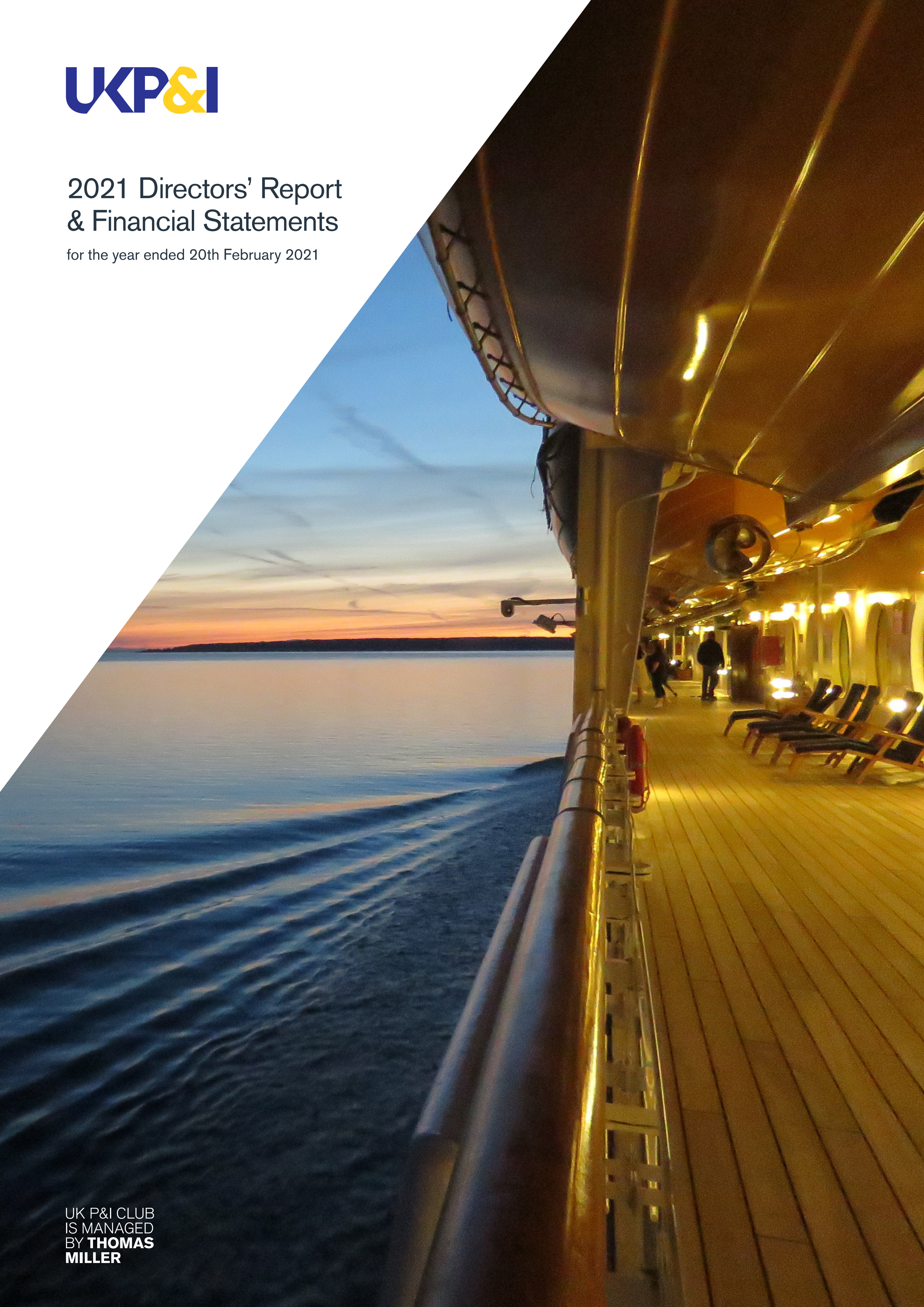
UKP&I

2021 Directors' Report & Financial Statements

for the year ended 20th February 2021



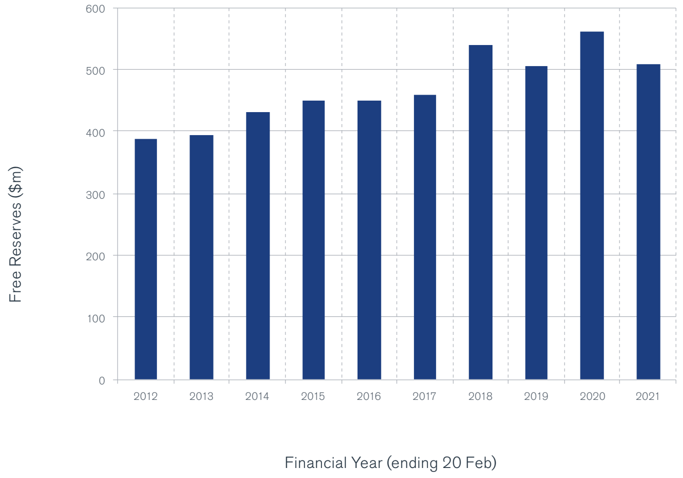
UK P&I CLUB
IS MANAGED
BY **THOMAS**
MILLER

Contents

Financial Highlights

Free reserves for financial years 2011/12 to 2020/21

The impact of the COVID-19 outbreak on passenger claims and a particularly expensive Pool resulted in a reversal of last year's growth in free reserves. The Club's free reserves stand at $507 million.



Combined ratio for financial years 2011/12 to 2020/21 (excluding Mutual Premium Discounts)

Significant one-off factors, including the COVID-19 pandemic and an expensive Pool, increased the Club's combined ratio to 149.6%. Excluding these factors, the underlying combined ratio is broadly in line with the previous year.

Nevertheless, this continues to be above the Club's acceptable range.

- Ratio
- Target

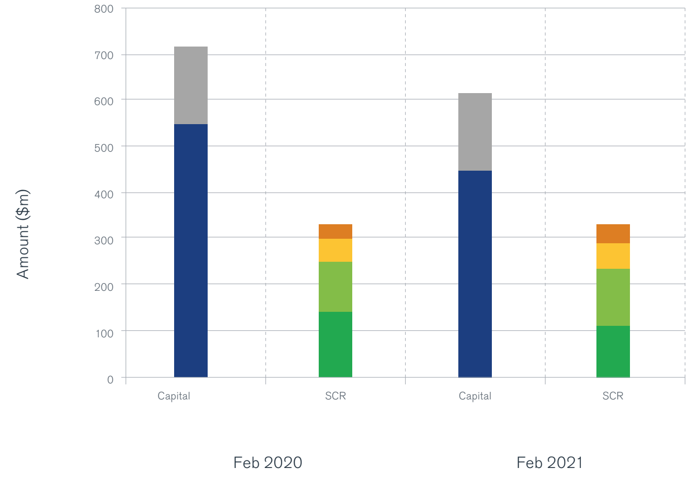
Investment return for financial years 2011/12 to 2020/21

2020/21 was a volatile year for investments with significant falls in financial markets following the outbreak of COVID-19 followed by a rapid and full recovery. The year ended with a strong return of 5.6%

Group regulatory capital

The Club comfortably meets all of its regulatory capital requirements and holds an A rating from Standard & Poor's.

- Ancillary own funds
- Basic own funds
- Operational risk
- Counterparty default risk
- Underwriting risk
- Market risk



Total net notified claims by size and claims frequency for policy years 2011/12 to 2020/21 at 12 months

As claim frequency continues to fall, the impact of large claims (i.e. those greater than $0.5 million) increasingly drives the Club's overall performance.

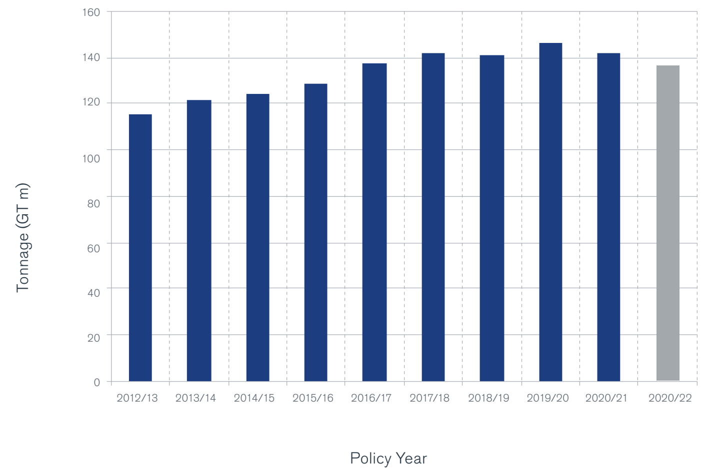
Large claims experience was adverse for 2020/21 – both within the Club's own retention and the IG Pool, which saw its most expensive year in history (net of reinsurance).

- Pool
- Large
- Attritional
- Frequency

The number by year is represented by the line.
The bars are the cost of claims broken down by the size of claim.

Declared tonnage by policy year 2012/13 to 2021/22

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

In my last report, I noted that the Club had successfully responded to the onset of COVID-19. At that time, few could have anticipated the full extent of the pandemic on every individual, family and business across the world. Last year was particularly testing for several shipping sectors with global restrictions or poor market conditions severely limiting potential trade.

However, overall, the industry showed considerable resilience in a challenging environment. We can be proud of the efforts of our people and particularly our crew members, many of whom were unable to leave or join ships for extended periods as travel limitations were imposed.

I am also proud of the Club's robust response as the world shut down. Members have continued to experience the same high-quality, professional service that has characterised the UK Club for many years.

One of the immediate impacts of the pandemic was an unprecedented reduction in asset values across the world's major financial markets. However, markets rallied strongly as the year progressed and the Club is able to report a very creditable investment return for the year of nearly $60 million. I am grateful for the oversight provided by the Club's Investment Committee, which continued to meet virtually as the year unfolded.

The investment return offsets a deficit in the Club's underwriting result for the year. I noted in my report last year that premium rates across the market were no longer sufficient to cover the associated claims and expenses and that, as a result, rates would have to increase. We took the first step to correct the ratings deficit at the last renewal by imposing a 10% General Increase. This delivered a significant improvement in the overall rating but further increases will be required in order to resolve the underwriting deficit.

The underlying inadequacy in premium rates was exacerbated last year by the impact of the pandemic.

Claims directly arising from the COVID-19 outbreak amounted to over $25 million during the year. This, combined with a short-term reduction in premium as some sectors suspended trading, had a material one-off impact on the Club's underwriting result.

During the first half of the year, the International Group pool, through which the largest P&I claims in the market are shared between Clubs, was unusually active. The average cost of large claims has increased in recent years which has amplified their significance on the Club's overall result. Although the frequency of these claims eased in the second half of the year, the overall cost is still one of the largest in history.

The exceptional features of the 2020/21 financial year, arising from the pandemic and the expensive pool, have increased the Club's combined ratio to 149.6%. This is a one-off result, with the combined ratio expected to improve significantly next year, but illustrates the importance of the Club's strong capital base. At over $500 million, the Club's free reserves are among the strongest in the industry and comfortably meet the highest AAA band of the S&P capital model.

The strength of the capital position combined with a best in class service capability are the cornerstones of the Club's overall proposition. Member confidence and support for the UK Club remains extremely strong, as evidenced at the last renewal. In what remains a competitive market, 98% of all Members renewed, showing the strength of the Club's long-term partnerships with Members.

The strength of the capital position combined with a best in class service capability are the cornerstones of the Club's overall proposition.

Close partnerships are vital in the event of a major incident. As I write, the Ever Given grounding in the Suez Canal is very much a live issue. Fortunately, nobody was injured in the incident, but the importance of global shipping in the modern world was certainly put into sharp relief. The Club insures the owners of the Ever Given for certain third party liabilities and I want to thank the team for working tirelessly to ensure the highest quality response and support.

My role as Chairman is only possible with the support and contribution of the many people involved in the Club. I would like to take this opportunity to extend my thanks to my Deputy Chairmen, Mr. R. Chen of Wan Hai Lines, Mr N. Schües of Reederei F. Laeisz and Mr P. Wogan of GasLog. Their support on all Club matters has been invaluable during the challenges of the past year.

The Members' Committee continued to meet in a virtual format during the year. I am pleased to welcome: Mr D. Grzebinski of Kirby Corporation, Houston, Ms S. Paliou of Diana Shipping SA, Athens, Mr M. Pavić of Tankerska Plovidba dd, Zadar, Mr Tao Weidong of China COSCO Shipping Corporation Limited, Shanghai and Mr J. Toledo de Souza of Petrobras Transporte S/A – Transpetro, Rio de Janeiro. I would like to thank Messrs Ali Shehab of Kuwait Oil Tanker Co SAK, Kuwait, E. Ambrosov of OAO Sovcomflot and Sun Jiakang of China Ocean Shipping (Group) Co and P. Wogan of GasLog who have retired from the Members' Committee over the past year. The Members' Committee is vital to our work as a Mutual and to our commitment to work in partnership with Members.

As I look ahead and consider the future, there are significant challenges to come for our industry. Solutions will need to be found and implemented for the decarbonisation of fuel, and further improvements are needed to improve the safety of our ships. The experience of this last year shows that, as an industry, we can rise to meet new challenges and emerge firm footed on our future path. As a Club, our goal is to grow strong partnerships and support our Members through close co-operation and an ethos for excellent service. The Club's ambition and commitment is to be a partner for our Members – a partner in all business needs; from safety and loss prevention to advice on contracts and technical issues. Most importantly of all we are there for our Members when things go wrong.

In the coming year, we are committed to improving the Club, listening to what our Members and their brokers want, and understanding how we can partner and support your company. As the vaccination initiatives gather pace around the world, I am optimistic that we will soon be able to resume many aspects of our personal and business lives that have been on hold over the last year, including the face-to-face meetings that are vital to Club relationships.

Finally, I would like to thank our Managers and all those working around the world for the work they do for our Members. Their ability and willingness to provide assistance to Members, especially in times of crisis, remains one of the most important and valuable features of our Club.

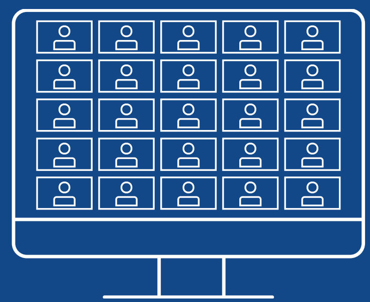
Nicholas Inglessis
Chairman

A digital communications revolution

The UK P&I Club's loss prevention team has long been proud of its outreach and service to Members, particularly their frequent face-to-face engagement with shore staff and seafarers.

COVID-19 restrictions meant the Club had to completely rethink their strategy for connecting with Members. 2020 brought about a digital communications revolution for the Club, introducing a variety of online tools and digital media to connect with Members and seafarers.

One of the most popular initiatives in 2020 has been a monthly webinar series aimed at Members and crew, targeting a different topic each month. To date over 10,000 Members, Brokers and members of the shipping community have taken part with registrants from 58 countries, reflecting the growing global appeal and reach of these events.



10,000+

Over 10,000 Members, Brokers and members of the shipping community have taken part in a monthly webinar series.

The monthly webinar series has registrants from 58 countries.

Strategic Report

Excellent cover, financial security and value for money

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 over 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 sea-farers 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 2-3.

Performance Review

In the year ended 20th February 2021, the Club recorded a deficit of $52 million (2020: surplus of $54 million). The financial result for the year was driven by a number of unusual factors, not least the impact of the COVID-19 outbreak. Excluding these one-off factors, the Club's overall result would have been broadly breakeven after investment return. The deficit reduced the Club's free reserves to $507 million (2020: $559 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, rates across the sector have fallen too low to meet the Club's breakeven target, contributing to a 120% combined ratio in 2019/20.

The unusual events of the 2020/21 policy year increased the Club's combined ratio: the outbreak of COVID-19 materially affected the Club's passenger book through a combination of COVID-related claims and premium reductions as trading ceased. This was exacerbated by some particularly poor experience on those largest claims falling into the International Group ("IG") Pool and some late claims deteriorations (much of which was also linked to the IG Pool). Together, these developments pushed the Club's combined ratio up by approximately 30% to just under 150% for the year.

Although the reported combined ratio for the year is one-off in nature, the underlying underwriting performance of the Club continues to exceed the Club's long-term target range. The recent renewal will go some way to addressing that deficit, and the Directors will 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.

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. During the last year, the Club declined to quote on 8.3 million gross tonnes of potential new business. When combined with unusually high levels of sales and scrapping (in part linked to the impact of COVID-19), the total mutual tonnage entered into the Club fell slightly to 137 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

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 by 60% over the last 10 years, helping to offset the impact of underlying inflation.

The Club generally classifies large claims as those in excess of $0.5 million. Large claims are relatively rare, but with the Club retaining up to $10 million of any such claim before it hits the IG Pool, a handful of such claims can have a significant influence on the total cost of the policy year. For the 2020/21 policy year, the Club suffered an elevated level of large claims, but this excess cost was largely due to COVID-related claims.

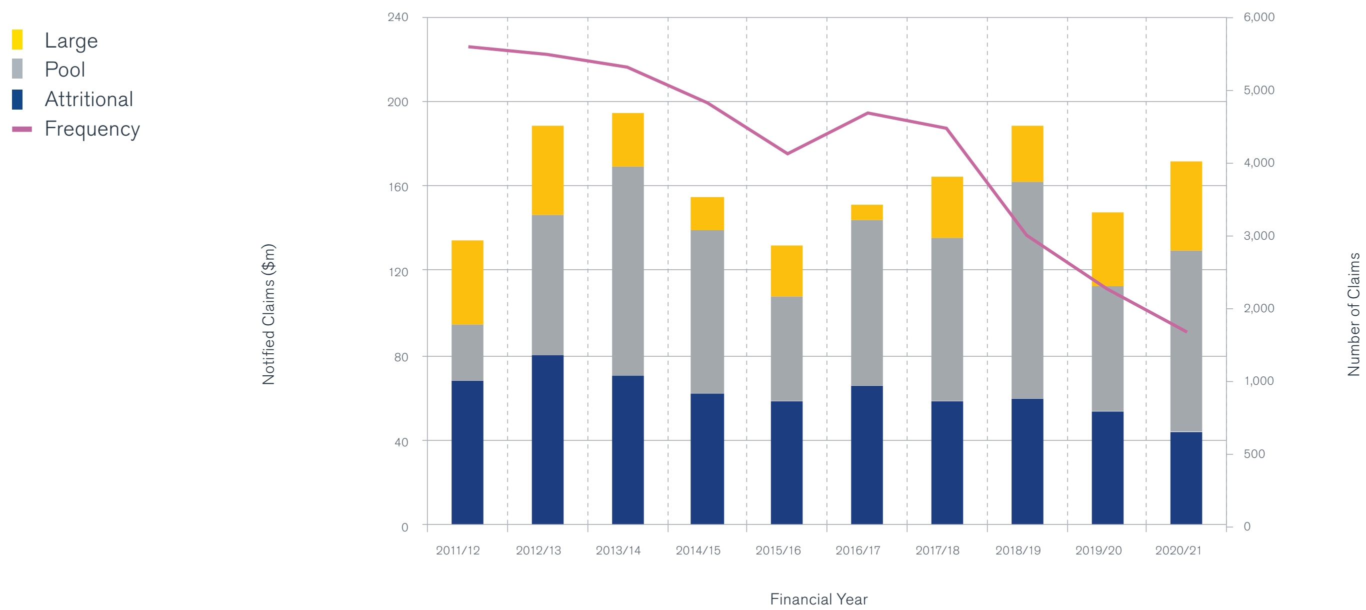
A large claim can have a significant impact on a Member's business. The support and advice offered by the Club in the event of a major incident is highly valued by the Member involved. Providing assurance with fast, accurate and professional advice, when dealing with a significant incident, is central 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 has grown substantially in recent years and, while the gross 2020/21 policy year costs are not quite as large as for the previous year, the amounts retained by the IG Pool are nearly 40% higher.

The total claims cost for the financial year was also affected by some unusually large and late deteriorations on a handful of claims from prior policy years. Much of this movement was attributable to IG Pool claims.

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. At the beginning of this financial year, the Club has removed this uncertainty by signing a reinsurance contract which covers any further claims deterioration. A full transfer of those liabilities to that reinsurer is anticipated in the near future.

Total net notified claims by size and claims frequency for policy years 2011/12 to 2020/21 at 12 months



The number by year is represented by the line.
The bars are the cost of claims broken down by the size of claim.

Loss Prevention

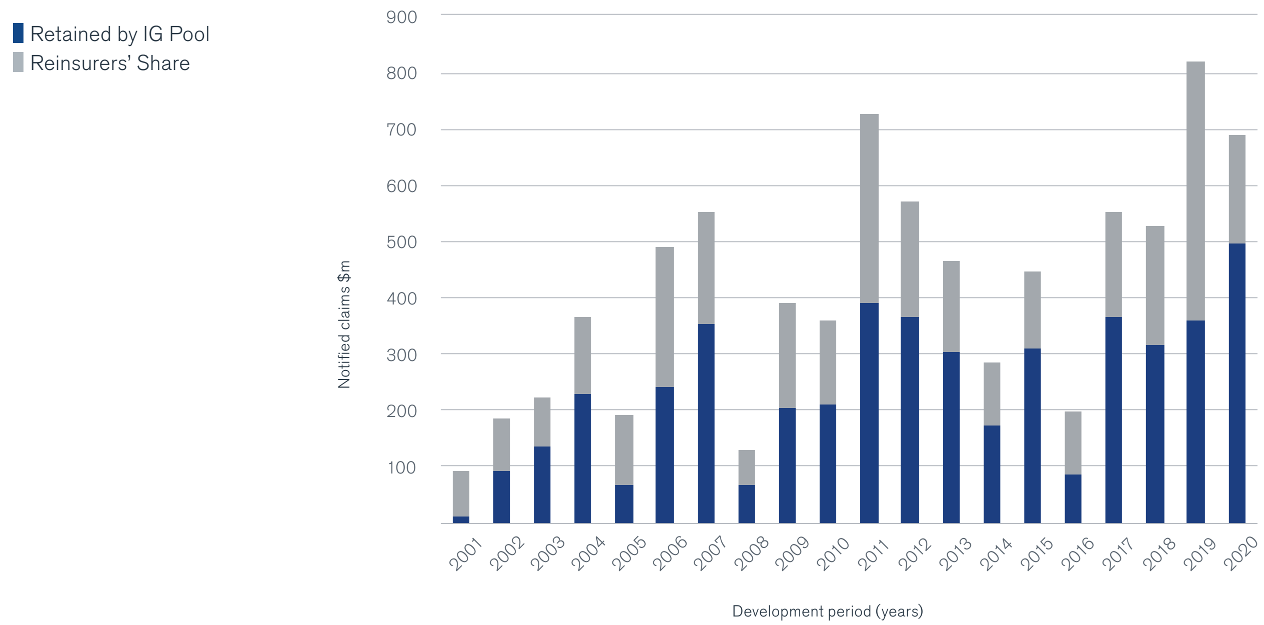
The safety of seafarers is one of the UK Club's core values. The Club uses its expert knowledge and data to provide innovative and practical initiatives to support Members' loss prevention and safety training programmes. The UK Club's offering incorporates aviation standard human element training, on board safety assessments, reflective learning training routines, and crew training seminars. The UK Club prides itself on its exclusive pre-employment medical exam programme, which in 2021 celebrates 25 years in operation.

Due to restrictions in travel caused by COVID-19, and in an effort to keep Members and importantly their crew sufficiently connected and informed during these extraordinarily difficult times, the Club successfully hosted a number of live loss prevention training webinars. These webinars have attracted fantastic delegate numbers with approximately 14,000 attendees across the 12 monthly events.

The Club's "lessons learnt" series of training videos were recognised by the Lloyd's List safety awards. The Club is committed to developing this successful series recently adding language captions in Mandarin, Japanese, Portuguese and Latin American Spanish. Furthermore, the Club is in the final stages of drafting a book on Maritime Team Dynamics, examining common human performance traits
and how lessons from the flight deck can be incorporated into the maritime world. The book will feature a foreword from the Secretary General of the International Chamber of Shipping.

The Club continues to support the "Together in Safety" initiative which aims to bring a step change to safety across shipping. Together in Safety is a coalition of shipping companies and industry organisations which came together with the sole aim of improving safety across the shipping industry.

Notified claims development by policy year



Strategic Report

Investments

It was a particularly unusual year for the Club's investments as it started with equity markets falling by more than 30% following the outbreak of COVID-19. However, this bear market was remarkably short-lived, and by the end of June the Club's investment portfolio had recovered its initial losses. Since then, buoyed by massive support from central banks and the rapid development of multiple vaccines, US markets ended the year on all-time highs. This led to a strong return of 5.6% for the year.

The elevated level of economic uncertainty may have an impact on future investment returns which are likely to be lower than in recent years. Nevertheless, the Club's financial strength allows it to be a long-term investor and, while it remains responsive to shorter term market dynamics, its investment strategy reflects that long-term approach. The Club will continue to hold a diversified portfolio designed to be consistent with its risk tolerance, capital and regulatory constraints, expected liabilities and credit rating requirements.

Capital

The Club has a strong capital position with free reserves of $507 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 adequate capital to meet its regulatory requirements in all jurisdictions.

The Club's credit rating of 'A' was most recently confirmed by S&P in February 2021.

The Club's key regulatory capital requirement is Solvency II's Solvency Capital Requirement ("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 (for example the move to low-sulphur fuels or decarbonisation) and investment risks.

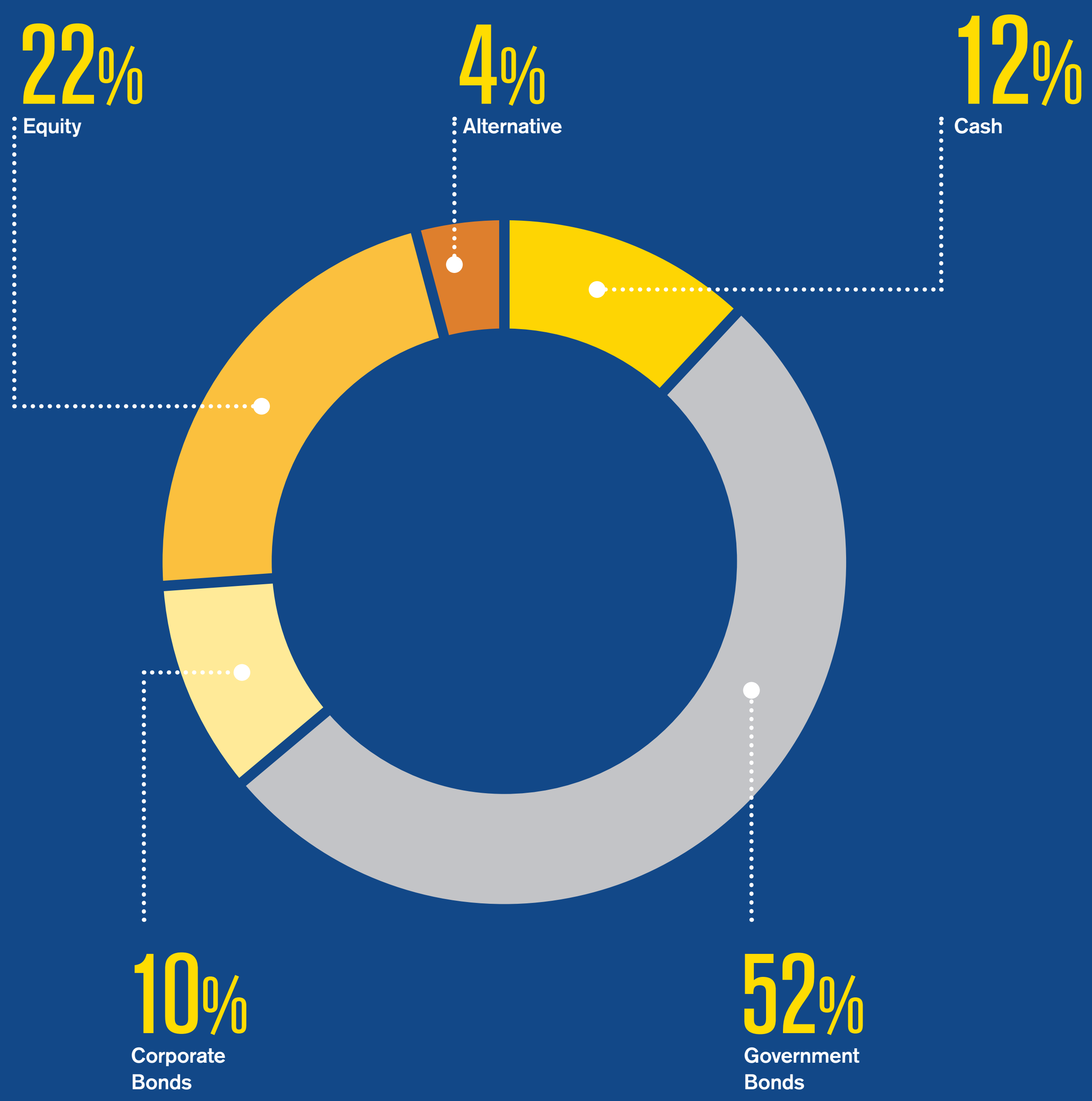
The Club's principal risks are:

- **Underwriting risk:** the risk that the Club makes a loss on its insurance contracts – either because theywere incorrectly priced or that the 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.

These activities account for the majority of the Club's regulatory capital requirements as shown above. 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, and key elements of its risk management framework are its approved internal model and comprehensive reinsurance programme.

Investment Allocation as at 20th February 2021



Strategic Report

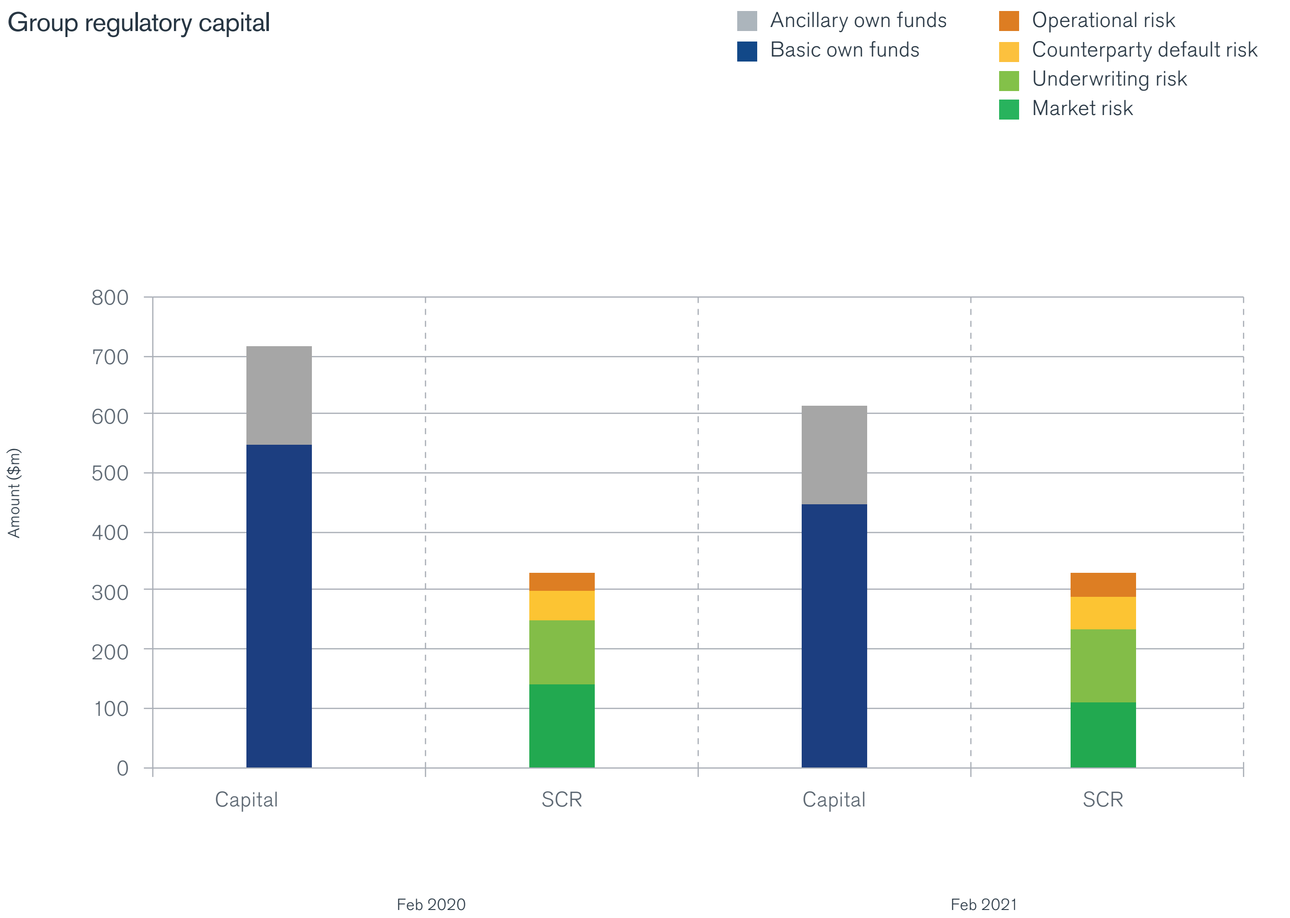
The most significant risk is underwriting risk, and a key tool for managing this is reinsurance. As a member of the International Group, the Club participates in the IG's pooling arrangement and its reinsurance programme. These provide cover for claims costs in excess of $10 million. Details of the programme 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.

The Club has prepared a draft plan for managing the financial risks from climate change, incorporating climate-related financial risks into its existing risk management framework. The plan is in the process of finalisation with refinement and implementation due by the end of 2021.

Industry Issues

As usual, and despite meetings being held only virtually, the Directors considered reports on a number of industry issues in 2020, including further developments in the complicated world of international sanctions, and in the tracking tools available to help ensure compliance; proposals by California to introduce uninsurable levels of pollution fines; shipping issues arising from the pandemic; a change in the way that cover is provided for smuggling fines; a decision to join the Maritime Anti-Corruption Network; and at the end of the year, support from the Members' Committee for the Neptune Declaration on Seafarer Wellbeing and Crew Change, a Global Maritime Forum initiative to address the crew change crisis caused by COVID-19.

Group regulatory capital



The Board and Members' Committee also received a report on activities of International Group (IG) subcommittees and working groups, attended and in some cases led by the Managers. During these, numerous legal, regulatory, technical and insurance aspects of shipowners' liabilities are addressed and solutions found. There is great benefit to shipowners in the ability of the IG Clubs to bring a combined focus on liability issues, appropriately reflected in the IG's motto "Collectively Stronger".

As usual, the Club's website provided information to Members, with a range of publications, circulars, legal updates, and loss prevention bulletins being made available to assist in addressing legal and practical risks.

A New Future

The COVID-19 outbreak has brought with it both challenges and opportunities for the UK Club and its Members alike. As a strong P&I insurer, the Club has been well placed to navigate these unusual waters and take advantage of the opportunities provided.
The Club's very successful webinar series, mentioned previously, is a perfect example of this as the reach grew exponentially with no detriment to engagement. While the Managers and Directors look forward to the resumption of personal meetings, the aim must be to combine the benefits of both traditional and new methods of delivering information in a post COVID world.

A key element of this is the integration of new technologies, changing the way we interact with our Members and the ways in which we operate and organise ourselves in providing the first class service that our Members expect.

The Club will continue to improve its ability to 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 onboard ships.

The Club will seek to form strong long-term partnerships with Members. The Club will focus on understanding the needs of each Member and meet these needs through exceptional service and innovative solutions.

A.J. Taylor
Manager

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 rating by Standard & Poor’s in February 2021.

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.

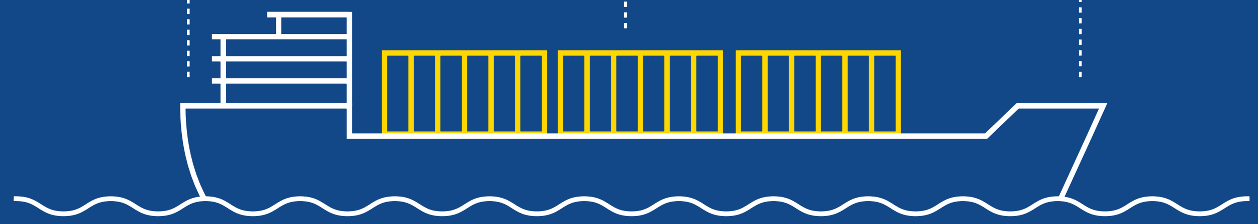
Fleet Profile

Owned fleet – figures as at 20th February 2021

4,017
Ship Count (Ships above 1,500 GT)

137,497,535
Tonnage declared to IG in April 2021

5,815
Total Ship Count



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

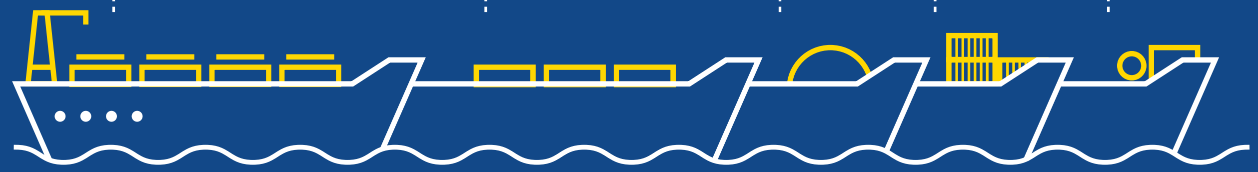
34% Bulk carrier

28% Tanker

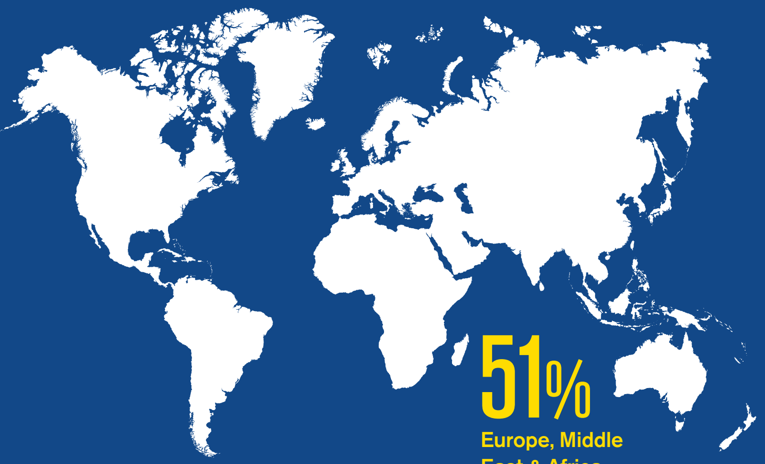
14% Gas carrier

12% Container

12% Other



Geographic regions



10% Americas

51% Europe, Middle East & Africa

39% Asia Pacific

The Complete Journey

Thomas Miller manages over $1.3 billion of gross written premium for the transport, specialty, and professional services industries in the mutual, MGA and captive markets.

$1.3 BILLION+

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

ukdefence.com
The leading provider of freight, demurrage and defence (legal costs) insurance to the maritime industry.

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

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

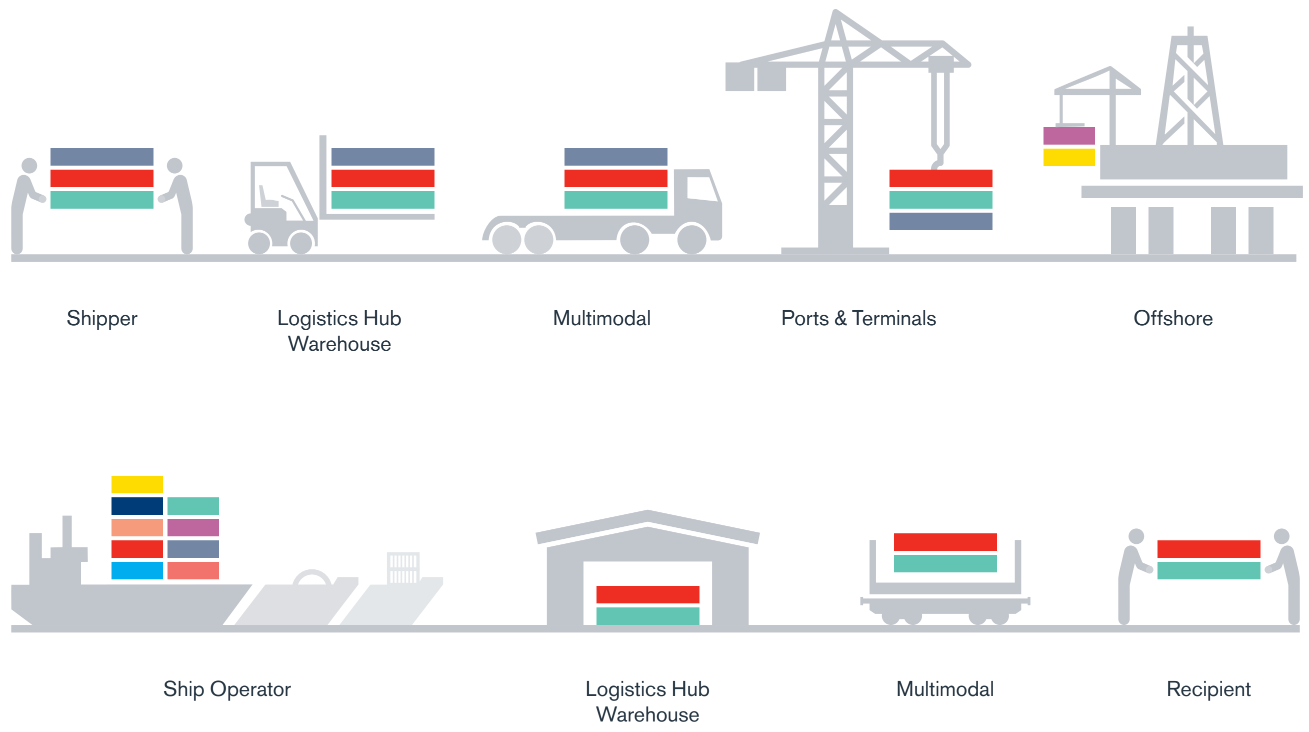
hellenicwarrisks.com
The war risks insurer for over 70% of all Greek-owned ships.

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

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

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

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

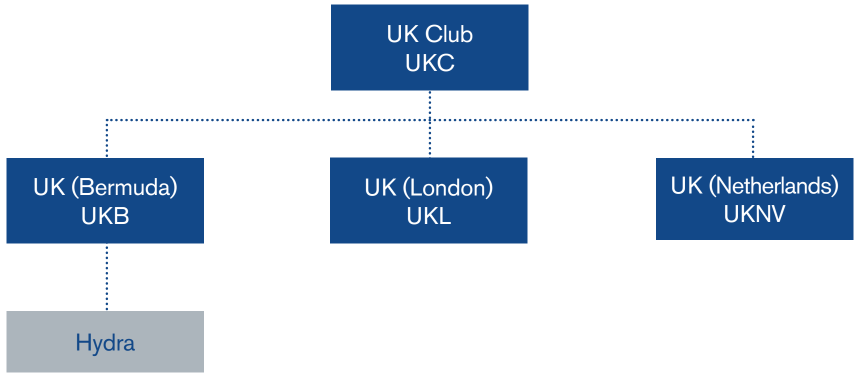


Our Global Network

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

Directors' Report

The Directors have pleasure in presenting their Review of the Year and Financial Statements of the Club for the year ended 20th February 2021.



Structure

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

- **The United Kingdom Mutual Steam Ship Assurance Association Limited ("UKC")** 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. UKC was previously known as The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited, changing its name just after the year-end on 20th February 2021.
- **The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("UKB")** reinsures 90% of UKC's business (net of external reinsurances).
- **The United Kingdom Mutual Steam Ship Assurance Association (London) Limited ("UKL")** is in run-off and used to reinsure 100% of its liabilities to UKC. On 30th December 2020, UKL transferred all of its liabilities to UKC by way of a legal process. UKL will be made dormant when regulatory permission is relinquished.
- **UK P&I Club N.V. ("UKNV")** was 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. On 31st December 2020, UKC transferred all of its historical EEA liabilities to UKNV by way of a legal process. In addition, UKNV provides a fronting solution for a number of other mutual insurance companies managed by Thomas Miller. This business is 100% reinsured back to the fronted insurer so that the Club does not retain any of the risk.
- **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 Ltd (and Thomas Miller (Bermuda) Ltd for UKB and Thomas Miller BV for UKNV).

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.

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 & 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.

Directors' Report

Corporate and Social Responsibility

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

Sustainability

The Club's largest impact on sustainability arises through its activities to remediate issues following a shipping incident and through its efforts to improve safety and prevent losses in the first place. 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. A new 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.

Due to the service-oriented nature of the business, the environmental impact of the Club's activities is considered to be relatively low. Nevertheless, the Club is determined to improve its impact and to ensure that its activities are sustainable.

As part of its existing risk management framework, the Club has in place a draft plan for dealing with the impact of climate change on its business operations and the associated risks. A fuller assessment of the Club's impact is currently underway and the plan should be refined and finalised during 2021.

The decarbonisation of shipping will require the implementation of new technologies at extraordinary speed and scale, and these new technologies will bring with them new risks. The UK Club's internal training programme ensures that the Club will continue to provide excellent underwriting and claims handling services based on a proper understanding of the emerging risks and technologies. In this way, the Club can continue to work with its Members and ensure that, as they seek to invest in the new technologies required to make their own activities sustainable, they can do so with confidence that they have suitable insurance in place to cover the emerging technologies and risks.

Streamlined Energy and Carbon Reporting ("SECR")

UKC falls under the scope of the SECR requirements based on its turnover and balance sheet total. The Directors have determined that UKC is a low energy user, using less than 40,000 kwh per year. As noted earlier, the Club's core management and business activities are outsourced to Thomas Miller. For these reasons the Directors have not included information in relation to UKC's energy and carbon usage.

Impact of COVID-19 on the Club

The COVID-19 pandemic has had a significant impact on lives and economies across the World. However, as described below, it has not materially adversely affected the Club's ability to service its Members nor its ability to operate as a going concern.

Impact on Insurance Operations

During the year, the Club's Managers adopted remote working practices in all offices in line with local guidelines. These operations continued without interruption or detriment to service. Indeed the Club provided many Members with general advice to assist with their own operations and manage their risks. Furthermore, the use of digital communication technologies helped to increase the Club's engagement with Members and Brokers.

Overall, COVID-19 increased the Club's combined ratio for the year by nearly 20%. Most of this arose from COVID-related claims, but the Club also experienced a reduction in premium as a result of reduced shipping activity, leading to policy endorsements, sales and scrapping.

In line with its reinsurance policy, the Club's reinsurance programme is well diversified and placed with at least A-rated reinsurers. No reinsurance defaults have been experienced. Furthermore, the Club has not seen any material defaults from its Members' premium obligations either.

Impact on Investment Operations

The Club's portfolio fell by 5% to the end of March 2020 as investment markets reacted to the outbreak of COVID-19, with global lockdowns drastically reducing economic activity.

As lockdowns eased and fiscal and monetary stimulus kicked in, global stock markets rallied strongly to recover most or all of their losses by the summer. This was later boosted with good news on vaccine development in the autumn. Consequently, the Club's portfolio provided a strong return of 5.6% for the year.

As the Club remains financially strong, it is able to retain its long-term approach to investments. Nevertheless, the outlook for future returns appears volatile and expected returns are likely to be lower than seen 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. 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

While COVID-19 did have an impact on the Club's financial performance during the year and it continues to affect communities worldwide, the ongoing financial impact is not expected to be material. The Directors have performed an assessment of the Club's risks as part of the Club's ORSA process and, 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

Other Statutory Directors

N.C. De Silva

R.C. Gillett

Y. Higurashi
NYK Line

N.H.H. Smith

A.J. Taylor

Members' Committee

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

N.G. Inglessis (Chairman)
Alberta Shipmanagement Ltd

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

D. Grzebinski
Kirby Corporation

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 OBE
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

S. Paliou
Diana Shipping Inc

M. Pavic
Tankerska plovidba dd

M.H. Ross
Chevron Shipping LLC

N.H. Schües
Reederei F. Laeisz GmbH

N. Smedegaard
DFDS A/S

K. Takayama
ENEOS Ocean Corporation

Tao Weidong
China COSCO Shipping Corporation Limited

J. Toledo de Souza
Petrobras Transporte S/A - Transpetro

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

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 A. Shehab, E.N. Ambrosov, P.A. Wogan and Sun Jiakang.

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
16th June 2021

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

Opinion on the Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Club's financial position as at 20th February 2021 and of the Club's deficit for the year then ended;
- the Club's financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The United Kingdom Mutual Steam Ship Assurance Association Limited and its subsidiaries for the year ended 20th February 2021 which comprise the Consolidated Statement of Income and Expenditure, 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 conformity with the requirements of the Companies Act 2006 and as regards the financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

The period of total uninterrupted engagement is more than 20 years, covering to the year ending 20 February 2020. We remain independent of the Club 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. The non-audit services prohibited by that standard were not provided to the Club.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Club's ability to continue to adopt the going concern basis of accounting included:

- Review of the latest available Own Risk and Solvency Assessment ("ORSA") return to check compliance with regulatory solvency requirements, noting the Club to be in excess of the minimum solvency requirement;
- Checked the solvency through reference of sufficiency of assets to meet liabilities and the adequacy of regulatory capital; and Enquiries of the Directors and scrutiny of management information, board minutes and regulatory correspondence to ascertain the existence of undisclosed events or obligations that may cast doubt on the Club's ability to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Club's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Club and its environment, including the Club's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed directly by the audit engagement team with the assistance where relevant of appointed experts.

Overview

Coverage		
100% (2020: 100%) of Club Deficit before tax		
100% (2020: 100%) of Club Earned Premium		
100% (2020: 100%) of Club Total Assets		
Key audit matters		
	2021	2020
Valuation of Technical Provisions & Reinsurers Share of Technical Provisions	✓	✓
Materiality		
Club financial statements as a whole		
$9.5m (2020: $10m) based on 2% (2020: 2%) of Net Assets		

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. These matters were 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 these matters.

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

Key Audit Matter

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

The 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 Club's financial statements record gross technical provisions of US$1,289.0m (2020 US$957.0m), and net technical provisions of US$846.0m (2020: US$812.0m). 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; and
- Adjustments being made to significant year-end estimates and payments being absorbed by the Club's assessment of IBNR.

The Club has a range of reinsurance placement, incorporating group quota share, International Group pool excess of loss, non-pool cover and facultative covers.

The Reinsurers' share of Technical Provisions is dependent on the appropriate valuation of gross reserves and the correct 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 our internal actuarial experts to assess the methodology, significant judgements and assumptions applied by the Club'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 Club's 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.

Valuation of Claim Estimates:

- Agreed all claim estimates above our performance materiality level to supporting documentation, to assess whether case estimates are valued appropriately;
- Assessed key claims adjustments around Pool claims application of member Annual Aggregate Deductibles ("AADs") and adjustment of Pool AAD.

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 Club's quota share reinsurance arrangements though application of the ceding percentage to the technical provisions subject to quota share based on the agreement;
- 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 gained did not find any material misstatement in the technical provision and RI share of technical provisions.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Consolidated accounts		Parent company balance sheet	
	2021 $m	**2020 $m**	**2021 $m**	**2020 $m**
Materiality	9.5	10	5.5	6
Basis for determining materiality	2% of Net Assets	2% of Net Assets	2% of Gross Earned Premium	2% of Gross Earned Premium
Rationale for the benchmark applied	We consider this to be the most relevant benchmark for the group as the Club's ability to pay claims is the key factor for the users of the financial statements. Net assets is considered a key indicator for the Club's solvency to pay out claims.		The financial statements are affected by a quota share agreement. Due to the significant impact this has on the gross line items affected by this agreement, revenue is determined to be a reasonable benchmark on which to base materiality.	
Performance materiality	6.2	6.5	3.8	3.9
Basis for determining performance materiality	65% of materiality	65% of materiality	65% of materiality	65% of materiality

Specific materiality (Parent Only)

We also determined that for line items not affected by the Group quota share reinsurance agreement, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result a specific materiality of $3.4m (2020: $4.5m) has been set. We determined materiality for these items based on 2% of Net Assets (2020: Net Assets). We further applied a performance materiality level of $2.21m (2020: $2.925m) being 65% (2020: 65%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit & Risk Committee that we would report to them all individual audit differences in excess of $275k (2020: $300k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 Club'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 Club 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

Strategic report and Directors' report

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.

In the light of the knowledge and understanding of the Club and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

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 Club or returns adequate for our audit have not been received from branches not visited by us; or
- the Club'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.

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- agreement of the financial statement disclosures to underlying supporting documentation;
- our responses to significant audit risks (technical provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged our independent actuarial experts as auditor's expert to review the assumptions and methodology applied by the Club in the valuation IBNR to check whether the methods utilised are appropriate.
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the legal and regulatory framework applicable to the Club's operations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- review of the Club's (ORSA).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Club'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 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 Club and the 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
16th June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

Consolidated Statement of Income and Expenditure

For the year ended 20th February 2021

Technical Account			
Amounts in US$000s	**Notes**	**2021**	**2020**
Income			
Gross premium earned	5	286,376	305,037
Outward reinsurance premiums	12	(76,624)	(60,386)
Net earned premium	12	209,752	244,651
Investment return transferred from the non-technical account	13	53,434	106,414
Other income		1,647	741
Total income		**264,833**	**351,806**
Expenses			
Net claims paid	10	(241,029)	(280,771)
Change in provision for claims	10	(31,477)	29,064
Net claims incurred		(272,506)	(251,707)
Net operating expenses	14	(43,843)	(43,724)
Total expenses		**(316,349)**	**(295,431)**
Balance on technical account		**(51,516)**	**56,375**

Non-Technical Account			
Amounts in US$000s	**Notes**	**2021**	**2020**
Balance on technical account		**(51,516)**	**56,375**
Net investment income	13	53,434	106,414
Investment return transferred to the technical account		(53,434)	(106,414)
Net (deficit)/surplus before taxation		**(51,516)**	**56,375**
Taxation	15	(280)	(1,974)
Total comprehensive (loss)/income after tax		**(51,796)**	**54,401**

Consolidated Statement of Financial Position

As at 20th February 2021

Amounts in US$000s	**Notes**	**2021**	**2020**
Assets			
Financial investments	6	1,049,800	1,159,223
Derivative financial instruments	7	9,122	210
Reinsurers' share of technical provisions	10	442,989	145,044
Debtors	8	98,813	81,123
Cash and cash equivalents	9	238,709	146,837
Current income tax credit		1,091	-
Accrued interest		1,468	648
Total assets		**1,841,992**	**1,533,085**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		507,158	558,954
Other reserves		240	240
Total reserves		**507,398**	**559,194**
Liabilities			
Technical provisions	10	1,288,949	957,030
Derivative financial instruments	7	9,470	178
Creditors	11	36,175	16,261
Current income tax		-	422
Total liabilities		**1,334,594**	**973,891**
Total reserves and liabilities		**1,841,992**	**1,533,085**

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

The consolidated Financial Statements were approved by the Board of Directors on 16th June 2021 and were signed on its behalf by:

N. Inglessis
Chairman

N.H. Schües
Director

A.J. Taylor
Manager

Companies House number: 00022215

Parent Company Statement of Financial Position

For the year ended 20th February 2021

Amounts in US$000s	Notes	2021	2020
Assets			
Financial investments	6	79,540	71,493
Investment in subsidiaries	16	68,507	39,523
Reinsurance share of technical provisions	10	1,183,384	883,399
Debtors	8	73,587	148,856
Cash and cash equivalents	9	67,814	48,365
Current income tax		1,589	-
Accrued interest		16	49
Total assets		**1,474,437**	**1,191,685**
Reserves and liabilities			
Capital and reserves attributable to members			
Income and expenditure account		79,303	93,525
Capital contribution		130,679	130,679
Total reserves		**209,982**	**224,204**
Liabilities			
Technical provision	10	1,256,134	954,622
Creditors	11	8,321	12,437
Current income tax		-	422
Total liabilities		**1,264,455**	**967,481**
Total reserves and liabilities		**1,474,437**	**1,191,685**

The parent company made a loss of $14.2m (2020: loss of $4.0m) on ordinary activities after tax for the year ended 20th February 2021.

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 16th June 2021 and was signed on its behalf

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 2021

	Attributable to members		
Amounts in US$000s	**Free reserves**	**Other reserves**	**Total**
Balance at 20th February 2019	**504,553**	**240**	**504,793**
Surplus/(defecit) for the year	54,401	-	54,401
Balance at 20th February 2020	**558,954**	**240**	**559,194**
Surplus/(defecit) for the year	(51,796)	-	(51,796)
Balance at 20th February 2021	**507,158**	**240**	**507,398**

Parent Company Statement of Changes in Equity

For the year ended 20th February 2021

	Attributable to members		
Amounts in US$000s	**Free reserves**	**Other reserves**	**Total**
Balance at 20th February 2019	**97,500**	**130,679**	**228,179**
Surplus/(defecit) for the year	(3,974)	-	(3,974)
Balance at 20th February 2020	**93,526**	**130,679**	**224,205**
Surplus/(defecit) for the year	(14,223)	-	(14,223)
Balance at 20th February 2021	**79,303**	**130,679**	**209,982**

Consolidated Statement of Cash Flows

For the year ended 20th February 2021

Amounts in US$000s	Notes	2021	2020
Operating activities			
Calls and premiums received		293,940	306,836
Receipts from reinsurance recoveries		(701)	24,366
Interest and dividends received		13,069	12,722
		306,308	**343,924**
Claims paid		245,655	306,210
Acquisition costs		19,757	19,434
Operating expenses paid		23,432	31,857
Reinsurance premiums paid		73,147	61,015
Taxation paid		1,793	855
		363,748	**419,371**
Net cash (used) by operating actvities		**(57,476)**	**(75,447)**
Investing activities			
Purchase of investments		(493,358)	(157,860)
Sale of investments		643,148	213,071
Net cash provided by operating activities		**149,790**	**55,211**
Net increase/(decrease) in cash and cash equivalents		92,314	(20,236)
Effect of exchange rate fluctuations on cash and cash equivalents		(442)	375
Cash and cash equivalents at the beginning of the year	9	146,837	166,698
Cash and cash equivalents at the end of the year	**9**	**238,709**	**146,837**

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

Notes to the Financial Statements

1. General Information

The United Kingdom Mutual Steam Ship Assurance Association 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 16th June 2021.

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

Items 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 2021

2.3. Gross Premiums Earned

Calls and premiums, including fronted business, are presented net of return premiums and gross of commissions on an earned basis. 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 a number of mutual insurance companies managed by Thomas Miller (the Association's manager). This business is 100% reinsured back to the fronted company, 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.

The Club fronts business on behalf of a number of mutual insurance companies managed by Thomas Miller. This business is 100% reinsured back to the fronted company, 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. It should be noted that the Assocation benefits from a reinsurance contract covering these liabilities prior to 2001, thereby significantly reducing its risk exposure.

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

Notes to the Financial Statements

For the year ended 20th February 2021

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 is 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 is overseen by the Board's Group Audit & Risk Committee and the Manager's Risk Committee. The impact of COVID-19 on the Association's insurance operations, investments and capital adequacy is included in the Directors' Report.

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 2021, the Association began fronting professional indemnity business for various mutual insurance entities. This business is 100% reinsured back to the entities, so that the Club does not retain any of the insurance 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 various mutual insurance entities is 100% reinsured back to them, so that the Club does not retain any of the insurance 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 13 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	2021	2020
Increase in loss ratio by 5%		
Gross	(14,319)	(15,257)
Net	(10,488)	(12,233)

Parent

Amounts in US$000s	2021	2020
Increase in loss ratio by 5%		
Gross	(13,890)	(15,238)
Net	(2,429)	(2,909)

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 $52 million (2020: $58 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.

For the year ended 20th February 2021

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 US$000s	US Dollar	Sterling	Euro	Other	Total
2021					
Total Assets	1,622,611	150,412	68,851	118	**1,841,992**
Total Liabilities	(1,073,043)	(29,733)	(122,727)	(109,091)	**(1,334,594)**
Net assets	**549,568**	**120,679**	**(53,876)**	**(108,973)**	**507,398**
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**

Parent

Amounts in US$000s	US Dollar	Sterling	Euro	Other	Total
2021					
Total Assets	1,418,470	52,454	3,404	109	**1,474,437**
Total Liabilities	(1,042,299)	(71,531)	(79,742)	(70,882)	**(1,264,455)**
Net assets	**376,170**	**(19,077)**	**(76,338)**	**(70,773)**	**209,982**
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**	**(43,242)**	**(77,856)**	**(70,883)**	**224,204**

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*	
Amounts in US$000s	**2021**	**2020**	**2021**	**2020**
Impact of strengthening currencies by 5%				
Sterling	6,034	2,406	(954)	(2,162)
Euro	(2,694)	(1,192)	(3,817)	(3,893)

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	**2021**	**2020**	**2021**	**2020**
1% increase				
Assets	(34,699)	(37,433)	(4,916)	(4,576)
Liabilities	5,640	7,935	564	794
Net impact	**(29,059)**	**(29,498)**	**(4,352)**	**(3,782)**
1% decrease				
Assets	38,440	42,424	5,894	5,290
Liabilities	(6,438)	(9,465)	(644)	(947)
Net impact	**32,002**	**32,959**	**5,250**	**4,343**

Notes to the Financial Statements

For the year ended 20th February 2021

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
2021					
Financial investments	345,808	361,908	-	342,084	**1,049,800**
Cash and cash equivalents	-	99,686	139,023	-	**238,709**
Derivative financial instruments	-	-	9,122	-	**9,122**
Debtors	-	-	-	98,813	**98,813**
Reinsurer share of technical provisions	-	83,256	291,758	67,975	**442,989**
Other	-	1,091	1,468	-	**2,559**
Total	**345,808**	**545,941**	**441,371**	**508,872**	**1,841,992**
2020					**Restated**
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	-	-	210	-	**210**
Debtors	-	-	-	81,123	**81,123**
Reinsurers share of technical provisions	-	20,664	108,580	15,800	**145,044**
Other	-	-	648	-	**648**
Total	**301,649**	**273,525**	**381,165**	**576,746**	**1,533,085**

Restated derivative financial instruments on a gross basis rather than net.

Parent

Amounts in US$000s	AAA	AA	A	Not readily available/ not rated	Total
2021					
Financial investments	2,235	77,305	-	-	**79,540**
Cash and cash equivalents	-	11,110	56,704	-	**67,814**
Investment in subsidiaries	-	-	68,507	-	**68,507**
Debtors	-	-	-	73,587	**73,587**
Reinsurance share of technical provisions	-	238,540	835,925	108,919	**1,183,384**
Other	-	1,589	16	-	**1,605**
Total	**2,235**	**328,544**	**961,152**	**182,505**	**1,474,437**
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**

Notes to the Financial Statements

For the year ended 20th February 2021

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
2021						
Financial investments	341,905	-	58,744	282,464	366,687	**1,049,800**
Cash and cash equivalents	238,709	-	-	-	-	**238,709**
Derivative financial instruments	-	4,833	2,158	2,131	-	**9,122**
Debtors	6,369	92,444	-	-	-	**98,813**
Reinsurers' share of technical provisions	-	155,106	79,621	115,547	92,715	**442,989**
Other	2,559	-	-	-	-	**2,559**
Total	**589,542**	**252,383**	**140,524**	**400,142**	**459,402**	**1,841,992**
2020						**Restated**
Financial investments	338,004	127,840	38,501	352,473	302,405	**1,159,223**
Cash and cash equivalents	146,837	-	-	-	-	**146,837**
Derivative financial instruments	-	210	-	-	-	**210**
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**	**243,625**	**65,228**	**392,099**	**338,351**	**1,533,086**

Restated derivative financial instruments on a gross basis rather than net.

Parent

Amounts in US$000s	Short-term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2021						
Financial investments	-	-	-	34,833	44,707	**79,540**
Cash and cash equivalents	67,814	-	-	-	-	**67,814**
Investment in subsidiaries	68,507	-	-	-	-	**68,507**
Debtors	6,062	67,524	-	-	-	**73,587**
Reinsurance share of technical provisions	-	406,602	214,839	311,775	250,167	**1,183,384**
Other	1,605	-	-	-	-	**1,605**
Total	**143,988**	**474,127**	**214,839**	**346,608**	**294,875**	**1,474,437**
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**

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
2021					
Gross outstanding claims	(413,289)	(242,186)	(351,462)	(282,012)	**(1,288,949)**
Derivative financial instruments	(5,018)	(2,240)	(2,212)	-	**(9,470)**
Other liabilities	(36,175)	-	-	-	**(36,175)**
Total	**(454,481)**	**(244,427)**	**(353,674)**	**(282,012)**	**(1,334,594)**
2020					
Gross outstanding claims	(274,315)	(178,369)	(264,457)	(239,889)	**(957,030)**
Derivative financial instruments	(178)	-	-	-	**(178)**
Other liabilities	(16,683)	-	-	-	**(16,683)**
Total	**(291,176)**	**(178,369)**	**(264,457)**	**(239,889)**	**(973,891)**

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

Parent

Amounts in US$000s	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
2021					
Gross outstanding claims	(402,767)	(236,021)	(342,514)	(274,832)	**(1,256,134)**
Other liabilities	(8,321)	-	-	-	**(8,321)**
Total	**(411,088)**	**(236,021)**	**(342,514)**	**(274,832)**	**(1,264,455)**
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)**

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 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% confidence level of solvency over a 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$000s	2021	2020
USA	61,942	63,144
Greece	52,363	63,267
Japan	30,739	33,189
Germany	19,333	25,716
United Kingdom	17,642	13,132
China	12,759	18,733
Other[1]	91,598	87,856
Total	**286,376**	**305,037**

[1]In the year to 20th February 2021, the UK Club fronted $32.8 million (2020: $2.8 million) of business on behalf of a number of mutual insurance companies managed by Thomas Miller. This business is 100% reinsured back to each fronted insurer, so that the Club does not retain any of the insurance 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 US$000s	Level 1	Level 2	Level 3	Total
As at 20th Feb 2021				
Debt securities	733,586	-	-	733,586
Equity securities & Absolute return funds	235,360	29	32,965	268,353
Alternative investments	-	47,860	-	47,860
Total	**968,946**	**47,889**	**32,965**	**1,049,800**
As at 20th 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**

Parent

Amounts in US$000s	Level 1	Level 2	Level 3	Total
As at 20th Feb 2021				
Debt securities	79,540	-	-	79,540
Total	**79,540**	**-**	**-**	**79,540**
As at 20th Feb 2020				
Debt securities	71,493		-	71,493
Total	**71,493**	**-**	**-**	**71,493**

Notes to the Financial Statements

For the year ended 20th February 2021

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

Consolidated

Amounts in US$000s	Total
As at 20th Feb 2019	**1,121,005**
Additions	157,484
Disposals	(213,071)
Fair value movements recognised in Income Statement	93,805
As at 20th Feb 2020	**1,159,223**
Additions	508,837
Disposals	(644,837)
Fair value movements recognised in Income Statement	26,577
As at 20th Feb 2021	**1,049,800**

Parent

Amounts in US$000s	Total
As at 20th Feb 2019	**156,117**
Additions	-
Disposals	(92,750)
Fair value movements recognised in Income Statement	8,126
As at 20th Feb 2020	**71,493**
Additions	85,190
Disposals	(76,716)
Fair value movements recognised in Income Statement	(427)
As at 20th Feb 2021	**79,540**

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

Consolidated

	Market value		*Cost value*	
	2021	**2020**	**2021**	**2020**
Held at fair value through profit and loss:				
Debt securities	733,586	831,849	710,549	798,595
Equity securities & Absolute return funds	268,326	282,244	183,140	202,650
Alternative investments	47,889	45,130	33,546	33,223
Financial assets held at fair value through profit and loss	**1,049,800**	**1,159,223**	**927,235**	**1,034,468**

Parent

	Market value		*Cost value*	
	2021	**2020**	**2021**	**2020**
Held at fair value through profit and loss:				
Debt securities	79,540	71,493	75,523	66,423
Financial assets held at fair value through profit and loss	**79,540**	**71,493**	**75,523**	**66,423**

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		**2021**			**2020**	
Amounts in US$000s	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**
Hedged item	70,065	9,122	-	36,429	210	-
Hedging instrument	70,065	-	(9,470)	36,429	-	**(178)**
Total		**9,122**	**(9,470)**		**210**	**(178)**

8. Debtors

	Consolidated		*Parent*	
Amounts in US$000s	**2021**	**2020**	**2021**	**2020**
Insurance receivables:				
- Due from contract holders	83,468	65,374	44,865	62,907
- Less provision for doubtful debts	(1,370)	(1,375)	(1,175)	(1,375)
	82,098	**63,999**	**43,690**	**61,532**
Insurance receivable due from reinsurers	6,806	6,427	6,833	5,827
Total insurance receivables	**88,904**	**70,426**	**50,523**	**67,359**
Other debtors				
- Prepayments	154	351	31	269
- Sundry debtors	9,755	10,346	10,681	6,223
- Intercompany debtors	-	-	12,352	75,005
	9,909	**10,697**	**23,064**	**81,497**
Total debtors	**98,813**	**81,123**	**73,587**	**148,856**

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 2021

9. Cash and Cash Equivalents

	Consolidated		*Parent*	
Amounts in US$000s	**2021**	**2020**	**2021**	**2020**
Cash at bank and in hand	97,589	66,707	63,125	46,980
Short-term bank deposits	141,120	80,130	4,689	1,385
Total	**238,709**	**146,837**	**67,814**	**48,365**

10. Technical Provisions

	Consolidated		*Parent*	
Amounts in US$000s	**2021**	**2020**	**2021**	**2020**
Gross outstanding claims	(1,262,197)	(954,622)	(1,256,134)	(954,622)
Provision for unearned premium	(26,752)	(2,408)	-	-
Technical provisions	**(1,288,949)**	**(957,030)**	**(1,256,134)**	**(954,622)**
Reinsurer's share of gross outstanding claims	419,139	143,041	1,182,887	882,902
Provision for unearned reinsurance premium	23,850	2,003	497	497
Reinsurer's share of technical provisions	**442,989**	**145,044**	**1,183,384**	**883,399**
Total insurance liabilities, net	**(845,960)**	**(811,986)**	**(72,750)**	**(71,223)**

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 $86.9 million (2020: $81.4 million). The discount rate of 1.85% (2020: 2.00%) is based on A and AA rated corporate bonds. On 27th February 2020, 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 during 2021.

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 of the last 10 accident years has changed at successive year-ends (including movements due to currency fluctuations). 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$000s reporting year	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
- End of reporting year	241,341	275,765	318,428	250,715	275,552	250,572	282,111	277,372	240,638	385,640
- One year later	226,792	250,196	352,655	222,257	264,873	248,028	291,969	268,472	404,861	-
- Two years later	203,056	280,149	351,505	217,452	273,145	243,901	320,782	267,488	-	-
- Three years later	209,870	277,805	342,653	216,207	270,602	233,917	341,822	-	-	-
- Four years later	201,804	257,140	363,527	218,077	249,056	237,002	-	-	-	-
- Five years later	201,259	251,468	359,243	214,063	250,682	-	-	-	-	-
- Six years later	200,641	249,415	361,489	210,778	-	-	-	-	-	-
- Seven years later	201,979	245,328	358,054	-	-	-	-	-	-	-
- Eight years later	199,613	243,805	-	-	-	-	-	-	-	-
- Nine years later	198,969	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims	198,969	243,805	358,054	210,778	250,682	237,002	341,822	267,488	404,861	385,640
Cumulative payments to date	193,292	240,778	337,142	192,977	191,785	187,748	184,008	158,357	99,818	75,513
Liability recognised in the consolidated statement of Financial Position	5,677	3,027	20,912	17,800	58,897	49,254	157,814	109,131	305,043	310,127
Total liability relating to last 10 policy years										1,037,682
Other claims liabilities										224,515
Total reserves excluding UPR in the Consolidated Statement of Financial Position										**1,262,197**

Notes to the Financial Statements

For the year ended 20th February 2021

Net Claims

Amounts in US$000s reporting year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
- End of reporting year	236,292	271,408	281,504	250,718	233,062	250,534	249,392	265,000	232,600	237,361
- One year later	207,605	251,787	280,894	222,322	222,591	229,582	233,541	263,693	248,203	-
- Two years later	191,576	252,845	271,002	217,495	212,539	221,229	244,924	260,158	-	-
- Three years later	189,979	248,843	267,683	215,170	206,578	212,509	252,085	-	-	-
- Four years later	181,884	238,469	261,518	214,761	202,065	212,969	-	-	-	-
- Five years later	180,605	235,608	256,453	210,442	196,298	-	-	-	-	-
- Six years later	179,986	234,155	260,163	207,814	-	-	-	-	-	-
- Seven years later	180,795	232,077	256,118	-	-	-	-	-	-	-
- Eight years later	178,950	231,676	-	-	-	-	-	-	-	-
- Nine years later	178,306	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims	178,306	231,676	256,118	207,814	196,298	212,969	252,085	260,158	248,203	237,361
Cumulative payments to date	172,873	223,292	249,972	191,606	168,619	172,941	168,729	158,196	91,035	47,004
Liability recognised in the consolidated statement of Financial Position	5,433	8,384	6,146	16,208	27,679	40,028	83,356	101,962	157,168	190,357
Total liability relating to last 10 policy years										636,721
Other claims liabilities										206,338
Total reserves excluding UPR in the Consolidated Statement of Financial Position										**843,059**

10.2. Movement in Insurance Liabilities and Reinsurance Assets

Consolidated

Amounts in US$000s		2021			2020	
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**(954,622)**	**143,040**	**(811,582)**	**(983,165)**	**142,519**	**(840,646)**
Cash paid for claims settled in the year	240,707	322	241,029	308,967	(28,196)	280,771
Claims incurred in the current year	(548,282)	275,777	(272,506)	(280,424)	28,717	(251,707)
Outstanding claims carried forward	**(1,262,197)**	**419,139**	**(843,059)**	**(954,622)**	**143,040**	**(811,582)**

Parent

Amounts in US$000s		2021			2020	
	Gross	RI	Net	Gross	RI	Net
Outstanding claims brought forward	**(954,622)**	**882,902**	**(71,721)**	**(983,165)**	**906,931**	**(76,234)**
Cash paid for claims settled in the year	238,498	(215,937)	22,561	308,965	(280,447)	28,518
Claims incurred in the current year	(540,010)	515,922	(24,088)	(280,422)	256,417	(24,005)
Outstanding claims carried forward	**(1,256,134)**	**1,182,887**	**(73,248)**	**(954,622)**	**882,901**	**(71,721)**

11. Creditors

	Consolidated		*Parent*	
Amounts in US$000s	**2021**	**2020**	**2021**	**2020**
Reinsurance premium payable	31,730	6,734	5,876	5,600
Claims payable	1,543	6,490	1,557	6,348
Trade payables and accrued expenses	2,902	3,037	888	489
Total	**36,175**	**16,261**	**8,321**	**12,437**

The fair value of these balances approximates their carrying value.

Notes to the Financial Statements

For the year ended 20th February 2021

12. Net Earned Premium

Amounts in US$000s	2021	2020
Mutual		
Mutual premium	254,802	273,844
Return premium	(3,206)	(1,286)
Release charges	(1,469)	3,894
	250,127	**276,452**
Fixed premium		
Chartered vessels	20,454	21,641
Owned vessels	7,001	8,180
Other premium	32,760	192
	60,215	**30,013**
Gross written premium	**310,342**	**306,465**
Change in unearned premium provision	(23,966)	(1,428)
Gross earned premium	**286,376**	**305,037**
Premium ceded to reinsurers		
Reinsurance purchased collectively within the International Group	(38,327)	(37,543)
Other market reinsurance	(59,816)	(24,656)
	(98,143)	**(62,199)**
Change in unearned reinsurance premium provision	21,519	1,813
Total premium ceded to reinsurers	**(76,624)**	**(60,386)**
Net insurance premium (before discounts)	**209,752**	**244,651**
Mutual premium discount	**-**	**-**
Total earned premium	**209,752**	**244,651**

13. Investment Return

Year ending Feb 2021	Income	Net Realised Gains/(loss)	Net Unrealised Gains	Total Investment Return
Equity securities	2,987	24,985	6,542	**34,514**
Debt securities	16,454	19,588	(9,146)	**26,896**
Cash and cash equivalents	53	-	-	**53**
Other investment charges	(8,029)	-	-	**(8,029)**
Total Net Investment Return	**11,465**	**44,573**	**(2,604)**	**53,434**

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**

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$000s	2021	2020
Acquisition costs	19,757	19,434
Residual management fee	12,921	12,078
Directors' meetings	121	1,524
Directors' fees	1,102	963
Managers/agent travel	129	1,050
Sales and marketing	1,218	1,204
Legal and professional expenses	1,150	848
Bank and financial expenses	500	398
Loss prevention and ship inspection initiatives	410	805
Audit fee	687	667
Other expenses	5,848	4,753
Total operating expenses	**43,843**	**43,724**

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 Ratio

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 2021, the ratio of 11.45 (2020: 11.28) 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$000s	2021	2020
Current taxes on income for the reporting period		
Net adjustment in respect of current and prior periods	218	(1,342)
Overseas taxation	(498)	(632)
Total income tax expense	**(280)**	**(1,974)**

The average applicable tax rate over five years was -0.1% (2020: -7.5%).

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$000s	2021	2020
Surplus/(Deficit) before tax	(51,516)	56,375
Tax at 19% (2020 at 19%)	9,788	(10,711)
- Portion of investment income not subject to taxation		
Non-taxable transactions	(10,068)	8,737
Total	**(280)**	**(1,974)**

The Corporation Tax main rate remained at 19% for the year starting April 2020.

16. Related Party Transactions

The United Kingdom Mutual Steam Ship Assurance Association Limited is the parent company of the Group (note the name change discussed on Note 18), which consists of the following subsidiaries. All subsidiary undertakings are included in the consolidation.

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 Netherlands

UKNV and UKL investment in subsidiaries are $65.2 million (2020: $36.3 million) and $3.3m (2020: $3.3 million) respectively. Investments in subsidiary undertakings are stated at cost less impairment.

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 and two from the management company – see below) 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$000s	2021	2020
Key management compensation		
Short-term employee benefits - Directors' fees	1,102	963

Thomas Miller P&I 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 $32.7 million. The Association has a contract with Thomas Miller 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 3 (2020 - 6) members of staff based in Japan in respect of its Japanese branch.

18. Events after the reporting period

With effect from 20th February 2021 the name of The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited changed to The United Kingdom Mutual Steam Ship Assurance Association Limited. The Managers also changed their name on that same date from Thomas Miller P&I (Europe) Limited to Thomas Miller P&I Limited. For simplicity, the new names are used throughout this document.

On the 23rd March 2021, the EVER GIVEN grounded in the Suez Canal blocking it for six days before it could be refloated. This was a high-profile event and the Club's crisis response team mobilised immediately, supporting the Member throughout. Despite the very large cost figures mentioned by the media, this is not considered to be an unusual claim and the financial impact on the Club is likely to be similar to that of large Pool claims to which the Club is exposed on a regular basis.

Notes to the Financial Statements

For the year ended 20th February 2021

19. Policy Year Tables (unaudited)

Amounts in US$000s	2020	2019	2018
Premium debited in this financial year	278,848	(306)	(61)
Premium debited in previous financial years		304,791	322,992
Reinsurance premium	(65,698)	(58,089)	(61,778)
Net premium income	**213,150**	**246,397**	**261,154**
Net paid claims and expenses	(128,287)	(170,953)	(238,319)
Investment income	13,379	37,733	32,443
Funds available	**98,242**	**113,176**	**55,278**
Gross outstanding claims (incl. IBNR)	(310,127)	(305,043)	(109,131)
Reinsurance recoveries	119,770	147,875	7,169
Net outstanding claims	**(190,357)**	**(157,168)**	**(101,962)**
(Deficit)/Surplus	**(92,115)**	**(43,992)**	**(46,684)**

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% supplementary premium on the open policy years would be $25 million (2020), $27 million (2019) and $29 million (2018).

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