2020 Directors' Report & Financial Statements

for the year ended 20th February 2020

UK P&I CLUB IS MANAGED BY **THOMAS MILLER**

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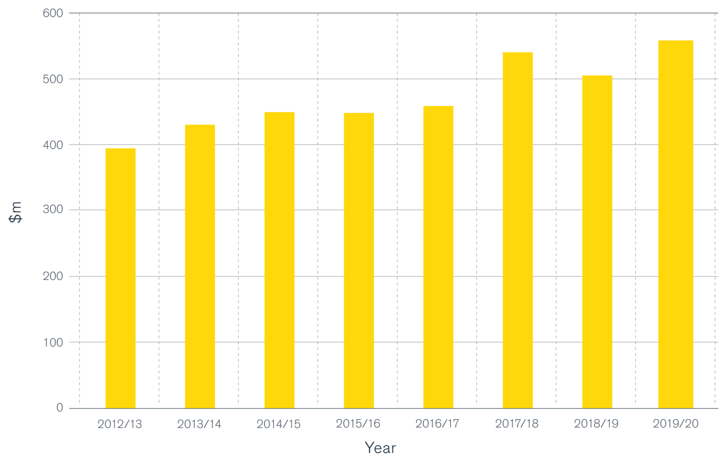
Financial Highlights

Free reserves for financial years 2012/13 to 2019/20

2019/20 saw a particularly large investment return which bolstered the Club's free reserves to $559 million.

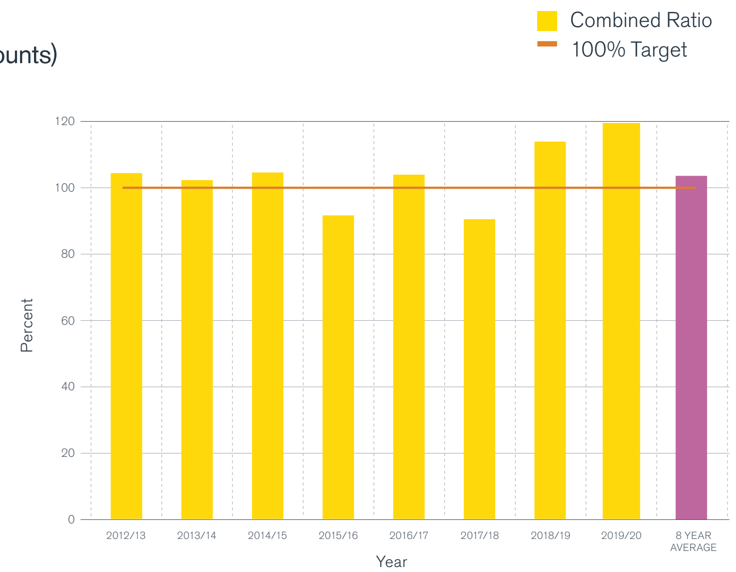


Combined ratio for financial years 2012/13 to 2019/20 (excluding Mutual Premium Discounts)

The combined ratio of 120% for the financial year is outside the Club's acceptable range.

A small number of large deteriorations relating to historical policy years was seen in the first half of the 2019/20 financial year. Combined with the reduced premium income seen in recent years, this led to the increase in the combined ratio.

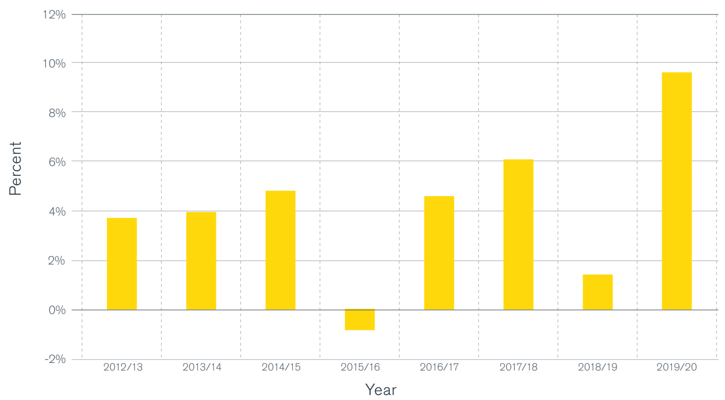
Over the last 8 years Members have benefitted from significant premium reductions. Premium rates are at historically low levels.



Investment return for financial years 2012/13 to 2019/20

An exceptional return of 9.6% boosted the Club's result this year.

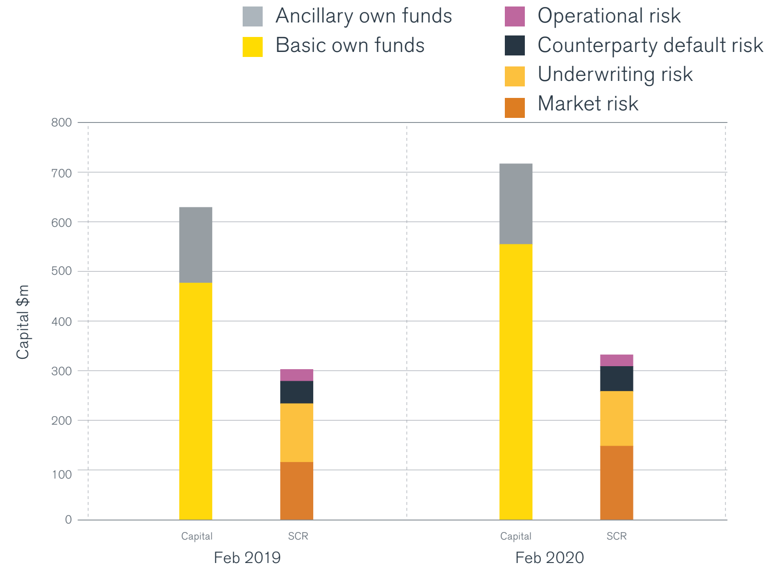
Approximately half of the return came from the Club's equity holdings.



Group regulatory capital

The Club meets all of its regulatory capital requirements and holds an A (Stable) rating with Standard & Poor's.

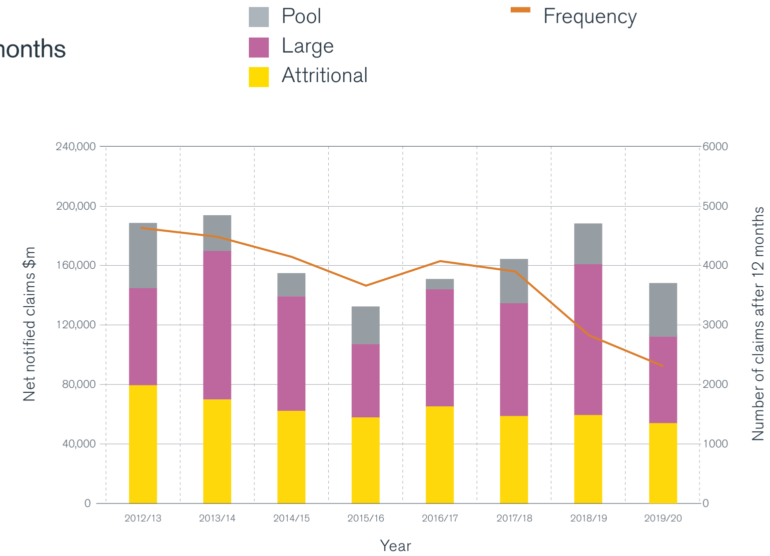
The Club's capital adequacy ratio increased from 208% to 217% as at February 2020 following the investment driven surplus generated over the year.



Total net notified claims by size and claims frequency for policy years 2011-2018 at 12 months

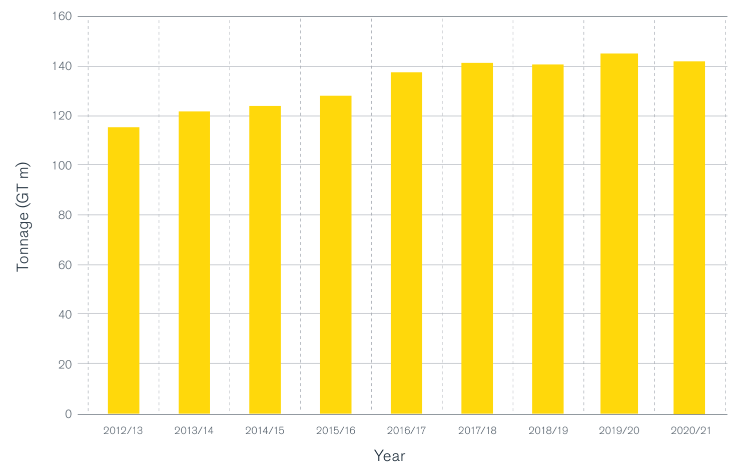
Claim frequency continues to fall, but as their severity increases, the total cost of attritional claims (those with a cost below $0.5m) is broadly stable.

The cost of the Club's own large claims were favourable in 2019/20. However, Pool claims costs were relatively high. The Club's substantial Pool surplus (more than $100 million) helps to reduce the Club's exposure to these volatile claims.



Declared tonnage by policy year 2012/13 to 2019/20

The tonnage declared by the Club to the IG Pool has remained broadly stable over recent years as premium rates within the P&I market have fallen and the Club has focused on maintaining its underwriting discipline.



Chairman's Statement

2019 marked the 150th anniversary of the Club, an outstanding achievement which demonstrates the importance of the mutual model to the shipping industry. I was delighted to lead celebrations across our key markets and meet so many friends of the Club, both old and new.

The Club will continue to support its Members through these dark times, driven by its central ethos of market leading service which will guide the Club as it evolves to meet the changing needs of its Members and the goal of a safe and sustainable shipping industry for the future.

The 150th anniversary provided an opportunity to encourage the new generation to embrace one of our central goals; safety at sea. Our competition, entitled 'Investing in a safer tomorrow', challenged seafarers at the start of their careers to think creatively about ways to improve shipping safety standards. Over 200 entrants from around the world took up that challenge and the winning entry from Piyush Jain, a Marine Engineer sailing with Bahri Ship Management, was an active wireless alarm system to enhance safety during periods when the engine room is unmanned. His award was presented by one of my fellow UK Club Directors, Dr Grahaeme Henderson, at our gala celebration event in London.

In contrast to the celebrations of last year, the outbreak of the COVID-19 pandemic in the first half of 2020 has brought a new set of challenges to all businesses across the world. The strain on people and business is unprecedented, and I send my best wishes to the Club's Members and their wider community during these troubling times, not least to the world's seafarers, some of whom have faced the greatest challenges.

I am pleased that the Club has responded well to the disruption. In order to ensure the safety of its people, our Managers adopted remote working practices in all offices in line with local guidelines. However, all operations have continued without interruption and Members should not have experienced any change to service levels offered by the Club.

The pandemic created uncertainty within the world's financial markets leading to a significant write down in asset values during March. These losses were reversed as markets rallied during April and May. Despite the volatility, the capital held by the Club remained in the AAA band of the S&P capital model throughout this period, demonstrating the financial strength of the Club. The Investment Committee of the Board continues to monitor developments closely.

Events such as the pandemic demonstrate the importance of a strong capital base. At 20th February 2020, the total free reserves had grown to $559 million, an increase of $54 million over the previous year. The Club's free reserves have grown steadily over recent years and continue to be among the strongest in the industry. This has been recognised by Standard & Poor's, the Club's rating agency, who confirmed an A (Stable) rating for another year in December 2019.

The surplus was driven by an exceptional investment return of 9.6% ($106 million), with nearly all asset classes performing above expectations. The strong investment return was offset by a deficit on technical underwriting. Premium rates have been falling across the P&I market for several years and are no longer sufficient to cover the associated claims and expenses. It therefore remains critical that the UK Club continues to focus on underwriting discipline and careful risk selection.

At the recent renewal, mutual owned tonnage remained at a similar level to the previous year at 142 million gross tonnes. For the first time, all EEA tonnage was renewed into the Club's new subsidiary undertaking in Rotterdam, UKNV, ensuring a smooth transition regardless of the final shape of the Brexit process.

The Club continues to deliver exceptional results when handling Members' Claims. In March 2020, the US Supreme Court brought to an end 16 years of litigation following a major oil spill in the Delaware River from the tanker ATHOS 1, finding the ship's charterer and owner of the receiving terminal responsible for the incident. The Court's decision resulted in the reimbursement of some $70 million to the Club and, consequently, the International Group Pooling system and reinsuring underwriters.

Charitable Donations

At this time more than ever, the Club is mindful that at the heart of the shipping industry are the crews that serve on our Members' ships. The Club has therefore committed to work with the Mission to Seafarers supporting its WeCare programme helping sailors and their families understand the impacts of social media and long-distance communications when away at sea.

The Club is also funding the Crisis Response Network run by the Sailors' Society that provides counselling to crew members who have recently suffered traumatic experiences at sea. Continuing with the maritime theme, the Club is sponsoring the fitting out of the volunteer social centre on the GLOBAL MERCY, a brand new purpose-built hospital ship being built by Mercy Ships. The GLOBAL MERCY, along with their existing hospital ship, the AFRICA MERCY, will provide free healthcare to those who would otherwise have no access to treatment in the poorest countries.

Directors

I am very grateful to my Deputy Chairmen; Mr R. Chen of Wan Hai Lines, Mr N. Schües of Reederei F. Laeisz and Mr P. Wogan of GasLog for their continuing support on all Club matters.

I am pleased to welcome to the Members' Committee: Messrs A. Shehab of Kuwait Oil Tanker SAK, Kuwait, N.A. Hadjiyiannis of Hellenic Tankers Co Ltd, Athens, K. Takayama of JX Ocean Co Ltd, Yokohama, M.R. Wade of Grindrod Shipping Holdings Ltd, Singapore and Wang Yongxin of China Merchants Energy Shipping Co Ltd, Hong Kong. I would like to thank Messrs R.F. Figueiró, H.V. Franco, A.C. Margaronis and U. Schawohl who left the Members' Committee in the past year.

In order to meet increasing regulation, our Club has become more complex in recent years. I would like to thank those Directors who serve on the Boards of our principal subsidiary undertakings, UKNV and UK Bermuda, and Mr O. Paymans and Mr N. Schües who chair those Boards respectively.

My final note of thanks is to our Managers and all of their staff for their dedication and commitment to serving the Club and its Members over the last year.

Looking Ahead

I am confident that there are better times ahead, and I look forward to that time when we can all meet again and experience the normality we enjoyed before COVID-19. Until then, the Club will continue to support its Members through these dark times, driven by its central ethos of market leading service which will guide the Club as it evolves to meet the changing needs of its Members and the goal of a safe and sustainable shipping industry for the future.

Nicholas Ingelssis
Chairman

Loss Prevention Lessons Learnt

The UK Club is proud of its extensive loss prevention programme, which converts the Club's expert knowledge and data into practical tools to assist Members to reduce their exposure to incidents or claims. The programme incorporates risk assessments, crew health initiatives, investigative services, training and advice.

The latest safety initiative from the team is the Lessons Learnt Project, which comprises a series of freely available reports and complementary reflective learning videos dealing with real life incidents sourced from the Club's claims database. They are presented in concise, plain language so as to be easily accessible to multi-national sea-farers and shore personnel.

The short animated videos are designed to provide an interactive training experience with a focus on common marine accidents and how to prevent them, with each video inviting the sea-farer to reflect upon lessons learnt arising from the incident and how they could apply to their own shipboard practices and systems. A tangible measure of the programme's success is the number of positive testimonials from ship owners and managers who have included the videos as part of in-house crew training programmes. The videos have been downloaded more than 15,000 times.

The videos have been downloaded more than 15,000 times

Strategic Report

The UK Club has been protecting its Members from third party liabilities and expenses in the form of Protection and Indemnity insurance and other marine covers for the last 150 years. It will continue to offer excellent cover, financial security and value for money.

The UK Club operates from 11 offices worldwide and, when combined with its extensive correspondent network, is able to offer on-the-spot help and local knowledge in over 350 ports. Its expertise in solving Members' problems around the World is critical to the UK Club's first-class service offering.

The Club places significant importance on its loss prevention and safety initiatives, which are not only beneficial to its Members' operations but also work to protect the lives of thousands of seafarers and passengers worldwide.

Business Review

A summary of the key performance indicators monitored by the Club are included in the Financial Highlights section on page 2 and 3.

Performance Review

In the year ended 20th February 2020, the Club recorded a surplus of $54.4 million (2019: deficit of $32.4 million). The financial result for the year was driven by an exceptional performance from the Club's investment portfolio offset by an underwriting deficit due to the continued soft insurance market rates. The surplus increased the Club's free reserves to $559 million (2019: $505 million).

Underwriting

The Club aims to maintain breakeven underwriting over the medium term by calling sufficient premium to cover claims and expenses incurred. Following several years of premium reductions across the market coupled with some deterioration on certain prior policy years, the combined ratio for the year ended 20th February 2020 was 120% and the 8-year average is slightly above 100%.

The 120% combined ratio exceeds the Club's long-term target range and the Directors continue to assess what actions may be required. In seeking fairness amongst mutual Members the Club's underwriting policies will continue to focus on the risk of claims each Member brings to the Club. Individual Members with adverse or deteriorating claims experience may need underwriting adjustments by way of increased premiums or changes to terms, and those Members will be encouraged to work with the Club's Loss Prevention team.

The Club's philosophy is to accept Members from a wide variety of trades and geographical locations, assuming entry criteria are met and appropriate rates for the risk can be agreed. This spread of risk protects the Club from an unexpected change in risk or decline in performance from certain trades.

The Club attracts business by offering exceptional cover and service, supported by excellent financial security, at a fair price. The Club will not, however, pursue new business at the expense of financial discipline. The Club operates strong underwriting criteria that ensure careful selection of new business. Over the last year, the Club declined to quote on 12.1 million gross tonnes of potential new business. The total mutual tonnage entered into the Club remained stable over the last year at 142 million gross tonnes.

The Club considers a wide variety of information when accepting and pricing each risk. However, a small number of large claims events, sometimes difficult to predict, have become an increasingly important element of the overall cost of claims incurred by the Club. The risk of large claims is therefore a significant element in the overall risk profile of any Member, even those that have not experienced such a claim in the past.

Strategic Report

Claims

Despite an increase in costs arising from International Group Pool claims during the 2019/20 policy year, the UK Club's own claims were favourable in comparison to the previous year. However, the overall cost of the financial year was adversely affected by some deterioration in prior year claims.

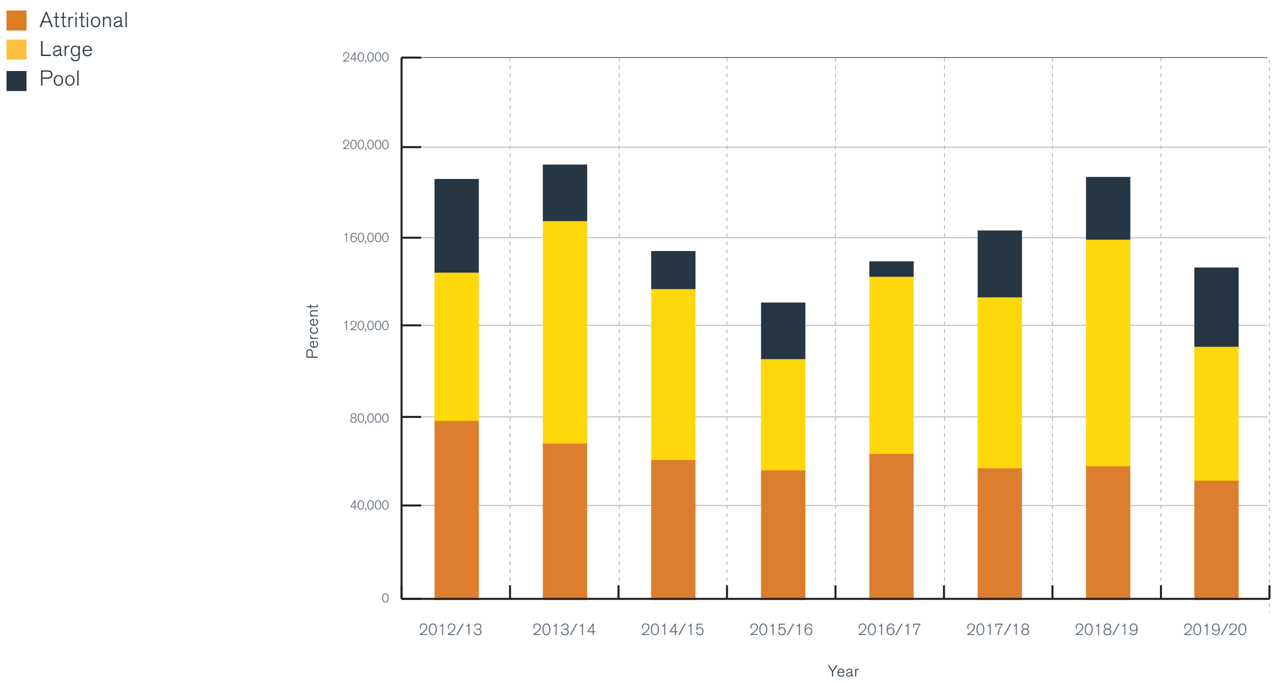
The total cost of attritional claims, being those claims under $0.5 million, is dependent upon the overall frequency of claims and inflationary pressures on the cost of each claim. Through careful risk selection and safety improvements within the Club's Membership, the number of claims reported to the Club has fallen steadily over recent years so offsetting the impact of underlying inflation. The trend continued in the 2019 policy year. The number of claims notified in 2019 was 20% lower than in the previous year and 50% lower than ten years ago.

The Club generally classifies large claims as those in excess of $0.5 million. Large claims are relatively rare, but can have a significant influence on the total cost of the policy year. For example, a mere seven claims account for the $40 million difference between the UK Club's large claims experience over the last two policy years.

However, it is these few large claims that can have a huge impact on a Member's business and the support provided by the UK Club is highly valued by the Club's Membership. Providing assurance with fast, accurate and professional advice, when dealing with a significant incident, is central to the Club's offering.

The very largest claims in our industry are shared between the International Group Clubs through the Pooling mechanism. The cost of these claims to the UK Club has grown substantially in recent years, with the 2019/20 policy year costing 30% more than the previous year. However, the UK Club benefits from an excellent record on its own Pool claims, with a Pool surplus in excess of $100 million. This helps to mitigate the volatile cost of Pool claims.

Total net notified claims by size
and policy year at 12 months' development



The total claims cost for the financial year was affected by some unusually late deterioration on the 2017/18 policy year and an increase in the reserve for occupational disease claims. These two factors added approximately 10% to the Club's reported combined ratio.

Occupational Disease claims can relate to policies written as far back as the 1950s and 1960s. The long latency period between exposure and symptoms lead to uncertainty within the Club's claims reserves and increases the Club's regulatory capital requirements. Following the year end, the Club has removed this uncertainty by signing a reinsurance contract which covers any further claims deterioration, in anticipation of a full transfer of the liabilities in the near future.

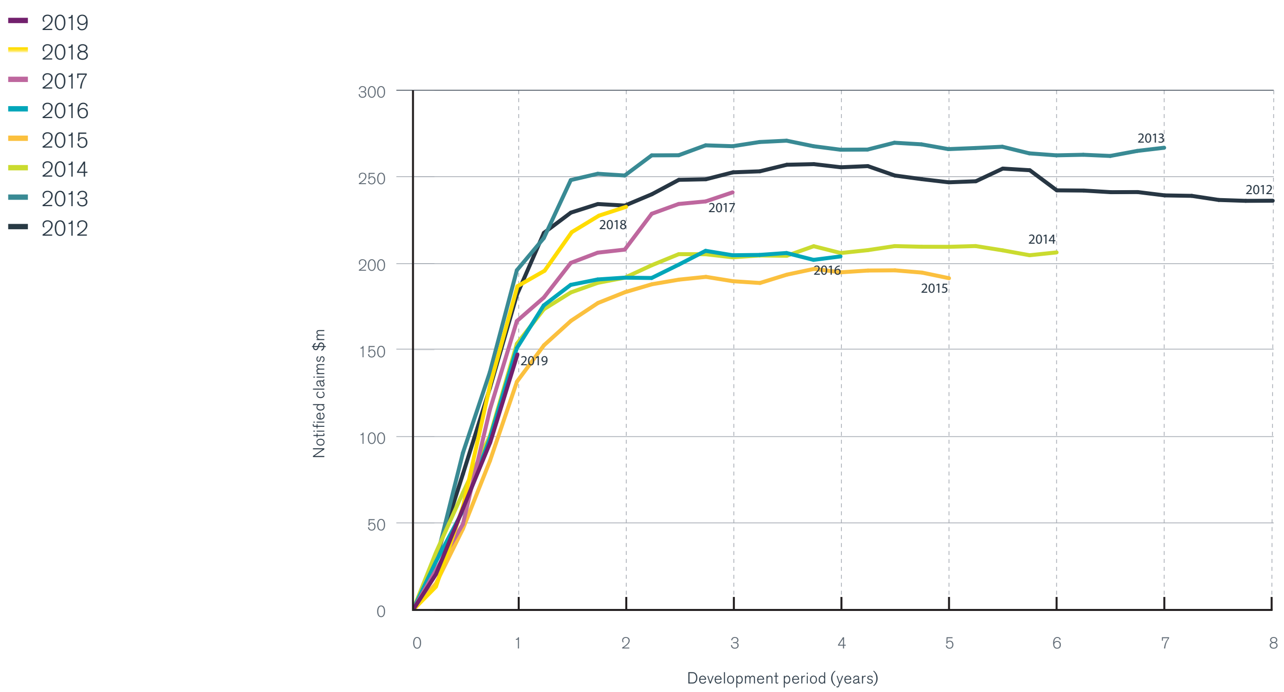
Loss Prevention

Ensuring the safety of seafarers, passengers and the wider marine environment is one of the UK Club's core values. The Club uses its expert knowledge and data to provide innovative and practical initiatives to support Members' loss prevention and safety programmes. The UK Club's offering incorporates risk assessments, crew training seminars, crew health initiatives, investigative services, training and advice.

2019 was a year of considerable activity focussed on collaborating with industry and sharing ideas. The Club's competition, 'Investing in a Safer Tomorrow' concluded during the year having attracted more than 200 entries from young marine professionals across the globe.

The Club continues to develop the 'Lessons Learnt' series of animated videos. These videos provide insights into the circumstances of a recent incident for training purposes. The content is provided in an accessible video format allowing crew to reflect on the procedures on their own ships. The series has been used by many as part of their training programme and is available on the Club's website. The Club was delighted that the 'Lessons Learnt' series won the 2019 Lloyds List 'Excellence in Safety and Training' award.

Notified claims development by policy year



Strategic Report

During 2019 the Club launched an initiative with CAE, the global leader in civil aviation training, on a human element safety training initiative based on aviation standards. The initiative makes available CAE's comprehensive Maritime Crew Resource Management (MCRM) learning materials and Train the Trainer support to all UK P&I Club Members. CAE's MCRM trains vessel teams to identify and use all available resources in everyday situations and for occasions that require deep collaborative problem solving in complex and rapidly changing environments on board ship and between ship and shore.

The Club is also proud to support the 'Together in Safety' initiative which aims to bring a step change to safety across shipping. Together in Safety (TiS) is a coalition of shipping companies and industry organisations which came together following a commitment at the 2018 Global Maritime Forum to work together to improve safety across the shipping industry.

Investments

The UK Club benefited from very strong investment performance during the year. The return of 9.6% for the financial year added over $106 million before tax to Club reserves.

During the year, the combination of favourable economic conditions and accommodative monetary policy, particularly by the US Federal Reserve, boosted financial markets and fuelled strong gains for the Club's investment portfolio. The Club's holdings of equities and alternative investments delivered large double-digit returns, while bond holdings also delivered strong single-digit returns for the year.

The Club's investment strategy remains unchanged, focusing on a diversified portfolio designed to be consistent with its risk tolerance, capital and regulatory constraints, expected liabilities and credit rating requirements.

By the end of June, the Club's investment portfolio had its initial losses following the COVID-19 outbreak. However, the elevated level of economic uncertainty will have an impact on investment returns which are likely to be lower and more volatile than in recent years. Nevertheless, while it remains responsive to shorter term market dynamics, the Club's financial strength allows it to be a long term investor and its investment strategy reflects that long term approach.

Capital

The $54 million surplus further strengthened Club free reserves to $559 million. The Club aims to hold sufficient capital to provide Members with first class security without holding excessive amounts. As such, the Club's key objectives are to maintain its 'A' rating and retain sufficient capital to meet its regulatory requirements in all jurisdictions.

The Club's credit rating of 'A (Stable)' was most recently confirmed by S&P in December 2019.

The Club's key regulatory capital requirement is Solvency II's Solvency Capital Requirement (or 'SCR'). Rather than use the 'Standard Formula' to calculate the Club's SCR, the Club uses its sophisticated 'Internal Model', which better reflects the Club's risks and avoids having to hold unnecessary levels of Members' capital. The model is also an important risk management tool which helps the Club to manage its risks and capital over the medium term.

The Club's regulatory capital coverage is shown in the following chart which illustrates its SCR, broken down into key risk categories. Further information is available in the Club's Solvency and Financial Condition Report ('SFCR'), which will be available on the Club's website.

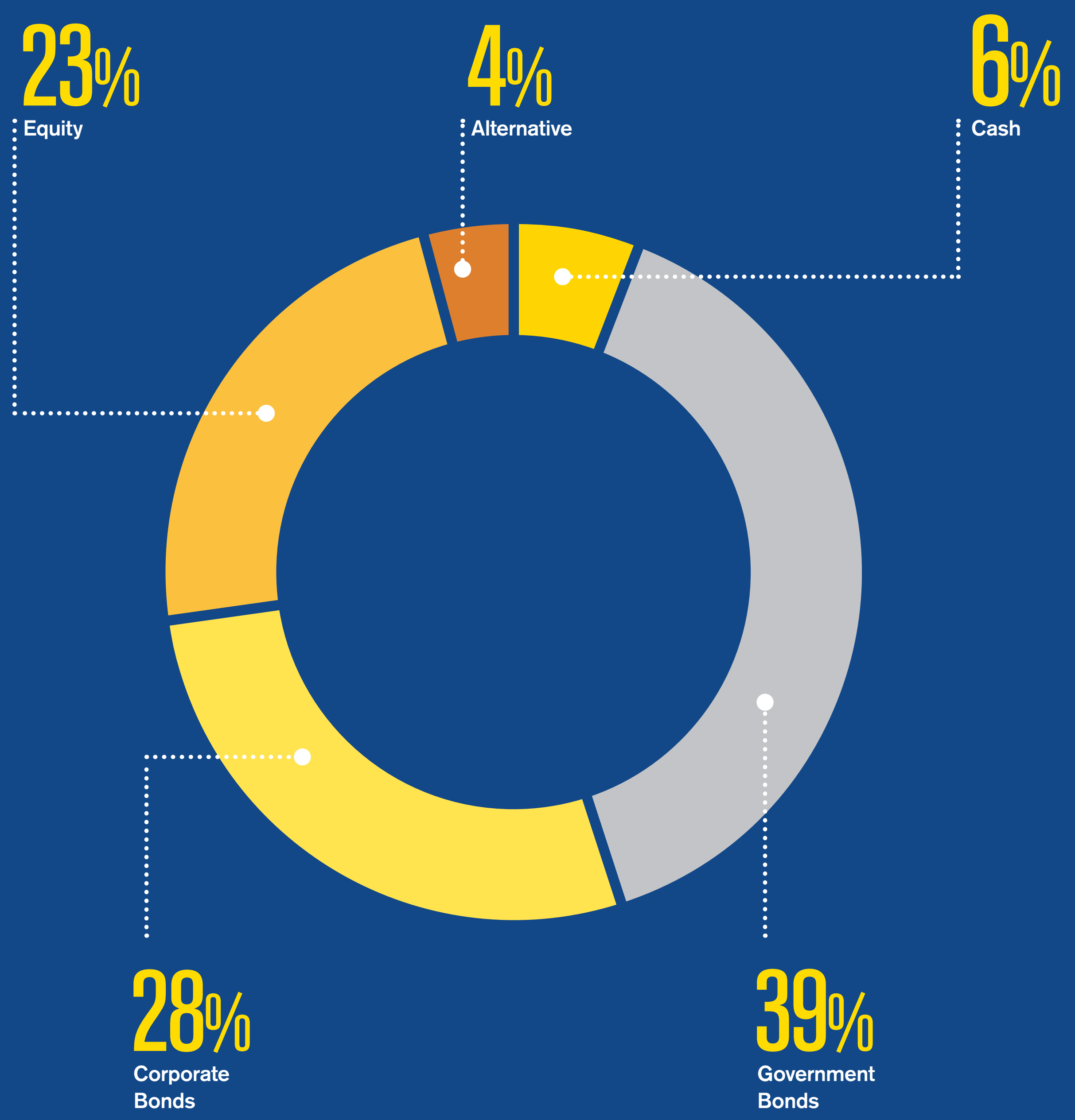
Risk Management

The UK Club has a comprehensive risk management framework for risk identification, assessment, selection and management. This includes the identification of emerging risks including those related to climate change such as direct insurance risks, indirect transitional risks (such as the move to low-sulphur fuels) and investment risks.

The Club's principal risks are:

- Underwriting risk: the risk that the Club makes a loss on its insurance contracts – either because they were incorrectly priced or that claims experience was worse than expected.
- Market risk: the risk that the Club's investment return is below expectations due to unexpected market movements such as changes in equity prices, interest rates, foreign exchange rates, etc.

Investment Allocation at 20th February 2020



Strategic Report

These activities account for most of the Club's capital requirements as shown below. The Club's experience, during the year, in each of these key areas was discussed in earlier sections of this Report.

The Club's understanding of risk is integrated into its decision-making process through the Own Risk & Solvency Assessment ('ORSA') process which will incorporate both qualitative and quantitative analyses through scenario testing or other stochastic methods. The Club continues to develop its analytical capabilities to assist with managing risk with key elements of its risk management framework are its approved internal model and comprehensive reinsurance programme.

The most significant risk is underwriting risk, and a key tool for managing this is reinsurance. As a member of the International Group ('IG'), the Club participates in the IG's pooling arrangement and its reinsurance programme. These provide cover for claims costs in excess of $10 million. Details of the programme are available on the IG's website. While the structure is slightly different to last year, the impact of this change on the Club's risk profile is minimal.

Group regulatory capital

Industry Issues

The UK Club considered a number of industry subjects during the year, including electronic bills of lading, limitation under international conventions, shipowners' preparations for the implementation of the 2020 sulphur cap and developments in international sanctions. The Club's website provides a wide range of publications, circulars and legal updates to assist Members in addressing such issues.

With COVID-19 accelerating demand for paperless transactions, electronic bills of lading are becoming increasingly important. In addition to the three paperless trading systems operated by Bolero International Ltd, Electronic Shipping Solutions, and e-title™, the International Group approved two more systems during the year: edoxOnline and WAVE, both of which are based upon blockchain technology. Systems that are not IG approved are subject to the Paperless Trading Exclusion which restricts cover for P&I liabilities to those which would have arisen under a paper based transaction.

Limitation rights were discussed with the Board in the context of an update on the claim pursued by the Spanish State against the P&I insurer of the PRESTIGE for an alleged liability of $1 billion, being a sum vastly in excess of the insurer's limitation rights under the Civil Liability Convention. The attempt to circumvent limitation was viewed with concern and with hope that a more sensible outcome will eventually prevail.

Preparations for the 2020 reduction in sulphur emissions gave rise to much discussion in the industry on prospective availability and quality of new fuels, the risks of changeover operations, effectiveness of scrubbers, and the impact on insurance if owners experienced difficulties in complying. Cover issues were discussed with the Board to ensure that Members would not be unreasonably penalised if problems arose beyond their control. As matters turned out, the industry made its preparations well, and implementation of the new regulations appeared to go smoothly with very few problems being notified or giving rise to P&I claims.

Once again in 2019, sanctions presented a moving target, especially in the evolution of US expectations as to how non-US persons would adjust their business to avoid the risk of breaching US secondary sanctions in relation to Iran and Venezuela. The vigorous efforts of the UN, US and UK in relation to DPRK sanctions was also a recurring theme, as was the increasing ability (with the aid of AIS and other tracking technologies) of companies (including P&I clubs) to be alerted to suspicious navigational patterns associated with sanctions breaking. Several of the Club's Members found themselves targeted by sanctions imposed on Venezuela, where the exact scope of executive orders as applied to non-US persons had been left somewhat vague by the US authorities. There is no sign of any diminution in use of sanctions and compliance has now become an expected fact of life for shipping companies. All Members must be aware that the more often they trade within or close to sanctions risk areas, the greater the duty of care that is upon them.

Strategic Report

The Uncertain Future

The COVID-19 outbreak has brought with it significant uncertainty for the UK Club and its Members alike. However, as a strong P&I insurer, the Club is well placed to navigate these choppy waters and will provide the stability and service required to help our Members do the same.

With the current economic uncertainty, the outlook for future investment returns appears more limited than the Club has seen in recent years. Combined with the change in claims profile, with fewer but larger claims, this emphasises the need for a disciplined approach to underwriting. The Club continues to develop its risk management and pricing tools to assist in this increasingly volatile environment.

The COVID-19 lockdowns have helped to accelerate the integration of new technologies into our sectors. In particular, the way we interact with our Members or the ways in which we operate and organise ourselves are likely to change forever. The Club will continue to invest in technology and processes to improve its service and increase efficiencies.

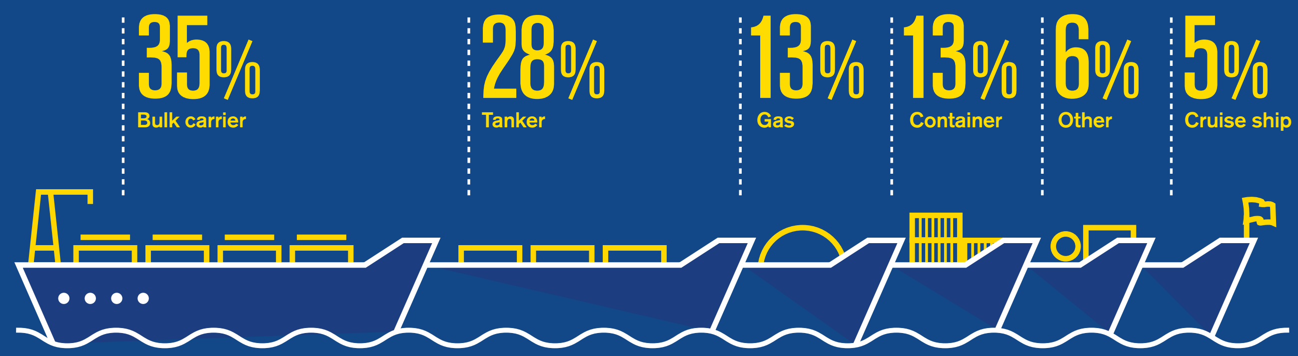
One key area where technology is improving our service is our work with Members to prevent or mitigate the impact of losses. Improving safety at sea, early warning systems and crisis response is of vital importance to our Members and all those working or travelling on board ships.

Andrew J Taylor
Manager

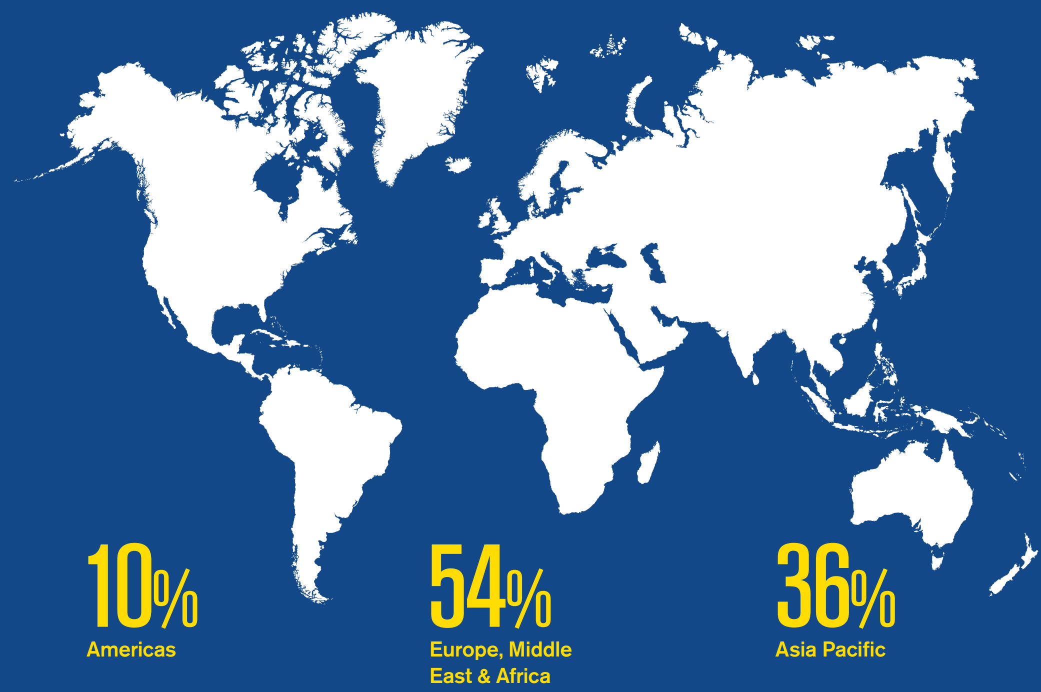
Fleet Profile

Owned fleet – figures as at 20th February 2020

Sector by share of total gt (ships above 1,500 gt)



Geographic regions



The Complete Journey

Thomas Miller manages over $1 billion of gross written premium for the Transport, Specialty, and Professional Services industries in the mutual, MGA and captive markets.

$1 BILLION+

UK P&I

ukpandi.com
One of the world's leading mutual insurer of third party liabilities for ocean-going merchant ships.

UK DEFENCE CLUB

ukdefence.com
The leading provider of Freight, Demurrage and Defence (legal costs) insurance to the maritime industry.

UK WAR RISKS

ukwarrisks.com
The largest British war risks club, insuring a UK and international membership.

TT CLUB

ttclub.com
The leading provider of insurance and risk management services to the transport and logistics industry.

HELLENIC WAR RISKS

hellenicwarrisks.com
The war risks insurer for over 70% of all Greek-owned ships.

ITIC SPECIALIST PROFESSIONAL INDEMNITY INSURANCE

itic-insure.com
The world's leading professional indemnity insurer of service providers in the transport and energy industries.

THOMAS MILLER SPECIALTY

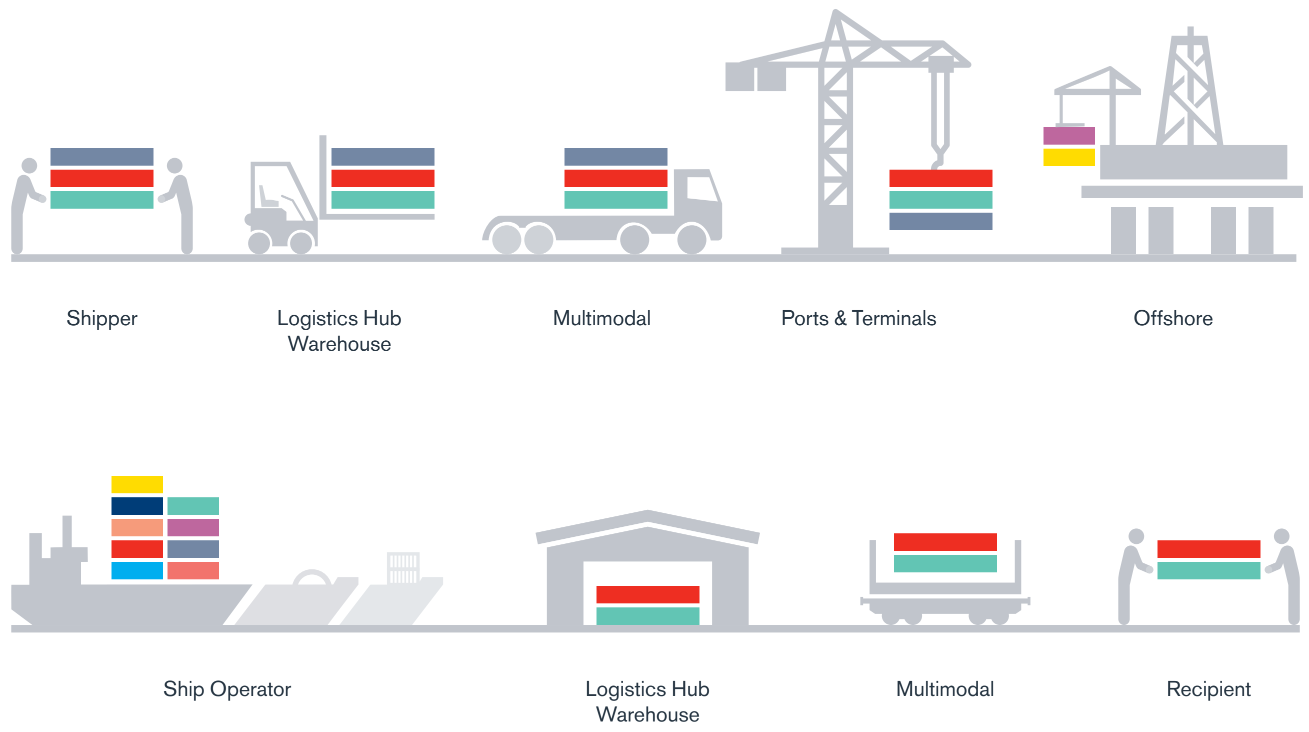
thomasmillerspeciality.com
Provides leading global insurance and related risk management services across a number of sectors including marine, offshore, aerospace, cyber, kidnap and ransom.

THOMAS MILLER CLAIMS MANAGEMENT

thomasmillerclaims.com
Professional claims handling of uninsured or below-deductible claims through to complete claims outsourcing.

THOMAS MILLER LAW

tmlawltd.com
A fresh alternative to large, traditional firms in the marine legal sector, offering the full range of English marine law services.



Our Global Network

On-the-spot help and local expertise is always available to Members

Directors' Report

Directors' Duty to Promote the Success of the Company

In accordance with Section 172 of the UK Companies Act, the Directors' key responsibility is to promote the success of the UK Club. This principle is embodied in the Board's terms of reference, which is reviewed annually. Each Director is cognisant that in discharging this responsibility, they must have regard to:

- The need to foster business relationships with Members, suppliers and others;
- The need to act fairly as between Members of the Club;
- The likely consequences of any decisions in the long-term;
- The interests of the Club's staff;
- The impact of the Club's operations on the community and environment; and
- The desirability to maintain a reputation for high standards of business conduct.

As a mutual, the UK Club exists for the benefit of its Members, who are both mutual policyholders and owners of the Club. The Club's 150-year history and its focus on long-term partnerships means that there is a natural alignment with its other key stakeholders such as its Managers (Thomas Miller), other policyholders, brokers, reinsurers, regulators and other related parties. The Club maintains a regular dialogue with all of these stakeholders to maintain the strong relationships.

The Club considers the long-term consequences of its decisions as part of its Own Risk & Solvency Assessment ('ORSA') process. A key element of the Club's strategy is to provide a financially stable platform, from which to provide risk management and loss prevention services to the industry. This objective continues to be achieved and this is supported by the affirmation of the Club's A (Stable) rating by Standard & Poor's in December 2019.

Achieving that objective involves decisions on underwriting (in particular the target premium requirements for the Club), reinsurance, capital management and investments. The considerations listed above form the cornerstone of discussions and decision making, supported by the Club's governance structure. In particular, the Members' Committee (which represents the wider Member base and appoints the Board) is a core part of the governance specifically aimed at ensuring wider views are considered and all of the Club's Members are treated fairly.

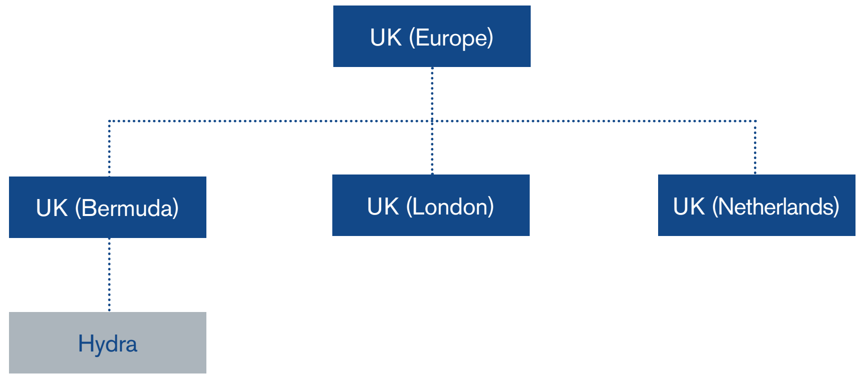
As the Club's executive function is performed by independent professional managers, there are no employee matters to report.

The Club seeks to make a positive impact on the community and the environment as discussed in the corporate and social responsibility section of the Directors' Report.

The Club has a zero tolerance approach to acts of bribery and corruption. To manage bribery and corruption risks, the Club operates within a robust risk management framework.

The Club has a zero tolerance approach to modern slavery and human trafficking and are also committed to acting ethically and with integrity in all our business dealings and relationships to ensure modern slavery is not taking place in our own business nor in any of the supply chains we operate. The Club commits to the highest professional standards and complies with all laws and regulations applicable to the business. The selection and management of suppliers, including service evaluation and review, are governed by procurement policies. Recruitment methods and standards for potential suppliers are articulated in those policies.

The Directors have pleasure in presenting their Review of the Year and Financial Statements of the Club for the year ended 20th February 2020.



Structure

The principal activity of the Club during the year was the insurance and reinsurance of marine protection and indemnity risks on behalf of its Members. The Club has the following corporate structure.

- The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ('UKE'), which writes all of the Club's direct business either directly, through branches in Hong Kong, Singapore and Japan, or via a reinsurance arrangement with UKNV as discussed below.
- The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ('UKB') which reinsures 90% of UKE's business (net of external reinsurances).
- The United Kingdom Mutual Steam Ship Assurance Association (London) Limited ('UKL') which is in run-off and reinsures 100% of its liabilities to UKE.
- UK P&I Club N.V. ('UKNV') has been established as the Club's 'Brexit' solution in order to continue to operate throughout the EU. This started underwriting in 2019 and renewed all of the Club's EEA business in February 2020.
- Club's Hydra Cell – The Club is a member of the International Group which has its own reinsurance captive, a segregated cell company in Bermuda, Hydra Insurance Company Limited ('Hydra'). The Club owns 100% of its own cell and this cell is included in the Group's consolidated Financial Statements.

Direction and Management

Control over the Club's affairs rests with the regulated Board of Directors, which met on five occasions during the year. The Board is elected by the Members' Committee which is in turn elected by the Members of the Club.

The Members' Committee met on three occasions during the year. It provides input to the Board on Member-related matters and, in particular, is entrusted with decisions on discretionary claims.

Most of the Directors are active shipowners so are restricted in the amount of time that they can make available to running the Club's affairs. Therefore, the day to day running of the Club is delegated to the Managers, Thomas Miller P&I (Europe) Ltd (and Thomas Miller (Bermuda) Ltd for UKB).

The Managers, through a network of offices in Europe, Asia and America, form the principal contact between the Club and the Members. In addition to carrying out the policies laid down by the Boards, they also act as a conduit for feedback of the Members' views.

Directors' Report

At Board meetings, the Directors receive reports from the Managers on all areas of the Club's operations in accordance with an agreed schedule of reports. The work of the regulated Boards is supported by a number of functional committees:

- The Group Audit and Risk Committee oversees all risk, regulatory and accounting (including internal and external audit) matters worldwide. In particular this committee reviews performance against all financial risk management objectives and policies set by the Board which are discussed in the Strategic Report and note 4 to the Financial Statements.
- The Nominations Committee makes recommendations regarding the appointment of new Directors and the composition of committees and subsidiary Boards.
- The Ship and Membership Quality Committee in addition to advising on the ship inspection and condition survey schemes, provides the Board with advice on the criteria used to set the standards for membership of the Club and the direction of the Club's loss prevention initiatives.
- The Investment Committee advises the Board on investment strategy and policy. The Committee also monitors the performance of the investment portfolio.
- The Strategy Committee advises the Board on strategic issues.

Other committees of the Board may be formed, as needed, in order to review specific issues as delegated by the Board, or to take decisions on behalf of the Board, for instance regarding the operation of the Club's war risks cover where urgent decisions may be required.

Corporate and Social Responsibility

Due to the service oriented nature of the business, the environmental impact of the Club's activities is considered to be low. However, the Club seeks to make a positive impact on improving the sustainability of global shipping and the provision of insurance to the maritime sector. One of the Club's key aims is to provide safety and loss prevention advice to its Members in order to reduce the risk of casualties or injuries at sea. One recent initiative is the 'Lessons Learnt' series which explain the circumstances of a recent incident in an accessible video format. The series has been used by many Members as part of their training programme. The Lessons Learnt series won the 2019 Lloyds List 'Excellence in Safety and Training' award.

A second recent initiative considers the human factor in any incident and provides a cross comparison of behavioural training in the aviation sector with that in the maritime sector. The Club is also pleased to support the 'Together in Safety' initiative which aims to bring a step change to safety across shipping. Despite improvements to safety programmes; incidents at sea continue. The Club specialises in providing immediate casualty response anywhere in the world for any type of incident. The Club's focus is to ensure that the impact of any given event is minimised.

The Club Managers, Thomas Miller, have built an inventive approach to Corporate Social Responsibility, 'Be the Difference', which aims to engage employees to play their part in the community. This includes a partnership with international medical charity Mercy Ships and a link up with Thirdbridge, a social enterprise dedicated to building and strengthening partnerships between the private and third sector.

The Group made charitable donations of $0.15million during the year; none were to political parties.

Impact of COVID-19 on the Club

The COVID-19 pandemic has had a significant impact on lives and economies across the World. However, it has not materially affected the Club's ability to service its Members and operate as a going concern. As such it is considered to be a non-adjusting post balance sheet event. Further details are discussed below and in note 17 of the Financial Statements.

Impact on Insurance Operations

COVID-19 emerged in December 2019, and was classified as a global pandemic in March 2020. With the Club's year-end date being 20 February 2020, it is expected to have a very limited impact on the technical provisions, the most critical accounting estimate in the Financial Statements. Consequently, these Financial Statements are not materially affected by COVID-19.

Since the year-end, the Club's Managers adopted remote working practices in all offices in line with local guidelines. However, all operations have continued without interruption or detriment to service. Indeed the Club has provided many Members with general advice to assist with their own operations and manage their risks.

The Club has seen an increase in the number of illness claims but, at this very early stage, the amounts are not material and it is very difficult to determine what the final outcome will be. COVID-19 is having a negative impact on World trade and shipping volumes – based on historical experience, the Club might expect a corresponding reduction in claims activity but, again, it is too early to ascertain eventual outcomes.

In line with its reinsurance policy, the Club's reinsurance programme is well diversified and placed with at least A-rated reinsurers. Consequently, the Club does not expect material reinsurance defaults. Furthermore, the Club does not expect material defaults from its Members' premium obligations.

Impact on Investment Operations

The Club's portfolio fell by 5% to the end of March as investment markets reacted to the implications of COVID-19. While this fall has now been recovered, the investment outlook remains volatile. The Club's investment policy means that assets and liabilities are matched by currency and duration, which helps mitigate risk in line with the Club's risk appetite. As the Club remains financially strong, it is able to retain its long-term approach to investments. Nevertheless, the outlook for future returns looks more muted than in recent years.

The Club maintains a large proportion of its assets in highly liquid asset classes. As such, it does not expect any material cash flow risk.

Impact on Capital Adequacy Requirements

The Club's strong financial position means that it has maintained its coverage of all its regulatory and rating requirements since year-end. The stress and scenario tests undertaken as part of the Club's ORSA process indicate that this position is likely to continue.

Impact on Going Concern

The Directors have performed an assessment of the expected impact of COVID-19 as part of the Club's ORSA process. As mentioned above, COVID-19 is not expected to materially impair the Club's ability to continue as a going concern.

Directors' Report

Directors

Chairman and President

N.G. Inglessis
Alberta Shipmanagement Ltd

Deputy Chairmen and Vice-Presidents

R. Chen
Wan Hai Lines Ltd

N.H. Schües
Reederei F. Laeisz GmbH

P.A. Wogan
GasLog Ltd

Other Statutory Directors

N.C. De Silva

R.C. Gillett

Y. Higurashi (elected May 2019)
NYK Line

N.H.H. Smith

A.J. Taylor

Messrs H.V. Franco and A.C. Margaronis retired from the Board on 4th July and 4th November 2019 respectively. The Board wishes to record its thanks for the contribution that they made to the work of the Board and the affairs of the Club.

Members' Committee

The Members' Committee comprises solely of elected representatives of the Members.

N.G. Inglessis (Chairman)
Alberta Shipmanagement Ltd

A. Shehab
Kuwait Oil Tanker Co SAK

E.N. Ambrosov
OAO Sovcomflot

P. Bagh
Oldendorff Carriers GmbH & Co, KG

H. Boudia
Hyproc Shipping Company

A. Chao
Foremost Group

R. Chen
Wan Hai Lines Ltd

A. Frangou
Navios Maritime Holdings Inc

A.M. Gibson
Royal Caribbean Cruises Ltd

I. Güngen
Güngen Maritime & Trading A/S

A. Hadjipateras
Dorian LPG

N.A. Hadjiyiannis
Hellenic Tankers Co Ltd

P. Hajioannou
Safe Bulkers, Inc

G. Henderson
Shell International Trading and Shipping Company Ltd

Y. Higurashi
NYK Line

E. Louis-Dreyfus
Louis Dreyfus Armateurs S.A.S

S. Messina
Gruppo Messina SpA

N. Mukae
Kumiai Senpaku Co., Ltd

M. Nomikos
A.M. Nomikos Transworld Maritime Agencies SA

D. Ofer
Zodiac Maritime Limited

M.H. Ross
Chevron Shipping LLC

N.H. Schües
Reederei F. Laeisz GmbH

N. Smedegaard
DFDS A/S

Sun Jiakang
China COSCO Shipping Corporation Limited

K. Takayama
JX Ocean Co Ltd

J.M. Valkier
Anthony Veder Group N.V

S.N. Vlassopoulos
Ionic Shipping (Management) Inc

M.R. Wade
Grindrod Shipping Holdings Ltd

Wang Yongxin
China Merchants Energy Shipping Co Ltd

P.A. Wogan
GasLog Ltd

Y.C. Yee
MISC Berhad

R. Zein
Naftomar Shipping and Trading Co Ltd

The following Members resigned from the Members' Committee since the last Annual General Meeting.

Messrs H.V. Franco, R.F. Figueiró, A.C. Margaronis and U. Schawohl

Directors' Report

Disclosure of Information to the Auditors

So far as each of the persons who are Directors at the time of this Report are aware, there is no relevant audit information of which the Association's auditors are unaware and the Directors confirm that they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

The Directors have appointed BDO LLP as auditor. BDO LLP has indicated its willingness to continue in office and a resolution will be proposed at the annual general meeting to reappoint BDO LLP as auditor for the next Financial Year.

Directors' Report Disclosures

The Association's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks arising from these financial instruments are credit risk, market risk, and insurance risk. The Association's approach to management of these risks is disclosed in Note 4 of the Financial Statements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report and Report of the Directors and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland').

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Association for that period. In preparing these Financial Statements, the Directors are required to:

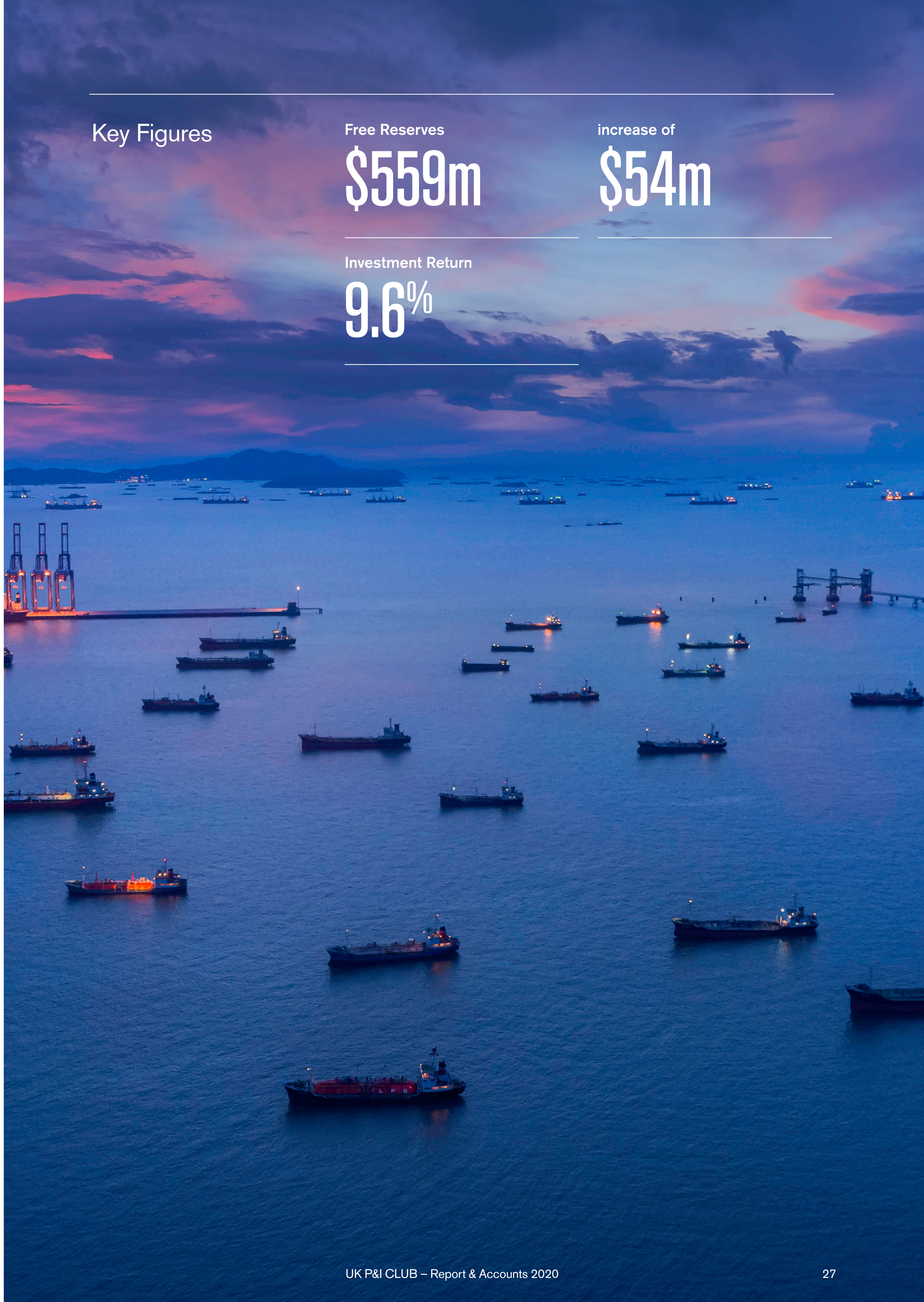
- select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors has effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Association against loss arising from any claim against them jointly or severally by reason of any wrongful act in their capacity as Directors or Officers of the Association. The cost of the insurance is included in net operating expenses.

Approved by the Board of Directors and signed on behalf of the Board.

K. P. Halpenny
Company Secretary
13 July 2020



Key Figures

Free Reserves
$559m

increase of
$54m

Investment Return
9.6%

Independent Auditor's Report to the Members of the United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Opinion

We have audited the Financial Statements of the United Kingdom Steam Ship Assurance Association (Europe) Limited ('The Association') and its subsidiaries (the 'Group') for the year ended 20th February 2020 which comprise the Consolidated Income and Expenditure Statement, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Financial Statements:

- Give a true and fair view of the state of the Group's and Association's affairs as at 20th February 2020 and of the Group's surplus for the year then ended; and
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our Report.

We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- The Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matter

Valuation of Technical Provisions and reinsurer's share of technical provisions

Valuation of Technical Provisions, both gross and net of reinsurance, is a key area of estimation within the Financial Statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions.

As per Note 10 and accountancy policy 2.5, the Association's Financial Statements record gross technical provisions of US$957.0m (2019 US$984.1m), and net technical provisions of US$71.2m (2019: US$76.5m). This is made up of individual case estimates and claims incurred but not yet reported ('IBNR').

IBNR modelling by internal actuarial experts is reliant on:

- Relevant claims data being input correctly into actuarial models.
- The application of appropriate actuarial techniques, judgements and assumptions.

There is particular risk in the reserving for:

- Occupational disease claims due to the high volatility of such claims.

Furthermore claim estimates are inherently uncertain and rely on:

- The expertise of the claims handlers and their experience of assessing claims in different jurisdictions and of different types.
- The correct and timely entry of claims information onto the claims system.
- Adjustments being made to significant year end estimates and payments being absorbed by the Association's assessment of IBNR.

The Association has a range of reinsurance placements, incorporating group quota share. pool excess of loss, non-pool cover and facultative covers.

The reinsurers' share of Technical Provisions is dependent on the correct valuation of gross reserves and the appropriate application of the portfolio of reinsurance agreements in place.

How Our Audit Addressed The Key Audit Matter

We performed the following:

Valuation of IBNR:

- Reconciled key actuarial inputs used in actuarial models to underwriting and accounting records;
- Engaged the BDO actuarial experts to assess the methodology, significant judgements and assumptions applied by the Association's actuarial team;
- Reviewed the outturn of prior years' claims IBNR against previous estimates, to assess IBNR held against the subsequent claims development.
- BDO's actuarial experts assessed the work of the Associations' actuaries, including their projections for occupational disease claims.
- BDO actuarial experts independently projected the ultimate claims figure using historical claims data and our own actuarial techniques.
- We have also reviewed post year end deterioration in claims experience as a result of COVID-19.

Valuation of Claim Estimates:

- Agreed all claim estimates above our performance materiality level to supporting documentation, to assess whether case estimates are valued appropriately.
- Reviewed the outturn of prior year's claims estimates against the previous year's position.

Cut-off of Case Reserves:

- Agreed claims estimate adjustments above performance materiality and payments either side of the year end to third party documentation and bank statements, to assess whether these adjustments and payments were accounted for in the correct period.

Valuation of Reinsurance Share of Technical Provisions:

- Recomputed recoveries on the Association's quota share reinsurance arrangements through application of the ceding percentage to the technical provisions subject to quota share based on the agreement; and
- Assessed the accuracy of the excess of loss reinsurance calculations through identification of claims eligible for recovery and recalculating the reinsurers share in line with the excess of loss reinsurance programme.

Key Observations

Based on our audit procedures we did not find any material misstatements in the technical provisions and reinsurance share of technical provisions.

Independent Auditor's Report to the Members of the United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Our Application of Materiality

In planning and performing our audit we were guided by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Group Financial Statements Materiality

The Group's Financial Statements materiality was set at US$10,000k (2019: $8,500k). The principal determinant in this assessment was the Group's net assets, which we consider to be the most relevant benchmark, as they indicate the the financial security of the Association, and hence the ability of for the Group to support the insurance needs of the Members.

Association Financial Statements Materiality

The Association's (parent company only) Financial Statements materiality was set at US$6,000k (2019: US$8,000k). The principal determinant in this assessment was the Association's gross written premiums, which we consider to be the most relevant benchmark, as it indicates the scale of the Association's underwriting.

Association Specific Materiality

The Association relies to a significant extent on quota share reinsurance with one its subsidiaries. This arrangement has the effect of transferring insurance premiums and claims to this group reinsurer. Due to the extent of this arrangement it was felt appropriate to set a lower level of materiality for Association (parent company) transactions and balances not affected by the group quota share reinsurance arrangements. The lower level of materiality has been based on net assets, as the key performance indicator for stakeholders is the economic stability of the Association. The materiality selected of US$4,500k (2019: US$3,800k) represents 2.0% of net assets.

Performance Materiality

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the Financial Statements as a whole. Based on the low level of misstatements in the past and our overall assessment of the control environment, the current year performance materiality levels for the Group and the Association has been set at 65% of Financial Statements materiality.

In the prior year performance materiality was assessed based on a basic, medium or high risk assertions, the percentages applied in the prior year were 65%, 55% and 45%, respectively. However, for the purpose of comparisons we have used 65% of financial statement materiality.

The Group's Financial Statements performance materiality was set at $6,500k (2019: $5,525k).

The Association's (parent company only) Financial Statements performance materiality was set at $3,900k (2019: $5,200).

The Association's specific performance materiality has been set at $2,900k (2019: $2,470k).

Triviality

We agreed with the Group Audit & Risk Committee that we shall report to them any misstatements in excess of US$300k (2019: US$400k) that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An Overview of the Scope of the Audit

Our audit approach was developed by obtaining an understanding of the Association's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Association's transactions and balances which were most likely to give risk to a material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of the valuation of technical provisions, which are subject to management judgement and estimation. All audit work was performed directly by the audit engagement team with the assistance of BDO actuarial experts.

Effectiveness of the Audit on the Identification of Possible Fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the Financial Statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the Financial Statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions. Our approach to the valuation of technical provisions and reinsurers' share of technical provisions has been addressed above.

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the Financial Statements from our sector experience and through discussion with the Directors and other management, as required by the auditing standards. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our tests included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management;
- Review of minutes of Board meetings throughout the period;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Review of correspondence with the PRA and FCA; and
- Review of the Association's ORSA and Internal Audit Reports.

Independent Auditor's Report to the Members of the United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited

Other Information

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

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are Required to Report by Exception

In the light of the knowledge and understanding of the Group and the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
- The Association's Financial Statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities on page 22, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other Matters on which we are Required to Address

The period of total uninterrupted engagement is greater than 20 years, covering to the year ending 20th February 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional Report to the Group Audit & Risk Committee.

Use of our Report

This Report is made solely to the Association's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's Members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's Members as a body, for our audit work, for this Report, or for the opinions we have formed.

Alexander Barnes
Senior Statutory Auditor

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

Financial Statements

Consolidated Statement of Income and Expenditure

As at 20th February 2020

Technical Account			
Amounts in $000	**Notes**	**2020**	**2019**
Income			
Gross premium earned	5	305,037	322,398
Outward reinsurance premiums	12	(60,386)	(64,860)
Net earned premium	12	244,651	257,538
Investment return transferred from the non-technical account	13	106,414	9,279
Other income		741	83
Total income		**351,806**	**266,900**
Expenses			
Net claims paid	10	(280,771)	(240,633)
Change in provision for claims	10	29,064	(10,308)
Net claims incurred		(251,707)	(250,941)
Net operating expenses	14	(43,724)	(43,654)
Total expenses		**(295,431)**	**(294,595)**
Balance on technical account		**56,375**	**(27,695)**

Non-Technical Account			
Amounts in $000	**Notes**	**2020**	**2019**
Balance on technical account		**56,375**	**(27,695)**
Net investment income	13	106,414	9,279
Investment return transferred to the technical account		(106,414)	(9,279)
Finance costs		-	(3,750)
Net surplus / (deficit) before taxation		**56,375**	**(31,445)**
Taxation	15	(1,974)	(950)
Total comprehensive Income / (loss) after tax		**54,401**	**(32,395)**

Consolidated Statement of Financial Position

As at 20th February 2020

Amounts in $000	**Notes**	**2020**	**2019**
Assets			
Financial investments	6	1,159,223	1,121,005
Derivative financial instruments (DR)	7	210	501
Reinsurers' share of technical provisions	10	145,044	142,709
Debtors	8	81,123	74,500
Cash and cash equivalents	9	146,837	166,698
Current income tax credit		-	697
Accrued interest		648	761
Total assets		**1,533,085**	**1,506,871**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		558,954	504,553
Other reserves		240	240
Total reserves		**559,194**	**504,793**
Liabilities			
Technical provisions	10	957,030	984,145
Derivative financial instruments (CR)	7	178	490
Creditors	11	16,261	17,443
Current income tax		422	-
Total liabilities		**973,891**	**1,002,078**
Total reserves and liabilities		**1,533,085**	**1,506,871**

The accompanying Notes are an integral part of the Financial Statements.

The consolidated Financial Statements were approved by the Board of Directors on 13 July 2020 and were signed on its behalf by:

N.Inglessis
Chairman

N.H. Schües
Director

A.J.Taylor
Manager

Parent Company Statement of Financial Position

For the year ended 20th February 2020

Amounts in $000	Notes	2020	2019
Assets			
Financial investments	6	71,493	156,117
Investment in subsidiaries	16	39,523	36,259
Reinsurance share of technical provisions	10	883,399	907,618
Debtors	8	148,856	69,792
Cash and cash equivalents	9	48,365	64,494
Current income tax		-	697
Accrued interest		49	259
Total assets		**1,191,685**	**1,235,236**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		93,525	97,500
Capital contribution		130,679	130,679
Total reserves		**224,204**	**228,179**
Liabilities			
Technical provision	10	954,622	984,145
Creditors	11	12,437	22,912
Current income tax		422	-
Total liabilities		**967,481**	1,007,057
Total reserves and liabilities		**1,191,685**	**1,235,236**

The parent company made a loss of $4.0m (2019: surplus $30.1m) on ordinary activities after tax for the year ended 20th February 2020.

The Association has taken exemption under Section 408 of the Companies' Act from preparing a Parent Company Statement of Income and Expenditure.

The parent company financial position was approved by the Board of Directors on 13 July 2020 and was signed on its behalf by:

N.Inglessis
Chairman

N.H. Schües
Director

A.J.Taylor
Manager

Companies House number: 00022215

Consolidated Statement of Changes in Equity

For the year ended 20th February 2020

	Attributable to members		
Amounts in $000	**Free reserves**	**Other reserves**	**Total**
Balance at 20th February 2018	**536,949**	**240**	**537,189**
Deficit for the year	(32,395)	-	(32,395)
Balance at 20th February 2019	**504,553**	**240**	**504,793**
Surplus for the year	54,401		54,401
Balance at 20th February 2020	**558,954**	**240**	**559,194**

Parent Company Statement of Changes in Equity

For the year ended 20th February 2020

	Attributable to members		
Amounts in $000	**Free reserves**	**Other reserves**	**Total**
Balance at 20th February 2018	**67,447**	**130,679**	**198,126**
Surplus for the year	30,053	-	30,053
Balance at 20th February 2019	**97,500**	**130,679**	**228,179**
Deficit for the year	(3,975)	-	(3,975)
Balance at 20th February 2020	**93,525**	**130,679**	**224,204**

Consolidated Statement of Cash Flows

For the year ended 20th February 2020

Amounts in $000	Notes	2020	2019
Operating activities			
Calls and premiums received		306,836	332,011
Receipts from reinsurance recoveries		24,366	33,471
Interest and dividends received		12,722	20,055
		343,924	**385,537**
Claims paid		306,210	271,065
Acquisition costs		19,434	20,309
Operating expenses paid		31,857	17,540
Reinsurance premiums paid		61,015	66,940
Taxation paid		855	4
		419,371	**375,858**
Net cash used in operating activities		**(75,447)**	**9,679**
Investing activities			
Purchase of investments		(157,860)	(634,206)
Sale of investments		213,071	737,737
Net cash provided by operating activities		**55,211**	**103,531**
Financing Activities			
Settlement of perpetual subordinated securities		-	(99,816)
Interest in perpetual subordinated securities		-	(3,752)
Net cash used in operating activities		**-**	**(103,568)**
Net (decrease)/increase in cash and cash equivalents		(20,236)	9,642
Effect of exchange rate fluctuations on cash and cash equivalents		375	812
Cash and cash equivalents at the beginning of the year	9	166,698	156,244
Cash and cash equivalents at the end of the year	**9**	**146,837**	**166,698**

The accompanying Notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 20th February 2020

1. General Information

The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ('the Association') is incorporated in United Kingdom as a company limited by guarantee and having a statutory reserve but not share capital. It is controlled by the Members who are also the insured policy holders.

The Association's registered address is 90 Fenchurch Street, London, EC3M 4ST United Kingdom and company number is 00022215.

The principal activities of the Association are the insurance and reinsurance of marine protection and indemnity risks on behalf of the Members. The liability of the Members is limited to the calls and supplementary premiums set by the Directors and, in the event of its liquidation, any net assets of the Association (including the Statutory Reserve) are to be returned equitably to those Members insured by it during the final five underwriting years.

These consolidated Financial Statements have been authorised for issue by the Board of Directors on 13 July 2020.

2. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to each of the years presented, unless otherwise stated.

2.1. Accounting Disclosures

The Financial Statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ('FRS') 102 – Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and FRS 103 – Insurance contracts issued by the Financial Reporting Council.

The Association has taken exemption from presenting a parent income and expenditure statement under section 408 of Companies Act 2006. The Association has taken exemption from presenting a parent Statement of Cash Flows under section 1.12(b) of FRS 102.

Basis of Consolidation

The consolidated Financial Statements incorporate the assets, liabilities and results of the Association and its subsidiary undertakings (per Note 16) drawn up to 20th February each year. Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated upon consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Association.

The Association accounts for its investment in Hydra as a special purpose entity. Hydra is registered in Bermuda as a segregated accounts Company under the Segregated Accounts Companies Act 2000, and reinsures International Group Clubs for a proportion of the pooled risk not covered by the International Group Reinsurance Programme. Each Club has its own segregated cell, wholly owned and funded by share capital, contributed surplus and premium income from the 'owning' Club, although the cells are not in themselves separate legal entities. The liabilities of each segregated cell are several and not joint; the assets of each cell may only be used to satisfy the liabilities of that cell and/or the 'owning' Club.

2.2. Foreign Currencies

Functional Currency Presentation

Terms included in the Financial Statements of the Association's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). This is considered to be US Dollar and has been selected on the basis that materially all of the Association's claims and expenses are paid in US Dollar, and the Association's main reinsurance contract with UKB (the Association's Bermudan subsidiary) is denominated in US Dollar.

Transactions and Balances

Revenue transactions in foreign currencies have been translated into US Dollar at rates revised at monthly intervals. All exchange gains and losses, whether realised or unrealised, are included in the non-technical account. Foreign currency assets and liabilities are translated into US Dollar at the rates of exchange ruling at the end of the reporting period. The resulting difference is included in foreign exchange gains and losses in the non-technical account.

Notes to the Financial Statements

For the year ended 20th February 2020

2.3. Gross Premiums Earned

Calls and premiums, including fronted business are presented net of return premiums and gross of commissions. They are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods.

2.4. Outward Reinsurance Premiums

As discussed in note 4.1 on underwriting risk management, the Club uses reinsurance to mitigate its exposure. Outward reinsurance premiums are the total payable in respect of excess of loss and quota share reinsurances for the period to which the relevant contracts relate.

Quota share reinsurance premiums with UKB are subject to an overriding commission in the form of an agreed discount, the rate of which is agreed for each policy year with UKB. The agreed discount is recognised in the Consolidated Statement of Income and Expenditure Account when corresponding reinsurance premiums are recognised.

The Club fronts on behalf of The International Transport Intermediaries Club ('ITIC'), a mutual insurance company for transport intermediaries. This business is 100% reinsured back to ITIC, so that the Club does not retain any of the risk.

2.5. Claims

These are the legal costs and expenses of the policyholders covered by the Association. They include all claims incurred during the year, whether paid, estimated or unreported, together with internal claims, management costs and future claims management costs and adjustments for claims outstanding from previous years.

Reinsurance recoveries represent recoveries made and due in respect of claims paid by the Association in the year. They include amounts recoverable under the Pooling Agreement and market reinsurance contracts.

Provision for Outstanding Claims

This provision represents the estimated cost of settling all claims (including internal and external claims settlement costs) arising from events which have occurred up to the date of the Statement of Financial Position. This includes a provision for claims incurred but not yet reported ('IBNR'). Occupational disease claims have a significant latency period and therefore the liability in respect of these claims is discounted. Details of the discount rates applied are disclosed in Note 10.

2.6. Financial Investments

The Association has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets. Investments in short-term deposit funds and the foreign exchange security deposit are designated in the Statement of Financial Position at fair value through profit and loss. Fair value is calculated using the bid price at the close of business on the Statement of Financial Position date.

The Association is required to categorise each asset under three different levels of hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

2.7. Investment Return

This comprises income received during the year adjusted in respect of interest receivable at the year end, and profits and losses on the sale of investments and gains and losses on closed forward currency contracts.

The unrealised gains and losses on the movement in the fair value of the investments are included in the non-technical account.

2.8. Derivatives Financial Instruments

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future operating expenses being payable in sterling. The forward currency contracts taken out to hedge against the future management fee payments have been designated as fair value hedges.

As a result, both the fair value of the contracts and the corresponding change in the value of the hedged item are shown on the Statement of Financial Position, with the gain or loss shown in the Statement of Income and Expenditure.

The fair values of various derivative instruments used for hedging purposes, and their associated unrecognised firm commitments, are disclosed in Note 7. They are classified as Level 2 assets in the fair value hierarchy described in Note 2.6.

2.9. Segment Reporting

The Board of Directors is responsible for making strategic decisions, including the allocation of resources and the performance assessment of the operating segments. Most business written by the Association relates to protection and indemnity risks of the Members. Internal reporting to the Board of Directors mainly covers this single segment and, consistent with internal reporting, segmental reporting by geography is presented in Note 5.

In the year to 20th February 2020, the Club began fronting professional indemnity business on behalf of ITIC, a mutual insurance company for transport intermediaries. This business is 100% reinsured back to ITIC, so that the Club does not retain any of the risk.

2.10. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term and other highly liquid investments with original maturity of three months or less from the date of acquisition.

2.11. Debtors

Debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and include Members' contributions, claims deductibles recoverable from Members and reinsurance receivables. Debtors are carried at cost less impairment. Debtors are reviewed for impairment as part of an ongoing and annual review.

2.12 Taxation (Current and Deferred)

The charge for taxation is shown in the consolidated income statement. The tax effects of carry forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

3. Critical Accounting Estimates and Judgements

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

3.1. The Ultimate Liability Arising From Claims Made Under Insurance Contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

The Association uses several statistical and standard actuarial techniques in order to estimate the ultimate cost of claims liabilities. These include Chain Ladder, Bornhuetter-Ferguson and other statistical/benchmarking techniques. Typically, these methods are based upon the underlying assumption that historical development is representative of future development, unless explicit adjustments are made.

The Association has some exposure to Occupational Disease ('OD') claims, which have a significant latency period of approximately 40 years from exposure. This makes the future cost of these claims particularly uncertain. The reserve has been set with reference to industry studies and the Association's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of OD claims.

The technical provisions at the year-end are disclosed in Note 10.

Notes to the Financial Statements

For the year ended 20th February 2020

4. Risk Management

This Note provides details of key risks that the Association is exposed to and explains its approach to identifying and managing these risks. The approach governed by a number of policies, in particular the risk management framework. It is implemented by various committees of the Board and the Managers and overseen by the Board's Group Audit & Risk Committee and the Manager's Risk Committee.

The risk management system includes a risk log, describing the risks faced by the Association; a risk appetite, describing the level of risk that the Association is willing to accept; an approved internal model, to help the Association evaluate and manage its risks; and a risk reporting framework to assist with the identification, mitigation and management of risks.

The key risks are described further in the following sections of this note. A number of sensitivity analyses are provided which show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is typically a dependency between the assumption tested and other factors, which could have a material impact on the effects identified.

4.1. Insurance Risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when insurance contracts were priced and written. As an insurer, this is the principal risk that the Association faces. It is usefully considered as two sub-risks which are considered separately below.

Underwriting Risk

This is the risk that, for the Association's future insurance obligations, premiums are inadequate to cover the associated claims and expenses. As the Association has a small amount of unexpired risk at the date of the Statement of Financial Position, underwriting risk is not material to this set of Financial Statements. However, as a going concern which continues to write new business, it poses a significant risk to the evolution of the Association's financial position over time.

Underwriting 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 using the Association's internal model, undertaken as part of the ORSA process.

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

- The Association is a P&I insurer and has provided broadly the same cover for many years. During the year to 20th February 2020, the Association began fronting professional indemnity business for ITIC, a mutual insurance company for transport intermediaries. This business is 100% reinsured back to ITIC, so that the Club does not retain any of the risk.
- The Boards and Members' Committee of the Association include representatives from a representative section of the shipping community. This provides 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 Club's reinsurance programme in accordance with its reinsurance policy. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, the International Group Pooling agreement and reinsurance of claims within the claims retained by the Association within the Pool deductible. Fronted business on behalf of ITIC is 100% reinsured back to ITIC, so that the Club does not retain any of the risk.

The excess of loss reinsurance cover purchased jointly with other members of the International Group provides cover for large claims arising from mutual business. The International Group Pooling agreement provides a sharing of claims costs between thirteen member Clubs. More information on the International Group is available on its website: www.igpandi.org.

Reserve Risk

This is the risk that the Association's existing insurance obligations are undervalued. This is a key risk for the Association as the reserves for unpaid losses represent the largest component of the Association's liabilities and are inherently uncertain. 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 standard actuarial techniques and assumptions as discussed in Note 3.1. In order to minimise the risk of understating these provisions the data, assumptions made and actuarial techniques employed are reviewed in detail by management and the Group Audit and Risk Committee.

Actual experience is monitored against expectations at regular Finance and Reserving Committee meetings to provide early warnings of adverse experience

Sensitivity Tests to Loss Ratio Assumptions

The sensitivity tests set out below, indicate the impact on the surplus before tax and equity, of a 5% increase in the gross and net claims liabilities. All other assumptions are assumed to remain constant. Results would be equal and opposite for a 5% decrease.

Consolidated

Amounts in US$000s	2020	2019
Increase in loss ratio by 5%		
Gross	(15,257)	(16,120)
Net	(12,233)	(12,877)

Parent

Amounts in US$000s	2020	2019
Increase in loss ratio by 5%		
Gross	(15,238)	(16,120)
Net	(2,909)	(3,160)

4.2. Market Risk

Market risk is the risk that the fair value, or future cash flows of a financial instrument, will fluctuate because of changes in market prices. As most of the Association's assets are invested in financial instruments, this is a key risk for the Association. As a simple example, a 5% reduction in the valuation of all financial investments (including UCITS) would reduce the free reserves by approximately $62 million (2019: $59 million), assuming all other assumptions were unaffected.

Investment Management

Market risk is managed via the Association's investment policy, which requires that investments are 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; and
- 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 and tolerances set by an Investment Mandate. The Mandate is considered and approved by the Board on an annual basis and ad hoc as required. The Board's Investment Committee regularly monitors the performance of the Investment Managers and risk/return profile of the portfolio.

Foreign currency risk and interest rate risk are key drivers of market risk and are discussed further below. Credit risk on financial investments and cash is covered in the credit risk section of this note.

Notes to the Financial Statements

For the year ended 20th February 2020

Foreign Currency Risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Association. The Association is exposed to this risk through its liabilities in non-US Dollar currencies. In order to manage this risk, the Association matches assets to liabilities for each of its main currencies (Sterling and Euro). The split of assets and liabilities for each of the Association's main currencies, converted to US Dollar, is set out in the tables below:

Consolidated

Amounts in $000	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
2020					
Total Assets	1,339,770	136,339	55,894	904	**1,532,907**
Total Liabilities	(734,854)	(88,216)	(79,752)	(70,891)	**(973,713)**
Net assets	**604,916**	**48,123**	**(23,858)**	**(69,987)**	**559,194**
2019					
Total Assets	1,311,727	126,887	60,536	7,232	**1,506,382**
Total Liabilities	(759,626)	(85,503)	(82,831)	(73,629)	**(1,001,588)**
Net assets	**552,100**	**41,384**	**(22,295)**	**(66,397)**	**504,793**

Parent

Amounts in $000	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
2020					
Total Assets	1,161,510	28,289	1,886	-	**1,191,685**
Total Liabilities	(745,325)	(71,531)	(79,742)	(70,883)	**(967,481)**
Net assets	**416,185**	**(43,243)**	**(77,856)**	**(70,883)**	**224,204**
2019					
Total Assets	1,201,205	29,264	1,459	3,309	**1,235,237**
Total Liabilities	(790,099)	(96,536)	(78,094)	(42,328)	**(1,007,057)**
Net assets	**411,106**	**(67,272)**	**(76,635)**	**(39,019)**	**228,179**

Sensitivity to exchange rate movements

A 5% strengthening of the following currencies against the US dollar would be estimated to have increased/(decreased) the surplus before tax and free reserves at the year-end by the following amounts:

	Consolidated		*Parent*	
	Restated		*Restated*	
Amounts in US$000s	**2020**	**2019**	**2020**	**2019**
Impact of strengthening currencies by 5%				
Sterling	2,406	2,069	(2,162)	(3,364)
Euro	(1,192)	(1,115)	(3,893)	(3,832)

A 5% weakening of these currencies against the US dollar would have an equal and opposite effect.

Interest Rate Risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Association is exposed to interest rate risk through its investment assets and its discounted occupational disease liabilities. The sensitivity of the price of these financial exposures is indicated by their respective durations. The greater the duration of a security, the greater the possible price volatility.

The Association manages its interest rate risk by holding assets of a similar duration profile to its insurance liabilities. This will help to manage the underlying economic position of the Association along with its regulatory solvency position.

Sensitivity to interest rates

The sensitivity of the Association's free reserves to a 100 basis point increase in interest rates (across all terms) is illustrated in the table below.

	Consolidated		*Parent*	
Amounts in US$000s	**2020**	**2019**	**2020**	**2019**
1% increase				
Assets	(37,433)	(43,079)	(4,576)	(10,460)
Liabilities	7,935	6,927	794	693
Net impact	(29,498)	(36,152)	(3,782)	(9,767)
1% decrease				
Assets	42,424	48,050	5,290	11,709
Liabilities	(9,465)	(8,237)	(947)	(824)
Net impact	32,959	39,813	4,343	10,885

4.3. Credit Risk

Credit risk is the risk of loss in the value of the Association's financial assets (investments, reinsurance recoveries and other debtors) due to counterparties failing to meet all or part of their obligations.

In order to manage this risk the Boards consider 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.

The investment policy manages the risk of default by investing predominantly in high quality bonds and ensuring a broad diversification of holdings. The policy allows for a limited investment in equities, the majority of investments being in fixed interest securities and cash. Within these, most investments are at least A-rated with many relating to government or supranational bodies.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings. The credit rating bands are provided by independent ratings agencies.

Consolidated

Amounts in US$000s	**AAA**	**AA**	**A**	**Not readily available/ not rated**	**Total**
2020					
Financial investments	226,539	252,861	200,000	479,823	**1,159,223**
Cash and cash equivalents	75,110	-	71,727	-	**146,837**
Derivative financial instruments	-	-	32	-	**32**
Debtors	-	-	-	81,123	**81,123**
Reinsurer share of technical provisions	-	20,664	108,580	15,800	**145,044**
Other	-	-	648	-	**648**
Total	**301,649**	**273,525**	**380,987**	**576,746**	**1,532,907**
2019					**Restated**
Financial investments	227,170	305,037	205,385	383,413	**1,121,005**
Cash and cash equivalents	49,250	-	114,188	3,260	**166,698**
Derivative financial instruments	-	-	11	-	**11**
Debtors	-	-	-	75,197	**75,197**
Reinsurers share of technical provisions	-	16,268	108,252	18,189	**142,709**
Other	-	-	761	-	**761**
Total	**276,420**	**321,305**	**428,597**	**480,059**	**1,506,381**

Restated to show derivatives on a net basis.

Parent

Amounts in US$000s	**AAA**	**AA**	**A**	**Not readily available/ not rated**	**Total**
2020					
Financial investments	7,058	42,386	-	22,049	**71,493**
Cash and cash equivalents	890	-	47,475	-	**48,365**
Investment in subsidiaries	-	-	39,523	-	**39,523**
Debtors	-	-	-	148,856	**148,856**
Reinsurance share of technical provisions	-	115,826	658,653	108,920	**883,399**
Other	-	-	49	-	**49**
Total	**7,948**	**158,212**	**745,700**	**279,825**	**1,191,685**
2019					**Restated**
Financial investments	49,694	63,432	16,498	26,493	**156,117**
Cash and cash equivalents	5,679	-	58,815	-	**64,494**
Investment in subsidiaries			36,259		**36,259**
Debtors		-	-	70,489	**70,489**
Reinsurance share of technical provisions	687	94,714	687,853	124,364	**907,618**
Other	-	-	259	**-**	**259**
Total	**56,060**	**158,146**	**799,684**	**221,346**	**1,235,236**

Restated - Investment in subsidiaries has been added in for completeness.

Notes to the Financial Statements

For the year ended 20th February 2020

4.4. Liquidity Risk

Liquidity risk is the risk that cash may not be available to settle obligations as they fall due. To manage this risk, the Association monitors cash balances on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

Over the longer term, the Association has adopted an investment policy which requires the maintenance of significant holdings in liquid, short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the Association's financial assets in the Statement of Financial Position.

Consolidated

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2020						
Financial investments	338,004	127,840	38,501	352,473	302,405	**1,159,223**
Cash and cash equivalents	146,837	-	-	-	-	**146,837**
Net derivative financial instruments	-	32	-	-	-	**32**
Debtors	8,294	72,829	-	-	-	**81,123**
Reinsurers' share of technical provisions	-	42,746	26,727	39,626	35,945	**145,044**
Other	648	-	-	-	-	**648**
Total	**493,783**	**243,447**	**65,228**	**392,099**	**338,350**	**1,532,907**
2019						**Restated**
Financial investments	292,564	171	120,936	310,646	396,688	**1,121,005**
Cash and cash equivalents	166,698	-	-	-	-	**166,698**
Net derivative financial instruments	0	11	-	-	-	**11**
Debtors	10,616	64,581	-	-	-	**75,197**
Reinsurers' share of technical provisions	-	39,368	26,175	39,739	37,427	**142,709**
Other	761	-	-	-	-	**761**
Total	**470,639**	**104,131**	**147,111**	**350,385**	**434,115**	**1,506,381**

Restated Financial investments breakdown between 2-5 and over 5 years.

Parent

Amounts in US$000s	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2020						
Financial investments	-	-	-	14,558	56,935	**71,493**
Cash and cash equivalents	48,365	-	-	-	-	**48,365**
Investment in subsidiaries	39,523	-	-	-	-	**39,523**
Debtors	8,851	140,005	-	-	-	**148,856**
Reinsurance share of technical provisions	-	243,054	167,299	248,045	225,001	**883,399**
Other	49	-	-	-	-	**49**
Total	**96,788**	**383,059**	**167,299**	**262,603**	**281,936**	**1,191,685**
2019						
Financial investments	-	-	-	28,327	127,790	**156,117**
Cash and cash equivalents	64,494	-	-	-	-	**64,494**
Investment in subsidiaries	36,259	-	-	-	-	**36,259**
Debtors	10,616	59,873	-	-	-	**70,489**
Reinsurance share of technical provisions	-	249,647	166,656	253,016	238,299	**907,618**
Other	259	-	-	-	-	**259**
Total	**111,628**	**309,520**	**166,656**	**281,343**	**366,089**	**1,235,236**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

Consolidated

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2020					
Gross outstanding claims	(274,315)	(178,369)	(264,457)	(239,889)	**(957,030)**
Other liabilities	(16,683)	-	-	-	**(16,683)**
Total	**(290,998)**	**(178,369)**	**(264,457)**	**(239,889)**	**(973,713)**
2019					
Gross outstanding claims	(271,249)	(180,568)	(274,137)	(258,191)	**(984,145)**
Other liabilities	(17,443)	-	-	-	**(17,443)**
Total	**(288,692)**	**(180,568)**	**(274,137)**	**(258,191)**	**(1,001,588)**

Notes to the Financial Statements

For the year ended 20th February 2020

Parent

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2020					
Gross outstanding claims	(274,130)	(177,788)	(263,596)	(239,108)	**(954,622)**
Other liabilities	(12,859)	-	-	-	**(12,859)**
Total	**(286,989)**	**(177,788)**	**(263,596)**	**(239,108)**	**(967,481)**
2019					
Gross outstanding claims	(271,249)	(180,568)	(274,137)	(258,191)	**(984,145)**
Other liabilities	(22,912)	-	-	-	**(22,912)**
Total	**(294,161)**	**(180,568)**	**(274,137)**	**(258,191)**	**(1,007,057)**

4.5. Operational Risk

Operational risk is the potential for loss arising from the failure of people, processes, systems or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of the Association.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. These processes are documented, and compliance is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Group Audit and Risk Committee.

4.6. Capital Management

The Association's objective is to maintain sufficient capital to ensure it is able to continue to meet regulatory requirements and maintain an 'A' rating with Standard and Poor's.

The Association's continues to be regulated in the United Kingdom by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA'). Under the Solvency II regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 percent confidence level of solvency over one-year time frame. Throughout the period the Association complied with the regulator's capital requirements and the requirements in the other countries in which it operates.

The Association monitors available capital and its funding structure in the light of the prevailing economic environment, the risk associated with its asset holdings, and regulatory developments impacting on the Association. The Association's Internal Model is a key tool used for capital management and other business decision-making purposes.

5. Segmental Information

The UK Club provides protection and indemnity risk cover to its Members in respect of ships at sea, trading all over the World. Consequently, the Association only reports on this single segment and it is not feasible to report on other risk or geographical concentrations.

The entity is domiciled in the United Kingdom. A breakdown of revenue by the country in which a Member is located is provided below.

Amounts in US$000	2020	2019
USA	63,144	66,788
Greece	63,267	65,656
Japan	33,189	38,032
Germany	25,716	28,889
United Kingdom	13,132	10,597
China	18,733	19,154
Other[1]	87,856	93,282
Total	**305,037**	**322,398**

[1]In the year to 20th February 2020, the UK Club fronted $2.8 million of professional indemnity business for ITIC, a mutual insurance company for transport intermediaries. This business is 100% reinsured back to ITIC, so that the Club does not retain any of the risk.

6. Financial Investments

All financial investments have been designated as held at fair value through profit or loss and categorised, as described in Note 2.6. This is illustrated in the following tables for the Association and the Parent company respectively.

Consolidated

Amounts in USD '000s	Level 1	Level 2	Level 3	Total
As at 20 Feb 2020				
Debt securities	831,849	-	-	831,849
Equity securities & Absolute return funds	249,743	-	32,501	282,244
Alternative investments	-	45,130	-	45,130
Total	**1,081,592**	**45,130**	**32,501**	**1,159,223**
As at 20 Feb 2019				
Debt securities	828,441		-	828,441
Equity securities & Absolute return funds	225,627	-	28,428	254,055
Alternative investments	-	38,509	-	38,509
Total	**1,054,068**	**38,509**	**28,428**	**1,121,005**

Parent

Amounts in USD '000s	Level 1	Level 2	Level 3	Total
As at 20 Feb 2020				
Debt securities	71,493	-	-	71,493
Total	**71,493**	**-**	**-**	**71,493**
As at 20 Feb 2019				
Debt securities	156,117		-	156,117
Total	**156,117**	**-**	**-**	**156,117**

The movement in the Association's financial investments is summarised in the following table.

Consolidated

Amounts in USD '000s	Total
As at 20 Feb 2018	**1,236,614**
Additions	634,206
Disposals	(756,348)
Fair value movements recognised in Income Statement	6,533
As at 20 Feb 2019	**1,121,005**
Additions	157,484
Disposals	(213,071)
Fair value movements recognised in Income Statement	**93,805**
As at 20 Feb 2020	**1,159,223**

Parent

Amounts in USD '000s	Total
As at 20 Feb 2018	**211,404**
Additions	46,456
Disposals	(101,266)
Fair value movements recognised in Income Statement	(477)
As at 20 Feb 2019	**156,117**
Additions	-
Disposals	(92,750)
Fair value movements recognised in Income Statement	8,126
As at 20 Feb 2020	**71,493**

The Association's financial investments are summarised below by measurement category:

Consolidated

	Market value		*Cost value*	
	2020	**2019**	**2020**	**2019**
Held at fair value through profit and loss:				
Debt securities	831,849	828,441	798,595	823,034
Equity securities & Absolute return funds	282,244	254,055	202,650	216,329
Alternative investments	45,130	38,509	33,223	32,921
Financial assets held at fair value through profit and loss	**1,159,223**	**1,121,005**	**1,034,468**	**1,072,284**

Parent

	Market value		*Cost value*	
	2020	**2019**	**2020**	**2019**
Held at fair value through profit and loss:				
Debt securities	71,493	156,117	66,423	154,780
Financial assets held at fair value through profit and loss	**71,493**	**156,117**	**66,423**	**154,780**

7. Derivative Financial Investments

As described in Note 2.8, the forward currency contracts taken out to hedge against the future management fee payments have been designated as fair value hedges. They are all held by UKB.

The table below analyses all derivative positions where hedging instruments are represented by forward currency contracts and the hedged item is represented by the currency portion of future management fee payments that are classified as unrecognised firm commitments.

Forward currency contracts		2020			2019	
Amounts in US$000	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**
Hedged item	36,429	210	-	58,788		(490)
Hedging instrument	36,429	-	(178)	58,788	501	-
Total		**210**	**(178)**		**501**	**(490)**

8. Debtors

	Consolidated		*Parent*	
Amounts in US$000s	**2020**	**2019**	**2020**	**2019**
Insurance receivables:				
- Due from contract holders	65,374	67,793	62,907	67,793
- Less provision for doubtful debts	(1,375)	(4,164)	(1,375)	(4,164)
	63,999	**63,629**	**61,532**	**63,629**
Insurance receivable due from reinsurers	6,427	2,597	5,827	1,706
Total insurance receivables	**70,426**	**66,226**	**67,359**	**65,335**
Other debtors				
- Prepayments	351	506	269	418
- Sundry debtors	10,346	7,768	6,223	4,039
- Intercompany debtors	-	-	75,005	0
	10,697	**8,274**	**81,497**	**4,457**
Total debtors	**81,123**	**74,500**	**148,856**	**69,792**

All debtors are current.

There is no material concentration of credit risk with respect to the debtors' balance, as the Association has a large number of internationally dispersed debtors.

Notes to the Financial Statements

For the year ended 20th February 2020

9. Cash and Cash Equivalents

	Consolidated		*Parent*	
Amounts in US$000	**2020**	**2019**	**2020**	**2019**
Cash at bank and in hand	66,707	114,188	46,980	58,814
Short-term bank deposits	80,130	52,510	1,385	5,680
Total	**146,837**	**166,698**	**48,365**	**64,494**

10. Technical Provisions

	Consolidated		*Parent*	
Amounts in US$000	**2020**	**2019**	**2020**	**2019**
Gross outstanding claims	(954,622)	(983,165)	(954,622)	(983,165)
Provision for unearned premium	(2,408)	(980)	-	(980)
Technical provisions	**(957,030)**	**(984,145)**	**(954,622)**	**(984,145)**
Reinsurer's share of gross outstanding claims	143,041	142,519	882,902	906,931
Provision for unearned reinsurance premium	2,003	190	497	687
Reinsurers' share of technical provisions	**145,044**	**142,709**	**883,399**	**907,618**
Total insurance liabilities, net	**(811,986)**	**(841,436)**	**(71,223)**	**(76,527)**

Claims outstanding includes provision for IBNR claims which is established as discussed in note 3.1. This includes an amount for Occupational Disease ('OD') claims amounting to a discounted value of $81.4 million (2019: $73.2 million). The discount rate of 2% (2019: 3%) is based on A and AA rated corporate bonds. Following the year end, the Club entered into a reinsurance agreement with Randall & Quilter ('R&Q') to cover these OD liabilities, with a view to transferring them to R&Q over the next two years.

10.1. Claims Development Tables

The tables below show the development of claims over a period of time on a gross and net of reinsurance basis. The top half of each table illustrates how the total claims (notified and IBNR) for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated Statement of Financial Position.

Gross Claims

Amounts in US$000 reporting year	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
- End of reporting year	311,727	241,341	275,765	318,428	250,715	275,552	250,572	282,111	277,372	240,638
- One year later	358,772	226,792	250,196	352,655	222,257	264,873	248,028	291,969	268,472	-
- Two years later	369,809	203,056	280,149	351,505	217,452	273,145	243,901	320,782	-	-
- Three years later	338,941	209,870	277,805	342,653	216,207	270,602	233,917	-	-	-
- Four years later	314,882	201,804	257,140	363,527	218,077	249,056	-	-	-	-
- Five years later	309,257	201,259	251,468	359,243	214,063	-	-	-	-	-
- Six years later	287,328	200,641	249,415	361,489	-	-	-	-	-	-
- Seven years later	286,951	201,979	245,328	-	-	-	-	-	-	-
- Eight years later	291,155	199,613	-	-	-	-	-	-	-	-
- Nine years later	288,277	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims	288,277	199,613	245,328	362,489	214,063	249,056	233,917	320,782	268,472	240,638
Cumulative payments to date	269,493	192,717	238,083	330,631	187,111	170,678	165,667	160,901	105,767	48,591
Liability recognised in the consolidated statement of Financial Position	18,784	6,896	7,245	30,858	26,952	78,378	68,250	159,881	162,705	192,047
Total liability relating to last ten policy years										751,996
Other claims liabilities										202,626
Total reserves excluding UPR in the Consolidated Statement of Financial Position										**954,622**

Notes to the Financial Statements

For the year ended 20th February 2020

Net Claims

Amounts in US$000 reporting year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
- End of reporting year	273,754	236,292	271,408	281,504	250,718	233,062	250,534	249,392	265,000	236,600
- One year later	257,209	207,605	251,787	280,894	222,322	222,591	229,582	233,541	263,693	-
- Two years later	253,353	191,576	252,845	271,002	217,495	212,539	221,229	244,924	-	-
- Three years later	232,102	189,979	248,843	267,683	215,170	206,578	212,509	-	-	-
- Four years later	219,291	181,884	238,469	261,518	214,761	202,065	-	-	-	-
- Five years later	214,684	180,605	235,608	256,453	210,442	-	-	-	-	-
- Six years later	212,669	179,986	234,155	260,163	-	-	-	-	-	-
- Seven years later	212,314	180,795	232,077	-	-	-	-	-	-	-
- Eight years later	214,223	178,950	-	-	-	-	-	-	-	-
- Nine years later	211,491	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims	211,491	178,950	232,077	260,163	210,442	202,065	212,509	244,924	263,693	232,600
Cumulative payments to date	199,623	172,298	222,231	246,740	185,927	162,487	153,693	148,105	105,607	48,382
Liability recognised in the consolidated statement of Financial Position	11,868	6,652	9,846	13,423	24,515	39,578	58,816	96,819	158,086	184,218
Total liability relating to last ten policy years										603,821
Other claims liabilities										207,760
Total reserves excluding UPR in the Consolidated Statement of Financial Position										**811,581**

10.2. Movement in Insurance Liabilities and Reinsurance Assets

Consolidated

Amounts in US$000		2020			2019	
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**(983,165)**	**142,519**	**(840,646)**	**(985,256)**	**154,918**	**(830,338)**
Cash paid for claims settled in the year	308,965	(28,194)	280,771	265,163	(24,530)	240,633
Claims incurred in the current year	(280,422)	28,716	(251,706)	(263,072)	12,131	(250,941)
Outstanding claims carried forward	**(954,622)**	**143,041**	**(811,581)**	**(983,165)**	**142,519**	**(840,646)**

Parent

Amounts in US$000		2020			2019	
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**(983,165)**	**906,931**	**(76,234)**	**(985,256)**	**909,943**	**(75,313)**
Cash paid for claims settled in the year	308,965	280,447	28,518	265,163	(241,839)	23,324
Claims incurred in the current year	280,422	256,417	(24,005)	(263,072)	238,827	(24,245)
Outstanding claims carried forward	**(954,622)**	**882,901**	**(71,721)**	**(983,165)**	**906,931**	**(76,234)**

11. Creditors

	Consolidated		*Parent*	
Amounts in US$000s	**2020**	**2019**	**2020**	**2019**
Reinsurance premium payable	6,734	5,550	5,600	5,615
Claims payable	6,490	5,956	6,348	5,829
Trade payables and accrued expenses	3,037	5,937	489	5,436
Intercompany creditors	-	-	-	6,032
Total	**16,261**	**17,443**	**12,437**	**22,912**

The fair value of these balances approximates their carrying value.

For the year ended 20th February 2020

12. Net Earned Premium

Amounts in US$000	2020	2019
Mutual		
Mutual premium	273,844	285,649
Return premium	(1,286)	(1,535)
Release charges	3,893	229
Other premium	193	195
	276,644	**284,538**
Fixed premium		
Chartered vessels	21,641	30,160
Owned vessels	8,180	7,700
	29,821	**37,860**
Gross written premium	**306,465**	**322,398**
Change in unearned premium provision	(1,428)	
Gross earned premium	**305,037**	**322,398**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(37,543)	(41,830)
Other market reinsurance	(22,265)	(22,835)
Other reinsurance premium	(2,391)	(195)
	(62,199)	**(64,860)**
Change in unearned reinsurance premium provision	1,813	-
Total premium ceded to reinsurers	**(60,386)**	**(64,860)**
Net insurance premium (before discounts)	**244,651**	**257,538**
Mutual premium discount	**-**	**-**
Total earned premium	**244,651**	**257,538**

13. Investment Return

Year ending Feb 2020	Income	Net Realised Gains/(loss)	Net Unrealised Gains	Total Investment Return
Equity securities	11,412	4,817	38,282	**54,511**
Debt securities	17,512	9,033	34,989	**61,534**
Cash and cash equivalents	848	-	-	**848**
Other investment charges	(10,479)	-	-	**(10,479)**
Total Net Investment Return	**19,293**	**13,850**	**73,271**	**106,414**

Year ending Feb 2020	Income	Net Realised Gains/(loss)	Net Unrealised Gains	Total Investment Return
Equity securities	25,034	284	3,208	**28,526**
Debt securities	5,421	(1,050)	(13,709)	**(9,337)**
Cash and cash equivalents	772	-	-	**772**
Other investment charges	(10,681)	-	-	**(10,681)**
Total Net Investment Return	**20,546**	**(766)**	**(10,501)**	**9,279**

The unrealised gains and losses on the movement in the fair value of the investments are included in the non-technical account.

14. Net Operating Expenses

Amounts in US$000	2020	2019
Acquisition costs	19,434	20,309
Residual management fee	12,078	12,307
Directors' meetings	1,524	1,502
Directors' fees	963	934
Managers/agent travel	1,050	286
Sales and marketing	1,204	1,012
Legal and professional expenses	848	1,399
Bank and financial expenses	398	543
Loss prevention and ship inspection initiatives	805	671
Audit fee	667	541
Other expenses	4,753	4,150
Total operating expenses	**43,724**	**43,654**

The management fee is agreed on an annual basis and covers the cost of managing the Association. All fees payable are charged to the income statement in the period they relate to.

Average Expense Ration

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

The operating expenses include all expenditure incurred in operating the Association, excluding expenditure incurred in dealing with claims. The premium income includes all premiums and calls. The investment return includes all income and gains whether realised or unrealised, exchange gains and losses less tax, custodial fees and internal and external investment management costs.

For the five years ended 20th February 2020, the ratio of 11.28 (2019: 11.09) has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant Financial Statements.

15. Tax on Income

Amounts in US$000	2020	2019
Current taxes on income for the reporting period		
Net adjustment in respect of current and prior periods	(1,342)	(676)
Overseas taxation	(632)	(274)
Total income tax expense	**(1,974)**	**(950)**

The average applicable tax rate over five years was 7.5 percent (2019: 7.8 percent (restated)).

Notes to the Financial Statements

For the year ended 20th February 2020

Tax on the Association's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Amounts in US$000	2020	2019
Surplus/(Deficit) before tax	56,375	(31,445)
Tax at 19% (2019 at 19%)	(10,711)	5,975
- Portion of investment income not subject to taxation		
Non-taxable transactions	8,737	(6,925)
Total	**(1,974)**	**(950)**

The Corporation Tax main rate remains at 19% for the year starting 1st April 2020.

16. Related Party Transactions

Name	Country of incorporation	Nature of business	Proportion of shareholding	Address
International P&I Reinsurance Company Limited	Isle of Man	Not trading	100 percent	Samuel Harris House 5-11 St. George's Street Douglas IM1 1AJ Isle of Man
The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited	Bermuda	Reinsurance	100 percent	Victoria Place, 5th Floor 31 Victoria Street Hamilton HM 10 Bermuda
Hydra Insurance Company Limited	Bermuda	Reinsurance	100 percent of owned cell	Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda
The United Kingdom Mutual Steam Ship Assurance Association (London) Limited	United Kingdom	Insurance	100 percent	90 Fenchurch Street London EC3M 4ST United Kingdom
UK P&I Club N.V.	Netherlands	Insurance	100 percent	Wilhelminakade 953A 372 AP Rotterdam

UKNV and UKL investment in subsidiaries are $36.3 million and $3.3m respectively.

The Association has no share capital and is controlled by the Members who are also the insured. The insurance transactions are deemed to be between related parties but these are the only transactions between the Association and the Members.

All of the Directors (except two who are Bermuda residents) are representatives or agents of member companies and other than the insurance and membership interests of the Directors' companies, the Directors have no financial interests in the Association. However, they do receive fees in respect of their roles, which are included in the Club's operational expenses.

Amounts in US$000	2020	2019
Key management compensation		
Short term employee benefits - Directors' fees	963	934

Thomas Miller (Europe) Limited provides management services to the Association. This company is a subsidiary of Thomas Miller Holdings Limited in which the Association holds an investment of $32.5 million. The Association has a contract with Thomas Miller (Europe) Limited which contains a one year termination clause.

The Association has taken an exemption under section 479a of the Companies' Act not to disclose related party transaction within the Group.

17. Employees

The Group directly employs 6 (2019 -11) members of staff based in Japan in respect of its Japanese branch.

18. Events After the Reporting Period

COVID-19

Impact on Insurance Operations

COVID-19 emerged in December 2019, and was classified as a global pandemic in March 2020. With the Club's year-end date being 20 February 2020, it is expected to have a very limited impact on the technical provisions, the most critical accounting estimate in the Financial Statements. As a result the emergence of COVID-19 is considered to be a non-adjusting event after the end of the reporting period, given that the event is indicative of conditions that arose after the end of the reporting period.

Since the year-end, the Club's Managers adopted remote working practices in all offices in line with local guidelines. However, all operations have continued without interruption or detriment to service.

The Club has seen an increase in the number of illness claims but, at this very early stage, the amounts are not material and it is very difficult to determine what the final outcome will be. COVID-19 is having a negative impact on World trade and shipping volumes – based on historical experience, the Club might expect a corresponding reduction in claims activity but, again, it is too early to ascertain eventual outcomes.

In line with its reinsurance policy, the Club's reinsurance programme is well diversified and placed with at least A- rated reinsurers. Consequently, the Club does not expect material reinsurance defaults. Furthermore, the Club does not expect material defaults from its Members' premium obligations.

Impact on Investment Operations

The Club's portfolio fell by 5% to the end of March as investment markets reacted to the implications of COVID-19. While this fall has now been recovered, the investment outlook remains volatile. The Club's investment policy means that assets and liabilities are matched by currency and duration, which helps mitigate risk in line with the Club's risk appetite. As the Club remains financially strong, it is able to retain its long-term approach to investments. Nevertheless, the outlook for future returns looks more muted than in recent years.

The Club maintains a large proportion of its assets in highly liquid asset classes. As such, it does not expect any material cash flow risk.

Impact on Capital Adequacy Requirements

The Club's strong financial position means that it has maintained its coverage of all its regulatory and rating requirements since year-end. The stress and scenario tests undertaken as part of the Club's ORSA process indicate that this position is likely to continue.

Impact on Going Concern

The Directors have performed an assessment of the expected impact of COVID-19 as part of the Club's ORSA process.

Notes to the Financial Statements

For the year ended 20th February 2020

As mentioned above, COVID-19 is not expected to materially impair the Club's ability to continue as a going concern.

Occupational Disease Arrangements With Randall & Quilter

Following the year-end, on 27th February 2020, an arrangement was reached with an external insurer, Randall and Quilter (R&Q) in respect of the Club's occupational disease claims. This arrangement comes in two distinct parts:

- UK Europe entered into a reinsurance contract with subsidiaries of Randall & Quilter Investment Holdings Ltd ('R&Q'), materially reducing the scope for further claims deterioration.
- A legal transfer of the UK Club's occupational disease liabilities to R&Q, removing the Club's exposure to these claims. It is expected that the transfer will take place in 2021.

This arrangement should eliminate the Club's future exposure to these long-tailed, an consequently volatile, liabilities – the vast majority of which relate to asbestos exposures in the second half of the last century. However, the arrangement will not have a material effect on the Club's financial position.

19. Policy Year Tables (unaudited)

Amounts in US$000	**2019**	**2018**	**2017**
Premium debited in this financial year	304,523	(143)	650
Premium debited in previous financial years		322,992	356,785
Reinsurance premium	(58,089)	(61,778)	(62,853)
Net premium income	**246,434**	**261,071**	**294,582**
Net paid claims and expenses	(125,483)	(185,748)	(229,083)
Investment income	26,776	25,323	23,549
Funds available	**147,727**	**100,646**	**89,048**
Gross outstanding claims (incl. Ibnr)	(192,046)	(162,705)	(159,881)
Reinsurance recoveries	7,828	4,619	63,062
Net outstanding claims	**(184,218)**	**(158,086)**	**(96,819)**
(Deficit) / Surplus	**(36,491)**	**(57,440)**	**(7,771)**

Notes

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. Return on investments is allocated proportionately to the average balance of funds on each policy year or other funds. Operating expenses are allocated to the current policy year.

Any significant deficits on open policy years will be funded by transfers from reserves, or by raising a supplementary premium.

The approximate yield of a 10 percent supplementary premium on the open policy years would be $27 million (2019), $29 million (2018) and $31 million (2017).

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