

The Britannia Steam Ship Insurance Association Ltd

Group Solvency and Financial Condition Report

As at 20 February 2020

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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 2020, covering the preceding twelve months.

1.1 Review of the year ended 20 February 2020

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 2019, at which the financial statements for the year ended 20 February 2019 were approved, the board took the decision to continue the recent policy of returning a portion of the surplus to the membership and agreed a further capital distribution of USD15m to the mutual P&I Members with ships on risk on 9 May 2019. In October 2019, the board decided to make a further capital distribution of USD10m to the mutual P&I Members with ships on risk on 15 October 2019, bringing the total distribution for the year to USD25m. Since May 2017, USD85m of surplus capital has been returned to Members.

In the year ended 20 February 2020, calls and premiums were slightly lower year on year by 1.6% at USD201.2m (2019 – USD204.4m). The Group's strong financial position had allowed a third consecutive renewal for 2019/20 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 was negligible.

The cost of retention claims in the 2019/20 policy year after 12 months' development was lower than in the prior year – USD132.3m against USD152.0m. The number of claims in total was also lower, but the number of large claims, those expected to cost USD1m or more, was 20 compared to 18. By contrast, claims on the Pool were higher. At the 12-month stage, Pool claims were at their highest level since 2012/13. Claims within the retention and from the Pool in the older policy years, as is usual for the Group, developed positively, which allowed the release of USD67.2m from the claims provisions in those years. As a result of these three factors, claims incurred in the financial year were USD111.7m, down from USD119.6m in the prior financial year, a movement of 6.6%.

An increase in operating costs to USD31.9m reflected a number of factors, including the continuing costs incurred in planning for the UK's departure from the EU plus the costs of IT development.

The balance on the technical account, including investment return based on the longer-term rate of USD33.1m, was a surplus of USD29.3m, which is a satisfactory underwriting result for the year.

The Group's investment portfolio produced a strong return of USD61.9m for the year. Further details are set out in the section on investment performance. After taking account of the investment return allocated to the technical account, which, as noted above, is based on the long-term rate of return, the Group's overall financial result for the year after tax was a surplus of USD56.4m.

The total capital of the Group shown on the statement of financial position was higher than last year by USD31.4m, after allowing for the USD25m capital distribution referred to above. This represents a very satisfactory result.

Almost immediately after the year end, investment markets began to be impacted by the economic uncertainty caused by the coronavirus pandemic. Some of the growth in the investment portfolio seen during 2019/20 has been reversed, but the Group is in such a strong capital position that it is very well placed to weather this particular storm and to face a more uncertain global economy.

Investment performance

In the year ended 20 February 2020, the overall return on investments was 7.1%, which is equivalent to USD61.9m.

The best performing asset classes were equities ,which returned 16.5%, and the diversified growth fund, which returned 11.4%. The remaining asset classes all generated positive returns during the financial year, adding to the overall investment return.

Investment strategy

The Association's investment strategy is the responsibility of the Board.

There has been no material change to the Group'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 Group. 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 2020:

Asset class	Proportion %
Matching portfolio	
Government bonds and cash	46%
Growth portfolio	
Absolute return bond funds	21%
Equities	20%
Diversified growth fund	13%
	100%

Claims

Class 3 – Protection and Indemnity (P&I)

Retained claims

As at 20 February 2020, the total number of attritional claims notified in respect of the 2019/20 policy year was 4,175. This represents a small reduction on the 4,364 claims notified at the same time in the 2018/19 policy year. The total number of attritional claims has remained relatively consistent since the 2016/17 policy year, when 4,276 claims were reported. These levels remain well below the 7,351 claims notified as at 20 February 2012. This historical reduction 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).

The aggregate cost of retention claims, including the estimates for outstanding amounts, was USD132m as at 20 February 2020. This compares to USD152m at the same stage in the prior year.

High value incidents are much less frequent than attritional claims, however they can have a significant impact on the outcome of a policy year. In 2019/20, 20 high value claims were reported, With a current estimate of USD69.5m. This compares with 18 claims estimated at USD83.9m at the end of the 2018/19 policy year. Three damage to property claims exceeded the Group's USD10m retention, whilst ten significant cargo claims were also notified.

Pool claims

At 20 February 2020, 18 Pool claims had been notified in the 2019/20 policy year, with an aggregate estimated cost of USD355m. This compares to the same number of notifications in 2018/19, but an increase in the aggregate cost from USD304m. The largest claim relates to the grounding and capsizing of a car carrier laden with over 4,000 vehicles off Brunswick, Georgia. The wreck removal operation is expected to be complex and significant pollution prevention measures are needed to protect the environment.

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

Class 6 provides insurance for the costs of legal or other proceedings which a member may take or defend with the Group's support and which are not insured under class 3. The types of proceedings covered under Class 6 include disputes in respect of hire and demurrage, ship performance, delays, damage to hull (where not covered by the hull and machinery policy), supplies, repairs, ship building and sale and purchase disputes.

The most expensive Class 6 claims inevitably involve disputes which it has not been possible to settle and have proceeded to an arbitration hearing or court trial requiring the attendance of counsel and expert witnesses. While such disputes are rare, with the vast majority of cases being settled without requiring a hearing, these costlier cases tend to develop slowly as it normally takes several years from the time of the incident until the date of the hearing. This means that the ultimate level of Class 6 claims in any given policy year usually takes longer to determine than Class 3, where the likely exposure is more predictable much sooner after the incident date.

Despite this, the number and value of Class 6 claims that have been notified by the end of the policy year do provide a reasonable indication of the final exposure, especially when the nature of the largest claims is also taken into account. This is because certain types of claim, particularly ship building repairs and sale and purchase disputes, tend to be the most expensive ones to resolve, mainly because of the large number of documents involved. At the end of the policy year it seems likely that there will only be one such dispute in 2019/20. This case involves the breach of a covenant in a sale and purchase agreement and has given rise to multi-jurisdictional issues.

With these points in mind, the figures for Class 6 claims at the end of the 2019/20 policy year suggest that it should ultimately be a better year than 2018/19 but worse than either 2016/17 or 2017/18 which, by historical standards, are proving to be relatively benign years. This again appears to confirm the continuation of a relatively stable claims environment since the upheaval caused by the global financial crisis in 2008, which resulted in an unprecedented level of Class 6 claims from that year until 2010.

There were no discernible claims trends during the 2019/20 policy year. By the end of the policy year there had been relatively few disputes arising from the introduction of the 0.5% global sulphur cap on 1 January 2020, perhaps because the requirements were known well in advance and so gave parties sufficient time to prepare. It is, however, still too early to say what the eventual effect will be. Towards the end of the policy year the corona virus epidemic started to affect the shipping industry and it is possible that the resulting delays and costs, as well as the wider effects of the pandemic, may have a significant impact on Class 6 in the 2020/21 policy year.

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 Group 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 Group 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

Date : 13 July 2020



J P Rodgers
Director

Date: 13 July 2020

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.



For and on behalf of BDO LLP, Statutory Auditor
London, UK

15 July 2020

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/pru
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

As reported last year, in preparation for the UK leaving the EU, the corporate structure of the Group was changed with effect from 29 March 2019. The Group comprises The Britannia Steam Ship Insurance Association Limited (Britannia), based in the UK, The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe or BE), based in Luxembourg (together, the Associations), and a holding company, The Britannia Steam Ship Insurance Association Holdings Limited (Britannia Holdings), based in the UK. Britannia Holdings is the controlling Member of both Associations.

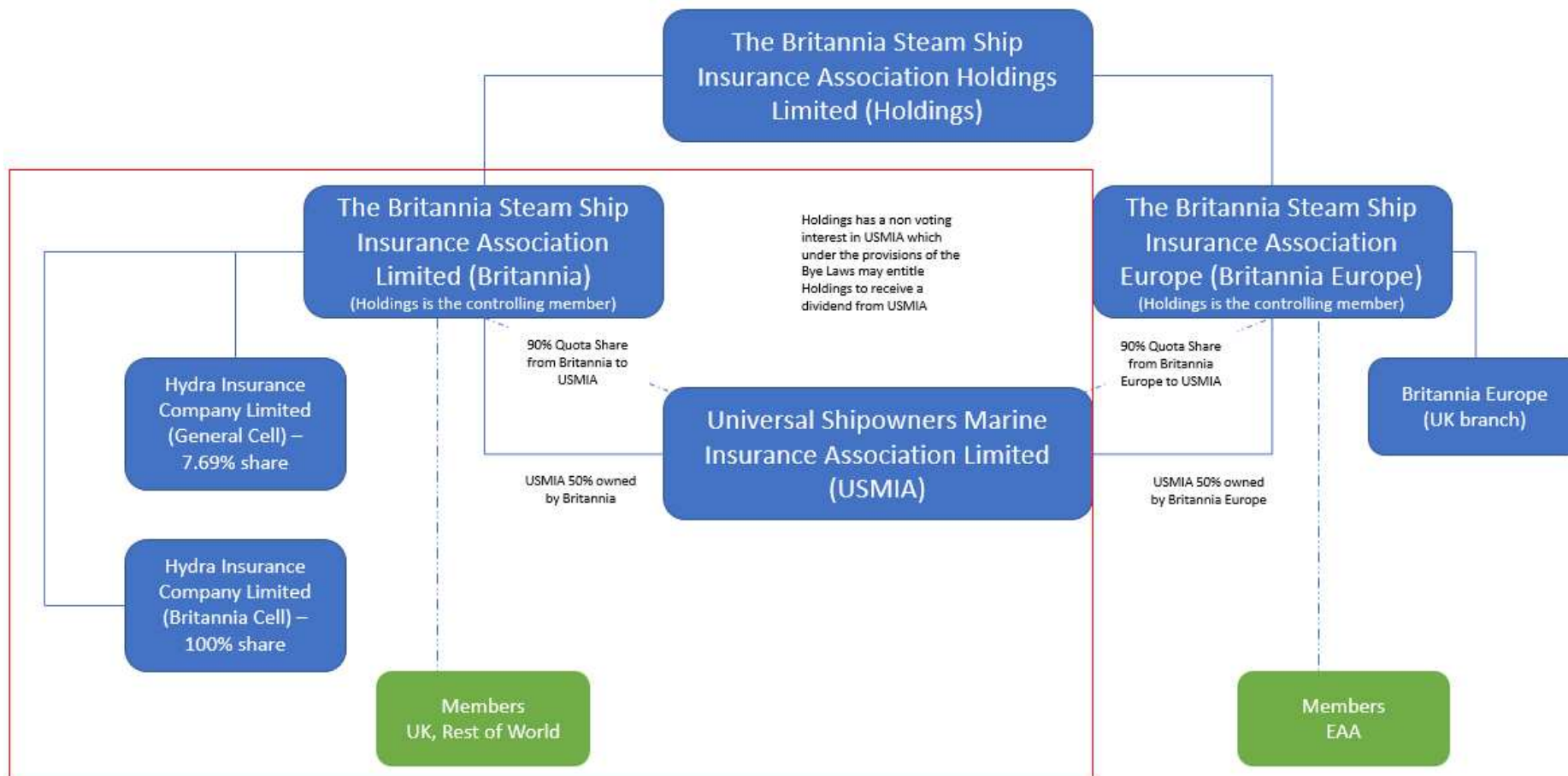
Universal Shipowners Marine Insurance Association Limited (USMIA), the Group's quota-share reinsurance vehicle, is 50% co-owned by the Associations. The Group structure is illustrated in the chart below.

The Group is 100% owned by its Members. 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 Group's cell in Hydra is treated for the purposes of internal management and GAAP accounting as a subsidiary. 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 2020.

Chart 1: Corporate structure



Although Britannia Europe was licensed to write insurance business by the Commissariat aux Assurances (CAA) with effect from 10 December 2018, it has not yet written any business. While the UK formally left the EU on 31 January 2020, a transition period exists whereby the UK remains in the European Single Market until 31 December 2020 (unless that deadline is extended). During this transition period, Britannia retains its rights to underwrite European business and therefore at 20 February 2020 all renewals were written by Britannia. It is not expected that Britannia Europe will write any business until 1 January 2021, but the expectation is that at 20 February 2021 the entire book will be renewed into Britannia Europe. The Board of Britannia is also exploring the option of transferring the entire historic book of business of Britannia to Britannia Europe using a Court-sanctioned Part VII transfer, with effect from 20 February 2021.

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.

While Britannia is operating in the transition period, 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.

This also impacts the valuation and method of consolidation applied to USMIA. The entire value of USMIA that has been created to date has been to the benefit of the Association and therefore, while Britannia Europe is dormant, the full value of USMIA has been attributed to Britannia and consolidated on a 100% basis into Britannia rather than shared between Britannia and Britannia Europe.

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 Icen Trust.

The Trustee of the Icen 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 Icen 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 Icen 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.

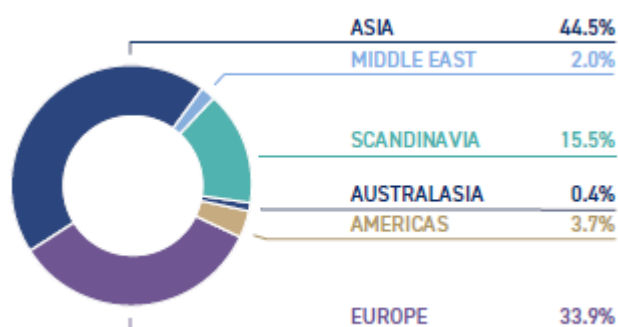
As at 20 February 2020, assets of Boudicca totalling USD172.3m (20 February 2019 – USD196,9m) were available to support the Association should they be required. These funds do not form part of the Association's Solvency II own funds, but nevertheless, under the terms of the reinsurance contract, they 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 2020, the Association produced an underwriting surplus of USD29.3m, including investment returns based on the longer-term rate of USD33.1m.

The following table shows a summary of the technical (underwriting) account for the year ended 20 February 2020 (UK GAAP basis) and prior year.

Sources of income and expenditure	USD'000 2019/20	USD'000 2018/19
Calls and premiums	201,185	204,415
Reinsurance premiums	(61,402)	(61,683)
Investment income (LTRR basis*)	33,079	29,873
Net claims incurred	(111,667)	(119,599)
Net operating expenses	(31,891)	(28,649)
Balance of the technical account	29,304	24,357

*Longer-term rate of return

The underwriting result was generated principally by the P&I class, USD30.8m (2019 – USD24.7m), while the FD&D class generated a loss of USD1.5m (2019 – loss USD0.3m).

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 provided 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 2020, the Association's investment portfolio (UK GAAP basis) comprised the following asset classes:

Asset Class	Amount USD'm	% of portfolio
Matching portfolio		
Government bonds	215.6	26%
Corporate bonds	0.2	0%
Cash	171.0	20%
Growth portfolio		
Equities	170.3	20%
Diversified growth fund	113.8	13%
Absolute return bond funds	176.2	21%
	847.1	100%

In the year ended 20 February 2020, the overall return on investments was 7.1%, which is equivalent to a profit of USD61.9m. The best performing asset classes were equities, which returned 16.5%, and diversified growth fund, which returned 11.4%,

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

Asset class	USD'000 2019/20	USD'000 2018/19
Government bonds	16,700	(461)
Cash	3,528	3,661
Equities	27,249	(2,455)
Diversified growth fund	3,527	(1,853)
Corporate bonds	0	0
Absolute return bond funds	13,628	1,109
Exchange gain/(loss) on cash balances	(1,415)	(1,091)
Investment management expenses	(1,350)	(1,553)
	61,868	(2,643)

The Association has outsourced arrangements with the following investment managers

- State Street Global Advisors
- 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 2020, the Association produced a surplus of USD56.4m. Balance sheet reserves increased to USD422.1m after taking into account the USD25m capital distributions to Members of the Association that were approved by the Board in May 2019 and October 2019. The surplus funds available to the Association in Boudicca decreased to USD172.3m. Own funds for Solvency II purposes (which exclude the Boudicca funds), measured on a best estimate basis, stood at USD525.9m.

The overall solvency position of the Association at 20 February 2020 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.

Following the corporate restructure discussed in section 4.1, the Members' Representative Committee now sits with Britannia Holdings rather than the Association.

The Members' Representative Committee

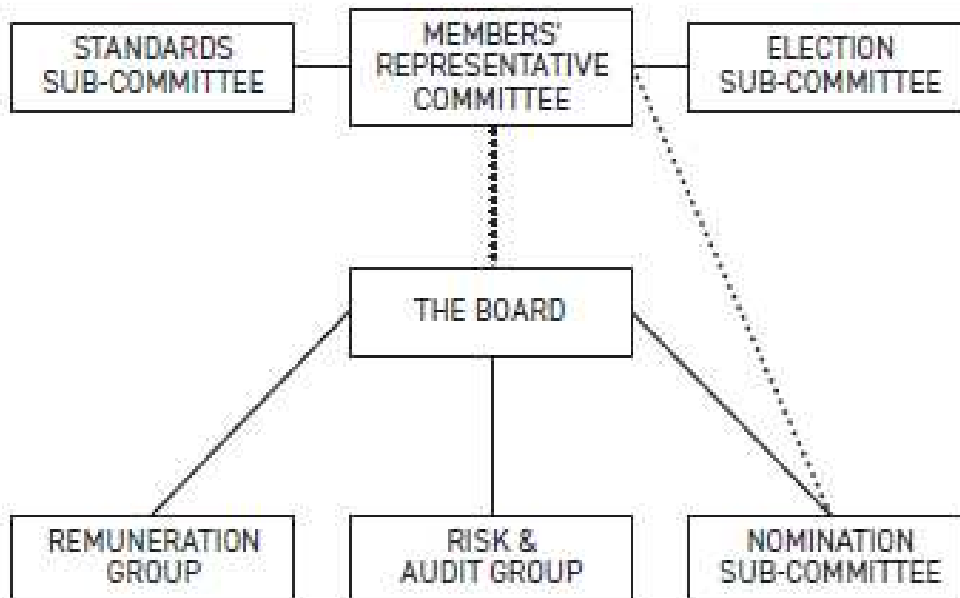
Following the corporate restructure discussed in section 4.1, the Members' Representative Committee now sits at the level of Britannia Holdings rather than the Association.

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 Group’s governance structure



Sub-Committees of the Board

There are three sub-committees of the board: the Risk & 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 four 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 2019 to 20 February 2020 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:

- The Managers' acquisition of B Denmark, the former exclusive correspondent in Denmark, now rebranded TR(B) Denmark. Michael boje-Larsen heads up that office, which has been expanded with a further FD&D claims handler joining team;
- Konstantinos Samaritis taking over as head of the Greek office and, again, the recruitment of another FD&D claims handler;
- The Singapore office has welcomed one of the loss prevention team (formerly based in London), another underwriter, a further FD&D claims handler and a local compliance lead;
- TR(B) Hong Kong's office move in December 2019, allowing for further expansion of its team and also enabling corporate events (e.g. board functions) to be hosted from that office; and

- The establishment of our exclusive correspondent B Americas based in New York and led by Mike Unger, an experienced maritime lawyer formerly with Freehill Hogan & Mahar. B Americas will have a wide net, focusing on the Association's Members based in the Americas, as well as assisting all Members with claims in the USA.

The root and branch IT upgrade continues, on time and within budget. 2019 saw the roll out of the underwriting suite and 2020 will see work continuing on the new claims suite.

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 2019/20 financial year, capital distributions totalling USD25m were made by the Association to its Members with ships on risk on the days on which the distribution were 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.

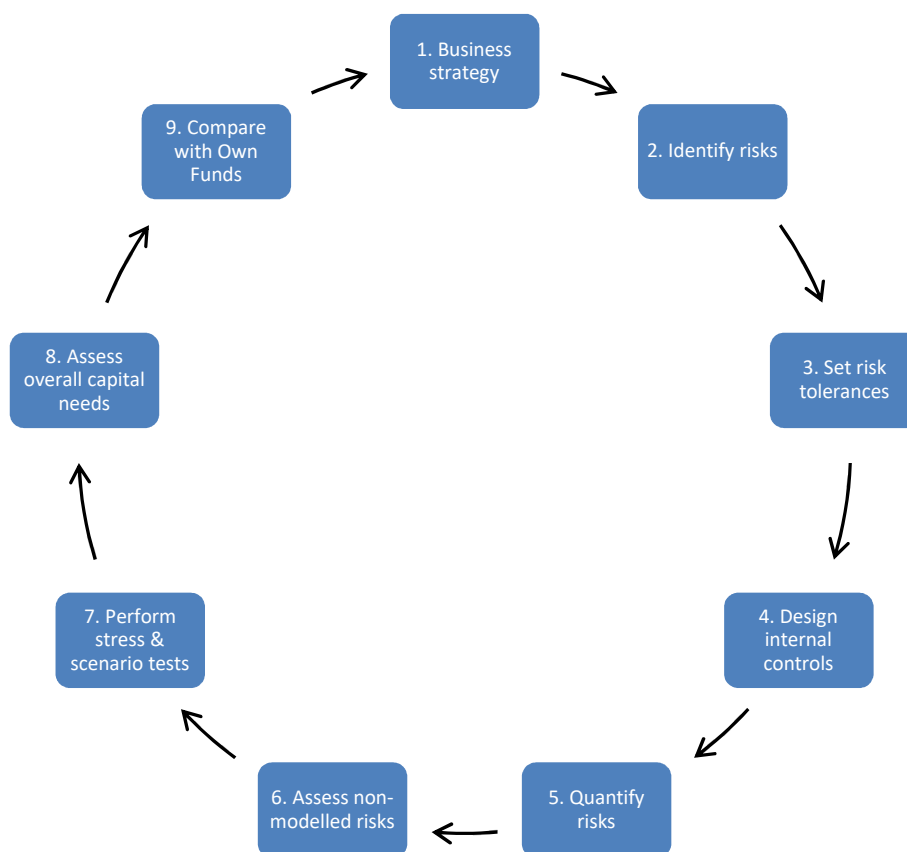
The Association's risk management system allows the Board and the senior management team to review and challenge credible risk information and make informed decisions about the risk profile of the business.

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 2020 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 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;
 - 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

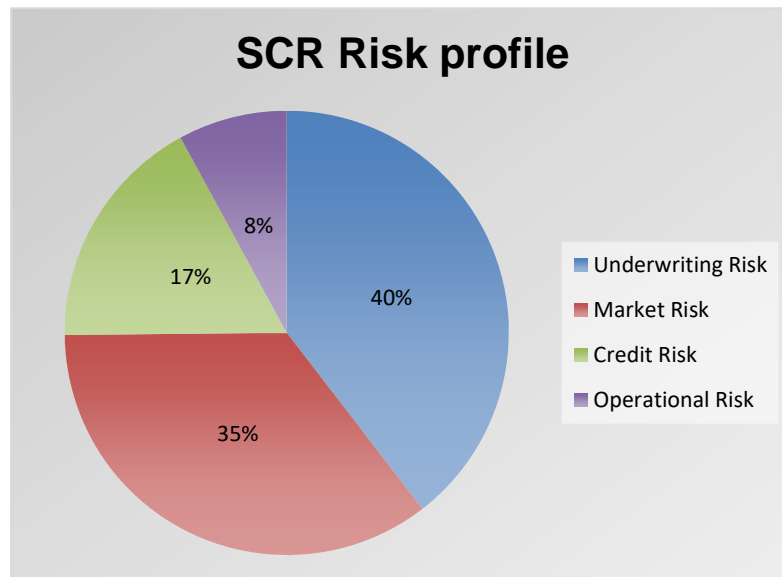
The Association is focused on the identification and management of exposure to risk through its core activity as a provider of insurance services. The key areas of risk faced by the Association can be classified as follows:

- 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 2020 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 2020	USD'000 2019
Gross	10,059	10,221
Net	6,989	7,137

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:

	USD'000 2020	USD'000 2019
0.5% increase in interest rates	2,718	3,164
0.5% decrease in interest rates	(2,718)	(3,164)

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 2020, the holding in equity instruments amounted to 20% (2019 – 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 13% (2019 – 12%).

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 (2019 – USD0.2m).

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

	USD'000 2020	USD'000 2019
5% increase in equity price	9,037	6,795
5% decrease in equity price	(9,037)	(6,795)

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.

	USD'000 2020	USD'000 2019
Debt Securities	0	0
Derivatives at fair value through income	55	125
Reinsurers' share of technical provisions	524,343	449,097
Reinsurance debtors	60,632	28,087
Member and other debtors	74,991	76,884
Unsettled investment transactions	224	214
Deposits with credit institutions	170,984	220,024
Cash at bank	116,173	132,499
Total financial assets bearing credit risk	947,403	906,929

An analysis of this exposure by credit rating is shown below

	USD'000 2020	USD'000 2019
AAA	5,706	0
AA	347,767	477,429
A	466,351	325,802
BBB+ and below	82,640	83,346
No Rating	436,707	440,245
Total financial assets bearing credit risk	1,339,171	1,326,822

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, Schrodgers 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 2020	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
Quoted shares and variable yield securities	284,098	0	0	0	0	284,098
Debt securities and other fixed income securities	0	0	0	153,739	238,029	391,768
Deposits with credit institutions	170,984	0	0	0	0	170,984
Derivatives at fair value through income	55	0	0	0	0	55
Unsettled investment transactions	224	0	0	0	0	224
Reinsurers' share of outstanding claims	0	152,051	120,699	164,049	87,544	524,343
Direct insurance operations - Members	11,051	45,440	18,353	0	0	74,844
Reinsurance operations	60,632	0	0	0	0	60,632
Taxation	148	0	0	0	0	148
Other debtors	0	0	0	0	0	0
Cash at bank	116,173	0	0	0	0	116,173
Accrued interest	804	0	0	0	0	804
Other prepayments	10,589	0	0	0	0	10,589
Total assets	654,757	197,492	139,052	317,788	325,573	1,634,662

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 2020	Within 1 year USD'000	1-2 years USD'000	2-5 years USD'000	Over 5 years USD'000	Total USD'000
Gross outstanding claims	347,617	275,939	375,046	200,141	1,198,743
Direct insurance operations - Members	9,095	0	0	0	9,095
Reinsurance operations	4,343	0	0	0	4,343
Taxation	43	0	0	0	43
Other Creditors	350	0	0	0	350
Total liabilities	361,448	275,939	375,046	200,141	1,212,574

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 and 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 part of a. 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 2020.

	Assets per GAAP USD'm	Assets per Solvency II USD'm	Variance USD'm
Financial investments and cash and cash equivalents	963.3	872.4	90.9
Reinsurance recoverable	524.3	454.4	69.9
Other assets	147.0	90.9	56.2
Total Assets	1,634.7	1,417.7	217.0

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. Furthermore, cash and cash equivalents of accounted for in Britannia Europe have been deconsolidated from the SII balances as further explained in section 4.1. 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 GAAP this is included in other assets.

Reinsurance recoverable (reinsurers' share of technical provisions)

The difference between the 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 GAAP and Solvency II relates to the recognition of accrued interest which has been recognised for Solvency II purposes under financial investments and for GAAP purposes under 'other assets'. The remaining difference relates to the accounting treatment for the accrued deferred call. In the 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.

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 2020, the Association held technical provisions, valued for solvency purposes, of USD1,014.0m.

The assessment of the technical provisions is based on commonly accepted actuarial techniques applied in a consistent manner from year to year. 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 2020.

	Gross USD'm	RI USD'm	Net USD'm
Balance per GAAP	1,198.7	(524.3)	674.4
Reclassification of Hydra as 3rd party	-	(57.2)	(57.2)
Prudence Margin (GAAP to BE)	(317.4)	151.3	(166.0)
Reclassification of deferred calls and reinsurance premiums	(76.9)	6.6	(70.3)
Bound but not incepted (“BBNI”) business	72.9	(32.2)	40.8
RI credit default	0.0	5.6	5.6
ENIDs	29.0	(14.0)	15.0
Discounting	(20.3)	9.7	(10.6)
Expenses	33.8	-	33.8
Balance per Solvency II before risk margin adjustment	919.9	(454.4)	465.4
Risk Margin	94.1	-	94.1
Balance per SII	1,014.0	(454.4)	559.6
Variance between SII and GAAP	184.7	(69.9)	114.8

* 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 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 2020; and
- an additional Solvency II risk margin is added, which is intended to represent a notional market value adjustment.

The Association values technical provisions 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 2020, 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 12.00 on 20 February 2020) 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' (ENID), which allows for severe events to which the Association could be exposed but which are absent from the historical data. The ENID 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 2020/21 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 2020/21 policy year and expenses paid in subsequent years. The expenses paid in 2020/21 are calculated as an assumed percentage of the total operating costs for the forthcoming year. The expenses paid beyond 2020/21 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 29 February 2020 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.

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 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 ENID, 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 2020/21, including the introduction of a data governance policy and data controls. Furthermore, included in BBNI is an allowance for the potential impact of the COVID-19 pandemic on claims development.

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 2020.

	Liabilities per GAAP USD'm	Liabilities per Solvency II USD'm	Variance USD'm
Creditors	9.5	9.5	0.0
Reinsurance creditors	4.3	(2.3)	6.6
Other liabilities	13.8	7.2	6.6

The differences in the valuation between GAAP and Solvency II relates to the recognition of payments on reinsurance contracts for the 2019/20 and prior policy years that have been accrued in the 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 or ECB).

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 2020, 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 2020 and 2019, the Association held the following own funds.

	20/02/2020 USD'm	20/02/2019 USD'm	Movement USD'm
Income and expenditure account	236.5	233.3	3.2
Investment reserve	130.6	102.3	28.3
General reserve	55.0	55.0	-
Total resources	422.1	390.6	31.5
Solvency II adjustment	(25.6)	37.0	(62.6)
Basic own funds	396.5	427.7	(31.2)
Ancillary own funds	129.5	129.5	-
Total own funds	526.0	557.2	(31.2)

The SII adjustment has reduced from USD37.0m in 2019 to negative USD25.6m in 2020 due to a reduction in the impact of discounting and the prudence margin for SII purposes reducing when compared to the prior year. Furthermore, the risk margin has increased when compared to the prior year and a specific load for the impact of COVID-19 has been made in the current year balance. The total resources for accounting purposes also includes capital allocated to Britannia Europe which has not been included for the purposes of SII.

Analysis of significant changes during the period:

The following table shows the movement in own funds between 20 February 2020 and 20 February 2019:

	USD'm
Own funds at 20 February 2019	427.7
Increase in net technical provisions	(7.0)
Decrease in investments	(77.4)
Increase in other assets	46.8
Decrease in other liabilities	6.4
Basic own funds at 20 February 2020	396.5
Ancillary own funds	129.5
Total own funds at 20 February 2020	526.0

The following table shows the reconciliation between GAAP net asset value and Solvency II net asset value at 20 February 2020:

	USD'm
Total Resources – GAAP	422.1
Asset valuation difference	(217.0)
Gross technical provisions valuation difference	184.7
Liability valuation difference	6.6
Basic own funds - Solvency II	396.5
Ancillary own funds - Solvency II	129.5
Total own funds - Solvency II	526.0

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.

Heads of risk	SCR		Movement USD'm
	20/02/2020 USD'm	20/02/2019 USD'm	
Underwriting risk	132.3	136.9	(4.6)
Market risk	112.4	122.1	(9.7)
Counterparty default risk	66.5	59.6	6.9
Operational risk	27.6	27.5	0.1
Aggregate SCR	338.9	346.0	(7.2)
Correlation credit	(77.7)	(79.1)	1.4
Aggregate SCR net of correlations	261.2	266.9	(5.8)

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 2019 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.

Premium risk and Reserve risk have decreased because of lower net premiums written in the last 12 months and lower net best estimate claims provision, respectively, compared to the previous year.

CAT risk has decreased since the previous year as a result of a lower attachment point on the reinsurance programme.

Overall, SCR underwriting risk capital has decreased by USD4.6m, which represents a 3% reduction since last year.

Market risk

Market risk is determined 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 USD19.9m since last year as a result of improvement in the matching of the Association's assets and claims liabilities (particularly within GBP denominated assets and liabilities).

Interest rate risk has decreased by USD6.9m due to a reduction of GBP100.0m in Corporate and Index-linked Bonds. This has improved Asset and Liability matching so that the impact of a change in Interest Rates has reduced. Similarly, spread risk has decreased by USD6.8m due to reduced holdings of Non-EEA Sovereign Bonds.

Offsetting the decreases, Equity risk increased from USD59.5m to USD72.2m, mainly due to the holding of an additional USD50.0m of Equities, and concentration risk has increased by USD2.7m to USD9.2m, due to the increased value of the equity share in Hydra.

Overall, SCR market risk capital has decreased by 8%, which equates to USD9.7m

Counterparty default risk

The counterparty default risk capital requirement has increased by USD6.9m in the past 12 months. This is mainly driven by an increase in Type 1 counterparty risk charge due to reinsurance debtors doubling. The Type 2 counterparty risk charge also increased to a lesser extent because its exposure (mainly Member debtors) almost doubled

Operational risk

There has been a slight increase of USD0.1m 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, which has therefore driven the immaterial movement in operational risk.

Overall movement

Overall, the SCR has seen a year on year decrease of USD5.8m, from USD266.9m to USD261.2m.

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 2020 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 2020 was USD67.5m, down from USD68.0m last year, reflecting lower net technical provisions and 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 2020.

	SCR USD'm	MCR USD'm
Capital requirement	261.2	67.5
Basic own funds available	396.5	396.5
Ancillary own funds	129.5	-
Total own funds	526.0	396.5
Headroom	264.8	329.0
Solvency ratio	201.4%	587.5%

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.

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 Poors.	“A” rating from S&P maintained.
		ECB +5%/- 20% projected to be maintained over 3 years and risk capital is allocated to risk categories in agreed proportions.
		Insurance Risk > 50% of pre-diversified ECB.
		Market Risk < 40% of pre-diversified ECB.
		Credit Risk < 15% of pre-diversified ECB.
		Operational Risk < 10% of pre-diversified ECB.
		Validation routine concludes that ECB and SCR accuracy within tolerance.
		The undiversified Group SCR can be met by the Own Funds, excluding the Ancillary Own Fund modification.
2.	Britannia will avoid unbudgeted supplementary calls by managing the consequences of claims, expense and investment volatility.	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% of the current Investment Reserve.
		No reasonable operational risk scenario >USD20m at 99.5% confidence for a single year.
		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 that are within the Managers’ control meet the required levels.
		The same Compliance Dashboard item is not permitted to remain at Red status beyond a single quarter
		BCP agreed in last 15 months and key components tested in last year.
		Underwriting peer review performed for all Members.
		The same material control is not permitted to remain ineffective beyond a single quarter
6.	Britannia will conduct its business in a manner that meets regulatory expectation and is consistent with the Mission Statement and Standards of Business Conduct Policy.	All employees have completed mandatory online training, including training that outlines staff regulatory and statutory responsibilities.
		Responsibilities for statutory and regulatory compliance at group and regional levels is clearly assigned to relevant leadership.
		Appropriate measures are in place to minimise financial crime incidents, reflecting the nature, scale and complexity of the Association.

		No known breaches of expected behaviours, including no whistle-blowing allegations and no adverse employee feedback.
7.	Britannia will ensure that its business model remains sustainable for the future benefit of Members.	<50% of Senior Management Function and Certification Function roles due to retire in coming 3 years.
		IG commercially sustainable over 10 year period (CoR<95%).
		Britannia's average expense ratio as calculated for IG comparison is less than < peers.
		Mutual tonnage >90% of 20 Feb pm average for last 5 years.
		Average 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 appropriate 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 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 2020 on a solo basis are set out in the tables below.

At 20 February 2020, the Association (on a solo basis) held the following own funds.

	20/02/2020 USD'm
Income and expenditure account	140.5
Investment reserve	1.9
Total resources	142.5
Solvency II adjustment	195.0
Basic own funds	337.5
Ancillary own funds	74.4
Total own funds	411.9

The Association has approval from the PRA for Ancillary Own Funds (AOF) of USD129.5m from a Group perspective. This is calculated as the lower of USD129.5m or 50% of the Group SCR. Therefore for the purposes of the solo total own funds calculation, AOF is limited to 50% of the Solo SCR and therefore amounts to USD74.4m. At the Group level AOF included in total own funds amounts to the maximum approval of USD129.5m.

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 2020.

Heads of risk	20/02/2020 USD'm
Underwriting risk	22.5
Market risk	75.6
Counterparty default risk	62.4
Operational risk	27.5
Aggregate SCR	188.0
Correlation credit	(39.1)
Aggregate SCR net of correlations	148.8

Minimum Capital Requirement (MCR)

The MCR calculation is based on the net value of technical provisions as at the valuation date, 20 February 2020 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 2020 was USD37.2m 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 2020.

	SCR USD'm	MCR USD'm
Capital requirement	148.8	37.2
Basic own funds available	337.5	337.5
Ancillary own funds	74.4	-
Total own funds	411.9	374.7
Headroom	263.1	337.5
Solvency ratio	276.8%	1007.0%

Appendix 3 – Group SFCR reporting templates

The Britannia Steam Ship Insurance Association Limited

Solvency and Financial Condition Report

Disclosures

20 February

2020

(Monetary amounts in USD thousands)

General information

Participating undertaking name	The Britannia Steam Ship Insurance Association Limited
Group identification code	2138008W3W8A16C92J10
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	20 February 2020
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
		C0010
Assets		
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)	696,392
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	178,775
R0110	<i>Equities - listed</i>	178,775
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	132,943
R0140	<i>Government Bonds</i>	132,943
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	384,674
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	454,450
R0280	<i>Non-life and health similar to non-life</i>	454,450
R0290	<i>Non-life excluding health</i>	454,450
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	11,051
R0370	Reinsurance receivables	68,090
R0380	Receivables (trade, not insurance)	6,306
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	175,997
R0420	Any other assets, not elsewhere shown	5,417
R0500	Total assets	1,417,702

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions - non-life	1,014,001
R0520	<i>Technical provisions - non-life (excluding health)</i>	1,014,001
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	919,698
R0550	<i>Risk margin</i>	94,303
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	9,095
R0830	Reinsurance payables	-2,257
R0840	Payables (trade, not insurance)	372
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	1,021,211
R1000	Excess of assets over liabilities	396,491

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															201,185				201,185
R0120	Gross - Proportional reinsurance accepted																			0
R0130	Gross - Non-proportional reinsurance accepted																			0
R0140	Reinsurers' share															61,402				61,402
R0200	Net															139,783				139,783
Premiums earned																				
R0210	Gross - Direct Business															201,185				201,185
R0220	Gross - Proportional reinsurance accepted																			0
R0230	Gross - Non-proportional reinsurance accepted																			0
R0240	Reinsurers' share															61,402				61,402
R0300	Net															139,783				139,783
Claims incurred																				
R0310	Gross - Direct Business															275,651				275,651
R0320	Gross - Proportional reinsurance accepted																			0
R0330	Gross - Non-proportional reinsurance accepted																			0
R0340	Reinsurers' share															188,880				188,880
R0400	Net															86,770				86,770
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															58,136				58,136
R1200	Other expenses																			
R1300	Total expenses																			58,136

S.23.01.22

Own Funds

Basic own funds before deduction for participations in other financial sector

R0010	Ordinary share capital (gross of own shares)
R0020	<i>Non-available called but not paid in ordinary share capital at group level</i>
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0060	<i>Non-available subordinated mutual member accounts at group level</i>
R0070	Surplus funds
R0080	<i>Non-available surplus funds at group level</i>
R0090	Preference shares
R0100	<i>Non-available preference shares at group level</i>
R0110	Share premium account related to preference shares
R0120	<i>Non-available share premium account related to preference shares at group level</i>
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0150	<i>Non-available subordinated liabilities at group level</i>
R0160	An amount equal to the value of net deferred tax assets
R0170	<i>The amount equal to the value of net deferred tax assets not available at the group level</i>
R0180	Other items approved by supervisory authority as basic own funds not specified above
R0190	<i>Non available own funds related to other own funds items approved by supervisory authority</i>
R0200	Minority interests (if not reported as part of a specific own fund item)
R0210	<i>Non-available minority interests at group level</i>

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

R0240	<i>whereof deducted according to art 228 of the Directive 2009/138/EC</i>
R0250	Deductions for participations where there is non-availability of information (Article 229)
R0260	Deduction for participations included by using D&A when a combination of methods is used
R0270	Total of non-available own fund items
R0280	Total deductions

R0290 Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0380	Non available ancillary own funds at group level
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Own funds of other financial sectors

R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies
R0420	Institutions for occupational retirement provision
R0430	Non regulated entities carrying out financial activities
R0440	Total own funds of other financial sectors

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0				
0	0		0	
0	0		0	
0		0	0	0
0				
0	0			
0	0			
0		0	0	0
0				
0		0	0	0
0				
396,491	396,491			
0		0	0	0
0				
0				0
0				0
0	0	0	0	0
0				
0				
0				
396,491	396,491	0	0	0
0				
0				
0				
0				
129,500			129,500	
0				
0				
0				
129,500			129,500	0
0				
0				
0				
0	0	0	0	0

S.23.01.22

Own Funds

Basic own funds before deduction for participations in other financial sector

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
R0460	Own funds aggregated when using the D&A and combination of method net of IGT
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)
R0530	Total available own funds to meet the minimum consolidated group SCR
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)
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)
R0610	Minimum consolidated Group SCR
R0650	Ratio of Eligible own funds to Minimum Consolidated Group SCR
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)
R0680	Group SCR
R0690	Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Forseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0750	Other non available own funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0				
0				
525,991	396,491	0	129,500	0
396,491	396,491	0	0	
525,991	396,491	0	129,500	0
396,491	396,491	0	0	
67,490				
587.48%				
525,991	396,491	0	129,500	0
261,165				
201.40%				
C0060				
396,491				
0				
0				
396,491				
60,570				
60,570				

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Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	112,450		
R0020 Counterparty default risk	66,522		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	132,309		
R0060 Diversification	-77,708		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	233,574		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	27,591		
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	261,165		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement for undertakings under consolidated method	261,165		
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	67,490		
Information on other entities			
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510 <i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	0		
R0520 <i>Institutions for occupational retirement provisions</i>	0		
R0530 <i>Capital requirement for non-regulated entities carrying out financial activities</i>	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	261,165		

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

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Undertakings in the scope of the group

	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
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	2138008W3W8A16C92J10	LEI	The Britannia Steam Ship Insurance Association L	Non life insurance undertaking	Insurance company limited by guarantee	Mutual	Prudential Regulation Authority
2	BM	R4BRPLIC21EOWRHFY964	LEI	Universal Shipowners Marine Insurance Associatio	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