

The Steamship Mutual Underwriting  
Association (Bermuda) Limited

Annual Report  
and Accounts 2020

## Contents

02	Notice of Meeting
03	Directors
04	Report of the Directors
06	Consolidated Income and Expenditure Account
07	Consolidated Statement of Changes in Equity
08	Consolidated Balance Sheet
09	Consolidated Cash Flow Statement
10	Notes on the Accounts
22	Independent Auditor's Report

# The Steamship Mutual Underwriting Association (Bermuda) Limited

(Incorporated under the laws of Bermuda)  
and its subsidiary companies

## **Managers**

[Steamship Mutual Management \(Bermuda\) Limited](#)

Washington Mall II  
22 Church Street  
Hamilton HM 11  
PO Box HM 601 HM CX  
Bermuda  
Telephone: +1 441 295 4502

## **Managers' representatives**

[Steamship P&I Management LLP](#)

Aquatical House  
39 Bell Lane  
London E1 7LU  
Telephone: +44 (0)20 7247 5490 & +44 (0)20 7895 8490

[Steamship Mutual Management \(Hong Kong\) Limited](#)

Room 1901-02, Jubilee Centre  
18 Fenwick Street  
Wanchai  
Hong Kong  
Telephone: +852 2838 2722 & +852 2838 2873

## **Representative office in Brazil**

Avenida Rio Branco, 151/1305-1307  
Centro  
Rio de Janeiro  
RJ CEP 20040-006  
Brazil  
Telephone: +55 21 2221 6074 & +55 21 2221 6461

Website: [www.steamshipmutual.com](http://www.steamshipmutual.com)

## Notice of Meeting

Notice is hereby given that the Forty Sixth Annual General Meeting of the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited ("Association") will be held at The St. Regis Hotel, Two East 55<sup>th</sup> Street, New York, NY 10022, USA, on Tuesday, 20 October 2020 at 09:00 for the following purposes:

- 1 The Secretary to confirm that Notice of the Meeting has been given.
- 2 To approve the Minutes of the last Meeting of the Members.
- 3 To receive the Directors' Report and Accounts for the year ended 20 February 2020.
- 4 To fix the number of Directors for the ensuing year.
- 5 To elect Directors retiring in rotation.

Under the Bye-laws of the Company, one-third of the Directors are required to retire annually by rotation.

The Directors retiring by rotation are Mr C Bouch, Mr D Farkas, Ms D Ho, Mr W J Kim, Mr B McAllister, Mr C K Ong, Mr C Sommerhage, Mr E Veniamis, Mr A Zaccello and Ms S Zagury. Being eligible all these Directors offer themselves for re-election.

- 6 To appoint the Auditor and to authorise the Directors to agree their remuneration.
- 7 Confirmation of acts.
- 8 To transact any other ordinary business of the Company.

By Order of the Board

**K L McCullough**  
Secretary

2 June 2020

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend, speak and vote in his or her place. The instrument appointing a proxy may be in the form enclosed and must be deposited with the Secretary at Clarendon House, 2 Church Street, PO Box HM 666, Hamilton HM CX, Bermuda, not less than 48 hours before the time specified for the holding of the Meeting.

## Directors

### Directors

S-M Edye, Sloman Neptun Schiffahrts AG (Chairman)  
C B Adams, Steamship P&I Management LLP  
C J Ahrenkiel, C J Ahrenkiel Consulting Switzerland  
A Albertini, Marfin Management SAM  
M W Bayley, Royal Caribbean International  
C Bouch  
D S Farkas, Norwegian Cruise Line  
M Frith  
I Grimaldi, Grimaldi Holdings SpA  
D M Ho, Magsaysay Maritime Corp  
E Ide, Naviera Ultrana Ltd  
W J Kim, Polaris Shipping Co. Ltd  
C J Madinabeitia, Tradewind Tankers SL  
S J Martin, Steamship P&I Management LLP  
B A McAllister, McAllister Towing  
C K Ong, U-Ming Marine Transport Corp  
A Pohan, NY Waterway  
B K Sheth, The Great Eastern Shipping Co Ltd  
M Sloan, Carnival Corporation & plc  
C Sommerhage, Columbia Shipmanagement (Germany) GmbH  
Song, Chunfeng, China Shipowners Mutual Assurance Association  
A L Tung, Island Navigation Corp International Ltd  
E Veniamis, Golden Union Shipping Co SA  
E Yao, Orient Overseas Container Line Ltd  
(appointed 4 March 2019)  
A Zacchello, Seaarland Shipping Management BV  
R Zagari, Augustea Group  
S Zagury, Vale

### Secretary

K L McCullough, Conyers Corporate Services (Bermuda)

### Managers

Steamship Mutual Management (Bermuda) Limited

### Registered office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Administrative office

Washington Mall II  
22 Church Street  
Hamilton HM 11  
PO Box HM 601 HM CX  
Bermuda  
Telephone: +1 441 295 4502  
Telefax: +1 441 292 8787

## Report of the Directors

The Directors have pleasure in presenting their Report and Audited Accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited (“Association”) for the year ended 20 February 2020.

### Principal activities

The principal activity of the Association during the year was the reinsurance of Protection and Indemnity (“P&I”) risks, and of Freight, Demurrage and Defence (“FD&D”) risks written by Steamship Mutual Underwriting Association Limited (“SMUA”).

The Association is a member of the International Group of Protection and Indemnity Associations (“Group”).

### Directors

The Directors of the Association are as shown on page 3.

In accordance with the Act of Incorporation, as amended on 18 April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in New York, USA on 20 October 2020:

Mr C Bouch, Mr D Farkas, Ms D Ho, Mr W J Kim, Mr B McAllister, Mr C K Ong, Mr C Sommerhage, Mr E Veniamis, Mr A Zucchello and Ms S Zagury.

Being eligible all these Directors offer themselves for re-election.

### Free reserves

The balance on the Technical Account was a surplus of US\$6.3 million for the financial year.

The overall surplus for the financial year of US\$9.2 million reflects a surplus in the Hydra cell of US\$9.3 million.

After considering the strong current and projected capital position of the Association and the Steamship group (which consists of SMUA, the Association, Steamship Mutual Underwriting Association Limited (Europe) Limited (“SMUAE”), and The Steamship Mutual Trust (“the Trust”), the Directors declared a capital distribution to its Members who renewed at 20 February 2020, equivalent to 7.5% of mutual premium paid for the 2019/20 policy year (Class 1 – P&I). Accordingly, US\$16.3 million has been credited to Members since year end. Total capital and reserves amount to US\$65.6 million.

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected. This has introduced uncertainty and

volatility across all aspects of the business. The Directors and Managers have been focused on ensuring operational continuity in these unprecedented times. The financial strength and operational resilience of the Association is there for such events

### Underwriting

Gross premium written was US\$181.6 million compared to US\$175.5 million last year.

### SMUA

For the 2015/16 and subsequent policy years the Association entered into a reinsurance contract with SMUA under which, in return for a percentage of written premium ceded to the Association, SMUA is indemnified for 90% of its net underlying liabilities.

### SMUAE

In September 2019 the Association agreed a deed of capitalisation with SMUAE, a company incorporated in Cyprus, which required it to make a capital contribution of US\$30 million. This was done to facilitate the continued insurance of certain Members of SMUA whose place of management is within the EEA and certain other jurisdictions from 20 February 2020, following Brexit. The Rules, the scope and types of cover, the levels of service, and the financial security of SMUAE are the same as those of SMUA.

For the 2020/21 policy year the Association entered into a reinsurance contract with SMUAE under which, in return for a percentage of written premium ceded to the Association, SMUAE is indemnified for 90% of its net underlying liabilities.

All Members of SMUA and SMUAE are automatically Members of the Association and thus beneficiaries of the Trust.

### The Trust

The Association entered into a reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of the Trust, a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover all its liabilities in respect of the 2015/16 and subsequent policy years. The Chairman of the Association is a Director of the Corporate Trustee which administers the Trust.

The Members of the Association are beneficiaries of the Trust.

## Report of the Directors

### Claims

During the year the Association reviewed with SMUA the development of claims and the terms of its inward reinsurance contract. The Association is satisfied that SMUA is taking appropriate steps to ensure that a prudent underwriting policy is maintained.

### Investments

The total amount of cash and investments held by the Association, including land and buildings, increased by 24.7% to US\$141.7 million.

### Audit and Risk Committee (“Committee”)

The Committee acts on behalf of the Board in considering the Association’s financial statements, its external and internal audit activities and its risk management. In so doing the Committee liaises with the Managers and external auditor in monitoring the quality of all reporting which contains material financial information, assessing the Association’s internal control systems, and advising the Board on the effectiveness and objectivity of the internal and external auditors.

The Committee meets three times a year and is currently comprised of the following Directors: Mr C J Madinabeitia (Chairman), Mr M W Bayley, Mr C Bouch, Mr A Pohan, Mr B B A McAllister, Mr R Zagari and Ms S Zagury. Mr S-M Edye is invited to attend the meeting in his capacity as Chairman of the Association and two representatives of the Managers, who are also Directors of the Association, namely Mr S J Martin and Mr C B Adams, are also invited to attend.

In discharging its responsibilities, the Committee receives financial and management reports from the Managers including reports from the internal and external auditors. The Committee establishes the scope of the reporting, both to itself and the Board, and continually assesses the quality and adequacy of this information. The Committee monitors the effectiveness of the Managers’ activities with respect to their regulatory, audit and control responsibilities with a specific focus on any issues of enhanced strategic importance or which present a significant risk to the Association. Within the past year the Committee’s work has included the following matters:

- Oversight of the establishment of a European entity;
- Oversight of a new internal auditor taking office;
- In-depth review of the risk register;
- Review of the Bermuda Economic Substance Act 2018 and its potential impact.

### Directors’ responsibilities statement

The Directors have prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

**S Martin**  
Director

2 June 2020

## Consolidated Income and Expenditure Account

for the year ended 20 February 2020

	Note	2020 US\$000	2019 US\$000
<b>Technical Account</b>			
Earned premium, net of reinsurance			
Gross premium written		181,556	175,511
Outward reinsurance premium			
The Trust	2	(148,434)	(143,641)
Other reinsurers		12	(3,173)
Earned premium, net of reinsurance		33,134	28,697
Allocated investment return transferred from the non-technical account		(9)	(52)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	166,926	157,110
Reinsurers' share	3	(156,591)	(143,916)
Net claims paid		10,335	13,194
Change in the provision for claims			
Gross amount	4	14,637	56,807
Reinsurers' share	4	200	(50,955)
Change in the net provision for claims		14,837	5,852
Claims incurred, net of reinsurance		25,172	19,046
Net operating expenses	5	1,646	1,409
<b>Balance on the technical account for general business</b>		<b>6,307</b>	<b>8,190</b>
<b>Non-Technical Account</b>			
Balance on the general business technical account		6,307	8,190
Investment income	6	2,028	1,486
Unrealised gains on investments	7	1,105	442
Investment management expenses		(109)	(61)
Allocated investment return transferred to the technical account		9	52
Other income	8	–	–
Surplus for the financial year		9,340	10,109
<b>Other comprehensive loss</b>			
Decrease in surplus above cost on revaluation of property	10	(122)	(1,473)
<b>Total comprehensive income</b>		<b>9,218</b>	<b>8,636</b>

The results for both years are in respect of continuing operations.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

## Consolidated Statement of Changes in Equity

for the year ended 20 February 2020

	Profit and loss account US\$000	Revaluation reserve US\$000	Total US\$000
<b>As at 20 February 2018</b>	<b>111,537</b>	<b>4,472</b>	<b>116,009</b>
Surplus for the financial year	10,109	–	10,109
Other comprehensive loss	–	(1,473)	(1,473)
Capital distribution	(21,917)	–	(21,917)
<b>As at 20 February 2019</b>	<b>99,729</b>	<b>2,999</b>	<b>102,728</b>
Surplus for the financial year	9,340	–	9,340
Other comprehensive loss	–	(122)	(122)
Capital contribution and distribution	(46,324)	–	(46,324)
<b>As at 20 February 2020</b>	<b>62,745</b>	<b>2,877</b>	<b>65,622</b>

The accompanying notes to these accounts form an integral part of this statement of changes in equity.

## Consolidated Balance Sheet

as at 20 February 2020

<b>Assets</b>	Note	<b>2020 US\$000</b>	2019 US\$000
Investments			
Land and buildings	10	<b>19,829</b>	19,951
Other financial investments	11	<b>119,185</b>	92,902
Reinsurers' share of technical provisions			
Claims outstanding	4	<b>373,352</b>	373,552
Debtors			
Debtors arising out of reinsurance operations	12	<b>33,102</b>	76,387
Other debtors		<b>2,653</b>	2,440
Other assets			
Cash at bank and in hand		<b>2,657</b>	766
Other prepayments and accrued income		<b>517</b>	294
<b>Total assets</b>		<b>551,295</b>	566,292
<b>Liabilities</b>			
Capital and reserves			
Free reserves		<b>62,745</b>	99,729
Revaluation reserve	10	<b>2,877</b>	2,999
Technical provisions			
Claims outstanding	4	<b>455,949</b>	441,312
Creditors			
Creditors arising out of reinsurance operations	13	<b>13,204</b>	–
Other creditors	14	<b>16,520</b>	22,252
<b>Total liabilities</b>		<b>551,295</b>	566,292

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Board of Directors on 2 June 2020.

**S Martin**  
Director

**C Adams**  
Director

**Managers:**  
Steamship Mutual Management (Bermuda) Limited

## Consolidated Cash Flow Statement

for the year ended 20 February 2020

	As restated	
	2020 US\$000	2019 US\$000
<b>Cash flows from operating activities</b>		
Operating surplus before taxation after interest	9,340	10,109
Increase in general insurance technical provisions	14,837	5,852
Unrealised gains on investments	(1,105)	(442)
Decrease/(increase) in debtors	42,849	(35,730)
Decrease in creditors	(8,852)	(4,867)
	<b>47,729</b>	<b>(35,187)</b>
Cash inflow/(outflow) from operating activities	<b>57,069</b>	<b>(25,078)</b>
Capital contribution paid to SMUAE	<b>(30,000)</b>	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>27,069</b>	<b>(25,078)</b>
<b>Cash flow from investment activities</b>		
Net portfolio investment		
(Purchase)/sale of bonds and loans	<b>(37,128)</b>	4,977
Sale/(purchase) of money market instruments	<b>11,730</b>	(11,072)
Decrease in cash on short term deposit	<b>220</b>	29,654
<b>Cash (used in)/generated by investing activities</b>	<b>(25,178)</b>	<b>23,559</b>
Movement in opening and closing cash and cash equivalents		
Net cash inflow/(outflow) for the year	<b>1,891</b>	(1,519)
Cash and cash equivalents at 20 February 2019	<b>766</b>	2,285
<b>Cash and cash equivalents at 20 February 2020</b>	<b>2,657</b>	<b>766</b>

## Notes on the Accounts

continued

### 1. Accounting policies

#### (a) Accounting convention

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

The 2019 comparatives in the cash flow statement have been restated due to a classification and presentational error following the incorrect application of FRS 102 and the recognition of cash and cash equivalents. The restatement has corrected the presentation of operating and investment activities and replaced Portfolio Investments with just Cash and Cash Equivalents.

The adjustments to the Cash Flow Statement are presentational and the amount of cash reconciles to the cash in the Balance Sheet. No correction is needed at the beginning of the earliest prior period presented, as there has been no change to the free reserves following this change.

After making enquiries, the Directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### (b) Basis of consolidation

The accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited (“SMUAB”), its subsidiary undertaking Steamship Mutual Property Holdings Limited (“SMPH”), and its share of Hydra Insurance Company Limited (“Hydra”) at 20 February 2020.

#### (c) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail as reserving risk under note 18.

#### (d) Calls and premiums written

Calls and premiums, less returns, comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial year. All premiums are shown gross of commission payable to intermediaries.

#### (e) Claims and related expenses

Claims and related expenses are charged to the income and expenditure account when they have been settled. A provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates. The reinsurers' share of technical provisions is calculated consistently with the amounts associated with the underlying insurance contract and the terms of the reinsurance contract.

#### (f) Reinsurance premiums and recoveries

Other reinsurance premiums are recognised on an accruals basis.

## Notes on the Accounts

continued

### 1. Accounting policies continued

#### (g) Land and buildings

Land and buildings in the UK are independently valued every three years on an existing use basis and converted to US dollars at the balance sheet date. Any dollar losses or reversal of dollar losses arising upon revaluation are recognised in the income and expenditure account; any dollar surplus is recognised in other comprehensive income and credited to a revaluation reserve.

#### (h) Other financial investments

Quoted investments at their market value and cash at bank have been valued as at the close of business on 19 February 2020. Investment income consists of interest, dividends and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the market value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of realised and unrealised exchange differences arising on the conversion of transactions on non-dollar denominated assets.

#### (i) Debtors

Receivables arising from reinsurance operations are reviewed for impairment throughout the financial year and as at the balance sheet date.

#### (j) Foreign currencies

The functional currency is US dollars. All assets and liabilities, including land and buildings, are converted to US dollars at the exchange rate at the balance sheet date. Income and expenditure items are translated to US dollars at the exchange rate at the date of the transaction. All exchange differences are included in the income and expenditure account.

The exchange rates on the balance sheet date and used for the purpose of preparing the accounts were as follows:

	2020	2019
Euro	€ <b>0.927</b>	0.807
UK sterling	£ <b>0.772</b>	0.715

#### (k) Allocation to policy years and classes

Premium, reinsurance premium payable, claims and reinsurance recoveries are allocated to the policy years and classes to which they relate. Administration expenses, investment income and exchange gains or losses are allocated to the current policy year in line with total premium income.

### 2. Reinsurance contracts

- (a) From the commencement of the 2015/16 policy year the Association entered into a reinsurance contract with SMUA under which, in return for a percentage of written premium, SMUA is indemnified for 90% of its net underlying liabilities.
- (b) Under a contract dated 27 January 2015, the Association reinsured with the Trust all of its liabilities for the 2015/16 and subsequent policy years.

## Notes on the Accounts

continued

	2020 US\$000	2019 US\$000
<b>3. Claims paid – gross amount</b>		
Claims and related expenses	166,130	156,112
Claims administration expenses	796	998
	<b>166,926</b>	157,110
Less reinsurers' share		
Other reinsurers	(3)	103
The Trust	156,594	143,813
	<b>156,591</b>	143,916
Net claims paid	<b>10,335</b>	13,194
<b>4. Change in net provision for claims</b>		
Gross outstanding claims		
Provision brought forward	(441,312)	(384,505)
Provision carried forward	455,949	441,312
	<b>14,637</b>	56,807
The Trust's share of outstanding claims		
Provision brought forward	372,288	315,905
Provision carried forward	(372,814)	(372,288)
	<b>(526)</b>	(56,383)
Other reinsurers' share of outstanding claims		
Provision brought forward	1,264	6,692
Provision carried forward	(538)	(1,264)
	<b>726</b>	5,428
Change in net provision for claims	<b>14,837</b>	5,852

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") by the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

## Notes on the Accounts

continued

	2020 US\$000	2019 US\$000
<b>5. Net operating expenses</b>		
<b>Acquisition costs</b>		
Underwriting administration expenses	21	18
	<b>21</b>	<b>18</b>
<b>Administrative expenses</b>		
Other administration expenses	1,161	913
Directors' remuneration	356	364
Auditor's remuneration	108	114
	<b>1,625</b>	<b>1,391</b>
	<b>1,646</b>	<b>1,409</b>

### Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, reimbursement of its local office and administration expenses. At 20 February 2020 the Association was owed US\$33,707 by SMM(B) (2019: owed to SMM(B) US\$0.3 million).

Since 21 February 2000 the Association has provided SMM(B) with an unsecured, indefinite, long term loan of US\$2.0 million. This loan was increased to US\$5.3 million during the year ending 20 February 2014, for which as at 20 February 2020 a provision of US\$2.7 million (2019: US\$2.6 million) has been made. There were no other related party transactions requiring disclosure under FRS 102 s33.

	2020 US\$000	2019 US\$000
<b>6. Investment income</b>		
Dividends and interest	1,310	1,526
<b>Realised gains/(losses)</b>		
Investments	721	–
Foreign exchange	(3)	(40)
	<b>718</b>	<b>(40)</b>
	<b>2,028</b>	<b>1,486</b>

## Notes on the Accounts

continued

### 7. Unrealised gains/(losses) on investments

Investments  
Foreign exchange

	2020 US\$000	2019 US\$000
	1,111	454
	(6)	(12)
	<b>1,105</b>	<b>442</b>

### 8. Other income

Surplus on revaluation of property (see note 10)

	2020 US\$000	2019 US\$000
	-	-

### 9. Taxation

The Association has received an undertaking from the Bermuda government exempting it from tax on income, profit, capital or capital gains until 31 March 2035, should it be enacted. Accordingly, no provision for such taxes has been recorded by the Association.

### 10. Land and buildings

The freehold property consists of office premises in London. It is occupied under licence, free of rent, by the London representatives of the Managers. The property was last valued by CBRE Limited at £15.3 million (US\$21.4 million) reflecting the market value at 20 February 2018. The other comprehensive loss shown in the consolidated statement of changes in equity reflects the movement in the US dollar equivalent of £15.3 million (US\$19.8 million) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US\$17.0 million. The surplus of US\$2.9 million has been credited to the revaluation reserve.

## Notes on the Accounts

continued

	2020 US\$000	2019 US\$000
<b>11. Other financial investments</b>		
<b>Market value</b>		
Bonds and loans	93,508	55,269
Equities	120	126
Money market instruments	25,386	37,116
Cash accounts	171	391
	<b>119,185</b>	92,902
<b>Cost</b>		
Bonds and loans	92,383	55,255
Equities	485	485
Money market instruments	25,386	37,116
Cash accounts	171	391
	<b>118,425</b>	93,247

### Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 The unadjusted quoted price for an identical asset in an active market at the reporting date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Market data is unavailable for the asset.

The Association's investment assets have been fair valued using the above hierarchy categories as follows:

### As at 20 February 2020

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Bonds and loans	93,508	–	–	93,508
Equities	–	–	120	120
Money market instruments	25,386	–	–	25,386
Cash accounts	171	–	–	171
	<b>119,065</b>	–	120	<b>119,185</b>

## Notes on the Accounts

continued

### 11. Other financial investments continued

As at 20 February 2019

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Bonds and loans	55,269	–	–	55,269
Equities	–	–	126	126
Money market instruments	37,116	–	–	37,116
Cash accounts	391	–	–	391
	92,776	–	126	92,902

### 12. Debtors arising out of reinsurance operations

The Trust  
SMUA

2020 US\$000	2019 US\$000
33,102	66,879
–	9,508
33,102	76,387

### 13. Creditors arising out of reinsurance operations

SMUA

2020 US\$000	2019 US\$000
13,204	–

### 14. Other creditors

Capital distribution payable to Members  
Accruals and other payables

2020 US\$000	2019 US\$000
16,324	21,917
196	335
16,520	22,252

### 15. Wholly-owned subsidiary companies

SMPH is a wholly-owned subsidiary of the Association.

### 16. Hydra Insurance Company Limited (“Hydra”)

Hydra is a reinsurance captive created by the members of the International Group. Each member has its own cell which is legally separate from the liabilities of the other cells. Under the provisions of FRS 102 and 103 Steamship’s cell has been classified as a quasi-subsiary and has been consolidated.

## Notes on the Accounts

continued

### 17. Capital management

The Association aims to maintain capital resources at a level which provides a comfortable margin above the requirement of the Bermuda Monetary Authority (BMA). Capital resources for regulatory purposes consist of free reserves on a regulatory economic basis. The BMA categorised the Association as a Class 3A insurer effective from 1 January 2016 and the Association was in compliance with the applicable regulatory capital requirements throughout the financial year.

### 18. Risk management

The Association monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks.

The Group Solvency Self-Assessment ("GSSA") documents Steamship's and the Association's risk and capital management policies employed to identify, assess, manage and report the risks it may face and to determine the funds necessary to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

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

#### Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium received from SMUA in the current policy year is insufficient to cover claims and other costs arising in that year. The Association's premium risk is calculated on net premiums written and is purely in relation to its exposure to Hydra claims as it bears no net liability on SMUA claims, as described under note 3 on the accounts.

Reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. The Association is exposed to the uncertainty surrounding the timing, frequency and severity of claims under its net claims exposure through Hydra. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

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

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

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

	<b>2020</b>	2019
	<b>US\$000</b>	US\$000
<b>5% increase in claims incurred on current policy year</b>		
Overall surplus gross of reinsurance	<b>(9,601)</b>	(10,242)
net of reinsurance	<b>(1,067)</b>	(553)
<b>Single claim of US\$2billion in current policy year</b>		
Overall surplus gross of reinsurance	<b>(29,839)</b>	(31,539)
net of reinsurance	<b>(17,710)</b>	(17,583)

## Notes on the Accounts

continued

### 18. Risk management continued

#### Insurance risk continued

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

#### Insurance claims - gross

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	US\$000								
End of reporting year	475,728	420,741	322,326	59,072	211,207	181,109	227,965	231,523	215,790
One year later	754,806	345,219	114,298	54,804	199,620	172,409	212,674	214,952	
Two years later	940,327	205,177	113,487	54,419	203,148	178,014	200,221		
Three years later	802,274	203,896	113,705	54,286	200,372	179,347			
Four years later	802,745	203,197	115,611	53,110	197,453				
Five years later	803,434	201,219	113,429	52,348					
Six years later	803,037	200,978	112,973						
Seven years later	802,872	199,349							
Eight years later	802,824								
Current estimate of ultimate claims	802,824	199,349	112,973	52,348	197,453	179,347	200,221	214,952	215,790
Cumulative payments to date	802,549	200,805	108,648	50,833	170,493	135,210	133,787	78,020	39,263
Claims outstanding	275	(1,456)	4,325	1,515	26,960	44,137	66,434	136,932	176,527
Claims outstanding relating to last nine reporting years									455,649
Other claims liabilities									300
Total gross claims outstanding									455,949

#### Insurance claims - net

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	US\$000								
End of reporting year	42,466	49,814	54,802	36,326	19,892	15,344	29,562	33,874	33,517
One year later	34,048	41,376	41,687	32,058	25,881	7,891	24,475	32,805	
Two years later	31,537	36,170	40,876	31,673	25,630	4,385	22,283		
Three years later	29,769	34,889	41,094	31,540	24,105	3,501			
Four years later	30,394	34,190	43,000	30,364	22,793				
Five years later	30,394	32,212	40,818	29,602					
Six years later	29,997	31,971	40,362						
Seven years later	29,832	30,342							
Eight years later	29,791								
Current estimate of ultimate claims	29,791	30,342	40,362	29,602	22,793	3,501	22,283	32,805	33,517
Cumulative payments to date	29,753	31,798	36,037	28,087	18,773	1,633	10,200	5,323	795
Claims outstanding	38	(1,456)	4,325	1,515	4,020	1,868	12,083	27,482	32,722
Claims outstanding relating to last nine reporting years									82,597
Other claims liabilities									–
Total net claims outstanding									82,597

## Notes on the Accounts

continued

### 18. Risk management continued

The Association has elected to disclose only nine years of its experience in its claims development tables as permitted under the transitional provisions of FRS 103. One year will be added in each subsequent financial year until the disclosure covers ten years.

#### Credit risk

Credit risk is the risk that a counterparty owing money to the Association may default and the debt has to be written off. The extensive reinsurance protection arranged by the Association effectively transforms a large proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. The credit risk arising from the reinsurance contract with The Trust is mitigated through the operation of a collateral agreement. External reinsurers are generally only used if their financial strength rating is higher or equal to an A- rating from Standard & Poor's or an equivalent from another rating agency.

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

The following tables show the aggregated credit risk exposure for those assets with external credit ratings.

#### As at 20 February 2020

	AAA US\$000	AA US\$000	A US\$000	NR US\$000	Total US\$000
Bonds and loans	-	93,508	-	-	93,508
Money market instruments	25,386	-	-	-	25,386
Cash accounts	-	171	-	-	171
Cash at bank and in hand	-	2,553	104	-	2,657
Reinsurers' share of technical provisions	-	538	372,814	-	373,352
Debtors arising out of reinsurance operations	-	-	33,102	-	33,102
Accrued interest	-	346	-	-	346
<b>Total assets with credit ratings</b>	<b>25,386</b>	<b>97,116</b>	<b>406,020</b>	<b>-</b>	<b>528,522</b>
Other assets	-	-	-	22,773	22,773
<b>Total assets</b>	<b>25,386</b>	<b>97,116</b>	<b>406,020</b>	<b>22,773</b>	<b>551,295</b>

## Notes on the Accounts

continued

### 18. Risk management continued

#### Credit risk continued

As at 20 February 2019

	AAA US\$000	AA US\$000	A US\$000	NR US\$000	Total US\$000
Bonds and loans	1,440	52,959	870	–	55,269
Money market instruments	8,128	28,988	–	–	37,116
Cash accounts	–	391	–	–	391
Cash at bank and in hand	–	373	393	–	766
Reinsurers' share of technical provisions	–	238	373,314	–	373,552
Debtors arising out of reinsurance operations	–	–	76,387	–	76,387
Accrued interest	–	149	–	–	149
<b>Total assets with credit ratings</b>	<b>9,568</b>	<b>83,098</b>	<b>450,964</b>	<b>–</b>	<b>543,630</b>
Other assets	–	–	–	22,662	22,662
<b>Total assets</b>	<b>9,568</b>	<b>83,098</b>	<b>450,964</b>	<b>22,662</b>	<b>566,292</b>

The Association's exposure to liquidity risk is minimal given that the majority of its investments are cash, money market instruments and short term US government bonds and the terms of its reinsurance agreements provide for prompt payment.

#### Market risk

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

The majority of the Association's investments are in short term cash deposits, money market instruments and US government bonds and therefore has limited exposure to interest rate risk.

The Association is exposed to currency risk in its freehold property in the UK (see note 10) otherwise its exposure is minimal since any currency exposure in claims from SMUA is passed on to the Trust.

## Notes on the Accounts

continued

### 18. Risk management continued

#### Market risk continued

The following tables show the Association's foreign currency denominated assets and liabilities:

#### As at 20 February 2020

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Other US\$000	Total US\$000
Assets	486,261	36,065	23,209	5,760	551,295
Liabilities	(440,556)	(16,064)	(23,227)	(5,826)	(485,673)
	45,705	20,001	(18)	(66)	65,622

#### As at 20 February 2019

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Other US\$000	Total US\$000
Assets	499,977	40,388	17,913	8,014	566,292
Liabilities	(417,058)	(20,180)	(17,938)	(8,388)	(463,564)
	82,919	20,208	(25)	(374)	102,728

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

#### Operational risk

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

### 19. Post balance sheet events

The financial year end coincided with the rapid escalation of the COVID-19 outbreak, which at the balance sheet date was affecting some operating locations more than others. All industries and parts of society have now been affected. This has introduced uncertainty and volatility across all aspects of the business. The financial strength and operational resilience of the Association are there for such events. Reinsurance and other counterparty security is being more closely monitored, with no significant risks currently emerging.

# Independent Auditor's Report

To the directors of The Steamship Mutual Underwriting Association (Bermuda) Limited

## Report on the audit of the non-statutory financial statements

### Opinion

In our opinion the non-statutory financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 20th February 2020 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

We have audited the non-statutory financial statements of the company which comprise:

- the consolidated income and expenditure account;
- the consolidated statement of changes in equity;
- the consolidated balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 19.

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" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

### 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 non-statutory financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the non-statutory financial statements is not appropriate; or
- the directors have not disclosed in the non-statutory financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## Independent Auditor's Report

continued

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory 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 non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the non-statutory financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

The engagement partner on the audit resulting in this independent auditor's report is Adam Addis.

Deloitte LLP  
London, United Kingdom  
2 June 2020