

Steamship

Combined Financial Statements 2020

Managers' Report

Basis of combination

The Combined Financial Statements for Steamship have been prepared by combining the consolidated accounts of Steamship Mutual Underwriting Association Limited ("SMUA"), Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE"), the consolidated accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), and The Steamship Mutual Trust ("Trust"). All the Members of SMUA and SMUAE are also Members of SMUAB and are beneficiaries of the Trust.

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

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

Free reserves

After considering the strong current and projected capital position of Steamship, in October 2019 the Directors of SMUAB declared a capital distribution amounting to 7.5% of mutual premium for the 2019/20 policy year (Class 1 – P&I) payable to Members who renewed at 20 February 2020. Accordingly US\$16.3 million was credited to Members.

As at 20 February 2020, the combined free reserves of Steamship were US\$515.3 million, an increase of US\$48.3 million, or 10.3% over the financial year. For the year under review, the Directors set a 0% general increase in P&I premium. For the first time in six years, a general increase was applied to the 2020/21 policy year to support long term underwriting balance.

Underwriting

The 2016/17 year was closed in May 2019.

Gross premium written of US\$308.7 million, compared to US\$306.7 million last year. The financial year combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium was 99.8% compared to 116.1% last year.

The Directors will review release call levels as part of the Group Solvency Self-Assessment. In the meantime release calls for both Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") will be set at 10% for the 2020/21 policy year and 0% for both the 2019/20 and 2018/19 policy years.

Claims

Net claims paid during the financial year on a combined basis amounted to US\$230.5 million, an increase of 0.8% on the previous year. Net outstanding claims decreased by US\$14.5 million to US\$593.0 million, a decrease of 2.4% compared to the previous year.

Gross claims arising in respect of the 2019/20 policy year, including incurred but not reported ("IBNR") claims, are projected to be US\$315.8 million, a decrease of 1.9% over the 2018/19 policy year (US\$322.0 million). Claims net of reinsurance recoveries amounted to US\$246.9 million, a decrease of 5.6% compared to the 2018/19 policy year (US\$261.5 million).

Investments

There was a combined gain on investments (before currency and investment charges), excluding land and buildings, of US\$66.9 million, a return of 6.1%. Overall cash and investments increased by US\$37.9 million, or 3.5%, to US\$1,125.8 million.

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

Accountants' Report

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

Report of Factual Findings

We have performed the following procedures as agreed by The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), Steamship Mutual Underwriting Association Limited ("SMUA"), Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE") and The Steamship Mutual Trust ("The Trust"), together "the Companies" in accordance with our engagement letter dated 22 May 2020. The procedures were performed solely for the purpose of presenting the combined financial statements of the Companies.

Scope of our work and factual findings

The procedures performed were as follows:

- We agreed the figures used in the combined financial statements to the signed financial statements of The Companies as at 20 February 2020 respectively; and
- We checked that the stated accounting policies for measurement in the combined financial statements are consistent with the accounting policies for measurement adopted by The Companies, as defined in their respective financial statements.

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

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

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

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

Audit work

Our audit work on the financial statements of SMUA, SMUAB and The Trust, and the audit work carried out

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

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

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

Use of Report

This report is made solely to the Companies' directors, as a body, in accordance with our engagement letter dated 22 May 2020 and solely for the purpose of presenting the combined financial statements of the Companies. Our audit work has been undertaken so that we might state to the Companies' directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Companies, for our audit work or for this report.

Deloitte LLP

2 June 2020

Combined Income and Expenditure Account

For the year ended 20 February 2020

	Note	2020 US\$000	2019 US\$000
Technical Account			
Gross premium written	2	308,725	306,661
Outward reinsurance premium	3	(48,389)	(50,522)
Net earned premium		260,336	256,139
Allocated currency losses	7	(3,212)	(9,490)
Claims paid			
Gross amount	4	253,391	300,887
Reinsurers' share	4	(23,075)	(72,324)
		230,316	228,563
Change in the provision for claims			
Gross amount	5	(6,204)	(3,418)
Reinsurers' share	5	(8,297)	21,213
		(14,501)	17,795
Net claims incurred		215,815	246,358
Operating expenses	6	40,780	41,623
Underwriting balance		529	(41,332)
Non-Technical Account			
Underwriting balance		529	(41,332)
Investment income	7	20,358	15,626
Unrealised gains/(losses) on investments	7	43,308	(6,312)
Currency losses allocated to the Technical Account	7	3,212	9,490
Net investment return		66,878	18,804
Investment charges		(2,375)	(2,774)
Other income		36	9
Other charges	8	(122)	(1,473)
Taxation		(329)	(236)
Surplus/(deficit) for the financial year		64,617	(27,002)

Combined Balance Sheet

as at 20 February 2020

Assets	Note	2020 US\$000	2019 US\$000
Investments			
Land and buildings	8	19,829	19,951
Other financial investments	9	1,076,898	1,013,244
Reinsurers' share of technical provisions			
Claims outstanding	5	228,249	219,952
Debtors			
Debtors arising out of direct insurance operations		16,253	15,860
Debtors arising out of reinsurance operations		1,267	7,838
Other debtors		4,110	6,734
Other assets			
Cash at bank		29,083	54,709
Prepayments and accrued income			
Deferred acquisition costs		601	468
Other prepayments and accrued income		5,422	4,364
Total assets		1,381,712	1,343,120
Liabilities			
Capital and reserves			
Free reserves	10	515,342	467,049
Technical provisions			
Provision for unearned premium		3,685	2,979
Claims outstanding	5	821,204	827,408
Provisions for other risks and charges			
Provision for taxation		212	236
Other provisions		1,277	629
Creditors			
Creditors arising out of direct insurance operations		9,490	8,993
Creditors arising out of reinsurance operations	11	9,650	10,175
Other creditors	12	20,852	25,651
Total liabilities		1,381,712	1,343,120

Notes on the Combined Financial Statements

1. Extract of accounting policies

(a) Accounting convention

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

(b) Basis of combination

The financial statements combine the accounts of SMUAB and its subsidiary undertaking, Steamship Mutual Property Holdings Limited ("SMPH") and its share of Hydra Insurance Company Limited ("Hydra") with those of SMUA and its subsidiary undertaking, Steamship (Germany) GmbH, SMUAE, and the Trust to 20 February 2020.

2. Gross premium written

	2020 US\$000	2019 US\$000
Mutual and fixed premium	309,431	307,375
Movement in unearned premium	(706)	(714)
	308,725	306,661

3. Outward reinsurance premium

	2020 US\$000	2019 US\$000
Group Excess Loss	33,495	33,020
Other reinsurance premium	14,894	17,502
	48,389	50,522

4. Claims paid

	2020 US\$000	2019 US\$000
Claims and related expenses	193,822	256,140
Group Pool claims	34,565	18,868
Claims administration expenses	25,004	25,879
	253,391	300,887

Less reinsurers' share		
Group Excess Loss	4,188	13,839
Group Pool	5,452	46,044
Other reinsurers	13,435	12,441
	23,075	72,324

Net claims paid	230,316	228,563
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Notes on the Combined Financial Statements

continued

	2020 US\$000	2019 US\$000
5. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	(827,408)	(830,826)
Provision carried forward	821,204	827,408
	(6,204)	(3,418)
 Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	151,118	196,757
Provision carried forward	(169,091)	(151,118)
	(17,973)	45,639
 Other reinsurers' share of outstanding claims		
Provision brought forward	68,834	44,408
Provision carried forward	(59,158)	(68,834)
	9,676	(24,426)
Change in reinsurers' share	(8,297)	21,213
Change in net provision for claims	(14,501)	17,795
Net claims outstanding	592,955	607,456

A favourable movement in the prior year net claims provision of US\$32.3 million was experienced during the year (2019: US\$21.8 million).

	2020 US\$000	2019 US\$000
6. Operating expenses		
Brokerage	18,133	18,295
Underwriting administration	9,997	9,939
Other administration	11,774	12,432
Directors' remuneration	384	468
Auditor's remuneration	492	489
	40,780	41,623
 Total expenses		
Operating expenses	40,780	41,623
Claims expenses (note 4 above)	25,004	25,879
Investment charges	2,375	2,774
	68,159	70,276

Notes on the Combined Financial Statements

continued

	2020 US\$000	2019 US\$000
7. Net investment return		
Dividends and interest	26,217	22,287
Realised (losses)/gains		
Investments	(3,935)	1,798
Foreign exchange	(1,924)	(8,459)
Investment income	20,358	15,626
Unrealised gains/(losses)		
Investments	44,596	(5,281)
Foreign exchange	(1,288)	(1,031)
Foreign exchange losses allocated to Technical Account	3,212	9,490
Net investment return	66,878	18,804

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

8. Land and buildings

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

	2020 US\$000	2019 US\$000
9. Other financial investments		
Market value		
Equities	87,174	73,020
Alternative investments	95,626	80,292
Bonds	790,222	677,434
Money market instruments	73,194	143,505
Deposits with credit institutions	26,126	28,629
Cash accounts	5,225	10,297
Derivative financial instruments	(669)	67
	1,076,898	1,013,244
Cost		
Equities	50,065	49,812
Alternative investments	82,292	72,817
Bonds	778,778	690,276
Money market instruments	73,194	143,505
Deposits with credit institutions	26,126	28,629
Cash accounts	5,225	10,297
	1,015,680	995,336

10. Free reserves

	2020 US\$000	2019 US\$000
Brought forward	467,049	515,968

Notes on the Combined Financial Statements

continued

Surplus/(deficit) for year	64,617	(27,002)
Capital distribution	(16,324)	(21,917)
	515,342	467,049

11. Creditors arising out of reinsurance operations

	2020	2019
	US\$000	US\$000
Group clubs and Excess Loss reinsurers	454	1,943
Other reinsurance creditors	9,196	8,232
	9,650	10,175

12. Other creditors

	2020	2019
	US\$000	US\$000
Capital distribution payable to members	16,324	21,917
Other creditors	4,528	3,734
	20,852	25,651

13. Average expense ratio

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

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

The Combined Average Expense Ratio for the P&I business of Steamship for the five years ended 20 February 2020 is 12.1% (2019: 12.4%).

Notes on the Combined Financial Statements

continued

14. Risk management

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

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

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

Insurance risk

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

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

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

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

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

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

	2020 US\$000	2019 US\$000
5% increase in claims incurred on current policy year		
Overall surplus gross of reinsurance	(15,748)	(16,051)
net of reinsurance	(10,668)	(11,380)
Single claim of US\$2 billion in current policy year		
Overall surplus gross of reinsurance	(2,000,000)	(2,000,000)
net of reinsurance	(33,155)	(33,090)

Notes on the Combined Financial Statements

continued

14. Risk management 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 have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet.

Insurance claims - gross

Policy year	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000	2016/17 US\$000	2017/18 US\$000	2018/19 US\$000	2019/20 US\$000
End of reporting year	485,127	429,668	364,898	306,136	341,743	245,943	393,136	322,012	315,754
One year later	764,249	354,164	254,372	237,964	338,071	226,731	357,300	287,570	
Two years later	949,778	334,971	235,589	232,980	348,257	244,387	337,861		
Three years later	1,072,279	314,316	227,727	226,574	353,834	241,261			
Four years later	1,045,184	297,510	223,265	220,231	361,341				
Five years later	1,013,205	292,087	219,747	216,872					
Six years later	1,008,783	287,323	220,321						
Seven years later	1,013,521	282,635							
Eight years later	1,008,282								
Current estimate of ultimate claims	1,008,282	282,635	220,321	216,872	361,341	241,261	337,861	287,570	315,754
Cumulative payments to date	971,142	276,931	200,044	200,651	317,955	190,411	213,348	99,114	56,638
Claims outstanding	37,140	5,704	20,277	16,221	43,386	50,850	124,513	188,456	259,116
Claims outstanding relating to last nine reporting years									745,663
Other claims liabilities									75,541
Total gross claims outstanding									821,204

Insurance claims - net

Policy year	2011/12 US\$000	2012/13 US\$000	2013/14 US\$000	2014/15 US\$000	2015/16 US\$000	2016/17 US\$000	2017/18 US\$000	2018/19 US\$000	2019/20 US\$000
End of reporting year	263,946	280,512	266,696	239,384	245,985	223,046	255,033	261,474	246,879
One year later	253,164	253,863	230,933	214,612	232,623	219,762	250,431	248,208	
Two years later	243,051	255,088	223,774	205,809	240,962	230,735	239,397		
Three years later	246,075	245,586	217,545	202,161	241,075	234,241			
Four years later	241,346	235,862	213,697	198,301	239,861				
Five years later	236,195	234,329	209,537	196,241					
Six years later	234,447	229,444	210,804						
Seven years later	233,299	225,380							
Eight years later	232,083								
Current estimate of ultimate claims	232,083	225,380	210,804	196,241	239,861	234,241	239,397	248,208	246,879
Cumulative payments to date	228,746	221,300	192,454	181,352	210,352	185,408	166,924	99,114	54,374
Claims outstanding	3,337	4,080	18,350	14,889	29,509	48,833	72,473	149,094	192,505
Claims outstanding relating to last nine reporting years									533,070
Other claims liabilities									59,885
Total net claims outstanding									592,955

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk

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

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

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

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

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

As at 20 February 2020

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	BB and below US\$000	Not rated US\$000	Total US\$000
Bonds and loans	109,443	235,462	265,260	164,991	15,066	–	790,222
Money market instruments	73,194	–	–	–	–	–	73,194
Deposits with credit institutions	–	5,000	21,126	–	–	–	26,126
Cash accounts	–	172	5,053	–	–	–	5,225
Derivative financial instruments	–	–	(669)	–	–	–	(669)
Cash at bank	–	23,144	2,038	–	–	3,901	29,083
Reinsurers' share of technical provisions	–	17,873	189,600	20,660	–	116	228,249
Debtors arising out of reinsurance operations	–	18	1,211	38	–	–	1,267
Accrued interest	267	1,037	2,028	1,394	173	–	4,899
Unsettled investment transactions	–	–	146	–	–	–	146
Total assets with credit ratings	182,904	282,706	485,793	187,083	15,239	4,017	1,157,742
Other assets	–	–	–	–	–	223,970	223,970
Total assets	182,904	282,706	485,793	187,083	15,239	227,987	1,381,712

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk continued

As at 20 February 2019

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

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

As at 20 February 2020

	Not due US\$000	0 - 30 days US\$000	31 - 90 days US\$000	Over 90 days US\$000	Impaired US\$000	Total US\$000
Debtors arising out of direct insurance operations	2,924	6,971	2,568	3,093	697	16,253
Debtors arising out of reinsurance operations	–	1,210	20	12	25	1,267
Total	2,924	8,181	2,588	3,105	722	17,520

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk continued

As at 20 February 2019

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

Market risk

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

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

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

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

As at 20 February 2020

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Korean won US\$000	Other US\$000	Total US\$000
Assets	1,247,084	45,536	71,207	10,974	–	6,911	1,381,712
Liabilities	(727,057)	(25,217)	(80,634)	(18,117)	(3,655)	(11,690)	(866,370)
	520,027	20,319	(9,427)	(7,143)	(3,655)	(4,779)	515,342
Of which held in derivatives			4,865	6,849			

Notes on the Combined Financial Statements

continued

14. Risk management continued

Market risk continued

As at 20 February 2019

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

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

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

Steamship's interest rate risk is in relation to the fluctuation in the fair value of future cash flows of bonds due to changes in interest rates and spreads. The table below shows the change in fair value of the investments assuming a 200 basis points increase in spreads and/or increase in interest rates:

	Effect on investment valuation US\$000
As at 20 February 2020	(37,508)
As at 20 February 2019	(20,371)

Steamship's equity price risk is in relation to the fluctuation in the fair value of equities due to changes in market conditions. The table below shows the change in fair value of the investments assuming a 35% decrease in equities:

	Effect on investment valuation US\$000
As at 20 February 2020	(30,469)
As at 20 February 2019	(25,513)

The table below shows the change in fair value of the investments assuming a 15% decrease in alternative investment pricing:

	Effect on investment valuation US\$000
As at 20 February 2020	(14,344)
As at 20 February 2019	(12,044)

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

Notes on the Combined Financial Statements

continued

14. Risk management continued

Liquidity risk

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

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

As at 20 February 2020

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Investments	419,572	88,065	314,665	254,596	1,076,898
Reinsurers' share of technical provisions	82,691	47,492	65,049	33,017	228,249
Other assets	56,736	–	–	19,829	76,565
Total assets	558,999	135,557	379,714	307,442	1,381,712

As at 20 February 2019

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

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

As at 20 February 2020

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Claims outstanding	297,508	170,869	234,038	118,789	821,204
Other liabilities	43,889	–	–	1,277	45,166
Total liabilities	341,397	170,869	234,038	120,066	866,370

As at 20 February 2019

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

Notes on the Combined Financial Statements

continued

14. Risk management continued

Operational risk

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

15. 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, as have Members. This has introduced uncertainty and volatility across all aspects of the business. The financial strength and operational resilience of Steamship are there for such events.

The slowdown in global trade is inevitably having an impact on Members, some more than others, with several vessels going into lay-up. The Board does not consider that this will lead to a significant impact on the prospective operating performance of Steamship because the likelihood, as with prior global economic recessions, is that there will be a corresponding reduction in net incurred claims costs. The pandemic is also having an impact on expected claims, particularly in passenger vessels. Reinsurance and other counterparty security is being more closely monitored, with no significant risks currently emerging. As the duration of the impact of COVID-19 is unknown it is not possible to reliably estimate its impact on prospective operating performance.

The resulting downturn in financial markets has had an adverse impact on the investment portfolio of Steamship. The conservative investment strategy exercised has kept these losses to an acceptable level, and within risk appetite; these losses have moderated significantly since the end of March, but uncertainty still remains.

Combined Policy Year Statement

All Classes

	2019/20 US\$000	2018/19 US\$000	2017/18 US\$000	Total US\$000
Development of open policy years				
Gross premium	306,887	308,409	320,749	936,045
Reinsurance premium	(48,828)	(49,879)	(49,068)	(147,775)
Net earned premium	258,059	258,530	271,681	788,270
Allocated investment return from non-technical account	(1,128)	(6,664)	2,874	(4,918)
Net incurred claims				
Claims paid net of reinsurance recoveries	42,741	85,101	146,945	274,787
Claims administration expenses	11,633	14,013	19,979	45,625
Net claims outstanding	82,464	88,386	37,927	208,777
IBNR provision	100,990	57,646	33,495	192,131
Future claims administration expenses	9,051	3,062	1,051	13,164
	246,879	248,208	239,397	734,484
Operating expenses				
Brokerage	17,777	18,579	20,596	56,952
Other expenses	22,620	23,354	20,118	66,092
	40,397	41,933	40,714	123,044
Underwriting balance	(30,345)	(38,275)	(5,556)	(74,176)
Net investment income	64,085	14,331	36,794	115,210
Surplus(deficit) on open policy years	33,740	(23,944)	31,238	41,034
Closed policy years				
Surplus in respect of 2015/16 and prior years at 20 February 2019				477,510
Balance on 2016/17 year as at 20 February 2019				29,124
Capital distribution				(38,241)
Movements on policy years prior to 2017/18				5,915
Surplus on all policy years				515,342

Notes

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

Combined Policy Year Statement

All Classes

Balance available for outstanding claims by policy year	2019/20 US\$000	2018/19 US\$000	2017/18 US\$000	Closed years US\$000	Total US\$000
Gross claims outstanding					
Own claims	213,993	145,674	105,937	204,496	670,100
Pool claims	36,072	39,720	17,525	42,050	135,367
Future claims administration expenses	9,051	3,062	1,051	2,573	15,737
Reinsurance recoveries outstanding					
Group Excess Loss contract	–	–	(460)	(21,508)	(21,968)
Group Pool	(63,531)	(1,314)	(53,380)	(28,898)	(147,123)
Other	(3,080)	(38,048)	1,800	(19,830)	(59,158)
Net provision for claims outstanding	192,505	149,094	72,473	178,883	592,955
Free reserves					
Surplus(deficit) on policy years	33,740	(23,944)	31,238	474,308	515,342
Balance available for outstanding claims	226,245	125,150	103,711	653,191	1,108,297

Notes

1. Combined projected net outstanding claims at 20 February 2020, amounting to US\$593.0 million, includes IBNR provision totalling US\$250.0 million as follows:

2019/20 US\$m	2018/19 US\$m	2017/18 US\$m	Closed years US\$m	Total US\$m
101.0	57.6	33.5	57.9	250.0

2. Combined free reserves at 20 February 2020, amounting to US\$515.3 million, are stated net of a provision for future expenses on outstanding claims amounting to US\$15.7 million.

Combined Policy Year Statement

P&I Class

	2019/20 US\$000	2018/19 US\$000	2017/18 US\$000	Total US\$000
Development of open policy years				
Gross premium	281,454	282,944	294,124	858,522
Reinsurance premium	(39,398)	(41,707)	(41,567)	(122,672)
Net earned premium	242,056	241,237	252,557	735,850
Allocated investment return from non-technical account	(1,061)	(5,946)	2,825	(4,182)
Net incurred claims				
Claims paid net of reinsurance recoveries	41,014	78,578	137,151	256,743
Claims administration expenses	10,988	12,926	18,545	42,459
Net claims outstanding	81,434	82,020	35,900	199,354
IBNR provision	94,246	52,526	29,384	176,156
Future claims administration expenses	8,668	2,822	960	12,450
	236,350	228,872	221,940	687,162
Operating expenses				
Brokerage	16,488	17,175	19,098	52,761
Acquisition and other expenses	20,758	21,427	18,440	60,625
	37,246	38,602	37,538	113,386
Underwriting balance	(32,601)	(32,183)	(4,096)	(68,880)
Allocated net investment income	58,787	13,148	33,700	105,635
Surplus(deficit) on open policy years	26,186	(19,035)	29,604	36,755
Closed policy years				
Surplus in respect of 2015/16 and prior years at 20 February 2019				459,282
Balance on 2016 /17 year as at 20 February 2019				19,218
Capital distribution				(38,241)
Movements on policy years prior to 2017/18				5,587
Surplus on all policy years				482,601

Notes

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

	2019/20 US\$m	2018/19 US\$m	2017/18 US\$m
2. Net product of 10% supplementary call	22.2	21.8	22.7

Balance available for outstanding claims by policy year	2019/20 US\$000	2018/19 US\$000	2017/18 US\$000	Closed years US\$000	Total US\$000
Gross claims outstanding					
Own claims	205,598	133,600	101,662	197,575	638,435
Pool claims	36,072	39,720	17,525	42,050	135,367
Future claims administration expenses	8,668	2,822	960	2,480	14,930
Reinsurance recoveries outstanding					
Group Excess Loss contract	–	–	(460)	(21,508)	(21,968)
Group Pool	(63,531)	(1,314)	(53,380)	(28,898)	(147,123)
Other	(2,459)	(37,460)	(63)	(19,230)	(59,212)
Net provision for claims outstanding	184,348	137,368	66,244	172,469	560,429
Free reserves					
(Deficit)/surplus on policy years	26,186	(19,035)	29,604	445,845	482,600
Balance available for outstanding claims	210,534	118,333	95,848	618,314	1,043,029

Notes

1. Combined projected net outstanding claims at 20 February 2020, amounting to US\$560.4 million, includes IBNR provision totalling US\$229.0 million as follows:

2019/20 US\$m	2018/19 US\$m	2017/18 US\$m	Closed years US\$m	Total US\$m
94.2	52.5	29.4	52.9	229.0