended 20 February 2019 the Association has approval from the PRA to include ancillary tier 2 capital (AOF), based on the proceeds of a theoretical supplementary call from the Association's membership. The maximum amount that can be recognised is the lower of USD129.5m or 50% of the Group SCR.

At 20 February 2019 and 2018, the Association held the following own funds.

	20/02/2019 USD'm	**20/02/2018 USD'm**	**Movement USD'm**
Income and expenditure account	233.3	235.5	(2.2)
Investment reserve	102.3	139.5	(37.2)
General reserve	55.0	55.0	-
Total resources	**390.7**	**430.0**	**(39.3)**
Solvency II adjustment	37.0	88.3	(51.3)
Basic own funds	**427.7**	**518.3**	**(90.6)**
Ancillary own funds	129.5	129.5	-
Total own funds	**557.2**	**647.8**	**(90.6)**

Analysis of significant changes during the period:

The following table shows the movement in own funds between 20 February 2019 and 20 February 2018:

Own funds at 20 February 2018	518.3
Increase in net technical provisions	(48.7)
Decrease in investments	(62.6)
Increase in other assets	14.8
Increase in other liabilities	5.7
Basic own funds at 20 February 2019	**427.7**
Ancillary own funds	129.5
Total own funds at 20 February 2019	**557.2**

The following table shows the reconciliation between UK GAAP net asset value and Solvency II net asset value at 20 February 2019:

Asset valuation difference	(128.2)
Gross technical provisions valuation difference	160.9
Liability valuation difference	4.3
Basic own funds - Solvency II	**427.7**
Ancillary own funds - Solvency II	129.5
Total own funds - Solvency II	**557.2**

8.2 Solvency Capital Requirement (SCR) – Group Basis

The following table shows an analysis of the Association's SCR on a group basis split by risk modules and comparison to the previous year end.

	SCR		
Heads of risk	**20/02/2019 USD'm**	**20/02/2018 USD'm**	**Movement USD'm**
Underwriting risk	136.9	139.4	(2.5)
Market risk	122.1	127.8	(5.7)
Counterparty default risk	59.6	52.8	6.8
Operational risk	27.5	24.7	2.8
Aggregate SCR	**346.0**	**344.7**	**1.3**
Correlation credit	(79.1)	(78.8)	(0.3)
Aggregate SCR net of correlations	**266.9**	**265.9**	**1.0**

The Association has not used any simplified calculations nor the duration-based equity risk sub-module as set out in Article 304 of Directive 2009/138/EC in the calculation of the SCR. The Association has not used undertaking-specific parameters in any of the risk modules described below.

The main changes in the SCR since 20 February 2018 reflect the following factors.

Underwriting risk

SCR underwriting risk capital is made up of three elements, premium risk, reserve risk and catastrophe (CAT) risk. Premium risk is based on the higher of either the expected value of net premiums over the next 12 months or the value of net premiums earned over the last 12 months. Reserve risk is based on the valuation of net technical (claims) provisions. CAT risk is calculated using a prescribed scenario-based approach of one of the Association's insured vessels being involved in a collision resulting in a maximum possible loss.

Reserve risk has increased due to a higher net best estimate claims provision. Premium risk has fallen as a result of lower net premiums written in the last 12 months compared to that of the previous year.

CAT risk has decreased since the previous year as a result of the new 2019/20 IG reinsurance structure as well as reflecting Hydra's third party reinsurance status within the CAT risk methodology.

Overall, SCR underwriting risk capital has decreased by USD2.5m which represents a 2% reduction since last year.

Market risk

Market risk is driven by a combination of market risk drivers - interest rate risk, equity risk, currency risk, spread risk and concentration risk.

The decrease in overall market risk since last year has been driven mostly by currency risk, which has decreased by USD12.8m since last year as a result of improvement in the matching of the Association's assets and claims liabilities (mainly GBP denominated assets and liabilities).

Secondly, a reduction in the EIOPA symmetric adjustment, a variable component of the equity capital charge under the standard formula, accounted for a reduction in the equity risk from USD64.2m to USD59.5m even though there was a slight increase in the equity holdings.

Spread risk has increased by USD8.4m. This is driven by an increase in exposure to assets subject to spread risk (mainly corporate bonds). Interest rate risk has increased by USD6.5m to USD18.6m. The reason for the increase is the increase in high yielding assets within the Association's investment portfolio. Furthermore, concentration risk also increased by USD1.5m to USD6.5m mainly due to the increase in Hydra's equity value.

Overall, SCR market risk capital has decreased by 4% which equates to USD5.7m.

Counterparty default risk

Counterparty default risk capital requirement has increased in the past 12 months. This is mainly driven by the increase in the expected reinsurer's share of technical provisions for the forthcoming policy year.

Overall, SCR counterparty default risk capital has increased by USD6.8m.

Operational risk

There has been an increase of USD2.8m in the operational risk charge since last year. Under the standard formula, operational risk is calculated as the higher of either a proportion of the gross technical provisions (excluding risk margin) or gross earned premium (the greater of the amounts in the last 12 or 24 months), subject to a minimum of 30% of the calculated basic SCR. Gross technical provisions are higher and has therefore driven the increase in operational risk.

Overall movement

Overall, the SCR has seen a year on year increase of USD1.0m, from USD265.9m to USD266.9m.

8.3 Minimum Capital Requirement (MCR)

The MCR calculation is based on the net value of technical provisions as at the valuation date, 20 February 2019 and the net retained premiums in the last 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. The MCR as at 20 February 2019 was USD68.0m, up from USD66.5m last year, reflecting higher net technical provisions offset partially by lower net retained premiums.

8.4 The Association’s overall capital position

The following table shows the Association’s capital position in relation to the SCR and the MCR at 20 February 2019.

	SCR USD'm	MCR USD'm
Capital requirement	266.9	68.0
Basic own funds available	427.7	427.7
Ancillary own funds	129.5	-
Total own funds	**557.2**	**427.7**
Headroom	290.2	359.7
Solvency ratio	**208.7%**	**628.9%**

By reference to the SCR and MCR, the Association’s own funds substantially exceed the capital requirements. By these measures, the Association remains in a satisfactory capital position and the Board will therefore have considerable flexibility in some of the key decisions to be made over the next 12 months.

The Association has fully complied with the SCR and MCR requirements during the period under review. The calculation of the SCR and MCR is subject to supervisory assessment and may change following the review of the SCR and MCR calculation by the Regulator. Furthermore, the PRA has made use of an option not to require entities in its jurisdiction to disclose capital add-on (if any) during a transitional period ending 31 December 2020. No such capital add-ons have been notified to the Association.

Appendices

Appendix 1 – Risk Appetite Statements and Metrics

No	Appetite Statement	Metric
1.	Britannia will maintain a strong balance sheet, supporting an "A" rating by Standard and Poor.	A rating from S&P maintained
		Projected capital over next 3 years is ≥ 80% ≤ 105% of ECB
		Insurance Risk > 50% of SCR
		Market Risk < 40%
		Credit Risk < 15%
		Operational Risk < 10%
		Validation routine concludes that ECB and SCR accuracy within tolerance
2.	Britannia will avoid unbudgeted supplementary calls by managing the consequences of claims, expense and investment volatility.	95% confidence that capital depreciation over one year and committed spend will not reduce capital buffer to <100% SCR
		Estimated Total Call (ETC) and expected investment return for prospective year gives at least 70% confidence of meeting total net claims and planned expense
		>90% confidence that aggregate net reserves will be sufficient to extinguish liabilities
		90% (1 in 10) Value at Risk (VaR) over one year from investments will be < 50% current Investment Reserve
		No reasonable operational risk scenario >USD20m at 99.5% confidence
		No disputed or missed reinsurance claims
3.	Britannia will always be able to meet its liabilities as they fall due.	Liquid assets greater than stressed cash outflow scenario
		Average duration of matching portfolio within 0.5 years of liability duration
4.	Britannia will design or source insurance products that meet the needs of its Members and ensure that Members are treated fairly.	All required Member visits have taken place
		No more than 2 complaints relating to product offering or good faith of the Association in rolling 12 months
5.	Britannia will deliver a top quality service to its Members and operate in accordance with market standards of good practice.	Service standards as reported in items 7,8,9,10,14,15 and 18 of the Remuneration KPIs are meeting the required levels
		The same Compliance Dashboard item is not permitted to remain at Red status beyond a single quarter
		Underwriting peer review performed for all Members (New and at annual renewal)
		The same material control is not permitted to remain ineffective beyond a single quarter
6.	Britannia will conduct its business in an ethical manner by delivering against its Mission Statement and Ethics Policy.	All employees have completed mandatory online training
		No known breaches of expected behaviours
7.	Britannia will ensure that its business model remains sustainable for the future benefit of Members.	<50% of SIMF; A/D; DD and TRB Directors due to retire in coming 3 years
		IG commercially sustainable over 10 year period (CoR<95%)
		IG average expense ratio < peers
		Mutual tonnage >90% of 20 Feb pm average for last 5 years
		Combined ratio (based on original call) over 10 years <100%
		No country >25% of tonnage without Board approval
		No Britannia share of a shipping sub-sector >5% above benchmark for world fleet without Board approval
		No broker produces >17.5% of total mutual tonnage without Board approval

Appendix 2 – The Association's capital resources and requirements on a Solo basis

In accordance with Article 256 of Directive 2009/138/EC, the Association applied for, and received, approval to publish a single group SFCR. Notwithstanding the fact that the Association is a legal group, it is operated and managed on a unified basis. As is clear from the operating structure described on pages 13 to 16, the Association is not a group in the conventional sense with subsidiary business units writing third party business.

The Association operates with a single book of business only, split 10%/90% by way of a quota share agreement. As part of its 2018 and 2019 ORSA process the Association assessed the risks and solvency requirements of the Association on a solo basis as well as at the level of the group. In endeavouring to develop a robust and comprehensive approach to the ORSA process, management looked from a number of different angles at how the Club's group risks might deviate from the solo risks. With each approach taken, however, the conclusion reached was that its risks and solvency needs on a solo basis were in all respects the same as those at the level of the group.

The Association's own funds, SCR and MCR at 20 February 2019 on a Solo basis are set out in the tables below.

At 20 February 2019, the Association (on a Solo basis) held the following own funds.

	20/02/2019 USD'm
Income and expenditure account	151.0
Investment reserve	1.3
Total resources	**152.3**
Solvency II adjustment	170.9
Basic own funds	**323.2**
Ancillary own funds	71.3
Total own funds	**394.5**

Solvency Capital Requirement (SCR) – Solo Basis

The following table shows an analysis of the Association's SCR on a solo basis split by risk modules at 20 February 2019.

Heads of risk	**20/02/2019 USD'm**
Underwriting risk	24.2
Market risk	75.3
Counterparty default risk	53.1
Operational risk	27.4
Aggregate SCR	**180.0**
Correlation credit	(37.4)
Aggregate SCR net of correlations	**142.6**

Minimum Capital Requirement (MCR)

The MCR calculation is based on the net value of technical provisions as at the valuation date, 20 February 2019 and the net retained premiums in the last 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. The MCR as at 20 February 2019 was USD35.6m on a solo basis.

The Association's overall capital position – Solo basis

The following table shows the Association's capital position on a Solo basis in relation to the SCR and the MCR at 20 February 2019.

	SCR USD'm	MCR USD'm
Capital requirement	142.6	35.6
Basic own funds available	323.2	323.2
Ancillary own funds	71.3	-
Total own funds	**394.5**	**358.8**
Headroom	251.9	323.2
Solvency ratio	**276.7%**	**1006.6%**

Appendix 3 – Group SFCR reporting templates

The Britannia Steam Ship Insurance Association Limited

Solvency and Financial Condition Report

Disclosures

20 February

2019

(Monetary amounts in USD thousands)

General information

Participating undertaking name	The Britannia Steam Ship Insurance Association Limited
Group identification code	2138008W3W8AI6C92J10
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	20 February 2019
Currency used for reporting	USD
Accounting standards	Local GAAP
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.23.01.22 - Own Funds
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	774,243
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	149,869
R0110	*Equities - listed*	149,869
R0120	*Equities - unlisted*	0
R0130	*Bonds*	147,789
R0140	*Government Bonds*	147,789
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	469,070
R0190	*Derivatives*	126
R0200	*Deposits other than cash equivalents*	7,390
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	450,101
R0280	*Non-life and health similar to non-life*	450,101
R0290	*Non-life excluding health*	450,101
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,105
R0370	Reinsurance receivables	31,653
R0380	Receivables (trade, not insurance)	7,196
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	175,543
R0420	Any other assets, not elsewhere shown	1,128
R0500	**Total assets**	1,443,969

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,002,665
R0520	*Technical provisions - non-life (excluding health)*	1,002,665
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	916,354
R0550	*Risk margin*	86,311
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	12,519
R0830	Reinsurance payables	-73
R0840	Payables (trade, not insurance)	1,195
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,016,306
R1000	**Excess of assets over liabilities**	427,664

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business						204,415											204,415
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share						61,683											61,683
R0200	Net						142,732											142,732
	Premiums earned																	
R0210	Gross - Direct Business						204,415											204,415
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share						61,683											61,683
R0300	Net						142,732											142,732
	Claims incurred																	
R0310	Gross - Direct Business						169,193											169,193
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share						69,541											69,541
R0400	Net						99,651											99,651
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net						0											0
R0550	**Expenses incurred**						50,150											50,150
R1200	**Other expenses**																	
R1300	**Total expenses**																	50,150

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			DK	DE	GR	ES	JP	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	82,231	29,221	12,000	13,257	19,441	36,531	192,681
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	24,813	8,818	3,621	4,000	5,866	11,023	58,142
R0200	Net	57,417	20,403	8,379	9,256	13,574	25,508	134,538
	Premiums earned							
R0210	Gross - Direct Business	82,231	29,221	12,000	13,257	19,441	36,531	192,681
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	24,813	8,818	3,621	4,000	5,866	11,023	58,142
R0300	Net	57,417	20,403	8,379	9,256	13,574	25,508	134,538
	Claims incurred							
R0310	Gross - Direct Business	78,115	15,848	5,123	6,837	10,925	26,658	143,507
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	32,107	6,514	2,106	2,810	4,491	10,957	58,984
R0400	Net	46,008	9,334	3,018	4,027	6,435	15,701	84,523
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	20,174	7,169	2,944	3,252	4,769	8,962	47,271
R1200	**Other expenses**							
R1300	**Total expenses**							47,271

S.23.01.22

Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	427,664	427,664			
R0140	Subordinated liabilities	0		0	0	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	427,664	427,664	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	129,500			129,500	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	129,500			129,500	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

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Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	557,164	427,664	0	129,500	0
R0530	Total available own funds to meet the minimum consolidated group SCR	427,664	427,664	0	0	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	557,164	427,664	0	129,500	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	427,664	427,664	0	0	
R0610	**Minimum consolidated Group SCR**	68,007				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	628.86%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	557,164	427,664	0	129,500	0
R0680	**Group SCR**	266,936				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	208.73%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	427,664
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	427,664
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	70,583
R0790	**Total Expected profits included in future premiums (EPIFP)**	70,583

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Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	122,085		
R0020	Counterparty default risk	59,598		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	136,855		
R0060	Diversification	-79,092		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	239,445		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	27,491
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	266,936
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	266,936
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	68,007
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	0
R0520	*Institutions for occupational retirement provisions*	0
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	0
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	0
	Overall SCR	
R0560	SCR for undertakings included via D&A	0
R0570	**Solvency capital requirement**	266,936

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Undertakings in the scope of the group

Row	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	2138008W3W8AI6C92J10	LEI	The Britannia Steam Ship Insurance Association Lir	Non life insurance undertaking	Insurance company limited by guarantee	Mutual	Prudential Regulation Authority
2	BM	R4BRPLIC21EOWRHFY964	LEI	Universal Shipowners Marine Insurance Association	Reinsurance undertaking	Reinsurance company limited by shares	Non-mutual	Bermuda Monetary Authority

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Undertakings in the scope of the group

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	2138008W3W8AI6C92J10	LEI							Included in the scope		Method 1: Full consolidation
2	BM	R4BRPLIC21EOWRHFY964	LEI	100.00%	100.00%	100.00%	None	Dominant	100.00%	Included in the scope		Method 1: Full consolidation