

**STEAMSHIP
MUTUAL
COMBINED
FINANCIAL
STATEMENTS
2019**



Managers' Report

Basis of combination

The Combined Financial Statements for Steamship that appear on pages 3 to 19 of these Management Highlights have been prepared by combining the consolidated accounts of Steamship Mutual Underwriting Association Limited ("SMUA"), the consolidated accounts of its principal reinsurer The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), and The Steamship Mutual Trust ("the Trust"). All the Members of SMUA are also Members of SMUAB who are the beneficiaries of the Trust.

These Combined Financial Statements are intended to provide an overall summary of the financial position of the three entities which, whilst contractually linked, are not under common management or control.

The consolidated financial statements of SMUA and SMUAB and the financial statements of the Trust are available as separate documents on Steamship's website: www.steamshipmutual.com

Free reserves

After considering the strong current and projected capital position of Steamship, in October 2018 the Directors of SMUAB declared a capital distribution amounting to 10% of mutual premium for the 2018/19 policy year (Class 1 – P&I) payable to Members who renewed at 20 February 2019. Accordingly US\$21.9 million was credited to Members.

As at 20 February 2019, the combined free reserves of Steamship were US\$467.0 million, a decrease of US\$48.9 million, or 9.5% over the financial year. For the year under review, the Directors set a 0% standard increase in P&I premium. At the 2019 renewal the standard increase was again set at 0% for the fifth year in a row.

Underwriting

The 2015/16 year was closed in May 2018.

Gross premium totalled US\$306.7 million, compared to US\$320.9 million (excluding US\$25.6 million premium returned to Members) last year. The financial year combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium was 116.1% compared to 102.1% last year (excluding the premium return).

The Directors will review release call levels as part of the Group Solvency Self-Assessment. In the meantime release calls for both Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") will be set at 10% for the 2019/20 policy year and 0% for both the 2018/19 and 2017/18 policy years.

Claims

Net claims paid during the financial year on a combined basis amounted to US\$228.6 million, an increase of 6.7% on the previous year. Net outstanding claims increased by US\$17.8 million to US\$607.5 million, an increase of 3.0% compared to the previous year.

Gross claims arising in respect of the 2018/19 policy year, including IBNR, are projected to be US\$322.0 million, a decrease of 18.1% over the 2017/18 policy year (US\$393.1 million). Claims net of reinsurance recoveries amounted to US\$261.5 million, an increase of 2.5% compared to the 2017/18 policy year (US\$255.0 million).

Investments

There was a combined gain on investments, excluding land and buildings, of US\$18.8 million, a return of 1.8%. The overall total of cash and investments decreased by US\$15.1 million, or 1.4%, to US\$1,087.9 million.

A review of investment performance is provided in the Investments section of these Highlights.

Accountants' Report

Accountants' report to the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited, Steamship Mutual Underwriting Association Limited and The Steamship Mutual Trust

Report of Factual Findings

We have performed the following procedures as agreed by The Steamship Mutual Underwriting Association (Bermuda) Limited, Steamship Mutual Underwriting Association Limited and The Steamship Mutual Trust, together "the Companies" in accordance with our engagement letter dated 9 May 2019. The procedures were performed solely for the purpose of presenting the combined financial statements of the Companies.

Scope of our work and factual findings

The procedures performed were as follows:

- We agreed the figures used in the combined financial statements to the signed financial statements of The Companies as at 20 February 2019 respectively, and agreed adjustments on combination to the underlying accounting records; and
- We checked that the stated accounting policies in the combined financial statements are consistent with the accounting policies adopted by The Companies, as defined in their respective financial statements.

No exceptions were noted from performing the procedures set out above.

The scope of our work in preparing this report ("Report") was limited solely to those procedures set out above. Accordingly we do not express any opinion or overall conclusion on the procedures we have performed. You are responsible for determining whether the scope of our work specified is sufficient for your purposes and we make no representation regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might come to our attention that would be reported to you.

Our Report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the Report.

The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information contained in our Report or given to us by the Directors to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

Audit work

The audit work of Deloitte LLP on the financial statements of the Companies was carried out in order to report to the Companies' members as a body and is subject to a separate engagement letter. The audit work was undertaken to state to the Companies' members those matters required to be stated in an auditor's report and for no other purpose. The audits of the Companies' financial statements were not planned or conducted to address or reflect matters in which anyone other than such members as a body may be interested.

In particular, the scope of the audit work was set and judgements made by reference to the assessment of materiality in the context of the audited accounts taken as a whole, rather than in the context of the Report contemplated in this letter. Deloitte LLP have not expressed an opinion or other form of assurance on individual account balances, financial amounts, financial information or the adequacy of financial, accounting or management systems.

Deloitte LLP do not accept or assume responsibility to anyone other than the Companies and the Companies' members as a body, for their audit work, for their audit report or for the opinions they have formed. To the fullest extent permitted by law, Deloitte LLP do not accept or assume responsibility or liability to anyone by virtue of this engagement or our Report in relation to our audits of the Companies' financial statements.

Use of Report

This report is made solely to the Companies' directors, as a body, in accordance with our engagement letter dated 9 May 2019 and solely for the purpose of presenting the combined financial statements of the Companies. Our audit work has been undertaken so that we might state to the Companies' directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Companies, for our audit work or for this report.

Deloitte LLP

14 May 2019

Combined Income and Expenditure Account

For the year ended 20 February 2019

	Note	2019 US\$000	2018 US\$000
Technical Account			
Gross premium written	2	306,661	295,318
Outward reinsurance premium	3	(50,522)	(52,089)
Net earned premium		256,139	243,229
Allocated currency (losses)/gains	7	(9,490)	7,615
Claims paid			
Gross amount	4	300,887	294,209
Reinsurers' share	4	(72,324)	(79,944)
		228,563	214,265
Change in the provision for claims			
Gross amount	5	(3,418)	65,440
Reinsurers' share	5	21,213	(38,336)
		17,795	27,104
Net claims incurred		246,358	241,369
Operating expenses	6	41,623	40,570
Underwriting balance		(41,332)	(31,095)
Non-Technical Account			
Underwriting balance		(41,332)	(31,095)
Investment income	7	15,626	20,795
Unrealised (losses)/gains on investments	7	(6,312)	17,379
Currency losses/(gains) allocated to the Technical Account	7	9,490	(7,615)
Net investment return		18,804	30,559
Investment charges		(2,774)	(2,407)
Other income	8	9	8,846
Other charges	8	(1,473)	-
Taxation		(236)	(225)
(Deficit)/surplus for the financial year		(27,002)	5,678

Combined Balance Sheet

as at 20 February 2019

Assets	Note	2019 US\$000	2018 US\$000
Investments			
Land and buildings	8	19,951	21,424
Other financial investments	9	1,013,244	1,056,022
Reinsurers' share of technical provisions			
Claims outstanding	5	219,952	241,165
Debtors			
Debtors arising out of direct insurance operations		15,860	14,664
Debtors arising out of reinsurance operations		7,838	10,103
Other debtors		6,734	3,812
Other assets			
Cash at bank		54,709	25,606
Prepayments and accrued income			
Deferred acquisition costs		468	347
Other prepayments and accrued income		4,364	4,894
Total assets		1,343,120	1,378,037
Liabilities			
Capital and reserves			
Free reserves	10	467,049	515,968
Technical provisions			
Provision for unearned premium		2,979	2,265
Claims outstanding	5	827,408	830,826
Provisions for other risks and charges			
Provision for taxation		236	218
Other provisions		629	835
Creditors			
Creditors arising out of direct insurance operations		8,993	14,481
Creditors arising out of reinsurance operations	11	10,175	8,990
Other creditors	12	25,651	4,454
Total liabilities		1,343,120	1,378,037

Notes on the Combined Financial Statements

1. Extract of accounting policies

(a) Accounting convention

The financial statements have been prepared in accordance with the European Commission Insurance Accounts Directive (91 /674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and applicable United Kingdom Financial Reporting Standards (“FRS”) 102 and 103.

(b) Basis of combination

The financial statements combine the accounts of SMUAB and its subsidiary undertaking, Steamship Mutual Property Holdings Limited (“SMPH”) and its share of Hydra Insurance Company Limited (“Hydra”) with those of SMUA and its subsidiary undertaking, Steamship (Germany) GmbH, and the Trust to 20 February 2019.

2. Gross premium written

	2019 US\$000	2018 US\$000
Mutual and fixed premium	307,375	321,460
Return of premium	–	(25,588)
Movement in unearned premium	(714)	(554)
	306,661	295,318

3. Outward reinsurance premium

	2019 US\$000	2018 US\$000
Group Excess Loss	33,020	35,499
Other reinsurance premium	17,502	16,590
	50,522	52,089

4. Claims paid

	2019 US\$000	2018 US\$000
Claims and related expenses	256,140	253,158
Group Pool claims	18,868	15,677
Claims administration expenses	25,879	25,374
	300,887	294,209

Less reinsurers' share		
Group Excess Loss	13,839	35,954
Group Pool	46,044	20,523
Other reinsurers	12,441	23,467
	72,324	79,944

Net claims paid	228,563	214,265
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Notes on the Combined Financial Statements

continued

	2019 US\$000	2018 US\$000
5. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	(830,826)	(765,386)
Provision carried forward	827,408	830,826
	(3,418)	65,440
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	196,757	150,806
Provision carried forward	(151,118)	(196,757)
	45,639	(45,951)
Other reinsurers' share of outstanding claims		
Provision brought forward	44,408	52,023
Provision carried forward	(68,834)	(44,408)
	(24,426)	7,615
Change in reinsurers' share	21,213	(38,336)
Change in net provision for claims	17,795	27,104
Net claims outstanding	607,456	589,661

A favourable movement in the prior year net claims provision of US\$21.8 million was experienced during the year (2018: US\$17.6 million).

	2019 US\$000	2018 US\$000
6. Operating expenses		
Brokerage	18,295	20,372
Underwriting administration	9,939	7,832
Other administration	12,432	11,378
Directors' remuneration	468	487
Auditor's remuneration	489	501
	41,623	40,570
Total expenses		
Operating expenses	41,623	40,570
Claims expenses (note 4 above)	25,879	25,374
Investment charges	2,774	2,407
	70,276	68,351

Notes on the Combined Financial Statements

continued

	2019 US\$000	2018 US\$000
7. Net investment return		
Dividends and interest	22,287	20,492
Realised (losses)/gains		
Investments	1,798	(3,536)
Foreign exchange	(8,459)	3,839
Investment income	15,626	20,795
Unrealised (losses)/gains		
Investments	(5,281)	13,603
Foreign exchange	(1,031)	3,776
Foreign exchange losses/(gains) allocated to Technical Account	9,490	(7,615)
Net investment return	18,804	30,559

The allocation to the Technical Account is comprised of all realised and unrealised foreign exchange differences arising on non-US dollar investments held to match technical provisions in the same currencies.

8. Land and buildings

SMPH owns a freehold property in London. It is occupied under licence, free of rent, by the Managers. The property was last valued by CBRE Limited at £15.3 million (US\$21.4 million) reflecting the market value at 20 February 2018. The other charges shown in the combined income and expenditure account reflects the movement in the US dollar equivalent of £15.3 million (US\$20.0 million) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US\$17.0 million.

	2019 US\$000	2018 US\$000
9. Other financial investments		
Market value		
Equities	73,020	101,154
Alternative investments	80,292	68,885
Bonds	677,434	762,450
Money market instruments	143,505	63,269
Deposits with credit institutions	28,629	52,026
Cash accounts	10,297	8,809
Derivative financial instruments	67	(571)
	1,013,244	1,056,022
Cost		
Equities	49,812	68,053
Alternative investments	72,817	61,070
Bonds	690,276	778,574
Money market instruments	143,505	63,269
Deposits with credit institutions	28,629	52,026
Cash accounts	10,297	8,809
	995,336	1,031,801

Notes on the Combined Financial Statements

continued

10. Free reserves

Brought forward
(Deficit)/surplus for year
Capital distribution

	2019 US\$000	2018 US\$000
	515,968	510,290
	(27,002)	5,678
	(21,917)	–
	467,049	515,968

11. Creditors arising out of reinsurance operations

Group clubs and Excess Loss reinsurers
Other reinsurance creditors

	2019 US\$000	2018 US\$000
	1,943	515
	8,232	8,475
	10,175	8,990

12. Other creditors

Capital distribution payable to members
Other creditors

	2019 US\$000	2018 US\$000
	21,917	–
	3,734	4,454
	25,651	4,454

13. Average expense ratio

In accordance with Schedule 3 of the International Group Agreement, Steamship is required to calculate and disclose its Combined Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income.

The operating expenses include all expenditure incurred in operating Steamship, excluding expenditure incurred in handling claims. Investment income includes all incomes and gains whether realised or unrealised, exchange gains and losses, and investment management costs.

The Combined Average Expense Ratio for the P&I business of Steamship for the five years ended 20 February 2019 is 12.4% (2018: 12.2%).

Notes on the Combined Financial Statements

continued

14. Risk management

Steamship monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment (“GSSA”) report.

The GSSA documents Steamship’s risk and capital management processes employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

The principal risks faced by Steamship are insurance risk, credit risk, market risk and operational risk.

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium written in the current policy year is insufficient to cover claims and other costs arising in that year. It thus relates to the future, whereas reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. Steamship is exposed to the uncertainty surrounding the timing, frequency and severity of claims made under its insurance contracts. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

Premium is set using assumptions which have regard to trends and the past experience of a specific Member. Premium risk is mitigated by diversification across a variety of ship types and geographical areas, and by careful selection and implementation of underwriting strategy guidelines including the screening of new Members.

Steamship transfers a substantial portion of its insurance risk to its reinsurers through the provisions of the reinsurance arrangements and its membership of the International Group (“Group”).

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

Steamship aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome but this prudent basis is expected to result in releases of prior year claim reserves.

The sensitivity of the overall surplus to two factors, other assumptions being unchanged, is shown below.

	2019	2018
	US\$000	US\$000
5% increase in claims incurred on current policy year		
Overall surplus gross of reinsurance	(16,051)	(19,628)
net of reinsurance	(11,380)	(11,274)
Single claim of US\$2 billion in current policy year		
Overall surplus gross of reinsurance	(2,000,000)	(2,000,000)
net of reinsurance	(33,090)	(33,055)

Notes on the Combined Financial Statements

continued

14. Risk management continued

The following tables show the development of claims over eight years on both a gross and net of reinsurance basis. The top half of each table shows how the estimates of total claims for each policy year have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet.

Insurance claims - gross

Policy year	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000	2016/17 US\$000	2017/18 US\$000	2018/19 US\$000
End of reporting year	485,127	429,668	364,898	306,136	341,743	245,943	393,136	322,012
One year later	764,249	354,164	254,372	237,964	338,071	226,731	357,300	
Two years later	949,778	334,971	235,589	232,980	348,257	244,387		
Three years later	1,072,279	314,316	227,727	226,574	353,834			
Four years later	1,045,184	297,510	223,265	220,231				
Five years later	1,013,205	292,087	219,747					
Six years later	1,008,783	287,323						
Seven years later	1,013,521							
Current estimate of ultimate claims	1,013,521	287,323	219,747	220,231	353,834	244,387	357,300	322,012
Cumulative payments to date	967,258	270,651	189,006	193,601	285,846	161,677	176,021	35,202
Claims outstanding	46,263	16,672	30,741	26,630	67,988	82,710	181,279	286,810
Claims outstanding relating to last eight reporting years								739,093
Other claims liabilities								88,315
Total gross claims outstanding								827,408

Insurance claims - net

Policy year	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000	2016/17 US\$000	2017/18 US\$000	2018/19 US\$000
End of reporting year	263,946	280,512	266,696	239,384	245,985	223,046	255,033	261,474
One year later	253,164	253,863	230,933	214,612	232,623	219,762	250,431	
Two years later	243,051	255,088	223,774	205,809	240,962	230,735		
Three years later	246,075	245,586	217,545	202,161	241,075			
Four years later	241,346	235,862	213,697	198,301				
Five years later	236,195	234,329	209,537					
Six years later	234,447	229,444						
Seven years later	233,299							
Current estimate of ultimate claims	233,299	229,444	209,537	198,301	241,075	230,735	250,431	261,474
Cumulative payments to date	229,235	215,258	181,699	176,108	185,068	159,520	132,570	35,202
Claims outstanding	4,064	14,186	27,838	22,193	56,007	71,215	117,861	226,272
Claims outstanding relating to last eight reporting years								539,636
Other claims liabilities								67,820
Total net claims outstanding								607,456

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to Steamship may default causing a debt to be written off. The reinsurance protection arranged by Steamship effectively transforms a proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. External reinsurers are generally only used if their financial strength rating is at least A- from Standard & Poor's or an equivalent rating from another rating agency, except in the case of some members of the Group and participants on reinsurance contracts placed through the Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoverables and bonds in the investment portfolio.

The Boards' Investment Policy and specific guidelines in investment mandates control the amount of credit risk taken in pursuit of investment return and ensure that such credit risk is diversified thereby avoiding any concentration of exposure.

Credit risk in respect of amounts due from Members is spread across diverse industries and geographical areas. Cover can be cancelled and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice therefore Steamship experiences prompt payment of premium and bad debt experience is immaterial.

Credit risk arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting individual exposures to US\$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and US\$10 million for banks rated A by S&P, or an equivalent rating from another agency. The credit risk of unrated banks is monitored by reference to specific capital ratios.

Loans and receivables from Members, agents and intermediaries generally do not have a credit rating. Equities and alternative investments are also included within other assets that do not have credit ratings. The following table shows the aggregated credit risk exposure for all assets.

As at 20 February 2019

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	BB and below US\$000	Not rated US\$000	Total US\$000
Bonds and loans	11,758	328,130	189,347	137,266	10,933	–	677,434
Money market instruments	114,517	28,988	–	–	–	–	143,505
Deposits with credit institutions	–	8,000	20,629	–	–	–	28,629
Cash accounts	2,292	391	7,614	–	–	–	10,297
Derivative financial instruments	–	–	67	–	–	–	67
Cash at bank	–	51,787	2,257	–	–	665	54,709
Reinsurers' share of technical provisions	–	7,231	189,284	21,708	–	1,729	219,952
Debtors arising out of reinsurance operations	–	17	6,462	48	–	1,311	7,838
Accrued interest	216	545	1,775	1,255	96	–	3,887
Unsettled investment transactions	–	–	108	–	–	–	108
Total assets with credit ratings	128,783	425,089	417,543	160,277	11,029	3,705	1,146,426
Other assets	–	–	–	–	–	196,694	196,694
Total assets	128,783	425,089	417,543	160,277	11,029	200,399	1,343,120

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk continued

As at 20 February 2018

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	BB and below US\$000	Not rated US\$000	Total US\$000
Bonds and loans	53,828	296,910	182,759	161,625	64,924	2,404	762,450
Money market instruments	63,269	–	–	–	–	–	63,269
Deposits with credit institutions	–	47,026	5,000	–	–	–	52,026
Cash accounts	9	1,839	6,961	–	–	–	8,809
Derivative financial instruments	–	–	–	–	–	(571)	(571)
Cash at bank	–	18,701	2,317	–	–	4,588	25,606
Reinsurers' share of technical provisions	–	12,830	192,941	34,829	–	565	241,165
Debtors arising out of reinsurance operations	–	17	9,956	35	–	95	10,103
Accrued interest	178	1,496	1,365	1,244	173	–	4,456
Unsettled investment transactions	–	–	379	–	–	–	379
Total assets with credit ratings	117,284	378,819	401,678	197,733	65,097	7,081	1,167,692
Other assets	–	–	–	–	–	210,345	210,345
Total assets	117,284	378,819	401,678	197,733	65,097	217,426	1,378,037

The following table shows the age analysis of debtors arising out of insurance operations and debtors arising out of reinsurance operations after deducting provisions for bad debt.

As at 20 February 2019

	Not due US\$000	0 - 30 days US\$000	31 - 90 days US\$000	Over 90 days US\$000	Impaired US\$000	Total US\$000
Debtors arising out of direct insurance operations	4,720	5,776	2,611	2,061	692	15,860
Debtors arising out of reinsurance operations	–	2,408	1,248	4,165	17	7,838
Total	4,720	8,184	3,859	6,226	709	23,698

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk continued

As at 20 February 2018

	Not due US\$000	0 - 30 days US\$000	31 - 90 days US\$000	Over 90 days US\$000	Impaired US\$000	Total US\$000
Debtors arising out of direct insurance operations	5,658	2,307	2,482	3,497	720	14,664
Debtors arising out of reinsurance operations	–	10,040	40	6	17	10,103
Total	5,658	12,347	2,522	3,503	737	24,767

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates and foreign exchange rates and other price changes. Market risk arises primarily from investment activities.

Steamship's exposure to changes in interest rates and market prices is concentrated in the investment portfolio. The risk appetite, asset allocation and tolerance ranges are set by the Board of the Corporate Trustee having consulted with the Board of the reinsured. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

Steamship receives the majority of its premium income in US dollars, a significant amount in euro and small amounts in UK sterling and Canadian dollars. Claim liabilities arise in a number of currencies but predominantly in US dollars, euro, UK sterling and Brazilian reals. This exposure is mitigated by holding investments in UK sterling denominated assets and derivative positions held by the Trust in respect of the euro and Brazilian real. To minimise currency translation costs operational bank balances in euro and UK sterling are maintained to fund expected short term claim payments in those currencies.

The following tables show Steamship's assets and liabilities by currency.

As at 20 February 2019

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Korean won US\$000	Other US\$000	Total US\$000
Assets	1,205,519	42,367	74,675	13,185	–	7,374	1,343,120
Liabilities	(726,722)	(31,398)	(77,039)	(22,645)	(3,730)	(14,537)	(876,071)
	478,797	10,969	(2,364)	(9,460)	(3,730)	(7,163)	467,049
Derivative position				12,094			

Notes on the Combined Financial Statements

continued

14. Risk management continued

Market risk continued

As at 20 February 2018

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Indian rupee US\$000	Other US\$000	Total US\$000
Assets	1,208,570	48,653	108,069	1,162	1	11,582	1,378,037
Liabilities	(641,215)	(35,908)	(129,483)	(16,984)	(8,828)	(29,651)	(862,069)
	567,355	12,745	(21,414)	(15,822)	(8,827)	(18,069)	515,968
Derivative position			19,949	13,813			

IBNR and reinsurers' share of IBNR are classified as US dollar.

The majority of the operating expenses of Steamship are the costs of SIMSL, the service company of SPIM. These expenses are payable in UK sterling giving rise to a foreign exchange risk when compared to Steamship's base currency of US dollar. Steamship has a hedging policy which requires that a percentage of future costs be fixed in US dollar terms. This is achieved by buying currency in advance, entering into forward purchase contracts or entering into other option-based products with a bank.

Steamship's interest rate risk is in relation to the fluctuation in the fair value of future cash flows of bonds due to changes in interest rates. The table below shows the change in fair value of the investments assuming a 1% increase in interest rates:

	Effect on investment valuation US\$000
As at 20 February 2019	(14,326)
As at 20 February 2018	(11,342)

The above assumes that all other key market variables are held constant and that the interest rate change is instantaneous, which is rarely the case.

Liquidity risk

Liquidity risk is the risk that Steamship cannot meet its financial obligations as they fall due. Steamship maintains a highly liquid portfolio of cash, government and corporate bonds with a maturity equivalent to the expected settlement period of claim liabilities. Most of the remaining assets in the investment portfolio could be converted in to cash in less than one month.

The following table shows the expected maturity of Steamship's assets based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where it is anticipated that the cash flow will occur in a different period.

As at 20 February 2019

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Investments	649,804	99,888	126,762	136,790	1,013,244
Reinsurers' share of technical provisions	78,069	47,714	61,029	33,140	219,952
Other assets	89,973	–	–	19,951	109,924
Total assets	817,846	147,602	187,791	189,881	1,343,120

Notes on the Combined Financial Statements

continued

14. Risk management continued

Liquidity risk continued

As at 20 February 2018

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Investments	719,441	141,324	144,889	50,368	1,056,022
Reinsurers' share of technical provisions	83,767	51,429	69,528	36,441	241,165
Other assets	59,426	–	–	21,424	80,850
Total assets	862,634	192,753	214,417	108,233	1,378,037

The following table shows the expected maturity profile of Steamship's undiscounted obligations with respect to its insurance contract liabilities and other liabilities.

As at 20 February 2019

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Claims outstanding	293,677	179,489	229,576	124,666	827,408
Other liabilities	48,034	–	–	629	48,663
Total liabilities	341,711	179,489	229,576	125,295	876,071

As at 20 February 2018

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Claims outstanding	288,582	177,175	239,529	125,540	830,826
Other liabilities	30,408	–	–	835	31,243
Total liabilities	318,990	177,175	239,529	126,375	862,069

Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. Steamship has identified its operational risks in a risk register and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. Appropriate controls are also in place to monitor the outsourcing of operations to the Managers and, through them, other service providers.

Combined Policy Year Statement

All Classes

Development of policy years	2018/19	2017/18	2016/17	Total
Open policy years	US\$000	US\$000	US\$000	US\$000
Gross premium	306,537	320,756	333,583	960,876
Reinsurance premium	(50,027)	(49,100)	(61,273)	(160,400)
Net earned premium	256,510	271,656	272,310	800,476
Allocated investment return from non-technical account	(6,082)	3,288	(1,910)	(4,704)
Net incurred claims				
Claims paid net of reinsurance recoveries	26,216	115,150	124,917	266,283
Claims administration expenses	8,986	17,420	34,603	61,009
Net claims outstanding	102,330	67,523	53,149	223,002
IBNR provision	112,032	47,087	17,082	176,201
Future claims administration expenses	11,910	3,251	984	16,145
	261,474	250,431	230,735	742,640
Operating expenses				
Brokerage	18,299	20,515	20,448	59,262
Other expenses	23,326	20,119	18,870	62,315
	41,625	40,634	39,318	121,577
Underwriting balance	(52,671)	(16,121)	347	(68,445)
Net investment income	14,331	36,794	28,777	79,902
(Deficit)/surplus on open policy years	(38,340)	20,673	29,124	11,457
Closed policy years				
Surplus in respect of 2014/15 and prior years at 20 February 2018				485,616
Balance on 2015/16 year as at 20 February 2018				11,168
Capital distribution				(21,917)
Movements on policy years prior to 2016/17				(19,275)
Surplus on all policy years				467,049

Managers' notes

- Investment income earned is credited to the same policy year as the financial year in which it rises.

Combined Policy Year Statement

All Classes

Balance available for outstanding claims by policy year	2018/19 US\$000	2017/18 US\$000	2016/17 US\$000	Closed years US\$000	Total US\$000
Gross claims outstanding					
Own claims	223,708	160,697	73,965	221,458	679,828
Pool claims	51,192	17,331	7,761	52,350	128,634
Future claims administration expenses	11,910	3,251	984	2,800	18,945
Reinsurance recoveries outstanding					
Group Excess Loss contract	–	(1,620)	–	(25,948)	(27,568)
Group Pool	(27,160)	(55,685)	(3,829)	(36,876)	(123,550)
Other	(33,378)	(6,113)	(7,666)	(21,677)	(68,834)
Net provision for claims outstanding	226,272	117,861	71,215	192,107	607,455
Free reserves					
(Deficit)/surplus on policy years	(38,340)	20,673	29,124	455,592	467,049
Balance available for outstanding claims	187,932	138,534	100,339	647,699	1,074,504

Managers' notes

1. Combined projected net outstanding claims at 20 February 2019, amounting to US\$607.5 million, includes IBNR provision totalling US\$230.0 million as follows:

2018/19 US\$m	2017/18 US\$m	2016/17 US\$m	Closed years US\$m	Total US\$m
112.0	47.1	17.1	53.8	230.0

2. Combined free reserves at 20 February 2019, amounting to US\$467.0 million, are stated net of a provision for future expenses on outstanding claims amounting to US\$18.9 million.

Combined Policy Year Statement

P&I Class

Development of policy years

Open policy years

	2018/19 US\$000	2017/18 US\$000	2016/17 US\$000	Total US\$000
Gross premium	281,253	294,125	300,492	875,870
Reinsurance premium	(41,944)	(41,589)	(52,192)	(135,725)
Net earned premium	239,309	252,536	248,300	740,145

Allocated investment return from non-technical account	(5,455)	3,196	(1,465)	(3,724)
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Net incurred claims

Claims paid net of reinsurance recoveries	24,501	107,374	117,587	249,462
Claims administration expenses	8,288	16,149	31,619	56,056
Net claims outstanding	96,039	65,539	52,679	214,257
IBNR provision	105,115	42,995	14,760	162,870
Future claims administration expenses	11,176	3,078	945	15,199
	245,119	235,135	217,590	697,844

Operating expenses

Brokerage	16,920	19,017	18,976	54,913
Acquisition and other expenses	21,403	18,439	17,022	56,864
	38,323	37,456	35,998	111,777

Underwriting balance

	(49,588)	(16,859)	(6,753)	(73,200)
Allocated net investment income	13,148	33,700	25,971	72,819
(Deficit)/surplus on open policy years	(36,440)	16,841	19,218	(381)

Closed policy years

Surplus in respect of 2014/15 and prior years at 20 February 2018	472,487
Balance on 2015 /16 year as at 20 February 2018	4,238
Capital distribution	(21,917)
Movements on policy years prior to 2016/17	(17,823)
Surplus on all policy years	436,985

Managers' notes

1. Investment income earned is credited to the same policy year as the financial year in which it arises.

	2018/19 US\$m	2017/18 US\$m	2016/17 US\$m
2. Net product of 10% supplementary call	22.3	23.0	23.5

Balance available for outstanding claims by policy year

Gross claims outstanding

	2018/19 US\$000	2017/18 US\$000	2016/17 US\$000	Closed years US\$000	Total US\$000
Own claims	209,853	149,127	71,129	211,646	641,755
Pool claims	51,192	17,331	7,761	52,351	128,635
Future claims administration expenses	11,176	3,078	945	2,677	17,876

Reinsurance recoveries outstanding

Group Excess Loss contract	–	(1,620)	–	(25,948)	(27,568)
Group Pool	(27,160)	(55,685)	(3,829)	(36,876)	(123,550)
Other	(32,731)	(619)	(7,622)	(20,128)	(61,100)

Net provision for claims outstanding

	212,330	111,612	68,384	183,722	576,048
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Free reserves

(Deficit)/surplus on policy years	(36,440)	16,841	19,218	436,604	436,985
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Balance available for outstanding claims

	153,973	128,453	87,602	643,005	1,013,033
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Managers' notes

1. Combined projected net outstanding claims at 20 February 2019, amounting to US\$576.0 million, includes IBNR provision totalling US\$213.0 million as follows:

2018/19 US\$m	2017/18 US\$m	2016/17 US\$m	Closed years US\$m	Total US\$m
105.1	43.0	14.8	50.1	213.0



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