

# Group Solvency and Financial Condition Report

The United Kingdom Mutual Steam Ship  
Assurance Association (Bermuda) Limited

Year ended 20 February 2017



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## A. Summary

This Solvency and Financial Condition Report (“SFCR”) covers the Business and Performance of the Association, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The ultimate Administrative Body that has the responsibility for all of these matters is the Association’s Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The Consolidated Group Solvency Capital Requirement (“SCR”) has been calculated using the standard formula. The Group intends to seek approval to use its internal model, which has already been approved for the subsidiary undertaking, for the calculation of the SCR at Group level.

For SCR purposes the Association’s total eligible own funds stood at \$637 million. This includes ancillary own funds available to the Association’s subsidiary undertaking, The United Kingdom Mutual Assurance Association (Europe) Limited (“UK Europe” or “UKE”) as approved by UK Europe’s regulator.

The AOF available to UKE represents only the element of funds that would be retained within UKE in the event of a supplementary call. Although the balance of funds are payable to UKB these are not incorporated within Group eligible own funds. The Group intends to apply for the full AOF allowance which, if approved, would increase tier 2 eligible own funds by \$148 million.

Eligible own funds cover the SCR (of \$375 million) by 169.9% and the Minimum Consolidated Group SCR (“MCR”) (of \$40.4 million) by 1,500.4%.

### Directors’ Statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the Association has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the Association has continued so to comply subsequently and will continue so to comply in future.

#### Director

For and on behalf of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited  
21 July 2017

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## Auditors' Report

**Report of the external independent auditor to the Directors of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) ('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**

### Opinion

Except as stated below, we have audited the following documents prepared by The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20 February 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20 February 2017, ('the Narrative Disclosures subject to audit'); and
- Company Group templates S.02.01.02, S.23.01.22, S32.01.22 ('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:

- information contained within the relevant elements of the Group Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S05.01.02, S05.02.01, S.25.01.22.
- 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 totals, 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 United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20 February 2017 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, and applicable law. 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 United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited 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

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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, Capital Management and other relevant disclosures 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 this matter.

#### **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 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.

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.

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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**

#### **Other Information**

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited's 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.

#### **Michael Butler (Senior Statutory Auditor)**

For and on behalf of Moore Stephens LLP, Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

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## A1. Business

### Corporate information

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (“UKB” or “The Association”) is incorporated in Bermuda as a company limited by guarantee without share capital.

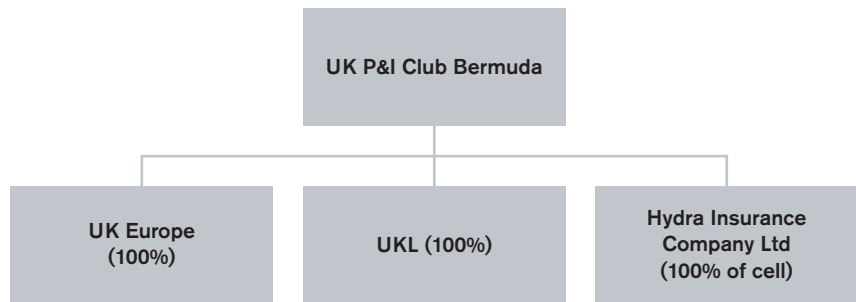
UKB is the parent company of the Group. The Association writes Marine Protection and Indemnity risks through its subsidiary undertaking, UKE which is registered in England and Wales as a company limited by guarantee without share capital.

UKB is the sole member of the UKE and therefore holds all voting rights.

### Group structure

Collectively these entities form “the Group”. The Group structure, including all active companies, is as follows:

**Table 1: The Group Structure**



The principal activity of the Group is the insurance and reinsurance of marine protection and indemnity risks on behalf of the Members.

The Group operates as a single business. All policies of insurance issued by the Group are written by UKE and all policyholders of UKE are members of UKB. The policyholders therefore hold all voting rights of UKB and the Group.

UKE reinsures 90% of all premium income and claims incurred to UKB (net of external reinsurance).

Hydra Insurance Company operates through several segregated cells. One of these cells is controlled by the Association and all transactions of the cell are in respect of the business of the Association. Therefore this Hydra cell is consolidated into the results of the group. Hydra provides reinsurance to the UKE for claims in excess of \$30 million arising from mutual owned business.

The United Kingdom Mutual Steam Ship Assurance Association Limited (“UKL”) ceased writing new business in 1971. All liabilities arising from business written by UKL are fully reinsured by UKE.

The authority responsible for the financial supervision and review of the RSR of the Group is the Prudential Regulatory Authority which is located at 20 Moorgate, London EC2R 6DA

The Association is also regulated by the Bermuda Monetary Authority (“BMA”) which is located 43 Victoria Street, Hamilton, HMJX Bermuda.

The external auditor of the Association is Moore Stephens LLP located at 150 Aldersgate Street, London, EC1A 4AB, United Kingdom.

## A.2. Underwriting performance

### Underwriting performance measures

The Group's target is to call sufficient premium to cover its claims and expenses as measured by the combined ratio. Since claims vary from one year to another, the Group considers performance against this target over the medium term by monitoring the average financial year combined ratio. To achieve the combined ratio target, the Group focusses on disciplined underwriting based on appropriate risk selection as informed by a thorough understanding of risk.

The Group employs techniques such as programmes for loss prevention and efficient reinsurance purchase to manage the risk accepted.

S.05.02.01 includes a geographical split of the Group's business based on the country in which the Member is located.

### Recent Underwriting performance

The Group operates a single line of business being Protection and Indemnity insurance for the shipping community. The Group therefore reports all business within this single line and does not report additional analysis by business segment.

The Group's target is to call sufficient premium to meet claims and expenses over the medium term. The average combined ratio over the last seven years is 100% (excluding supplementary calls and mutual premium discounts) and therefore the Group has met its underwriting target over the previous seven years. By achieving this target the Group has been able to discount mutual premium rates three times in the previous five years. The total discount amounts to \$25 million.

**Table 2: Recent underwriting performance for the Group**

Amounts in \$000	2017	2016
<b>Income</b>		
Gross earned premium	386,166	393,613
Mutual premium discount	(9,996)	(8,253)
	376,170	385,360
Premium ceded to reinsurers	(81,082)	(81,414)
Net earned premium	295,088	303,946
Net investment return	51,774	(9,052)
<b>Total net income</b>	<b>346,862</b>	<b>294,894</b>
<b>Expenses</b>		
Claims and claims adjustment expenses net of reinsurance	(273,619)	(241,252)
Expenses for the acquisition of insurance contracts	(20,299)	(20,962)
Net operating expenses	(23,296)	(23,912)
Foreign exchange (losses)/gains	(7,715)	1,496
<b>Total expenses</b>	<b>(324,929)</b>	<b>(284,630)</b>
<b>Results from operating activities</b>	<b>21,933</b>	<b>10,264</b>

Total net premium income fell by nearly \$8.8 million. The Mutual Premium Discount offered to Members in the year ended 20 February 2017 was \$10 million which was \$1.7 million higher than in the previous year. The remaining reduction in net premium was due to an improving risk profile within the underwriting portfolio.

A greater number of large claims were incurred by the Group during the 2016 policy year than in the 2015 policy year. The total cost of the 2016 policy year is therefore expected to be higher than the particularly favourable 2015 year. However the estimated cost of the 2016 policy year remains consistent with the forecast cost set at the beginning of the year.



Total expenses were broadly in line with the previous year.

The overall surplus was transferred to reserves.

### A.3. Investment performance

In accordance with the investment policy, the investment mandate is updated on a regular basis. The asset allocation established within the mandate is principally determined to ensure that future cash flows arising from liabilities (principally claims reserves) are matched by available assets of the correct currency and duration. Effective risk management is therefore the principal driver of investment allocation.

Having established a matched portfolio, limited investment risk is accepted to achieve the best return available from the surplus assets.

Some factors that may influence future investment return are:

- **Market performance** – as affected by macro-economic, political or other factors
- **Capital allocation and risk profile** – determining the risk accepted into the portfolio
- **Portfolio management** – including asset allocation (both strategic and tactical)

#### **Asset allocation**

The following table provides the breakdown of the investment portfolio.

#### **Asset allocation within UKB**

The investment portfolio includes investment in equities, government and corporate bonds. The total portfolio returned \$51.8 million (excluding currency losses) over the 2016/17 financial year. Investment returns per the IFRS financial statements are further detailed in the table below:

<b>Amounts in \$000</b>	<b>2017</b>	<b>2016</b>
<b>Investment income</b>		
Dividend income	8,692	7,445
Interest on fixed income securities	14,683	18,334
Bank deposit interest	72	26
Other investment charges	(6,782)	(6,528)
<b>Total investment income</b>	<b>16,665</b>	<b>19,277</b>
<b>Net realised gains on financial assets at fair value through profit and loss</b>		
- Debt securities	(6,156)	(1,621)
- Equity securities	14,400	18,123
<b>Total net realised gains on financial assets</b>	<b>8,244</b>	<b>16,502</b>
<b>Net fair value gains on financial assets through profit and loss</b>		
- Debt securities	(8,652)	2,623
- Equity securities	35,517	(47,454)
<b>Total</b>	<b>26,865</b>	<b>(44,831)</b>
<b>Total investment return</b>	<b>51,774</b>	<b>(9,052)</b>

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## A.4. Performance from other activities

As noted in A.2. all of the Group's activities relate to its core business.

## A.5. Any other information

The Association does not consider that the disclosure of any other information is necessary.

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# B. System of Governance

## B.1. General Information on the System of Governance

### B.1.1. Overview

The Board directs, and has responsibility for, all activities of the Association and the Group. The Directors are drawn principally from the ship-owner members, supplemented by other Directors with specialist knowledge or executive responsibilities.

The Board has outsourced the day to day management of the Association to a third party, Thomas Miller Bermuda Limited or "the Managers".

The Board of UKB consists of eight shipowner directors and two specialist directors.

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

The Board is supported by several committees.

#### B.1.1.1. Committee Structure

##### **The Members' Committee ("MEMCO")**

MEMCO provides a forum for Members to play an enhanced role in the governance of the Club in relation to mutual member issues and provides members' perspective on matters which are relevant to the business of the Club.

##### **Group Audit & Risk Committee ("GARCO")**

GARCO is responsible for monitoring the risk management system and internal control framework against the Board's risk appetite. GARCO directs the internal audit function and oversees the external audit function to gain assurance over significant risks.

##### **Strategy Committee ("STRATCO")**

STRATCO assists the Board in formulating strategy and providing reports and recommendations on strategic issues and any other issues affecting the Association. The Committee meets on an ad-hoc basis and specifically conducts an annual review of a strategic risk assessment and a review of strategy.

##### **Ship & Membership Quality Committee ("QUALCO")**

QUALCO provides the Board with advice regarding the criteria used to establish the suitability of Members. QUALCO also considers whether individual ships or fleets meet the underwriting criteria.

##### **Nominations Committee ("NOMCO")**

NOMCO ensure that the Board continues to be composed of suitably qualified and skilled individuals. It also makes recommendations to ensure that the Committees of the Board are composed of individuals appropriate to the respective roles.

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### **Investment Committee (IVCO)**

IVCO makes recommendations to the Board in respect of the Investment Mandate and reviews in detail the performance of the investment portfolio.

### **Material changes**

Over the previous 12 months the Association formed the Members Committee (as described above).

## **B.1.1.2. Key Functions**

### **The Managers**

The Association has no direct employees, except within the Japan Branch, and as such the Board relies on the Managers for the day-to-day management duties of the Association.

### **The Investment Managers**

Investment of the Association's funds is conducted by the Investment Managers in accordance with the Board's Investment Policies and is subject to internal compliance procedures.

## **B.1.2. Remuneration**

The Association outsources all executive matters to the Managers in accordance with the Management Agreements. The Managers operate a formal group performance and merit-based remuneration policy aimed at paying competitive and appropriate remuneration consistent with the long-term interest of the business.

The Association's Remuneration Policy sets out how the Managers are remunerated under a management fee agreement. This is agreed periodically by the Board.

## **B.1.3. Related party transactions**

The Association has no share capital and is controlled by its Members. All of the members of UKB are also policyholders of UKE and hence insurance transactions are between related parties, but these are the only transactions between the Group and the Members.

All of the shipowner Directors are representatives of Member companies and have no financial interests in the Association, other than the insurance of their ships entered in the Association, which is arranged on an arm's length basis, and the Member interests of their companies.

Directors are paid an annual fee and an attendance fee for each meeting. There are no variable components to the directors' remuneration.

## **B.1.4. Board remuneration**

Directors are paid an annual fee and an attendance fee for each meeting. There are no variable components to the directors' remuneration.

## **B.2. Fit and Proper Requirements**

The Association has in place a Fit & Proper Policy that sets out its approach to the fitness and propriety of the persons responsible for running the Association, including executive senior management and key function holders.

All persons within the scope of the Association's Fit and Proper policy must have the professional qualifications, knowledge and experience and demonstrate the sound

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judgement necessary to discharge their areas of responsibility competently. They must be of good repute and demonstrate in their personal behaviour and business conduct character, integrity and honesty. As part of the assessment consideration will be given to potential conflicts of interest and financial soundness.

The Board members must collectively possess sufficient knowledge, competence and experience to direct and oversee the Association's affairs effectively.

The Managers maintain role specifications for all executive roles that are within the scope of the Fit and Proper policy which detail the key competencies and duties for each position.

Fit and proper assessments are carried out by the Compliance Officer both annually through declarations and formally every three years. No person is permitted to undertake their own assessment.

The Association's Fit & Proper Policy applies to:

- All Directors of the Association;
- All employees of the Managers who are members of the Thomas Miller's senior management; and
- Persons within the Managers responsible for key functions.

## B.3. Risk Management System

### **The Association's Risk Management System**

The Association uses a Risk Management Framework to design an effective risk management system with an integrated approach to risk management and the application of the three lines of defence:

- 1st line of defence: business units and all staff not included in the second and third lines of defence, process and risk owners
- 2nd line of defence: risk management and compliance functions
- 3rd line of defence: internal and external audit

The risk management system incorporates the accurate and appropriate identification, recording, analysis, reporting and mitigation of risk. The Board has:

- a clearly defined and well-documented risk management strategy;
- adequate written policies;
- appropriate processes and procedures;
- appropriate reporting procedures;
- reports on the material risks faced by the Association and on the effectiveness of the risk management system;
- a suitable Own Risk and Solvency Assessment (ORSA).

The risk management system not only covers the risks included in the calculation of the Solvency Capital Requirement but also other risks to which the Association is exposed and which are considered by the Association to be materially relevant to its business.

### **The UKE Partial Internal Model (PIM)**

The internal model is a key risk management tool within the Risk Management Framework. It has been developed by the Actuarial Function in conjunction with the Managers' Risk Committee which fulfils the Risk Management Function of the Association. The internal model is used for the calculation of certain elements of the UKE Solvency Capital Requirement and the Association intends to apply for approval to use the Internal Model for the calculation of the SCR for group purposes. As the outputs of the PIM are being used to replace parts of the Solvency II standard formula calculation for UKE, they are subject to additional governance and validation requirements. The Managers' Risk Committee is responsible for determining the scope of the internal model and the PIM.

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The internal model is used to analyse the impact of any risk management decisions and changes to the risk profile of UKE falling within the scope of the model on the UKE's regulatory and internal capital requirements. In particular, the Own Solvency Needs Assessment will be calculated whenever the model is used to determine the capital implications of any changes to the risk profile. The results of these analyses are reported in the ORSA.

All uses of the model are recorded in an internal model uses log maintained by the Actuarial Function. The Actuarial Function also carried out an annual model performance review on the PIM, with the results reported to the Managers' Risk Committee and subsequently presented to GARCO. The review may result in decisions to change the scope of or otherwise improve the model.

The use of the PIM is subject to the Internal Model Governance Framework which covers processes and controls applied. Changes to the PIM are subject to the Internal Model Change Policy and validation is carried out in accordance with the Internal Model Validation Policy.

The risk management system also has a coherent focus on data and IT infrastructure governance and appropriate policies and standards to outline the framework within which responsibilities are exercised. It is supported by a robust internal control system and is designed to identify measure, manage, monitor and report significant risks to the achievement of the business objectives.

#### **Risk Management Strategy**

The objectives of the Association's risk management strategy are to identify, measure, monitor, manage and report in a consistent, continuous and timely fashion, on the basis of the Association's risk appetite as set by the Board and documented in the Corporate Plan.

The Risk Management Framework helps both support and relay the Association's business plan strategy throughout the organisation by ensuring that those factors that may advance or impede the achievement of strategic and operational objectives are managed by strong controls.

The risks to which the Association is exposed are recorded in the Business Risk Log.

#### **Key Risks**

A list of key risks has been compiled by the Board and senior management based on their experience and expert judgement in running the business. This list provides a high-level overview of the principal risks faced by the business which, individually or in combination, may have a significant, substantial or severe impact on the Association.

#### **Implementation of the Risk Management Strategy: Risk Policies and Procedures**

The Group's strategy is specified in more detail through its policies and Corporate Plan which underpin its day-to-day business. It sets out the systematic application of management policies, procedures and practices that are used to identify, manage and communicate risk to facilitate Board decision-making and to provide an effective system of risk management.

Policies have been developed for all material risks to which the Group is exposed. They define the Association's approach to risk management overall and more specifically the risk for which the policy has been written. The policies establish the controls, procedures, limits and escalation to ensure that the risks are managed in line with risk appetite. Specific procedures, where appropriate, have been developed to provide full understanding of the means by which the first and second lines of defence will implement the strategy.

The policies also include appropriate reporting procedures to ensure that information relating to the component elements of the risk management is routinely reported to GARCO and to the Board.

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### **Risk Appetite**

The Association's Risk Appetite is articulated in the statement of risk appetite, which is a document owned by the Board and reviewed on a regular basis as new risks emerge, or at least annually.

The Board bears ultimate responsibility for the management of risk and for maintaining a sound system of internal control that supports the achievement of the business strategy, policies, aims and objectives of the Association. GARCO supports the Board by providing oversight of the Risk Management Function.

### **Business Risk Log: Assessment, Measurement and Management**

Risks to the business that could inhibit the Association achieving its business plan objectives are described in the Business Risk Log, together with the consequences should the risk materialise.

### **Emerging Risk Log**

Risk Owners identify potential emerging risks which are then discussed at the Managers' Risk Committee meeting and included in an emerging risk log which is reviewed annually by GARCO.

### **Risk Rating**

A rating for each risk is determined by assessing its probability and impact of the event if it occurs. The rating assists the Board with the prioritisation and management of risks and demonstrates the importance of the mitigation or controls in place.

The assessment of each risk is on the basis of Inherent Risk and Residual Risk after taking into account the strength of current risk management procedures in place.

All risks on the Business Risk Log are re-assessed on an ongoing basis and at least annually by the Managers and by GARCO and the Board. Each Risk Owner or function head continuously monitors the risks for which they are responsible.

### **Own Risk and Solvency Assessment ("ORSA")**

The ORSA is the process used by the Association to manage its financial and solvency position over the period of its Corporate Plan and the ORSA overview report is the culmination of this process into a report reviewed by the Board. As such, it is an intrinsic part of the Corporate Planning Process.

The key elements of the ORSA process are:

- An analysis of the Association's recent performance
- Assessment of the Association's risk profile
- Consideration of business planning and stress scenarios

The ORSA overview document is produced twice each year in May and October. GARCO reviews the ORSA and recommends it for approval and use by the Board. The Board reviews and approves the ORSA and considers appropriate action for the Association such as:

- Capital related decisions
- General Increase considerations
- Reassessment of risk profile and risk appetite
- Additional risk mitigating actions

The Association has set its Risk Appetite and documented this within the Risk Appetite Statement. The Board assess the adequacy of Capital against this Risk Appetite statement. To date these assessments indicate that the Association is adequately capitalised.

### **Risk Controls**

The Association's Risk Management Framework has been developed to manage risks across the business, using internal control policies, procedures and processes to control risks.

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Whereas ultimate control for each risk rests with the Board, day-to-day control is exercised by the Risk Owners unless otherwise stated, as set out in the Business Risk Log.

The appropriateness and effectiveness of controls is monitored and confirmed by Risk Owners and, for key controls, independently assessed by the Risk Officer.

### **Risk Mitigation**

#### ***Reinsurance***

One of the key risk mitigation techniques available is reinsurance. The Association considers its whole account reinsurance options leading up to a new policy year. Proposed reinsurance arrangements are analysed by the Actuarial Function, using the internal model, the Managers' Risk Committee and the Reinsurance Group.

#### ***International Group Pool***

This can be considered to be a specialised form of reinsurance. The International Group Pool allows for large insurance risks to be shared between its thirteen P&I club members. The International Group also arranges an excess of loss reinsurance programme to cover the risks at higher levels.

Other risk mitigation techniques may be utilised from time to time, for example the use of hedging instruments to mitigate the risk of swings in foreign exchange rates.

### **Risk Reporting Procedures**

Risk Owners are required to provide six-monthly reports on the risks for which they are responsible, based on a template of questions compiled by the Risk Officer. These reports are summarised into key themes and form the basis of an annual Risk Report to GARCO which is then escalated to the Board.

Any amendments to the Business Risk Log proposed by Risk Owners, such as changes to controls or risk descriptions or potential amendments to the ratings are discussed with GARCO for recommendation for approval by the Board.

Risk Owners also identify operational risk loss or near miss events.

### **Integrated and embedded into the organisational structure and decision-making processes**

The Risk Management Function is fulfilled by the Risk Officer and the Managers' Risk Committee. The function maintains an organisation-wide and aggregated view of the risk profile of the Association, including monitoring risk tolerances against appetite, and advising on how risks might impact the business singly and in combination. This analysis includes stress and scenario testing.

The integration of risk management processes with business activities is performed through the requirement for business function heads, who are also risk owners, to focus on risk management on an ongoing basis whilst ensuring that the risks for which they are responsible remain within risk tolerance. This demonstrates the proactive application of risk management techniques to support the business processes and decision-making for which they are also responsible in their day-to-day insurance business activities.

## **B.4. Internal Control System**

Internal control is defined as a continually operating process effected by the Association's Board, GARCO, the Managers, all staff and systems and designed to support the Association in achieving its business plan objectives through efficient and effective operations and to protect its resources.

Each Risk Owner, as named in the Business Risk Log, is responsible for the application of the Internal Control Framework and the design, development, implementation, documentation and maintenance of effective internal control processes in their area and reporting thereon.

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**Control activities**

Control activities are the actions taken or systems put in place to address business risks, protect assets and ensure that all material control failures and issues are identified and managed. The control activities are embedded into plans, policies, procedures, systems and business processes. Their effectiveness relies on the level of compliance by management and staff.

**Control environment**

The Managers are responsible for establishing and maintaining an effective control environment throughout the organisation. In furtherance of that, there is a culture which values the highest levels of integrity in the staff, together with openness and honesty in relation to the conduct and reporting of all activities. Policies, procedures and processes are designed to define and support effective, efficient and appropriate activities at every level of the business.

GARCO seeks assurance and provides, through the processes set out in the Compliance policy or through internal audit, assurance to the Board that the scope and quality of compliance monitoring and reporting on regulatory compliance are sufficient to ensure the effectiveness of this Policy and of the management of regulatory compliance risk. All reviews are carried out at least annually and ad hoc as circumstances require.

Internal Audit is authorised to investigate and challenge any actions or concerns without influence from the business; be independent of operational business functions and without undue influence from the Board or other functions/management; have unfettered and direct access to all activities in its area of responsibility, including all documentation, systems, staff, Management, executive and non-executive Board members; and have direct access to the Chairman of GARCO.

**Compliance function**

The Board bears ultimately responsibility for Regulatory Compliance, and is supported by GARCO.

The Association takes a risk-based approach to regulatory compliance, focussing on preventing breaches to regulatory principles and other rules and informing the relevant regulators of any that are material, or must be reported to regulators on a mandatory basis.

The Compliance Function advises on and promotes compliance with applicable laws, regulatory requirements and administrative provisions and coordinates and monitors implementation of policies, processes and procedures to achieve compliance across the business, and manages regulatory compliance risk.

The impact of Regulatory developments is monitored by the Compliance function. Breaches and associated remedial action are posted to the Operational Risk Database.

## B.5. Internal Audit Function

Internal Audit is the “third line of defence” in the Association’s internal control framework, established to provide independent assurance that the systems of internal control established by management (“first line”) and the monitoring and oversight provided by the Risk Management and Compliance Functions (“second line”) are fit for purpose and operating effectively.

The objectives of the Internal Audit Function are to provide independent assurance that business risks are identified and are being well managed and controlled by effective systems of internal control.

The Internal Audit function of the Association is provided by the Managers who employ an independent Head of Internal Audit (HIA) who in turn reports to the Chair of GARCO. The HIA may engage third parties to conduct some Audits under his/her management if it is felt that specific technical skills are required or where insufficient general audit resource is available.



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### **Independence**

The Internal Audit Function is independent from the organisational activities audited and free to exercise its assignments without impairment and on its own initiative in all areas. It is not authorised to carry out any operational work on behalf of any area of any business. The Head of Internal Audit reports directly to the Chair of GARCO.

## **B.6. Actuarial Function**

The Association's Board is ultimately responsible for ensuring an effective Actuarial Function. This function is performed by the TM Actuarial Team, led by its Chief Actuary.

The Actuarial Function is independent of the Association's management team and therefore able to undertake its duties in an objective, fair and independent manner. However, for operational purposes, the Actuarial Function is integrated into the Association's internal control system through its role on the Managers' committees and attendance at Board meetings.

The Actuarial Function makes a significant contribution to the Association's Risk Management Framework by operating its capital model and running the ORSA process and related decisions.

## **B.7. Outsourcing**

The Association outsources all functions, including controlled functions, to the Managers.

The Managers aim to provide a governance framework to facilitate the Association's strategic plan whilst managing risks. The Managers of the Association are Thomas Miller Bermuda Board ("TMB Board"). The Managers of UAE are Thomas Miller P&I (Europe) Limited ("TM P&I Europe"). TM P&I Europe operate through several committees, all of which report to the TM P&I Europe Board. These committees include risk, finance, operations, reinsurance, data governance and credit worthiness.

The Association has in place an outsourcing policy which is directed at services or activities which are particularly important or critical to the Association's business (material business activities).

A material business activity is one that has the potential, if disrupted, to have a significant impact on the Association's business operations or its ability to manage risks effectively.

### **Management outsourcing**

The Association has no internal executive function and its management is wholly outsourced to the Managers under management agreements.

In order to comply with its regulatory obligations, the Board has developed monitoring and reporting procedures and has delegated to GARCO to monitor internal controls and risk. The risk control and reporting procedures to be followed by the Managers form part of their obligations under the management agreement. The Committee reports to the Board.

### **Investment management outsourcing**

Management of the Association's investments is outsourced to Thomas Miller Investment Limited, part of Thomas Miller, under investment management agreements.

The performance of the investment managers is monitored and supervised by the Board and the Investment Committee.

### **Internal audit outsourcing**

The Association's internal audit function is outsourced to Thomas Miller Internal Audit. Internal Audit is supervised by GARCO and the Board.

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### **Oversight**

The Board bears ultimate responsibility for outsourced functions, services, or activities and related governance. The Board are supported by GARCO which reviews outsourcing arrangements and the Manager's Board which monitors the activities of the Association, including outsourcing.

## **B.8. Any Other Information**

The Association considers no other information material to be disclosed.

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## **C. Risk Profile**

The key areas of risk impacting the Association can be classified as follows:

1. **Insurance risk** – incorporating underwriting and reserving risk
2. **Market risk** – incorporating investment risk, interest rate risk and currency rate risk
3. **Credit risk** – being the risk that a counterparty is unable to pay amounts in full when due
4. **Liquidity risk** – being the risk that cash may not be available to pay obligations as they fall due
5. **Operational risk** – being the risk of failure of internal processes or controls.

The Board has established its appetite for risk in relation to its business strategy and available resources. The Board seeks to maximise their resources by effective risk management techniques. Therefore a risk management system has been developed to identify and mitigate risk.

As part of the risk management system, the Board has developed an internal model to cover underwriting risk. The model is tailored specifically to the underwriting risk accepted by the Association and therefore provides the Board with the expected outcome of a given scenario.

This allows the Board to consider more accurately the effectiveness and efficiency of risk mitigation techniques such as reinsurance. The model is designed to encompass the full spectrum of underwriting risks to which the Association is exposed.

### **C.1. Underwriting Risk**

The Association is a mono-line insurer, underwriting only protection and indemnity insurance for the shipping community.

Underwriting risk is the risk that the Association's net insurance obligations (i.e. claims less premiums) are different to expectations. The Association considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk).

Reserve risk is managed by the Association's reserving policy. 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. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management and GARCO.

The Board considers that the liability for insurance claims recognised in the consolidated statement of financial position is adequate. However, actual experience will differ from the expected outcome.

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Premium risk is managed by an underwriting policy which establishes robust underwriting practices in order to meet business needs and satisfy regulatory control. This is supplemented with a robust forecasting approach undertaken as part of the Association's ORSA process.

The underwriting process is based on a thorough understanding of the risk accepted. This understanding is enhanced as:

- The Association is a mono line insurer and has provided broadly the same cover for many years.
- The Board and Members Committee of the Association include representatives from a full cross section of the shipping community so giving insight into changes in the risk accepted by the Association over time.
- Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management.

Underwriting Risk is mitigated via the Association's reinsurance programme. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, the International Group Pooling agreement and reinsurance to claims within the claims retained by the Association within the Pool deductible.

The excess of loss reinsurance cover purchased jointly with other members of the International Group provides cover for claims arising from mutual business which exceed \$100 million up to a limit of \$3.1 billion.

The International Group Pooling agreement provides a sharing of claims costs between thirteen member Clubs. The share attributable to each member is calculated for each policy year on an agreed formula including an adjustment for each Club's historic loss record on the Pool.

In addition to the reinsurance purchased externally, the primary insurer, UK(E) reinsures 90% of its residual risks to its parent company, UK(B). In addition, part of the International Group Pool is reinsured to a captive reinsurance vehicle, Hydra. The Association has its own segregated cell within Hydra which transacts only with the Association and its subsidiaries. Hydra also accepts a proportion of the risk covered by the joint reinsurance contract for claims above \$30 million.

## C.2. Market Risk

Market risk within equity investments arises through fluctuations in market valuations.

Market risk in the fixed interest investment valuations arises through changes in interest rates, corporate bond spreads and foreign currency exchange rates. Such movements will affect not only the Association's investments, but also the value of other assets and liabilities such as premium income, claims payments and reinsurance recoveries.

The Association has an investment policy in place to manage exposure to its investments, and this is monitored by regular reports from the investment managers. Further discussion of this arrangement is provided below under the "prudent person principle".

### **The prudent person principle**

Under the Association's investment policy, all of the Association's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically the portfolio:

- is invested in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;

- ensures the security, quality and liquidity of the portfolio as a whole.
- Is appropriate to the nature, currency and duration of the Association's insurance liabilities.
- Includes derivative instruments only where they contribute to a reduction of risks or efficient portfolio management;
- Includes only a prudent level of unlisted investments and assets;
- is diversified to avoid excessive reliance on any asset, issuer or group, or geographical area

The Association's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Association's investment assets in conformity with the business and investment objectives and sets the parameters within which the Association's assets may be invested. It is considered and approved by the Board on an annual basis and ad hoc as required and is subject to the Association's Investment Policy. The Investment Managers report to the Board at each meeting.

The following table sets out the Association's exposure to assets by currency as at 20th February 2017 as reported in the Association's IFRS financial statements:

<b>Amounts in US\$000s</b>	<b>US Dollar</b>	<b>Sterling</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
Debt securities	648,911	96,722	65,165	1,767	<b>812,565</b>
Alternative investments	35,765	-	-	-	<b>35,765</b>
Equities	206,453	25,789	-	-	<b>232,242</b>
Absolute return funds	29	-	-	-	<b>29</b>
UCITS	29,567	574	-	-	<b>30,141</b>
Derivative financial instruments	(76,240)	69,308	-	-	<b>(6,932)</b>
Cash balances	79,068	2,056	3,064	1,157	<b>85,345</b>
Amounts due from members	79,100	208	390	-	<b>79,698</b>
Reinsurers' share of outstanding claims	213,798	-	-	-	<b>213,798</b>
Accrued interest	675	-	-	-	<b>675</b>
Sundry debtors	24,039	-	-	-	<b>24,039</b>
Gross outstanding claims	(705,599)	(104,041)	(70,988)	(43,909)	<b>(924,537)</b>
Other liabilities	(24,311)	(700)	-	-	<b>(25,011)</b>
	511,255	89,916	(2,369)	(40,985)	<b>557,817</b>

### C.3. Credit Risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The Association's objective is to reduce credit risk through the risk management techniques discussed below.

The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties on a regular basis, the Reinsurance committee monitors aggregate exposure to each reinsurer and the Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made.

Amounts due from members represents premium 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 limits its reliance on any single member.

Exposure to bank balances, however, is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

The following table shows the Association's assets by counterparty rating as at 20 February 2017 as reported in the Association's IFRS financial statements:

Amounts in US\$000s	AAA	AA	A	Not readily available/ Not rated	Total
Debt securities	186,674	466,679	1,767	157,445	812,565
Alternative investments	-	-	-	35,765	35,765
UCITS	30,141	-	-	-	30,141
Derivative financial instruments	-	-	11	-	11
Cash balances	-	-	85,345	-	85,345
Amounts due from members	-	-	-	79,698	79,698
Amounts due from group pooling arrangement	-	-	21,708	7,974	29,682
Amounts due from reinsurers	-	128,258	55,271	587	184,116
Accrued interest	-	-	675	-	675
Sundry debtors	-	-	-	24,999	24,999
<b>Total of assets subject to credit risk</b>	<b>216,815</b>	<b>594,937</b>	<b>164,777</b>	<b>306,468</b>	<b>1,282,997</b>
<i>Other Assets</i>					
Equities	-	-	-	232,242	232,242
Absolute return funds	-	-	-	29	29
<b>Total assets</b>	<b>216,815</b>	<b>594,937</b>	<b>164,777</b>	<b>538,739</b>	<b>1,515,268</b>

## C.4. Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due. The Association has adopted an investment policy which requires the maintenance of significant holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table outlines the future maturity of assets held by the Association as reported in the Association's IFRS financial statements:

Amounts in US\$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	-	43,168	38,286	228,284	502,827	812,565
Alternative investments	35,765	-	-	-	-	35,765
Equities	232,055	187	-	-	-	232,242
Absolute return funds	29	-	-	-	-	29
UCITS	30,141	-	-	-	-	30,141
Derivative financial instruments	-	11	-	-	-	11
Cash balances	85,345	-	-	-	-	85,345
Amounts due from members	2,299	77,399	-	-	-	79,698
Accrued interest	675	-	-	-	-	675
Sundry debtors	-	24,999	-	-	-	24,999
Reinsurer's share of outstanding claims	-	138,644	18,487	27,460	29,207	213,798
<b>Total assets</b>	<b>386,309</b>	<b>284,408</b>	<b>56,773</b>	<b>255,744</b>	<b>532,034</b>	<b>1,515,268</b>

As further disclosed in appendix S.23.01.01, expected profit in future premium is estimated to be \$24.7 million. However, it should be noted that this estimated surplus is based upon future cash flows as required by Solvency II and does not therefore necessarily correspond to the estimated surplus under IFRS accounting principles.

## C.5. Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. In order to mitigate such risks the Club has engaged managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff.

Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by GARCO. A human resource manual and including all key policies have also been documented.

The Managers are protected against loss through errors and omissions through the purchase of insurance cover. The Association therefore benefits indirectly from this cover.

## C.6. Other Material Risks

The Association has not identified any other material risks that it considers necessary for disclosure.

## C.7. Any Other Information

### Stress and Scenario testing

Stress and scenario tests are presented within the Association's ORSA overview document and are assessed at a group level. This are based upon the business plan and projects the Association's financials over the next four years and considers its

solvency position relative to its overall risk appetite statement. The Association's ORSA include the following scenarios:

- Weak economic growth
- High claims experience
- Cyber risk
- Negative interest rates

The scenario testing results show that the Group is most vulnerable to high claims experience. However the Association benefits from significant reinsurance cover and is expected to continue to meet its Solvency II requirements in all scenarios.

## D. Valuation for Solvency Purposes

### D.1. Assets

Valuation of the Association's assets as at 20 February 2017

Amounts in \$000	Solvency II	IFRS
Investments	1,141,585	1,141,575
Reinsurance share of technical provisions	328,956	213,798
Insurance and reinsurance receivables	8,047	83,585
Receivables (trade, not insurance)	9,914	8,863
Cash and cash equivalents	55,213	55,213
Any other assets not elsewhere shown	81,023	12,234
	1,624,738	1,515,268

The above table presents amounts at Solvency II and IFRS valuation bases respectively. For classification purposes an aggregated Solvency II classification of amounts has been used in order to best demonstrate any valuation differences between the two bases.

Refer to appendix S.02.01.02 for a full Solvency II balance sheet.

The Association's assets are valued using the following principles:

#### Investments

Investments are carried at market value. Market value is calculated using the bid price at the close of business on the balance sheet date. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.

#### Reinsurance share of technical provisions

Reinsurance share of technical provisions is valued consistent with gross technical provisions. Refer to D.2. for further details.

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**Cash and cash equivalents**

Cash and cash equivalents include cash at bank or in hand. The carrying value of these balances is considered to be a suitable proxy for fair value.

**Insurance and reinsurance receivables**

These represent balances that are due for existing insurance and reinsurance contracts. Due to the short term nature of these balances, the carrying amount is considered to be a suitable proxy for its fair value.

When these amounts are not yet due, they are included as a future cash flow in the calculation of technical provisions.

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

**Receivables (trade, not insurance)**

This balance includes sundry, short term receivable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

**Any other assets not elsewhere shown**

These represent all asset balances not included above. These items are all of a short-term nature, and as such their carrying amounts are considered to be a suitable proxy for its fair values. There are no material differences between the valuation used for Solvency purposes and the valuation used in the Association's financial statements.

## D.2. Technical Provisions

Net technical provisions as at 20 February 2017

<b>Amount in \$000</b>	<b>2017</b>
Gross best estimate	862,810
Risk Margin	71,939
Reinsurance best estimate	(328,956)
Net technical provisions	605,793

**Technical provisions**

This relates to the Association's insurance liabilities, which all fall under the "marine, aviation and transport" line of business under Solvency II. As well as claims arising from the Association's own members, the Association also participates in the International Group of P&I Clubs and so shares claim amounts above a certain level with other participating P&I clubs.

Solvency II requires the technical provisions to be calculated as the sum of a best estimate and a risk margin. The best estimate is valued as the probability-weighted average of future cash flows, taking account of the time value of money, and the risk margin is calculated on a cost-of-capital basis. In addition, for the best estimate, there are three elements to consider: claims, premiums and expenses.

The calculation of the different elements of the technical provisions is discussed below.

**Claims**

The claims element of the best estimate incorporates the claims outstanding provision. Standard actuarial techniques are used to project these cash flows including chain ladder and Bornhuetter-Ferguson methods. The key assumptions related to the initial expected claims cost for each policy year and the projected notified claims development pattern. These methods are considered appropriate given the longevity and stability of the Association and its claims handling processes.

Allowance is made for claims on contracts bound, but for which coverage has not yet inception (corresponding to the premium provision).



The future claims cash flows are the most uncertain element of the technical provisions. The uncertainty involved was further discussed in Section C1 on Underwriting Risk.

#### Premiums

The premiums element of the best estimate covers (i) the outstanding instalments of premium on expired business that are payable but not yet due on the valuation date (corresponding to the provision for claims outstanding); and (ii) the premium payable but not yet due on bound but not incepted business (corresponding to the premium provision).

Nearly all of the Association's policies are coterminous with its financial year. As such, the renewal is completed and therefore bound before the Association's financial year end. The consequence is that nearly a full year's worth of business is recognised as bound but not incepted business.

#### Expenses

When calculating the best estimate, a provision is made for all expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. The provision is calculated directly in respect of the provision for claims outstanding (for expired business) and a corresponding amount is derived in respect of the premium provision (for bound but not incepted business).

#### Risk margin

The risk margin is calculated based on the requirement to hold capital to meet the SCR until all claims liabilities are settled and a cost-of-capital rate of 6% per annum. The SCR in this context is made up of Underwriting Risk, Counterparty Default Risk and Operational Risk only; assets are assumed to be invested in such a way that Market Risk will be zero. The SCRs in future time periods have been assumed to be directly proportional to the best estimate claims liabilities net of reinsurance recoverables at those points in time.

#### Reinsurance recoverables

This relates to the Association's expected recoverables from its reinsurance arrangements at the valuation date. It is made up of two elements: reinsurance payments and reinsurance premiums. These are valued on a consistent basis with the corresponding claims and premiums elements of the technical provisions. In addition, an adjustment is made to take account of expected losses due to default of the reinsurance counterparties.

#### Differences between GAAP and Solvency II technical provisions

A reconciliation of UK GAAP technical provisions to Solvency II technical provisions is provided below:

Amounts in \$000	Note	Gross	RI	Net
<b>IFRS technical provisions</b>		<b>924,537</b>	<b>213,798</b>	<b>710,739</b>
Adjustments to best estimate valuation basis	1	24,647	97,732	(73,085)
Reallocations	2	(74,488)	(9,578)	(64,910)
Adjustment to expense reserve	3	11,829	-	11,829
Provision for contracts bound but not incepted	4	36,087	54,133	(18,046)
Reinsurance counterparty default adjustment	5	-	(615)	615
Effects of discounting	6	(59,802)	(26,514)	(33,288)
<b>Solvency II technical provisions before risk margin</b>		<b>862,810</b>	<b>328,956</b>	<b>533,854</b>
Risk Margin	1	<b>71,939</b>	-	<b>71,939</b>
<b>Total Solvency II technical provisions</b>		<b>934,749</b>	<b>328,956</b>	<b>605,793</b>

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## Notes

### **1. Adjustments to best estimate valuation basis**

Since the Solvency II technical provisions figure is a true best estimate, the IFRS 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 additional Solvency II risk margin which is intended to represent a notional market value adjustment.

### **2. Reallocations**

This is based on the elimination of unearned premium and reallocation of various amounts from the IFRS balance sheet to Solvency II technical provisions.

The Solvency II balance sheet contains no concept of deference of premium, and as such any such balances are eliminated upon transition to the Solvency II balance sheet.

Furthermore under Solvency II valuation methodologies, all future cash flows are included in the calculation of technical provisions. More specifically, any amount not yet due shall be included as a future cash inflow under the calculation of Solvency II technical provisions. As a result, these amounts are reallocated from the accounting balance sheet to technical provisions on the Solvency II balance sheet.

### **3. Adjustment to expense reserve**

Unlike IFRS, Solvency II recognises all expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. As such, an adjustment is made.

### **4. Provision for contracts bound but not incepted**

Solvency II valuation methodology requires contracts to be recognised when the insurer becomes party to the insurance contract. Usually, an undertaking becomes a party to the contract when the contract between the undertaking and the policyholder is legally formalised.

Nearly all of the Association's policies are coterminous with its financial year. The consequence is that nearly a full year's worth of business is recognised as Bound But Not Incepted ("BBNI") business. A provision on the Solvency II balance sheet, known as the "premium provision", is thus made for future premiums, claims and expenses that relate to BBNI business.

### **5. Reinsurance counterparty default adjustment**

For the Solvency II balance sheet, amounts recoverable from reinsurance counterparties must be adjusted for the expected losses due to counterparty default. This adjustment approximates the expected present value of the losses in the event of default, weighted by the probability of default for each counterparty. Under current accounting bases a provision for bad debts is only made where there is objective evidence that counterparty may default on its obligation.

### **6. Effects of discounting**

Since Solvency II technical provisions take into account the time value of money, an adjustment is made for the discounting of all future cash flows, based on risk-free interest rates. This includes an adjustment for items previously discounted at rates other than the risk-free rate.

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### D.3. Other liabilities

Valuation of the Association's other liabilities as at 20 February 2017

<b>Amounts in \$000</b>	<b>Solvency II</b>	<b>IFRS</b>
Technical provisions	934,749	924,537
Insurance & intermediaries payables	6,614	6,614
Reinsurance payables	2,004	11,582
Payables, trade not insurance	11,035	11,035
Any other liabilities , not elsewhere shown	171,923	99,444
	1,126,325	1,056,891

The above table presents amounts at Solvency II and IFRS valuation bases respectively. For classification purposes an aggregated Solvency II classification of amounts has been used in order to best demonstrate any valuation differences between the two bases.

The Association's other liabilities are valued using the following principles:

#### **Technical provisions**

The valuation principles of technical provisions are further detailed in D.2.

#### **Reinsurance payables**

These represent balances that are due to be paid for existing reinsurance contracts.

When these amounts are not yet due to be paid, they are included as a future cash flow in the calculation of reinsurance technical provisions.

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

#### **Payables (trade, not insurance)**

This balance includes sundry, short term payable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

#### **Any other liabilities not elsewhere shown**

All other amounts comprise balances not included in liabilities above. Due to its short-term nature, the carrying amount is considered a suitable proxy for its fair value.

### D.4. Alternative methods of valuation

The Association does not utilise any alternative methods of valuation.

### D.5. Any other information

The Association has not identified any other information that it considers material to be disclosed.

## E. Capital Management

### E.1 Own funds

Amount in \$000	2017
SCR ratio	169.90%
SCR	374,968
Eligible capital	637,054
Excess/(shortfall)	262,086
MCR Ratio	1500.40%
MCR	40,385
Eligible capital	605,934
Excess/(shortfall)	565,549
Tier 1 Basic own funds	597,858
Tier 2 ancillary own funds	39,200

As a mutual insurer with no share capital the Association's capital structure consists of two types of own funds:

1. Accumulated income and expenditure account reserve and reconciliation reserve, which falls under Tier 1 and counts as Basic Own Funds (BOF). These funds may be fully utilised to meet both the SCR and MCR. The Tier 1 basic own funds also includes a perpetual subordinate loan of \$100 million. This is recognised as restricted tier 1 under the transitional arrangements.
2. UKE's Rules allow for unlimited additional calls to be made on Members. When received such calls (known as supplementary calls) would become Tier 1 loss absorbent BOF and therefore count as Tier 2 Ancillary Own Funds for regulatory solvency purposes.

The PRA has granted an approval to the Group's subsidiary undertaking for a method of calculation of ancillary own funds ("AOF") to the Association. The method, which results in AOFs of \$39.2 million has been approved for a period of 4 years.

Under the Solvency II regulations, up to 50% of the SCR may be covered by these funds. This amounted to \$39.2 million of tier 2 ancillary own funds being eligible towards SCR coverage.

As far as possible, the Association seeks to provide certainty over the insurance costs borne by Members and therefore would only make a supplementary call in extreme circumstances. These circumstances might include, but are not limited to, being unable to meet its regulatory capital requirements or other internal or external capital measures.

No items have been deducted from own funds and there are no significant restrictions affecting the availability and transferability of own funds.

#### **Information, objectives, policies and processes for managing own funds**

The Association's objective under its Corporate Plan is to maintain its total capital resources (own funds) in line with its risk appetite statement over the insurance cycle. The Association forecasts its capital over a 3 year planning horizon as part of its ORSA process.

#### **Material differences between equity as shown in the financial statements and the excess of assets over liabilities**

The table below provides a reconciliation of the capital reported within the Financial Statements to that within the Solvency II balance sheet.

Amount in \$000	2017
<b>Financial Statements</b>	557,817
Solvency II gross technical provisions adjustment	(10,207)
Of which reallocations from IFRS balance sheet	(74,488)
Solvency II RI technical provisions adjustment	115,158
Of which reallocations from IFRS balance sheet	9,578
<b>Total Solvency II basic own funds</b>	<b>597,858</b>

The most material adjustment to reserves is as a result of the differences in valuation of technical provisions. Refer to D.1 to D.3 for a discussion of the differences between the bases.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

### SCR and MCR

The table below summarises the capital requirements for the current period. Further details can be found in appendices S.25.02.21:

Amount in \$000	2017
SCR	<b>374,968</b>
<i>Made up of</i>	
Operational risk	<b>25,884</b>
Market risk	<b>141,259</b>
Underwriting & reserving risk	<b>257,597</b>
Counterparty default risk	<b>46,335</b>
Diversification effects	<b>(96,107)</b>
MCR	<b>40,385</b>

The SCR has been calculated using standard formula and method 1 has been used to calculate the group solvency.

## E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This sub-module is not used by the Association.

## E.4 Differences between the standard formula and any internal model used

This sub-module is not used by the Association.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Group has fully complied with the SCR and MCR requirements during the period under review.

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## E.6 Any other information

The Group's own funds are fully available and transferable and therefore no deductions are required.

The Group does not apply any undertaking specific parameters within the calculation of the SCR.

The United Kingdom  
Mutual Steam Ship  
Assurance Association  
(Bermuda) Limited

Solvency and Financial  
Condition Report

Disclosures

20 February

**2017**

(Monetary amounts in USD thousands)

## General information

Participating undertaking name	he United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited
Group identification code	213800IFVOX63ELTKM29
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	20 February 2017
Currency used for reporting	USD
Accounting standards	The group is using IFRS
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
<b>Assets</b>		
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)	1,141,591
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	20
R0100	<i>Equities</i>	25,789
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	25,789
R0130	<i>Bonds</i>	199,010
R0140	<i>Government Bonds</i>	177,383
R0150	<i>Corporate Bonds</i>	21,626
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	901,632
R0190	<i>Derivatives</i>	11
R0200	<i>Deposits other than cash equivalents</i>	15,130
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:	328,956
R0280	<i>Non-life and health similar to non-life</i>	328,956
R0290	<i>Non-life excluding health</i>	328,956
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	4,159
R0370	Reinsurance receivables	3,888
R0380	Receivables (trade, not insurance)	9,914
R0390	Own shares (held directly)	0
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	55,213
R0420	Any other assets, not elsewhere shown	81,021
R0500	<b>Total assets</b>	<b>1,624,742</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	934,749
R0520	<i>Technical provisions - non-life (excluding health)</i>	934,749
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	862,810
R0550	<i>Risk margin</i>	71,939
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	0
R0750	Provisions other than technical provisions	-98
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	6,943
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	6,712
R0830	Reinsurance payables	2,004
R0840	Payables (trade, not insurance)	11,035
R0850	Subordinated liabilities	99,440
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	99,440
R0880	Any other liabilities, not elsewhere shown	65,540
R0900	<b>Total liabilities</b>	1,126,325
R1000	<b>Excess of assets over liabilities</b>	498,417

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
<b>Premiums written</b>																
R0110	Gross - Direct Business															376,220
R0120	Gross - Proportional reinsurance accepted															0
R0130	Gross - Non-proportional reinsurance accepted															0
R0140	Reinsurers' share															81,052
R0200	Net															295,168
<b>Premiums earned</b>																
R0210	Gross - Direct Business															376,170
R0220	Gross - Proportional reinsurance accepted															0
R0230	Gross - Non-proportional reinsurance accepted															0
R0240	Reinsurers' share															81,082
R0300	Net															295,088
<b>Claims incurred</b>																
R0310	Gross - Direct Business															210,904
R0320	Gross - Proportional reinsurance accepted															0
R0330	Gross - Non-proportional reinsurance accepted															0
R0340	Reinsurers' share															-26,880
R0400	Net															237,784
<b>Changes in other technical provisions</b>																
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
R0550	<b>Expenses incurred</b>															84,492
R1200	<b>Other expenses</b>															8,071
R1300	<b>Total expenses</b>															92,563



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	<b>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</b>
R0230	<b>Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities</b>
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	<b>Total of non-available own fund items</b>
R0280	<b>Total deductions</b>
R0290	<b>Total basic own funds after deductions</b>

**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	<b>Total ancillary own funds</b>

**Own funds of other financial sectors**

R0410	Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions
R0420	Institutions for occupational retirement provision
R0430	Non regulated entities carrying out financial activities
R0440	<b>Total own funds of other financial sectors</b>

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				
458,377	458,377			
0	0			
0		0	0	0
0				
0		0	0	0
0				
40,040	40,040			
99,440		99,440	0	0
0				
0				0
0				0
0	0	0	0	0
0				
0				
0				
0				
597,858	498,417	99,440	0	0
0				
0				
0				
0				
0				
0				
39,200			39,200	
0				
0				
0				
0				
39,200			39,200	0
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				
637,058	498,417	99,440	39,200	0
597,858	498,417	99,440	0	
637,058	498,417	99,440	39,200	0
605,935	498,417	99,440	8,077	
40,385				
1500.40%				
637,058	498,417	99,440	39,200	0
374,968				
169.90%				
<b>C0060</b>				
498,417				
458,377				
0				
40,040				
24,667				
24,667				

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP		Simplifications	
		C0110	C0080	C0090	
R0010	Market risk	141,259			
R0020	Counterparty default risk	46,335			
R0030	Life underwriting risk	0			
R0040	Health underwriting risk	0			
R0050	Non-life underwriting risk	257,597			
R0060	Diversification	-96,107			
R0070	Intangible asset risk	0			
R0100	<b>Basic Solvency Capital Requirement</b>	349,084			
	<b>Calculation of Solvency Capital Requirement</b>	C0100			
R0130	Operational risk	25,884			
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	<b>Solvency Capital Requirement excluding capital add-on</b>	374,968			
R0210	Capital add-ons already set	0			
R0220	<b>Solvency capital requirement for undertakings under consolidated method</b>	374,968			
	<b>Other information on SCR</b>				
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	40,385			
	<b>Information on other entities</b>				
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			
	<b>Overall SCR</b>				
R0560	SCR for undertakings included via D&A	0			
R0570	<b>Solvency capital requirement</b>	374,968			

S.32.01.22

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	213800QWNPYB4M	LEI	THE UNITED KINGDOM MUTUAL STEAM SHIP ASSUR	Non life insurance undertaking	companies limited by shares or by guarantee or unlimited	Mutual	Prudential Regulatory Authority
2	BM	213800IFVOX63ELT	LEI	THE UNITED KINGDOM MUTUAL STEAM SHIP ASSUR	Reinsurance undertaking	Company limited by guarantee	Mutual	Bermuda Regulatory Authority
3	BM	HYDRA	Specific code	HYDRA INSURANCE COMPANY LTD (UK CELL)	Reinsurance undertaking	Segregated cell captive	Mutual	Bermuda Regulatory Authority
4	BM	IPJR	Specific code	INTERNATIONAL P&I REINSURANCE COMPANY LTD	Reinsurance undertaking	Company limited by guarantee	Mutual	Bermuda Regulatory Authority



S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation	
			% 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		
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800QWNPYB4M	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	BM	213800IFVOX63ELT	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	BM	HYDRA	Specific code	100.00%	100.00%	100.00%		Significant	100.00%	Included in the scope		Method 1: Full consolidation
4	BM	IPIR	Specific code	100.00%	100.00%	100.00%		Significant	0.00%	Included in the scope		Method 1: Full consolidation



