

Steamship Mutual

Combined Financial Statements 2024

Managers' Report

Basis of combination

The Combined Financial Statements 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") (together "Steamship").

The financial statements of SMUA, SMUAB and the Trust were prepared in accordance with FRS 102 and 103, with SMUAE's prepared in accordance with International Financial Reporting Standards ("IFRS"). Adjustments were made to the SMUAE results and balance sheet to present these in accordance with FRS 102 and 103.

The Combined Financial Statements have been prepared for illustrative purposes and have no legal standing. These financial statements are unaudited.

The consolidated financial statements of SMUA and SMUAB and the financial statements of SMUAE and the Trust are available as separate documents at www.steamshipmutual.com.

Free reserves

After considering the strong current and projected capital position of Steamship, in October 2023 the Directors of SMUAB declared a capital distribution amounting to 7.5% of mutual premium for the 2023/24 policy year (Class 1 – P&I) payable to Members who renewed at 20 February 2024. Accordingly \$24.2 million was credited to Members.

As at 20 February 2024, the combined free reserves were \$540.3m, an increase of \$85.9m, or 18.9% over the financial year.

Underwriting

The 2020/21 year was closed in May 2023.

For the financial year ending 20 February 2024, gross premium written was \$463.9m, compared to \$406.9m in the prior 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 decreased from 95.4% to 92.9% due to lower than anticipated pool claims from the International Group ("IG"), and favourable development in prior policy years.

For the year under review, the Directors set a 7.5% general increase in P&I premium. At the 2024/25 renewal the general increase was set at 5%.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 10% for the 2024/25 and 2023/24 policy years and 5% for the 2022/23 and 2021/22 policy years.

Claims

Net outstanding claims for all policy years increased by \$41.5m to \$778.8m, an increase of 5.6% compared to the prior year.

Gross outstanding claims in respect of the 2023/24 policy year, including incurred but not reported ("IBNR") claims, are projected to be \$372.6m, an increase of 9.9% over the 2022/23 policy year (\$338.9m). Claims net of reinsurance recoveries amounted to \$321.0m, an increase of 26.9% compared to the 2022/23 policy year (\$252.9m).

Investments

There was a combined gain on investments (before currency and investment charges), excluding land and buildings, of \$94.4m, a return of 7.4%. Overall cash and investments (including unsettled investment transactions) increased by \$147.0m, or 12.2%, to \$1,352.6m.

Accountants' Report

Accountants' report to the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited

Reporting on agreed upon procedures in respect of Steamship Mutual Combined Financial Statements

This report has been produced in accordance with the terms of our engagement letter dated 17 May 2024 ("the Engagement Letter") and in accordance with the International Standard on Related Services 4400 applicable to agreed-upon-procedures engagements as published by IAASB for the purpose of allowing 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") for the sole purpose of presenting the combined financial statements of the companies.

Responsibilities of the Engaging Party and the Responsible Party

The Directors have acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

Management, as identified by the Directors, is responsible for the subject matter on which the agreed-upon procedures are performed. The Directors acknowledge responsibility for determining whether the agreed upon procedures we performed were sufficient for your purposes and we cannot, and do not, make any representations regarding the sufficiency of these procedures for your purposes.

Accountant's Responsibilities

We have conducted the agreed-upon procedures in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements. An agreed-upon procedures engagement involves us performing the procedures that have been agreed with the Directors, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

We have not subjected the information contained in this report to checking or verification procedures except to the extent expressly stated and this engagement does not constitute an audit or a review and, as such, no assurance is expressed. Had we performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in the FRC's Ethical Standard. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies International Standard on Quality Management (ISQM) 1, Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures

regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedure and Findings

We have performed the following work, which were agreed upon with the Directors:

- We agreed SMUAB's figures in the combined financial statements working papers to the signed non-statutory consolidated financial statements of SMUAB as at 20 February 2024 with no exceptions;
- We agreed The Trust's figures in the combined financial statements working papers to the signed non-statutory financial statements of the Trust as at 20 February 2024 with no exceptions;
- We agreed SMUA's figures in the combined financial statements working papers to the signed statutory consolidated financial statements of SMUA as at 20 February 2024 with no exceptions;
- We agreed SMUAE's figures in the combined financial statements working papers to the signed statutory financial statements of SMUAE as at 20 February 2024, and agreed the numerical accuracy of the adjustments made to the SMUAE figures to bring them in line with the accounting policies applied in the combined financial statements with no exceptions;
- We noted no exceptions with the numerical accuracy of the combined financial statements working papers;
- We agreed the figures used in Note 17 to the outputs from underlying systems without exception;
- We agreed the figures used in the policy year statements to underlying working papers without exception; and
- We did not identify any meaningful differences between the accounting policies adopted by SMUAB, The Trust and SMUA, as defined in their respective financial statements. SMUAE's financial statements were prepared under IFRS, so adjustments were made to SMUAE's figures to conform with the accounting policies applied in the combined financial statements.

Use of Report

Our report is prepared solely for the confidential use of the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited. Our report must not be used for any purpose other than for which it was prepared or be reproduced or referred to in any other document or made available to any third party without the written permission of BDO LLP except a copy of our report may be provided, for information purposes only, to SMUA, SMUAE and The Trust to whom we have no liability and owe no duty of care. We accept no liability to any other party who is shown or gains access to this report.

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BDO LLP
London, UK
24 May 2024

BDO LLP is a Limited Liability Partnership registered in England and Wales (with registered number OC305127)

Combined Income and Expenditure Account

For the year ended 20 February 2024

	Note	2024 \$m	2023 \$m
Technical Account			
Gross premium written	2	463.9	406.9
Outward reinsurance premium	3	(92.2)	(71.4)
Net earned premium		371.7	335.5
Allocated currency gains/(losses)	8	1.4	(5.1)
Claims paid			
Gross amount	4	251.0	367.3
Reinsurers' share	4	(10.2)	(142.5)
		240.8	224.8
Change in the provision for claims			
Gross amount	5	15.0	16.0
Reinsurers' share	5	26.5	20.7
		41.5	36.7
Net claims incurred		282.3	261.5
Operating expenses	6	64.4	53.4
Underwriting balance		26.4	15.5
Non-Technical Account			
Underwriting balance		26.4	15.5
Investment income	8	43.1	36.5
Unrealised gains/(losses)	8	52.7	(68.4)
Currency (gains)/losses allocated to the Technical Account	8	(1.4)	5.1
Net investment return		94.4	(26.8)
Investment charges		(2.6)	(2.7)
Other income		–	0.1
Other charges	9	(6.2)	(5.1)
Taxation		(1.9)	(0.2)
Surplus/(deficit) for the financial year		110.1	(19.2)

Combined Balance Sheet

as at 20 February 2024

	Note	2024 \$m	2023 \$m
Assets			
Investments			
Land and buildings	9	11.2	17.4
Other financial investments	10	1,319.0	1,095.4
Reinsurers' share of technical provisions			
Claims outstanding	5	262.0	288.5
Debtors			
Debtors arising out of direct insurance operations		17.2	10.4
Debtors arising out of reinsurance operations		0.5	1.1
Other debtors	11	8.6	75.1
Other assets			
Cash at bank		22.1	21.5
Prepayments and accrued income			
Deferred acquisition costs		1.2	1.0
Other prepayments and accrued income		7.4	5.9
Total assets		1,649.2	1,516.3
Liabilities			
Capital and reserves			
Free reserves	12	540.3	454.4
Technical provisions			
Provision for unearned premium		6.4	5.2
Claims outstanding	5	1,040.8	1,025.8
Provisions for other risks and charges			
Provision for taxation		0.4	0.2
Creditors			
Creditors arising out of direct insurance operations		14.0	15.7
Creditors arising out of reinsurance operations	13	15.7	10.4
Other creditors	14	31.6	4.6
Total liabilities		1,649.2	1,516.3

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, the Trust and SMUAE. SMUAE's financial statements are prepared in accordance with IFRS and following the implementation of IFRS 17 Insurance contracts, FRS 102 and 103 accounts have been prepared and used within this combination.

2. Gross premium written

Mutual and fixed premium

Movement in unearned premium

	2024 \$m	2023 \$m
	465.1	407.5
	(1.2)	(0.6)
	463.9	406.9

3. Outward reinsurance premium

IG Excess Loss

Other reinsurance premium

	2024 \$m	2023 \$m
	57.5	49.3
	34.7	22.1
	92.2	71.4

4. Claims paid

Claims and related expenses

IG Pool claims

Claims administration expenses

	2024 \$m	2023 \$m
	164.7	308.2
	49.9	29.3
	36.4	29.8
	251.0	367.3

Less reinsurers' share

IG Excess Loss

IG Pool

Other reinsurers

	6.0	57.6
	2.3	84.4
	1.9	0.5
	10.2	142.5

Net claims paid

	240.8	224.8
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Notes on the Combined Financial Statements

(continued)

5. Change in net provision for claims

Gross outstanding claims

	2024 \$m	2023 \$m
Provision brought forward	1,025.8	1,009.8
Claims paid in the year	(251.0)	(367.3)
Changes to reserves	266.0	383.3
Provision carried forward	1,040.8	1,025.8

IG Pool and Excess Loss reinsurers' share of outstanding claims

Provision brought forward	225.8	261.6
Reinsurance recoveries made in the year	(8.3)	(142.0)
Changes to reserves	(29.2)	106.2
Provision carried forward	188.3	225.8

Other reinsurers' share of outstanding claims

Provision brought forward	62.7	47.6
Reinsurance recoveries made in the year	(1.9)	(0.5)
Changes to reserves	12.9	15.6
Provision carried forward	73.7	62.7

Total net claims outstanding

778.8 737.3

A favourable movement in the prior years' net claims provision of \$37.9m was experienced during the year (2023: adverse \$0.2m).

6. Operating expenses

	2024 \$m	2023 \$m
Brokerage	32.5	28.1
Underwriting administration	12.7	11.0
Other administration	17.3	12.8
Operating lease expenses	0.5	0.2
Directors' remuneration	0.5	0.6
Auditor's remuneration	0.9	0.7
	64.4	53.4

Total expenses

Operating expenses	64.4	53.4
Claims administration expenses (Note 4 above)	36.4	29.8
Investment charges	2.6	2.7
	103.4	85.9

7. Operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

	2024 \$m	2023 \$m
Not later than one year	–	–
Later than one year and not later than five years	7.2	–
Later than five years	22.2	–
	29.4	–

The operating lease is for the commercial office in UK. The lease term is up to fifteen years.

Notes on the Combined Financial Statements

(continued)

	2024 \$m	2023 \$m
8. Net investment return		
Dividends and interest	44.5	26.4
Realised (losses)/gains:		
Investments	(1.0)	12.4
Foreign exchange	(0.4)	(2.3)
Investment income	43.1	36.5
Unrealised gains/(losses):		
Investments	50.8	(65.0)
Foreign exchange	1.9	(3.4)
Foreign exchange (gains)/losses allocated to Technical Account	(1.4)	5.1
Net investment return	94.4	(26.8)

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, differences arising on the conversion of transactions on non-US dollar denominated transactions relating to the technical account, and the funding of operating expenses.

9. Land and buildings

SMPH owns a freehold property in London. It is occupied under licence, free of rent, by the Managers. On 29 February 2024, SMPH exchanged contracts for the sale of the property at a price of £9.0m (\$11.3m). At the financial year end, the value of the property in the combined balance sheet is £8.9m (\$11.2m), reflecting the sale price net of fees. The other charges shown in the combined income and expenditure account reflects this impairment in value (£5.6m), along with the movement in the US dollar equivalent of £14.5m (\$17.4m) as at 20 February 2023 to that of £8.9m (\$11.2m) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to \$17.0m.

	2024 \$m	2023 \$m
10. Other financial investments		
Fair value		
Bonds	955.1	777.1
Equities	106.2	98.8
Alternative investments	140.6	89.2
Money market instruments	95.4	88.2
Deposits with credit institutions	11.9	29.5
Cash accounts	9.8	13.0
Derivative financial instruments	–	(0.4)
	1,319.0	1,095.4
Cost		
Bonds	973.4	822.0
Equities	67.8	79.1
Alternative investments	133.5	86.5
Money market instruments	95.4	88.2
Deposits with credit institutions	11.9	29.5
Cash accounts	9.8	13.0
	1,291.8	1,118.3

Notes on the Combined Financial Statements

(continued)

11. Other debtors

Unsettled investment transactions
Other receivables

2024 \$m	2023 \$m
0.3	71.3
8.3	3.8
8.6	75.1

12. Free reserves

Brought forward
Surplus/(deficit) for year
Capital distribution

2024 \$m	2023 \$m
454.4	473.6
110.1	(19.2)
(24.2)	–
540.3	454.4

13. Creditors arising out of reinsurance operations

IG clubs and Excess Loss reinsurers
Other reinsurance creditors

2024 \$m	2023 \$m
0.5	5.7
15.2	4.7
15.7	10.4

14. Other creditors

Capital distribution payable to members
Accruals and other payables

2024 \$m	2023 \$m
24.2	–
7.4	4.6
31.6	4.6

15. Average expense ratio

In accordance with Schedule 3 of the IG Agreement, each club 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, excluding expenditure incurred in handling claims. Investment income includes all income 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 2024 is 12.3% (2023: 12.8%).

16. Guarantees

SMUA and SMUAE provide guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provisions. Guarantees are issued under certain circumstances, in accordance with procedures, for uncovered claims when appropriate counter security is obtained in advance.

As at 20 February 2024 the total value of guarantees issued in respect of uncovered claims was \$18.1m (2023: \$19.1m). If the guarantee crystallises, counter securities held will be exercised and consequently receive the respective amounts from the insureds.

Notes on the Combined Financial Statements

(continued)

17. Risk management

Risks relating to the operations of the entities are monitored and managed through a 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 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 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 IG.

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.

Inflation is one of many factors that are considered by claims handlers when setting an appropriate claims reserve prior to settling a claim. Standard actuarial techniques are used which, amongst other things, incorporate inflation when calculating appropriate technical provisions. Together, these should accommodate potential increased costs arising from current levels of inflation.

In order to reduce reserving risk, claims reserves are set 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. This prudence is expected to cover increased costs that might arise should inflation remain above the long-term average.

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

		2024	2023
		\$m	\$m
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	(18.6)	(16.9)
	net of reinsurance	(16.0)	(12.6)
Single claim of \$2bn in current policy year			
Overall surplus	gross of reinsurance	(2,000.0)	(2,000.0)
	net of reinsurance	(35.6)	(34.9)
Single claim for other member of IG of \$2bn in current policy year			
Overall surplus	gross of reinsurance	(21.9)	(21.2)
	net of reinsurance	(21.9)	(21.2)

Notes on the Combined Financial Statements

(continued)

17. Risk management (continued)

The following tables show the development of claims over ten 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	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	306.1	341.7	245.9	393.1	322.0	315.8	314.8	310.8	338.9	372.6
One year later	238.0	338.1	226.7	357.3	287.6	346.6	297.3	271.6	275.2	
Two years later	233.0	348.3	244.4	337.9	269.8	335.2	286.3	261.8		
Three years later	226.6	353.8	241.3	336.0	259.2	442.3	269.6			
Four years later	220.2	361.3	241.0	366.5	255.3	440.2				
Five years later	216.9	360.5	239.9	366.5	251.1					
Six years later	223.8	358.9	241.3	365.0						
Seven years later	222.8	360.5	237.1							
Eight years later	217.5	358.2								
Nine years later	216.2									
Current estimate of ultimate claims	216.2	358.2	237.1	365.0	251.1	440.2	269.6	261.8	275.2	372.6
Cumulative payments to date	211.7	340.0	223.0	257.2	196.2	376.8	182.5	147.8	91.6	56.0
Claims outstanding	4.5	18.2	14.1	107.8	54.9	63.4	87.1	114.0	183.6	316.6
Claims outstanding relating to last ten reporting years										964.2
Provision in respect of 2013/14 policy year and prior										76.6
Total gross claims outstanding										1,040.8

Insurance claims - net

Policy year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	239.4	246.0	223.0	255.0	261.5	246.9	256.0	272.8	252.9	321.0
One year later	214.6	232.6	219.8	250.4	248.2	262.5	250.7	262.6	234.4	
Two years later	205.8	241.0	230.7	239.4	236.3	262.2	254.1	253.0		
Three years later	202.2	241.1	234.2	239.8	234.6	272.8	243.2			
Four years later	198.3	239.9	235.2	238.2	234.3	279.2				
Five years later	196.2	238.9	233.5	243.2	233.1					
Six years later	199.0	236.5	234.7	244.4						
Seven years later	197.0	236.3	231.8							
Eight years later	196.3	235.0								
Nine years later	195.8									
Current estimate of ultimate claims	195.8	235.0	231.8	244.4	233.1	279.2	243.2	253.0	234.4	321.0
Cumulative payments to date	192.1	225.2	217.9	206.7	195.3	225.4	180.5	147.3	91.6	56.0
Claims outstanding	3.7	9.8	13.9	37.7	37.8	53.8	62.7	105.7	142.8	265.0
Claims outstanding relating to last ten reporting years										732.9
Provision in respect of 2013/14 policy year and prior										45.9
Total net claims outstanding										778.8

Notes on the Combined Financial Statements

(continued)

17. Risk management (continued)

Credit risk

Credit risk is the risk that a counterparty owing money may default causing a debt to be written off. The reinsurance protection arranged effectively transforms a proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. External reinsurers are generally only used if at the time of contracting with them their financial strength rating is at least A- from S&P Global, or an equivalent rating from another rating agency, except in the case of some members of the IG. The key areas of exposure to credit risk are in relation to 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 reducing 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, prompt payment of premium is experienced and bad debt is immaterial.

Credit risk also arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting exposure to each individual bank based on its credit rating and/or capital strength.

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

As at 20 February 2024

	AAA \$m	AA \$m	A \$m	BBB \$m	BB and below \$m	Not rated \$m	Total \$m
Bonds and loans	111.6	324.2	317.6	189.7	11.9	0.1	955.1
Money market instruments	71.4	24.0	–	–	–	–	95.4
Deposits with credit institutions	–	11.1	0.8	–	–	–	11.9
Cash accounts	0.6	0.1	9.1	–	–	–	9.8
Derivative financial instruments	–	–	–	–	–	–	–
Cash at bank	–	18.3	3.5	–	–	0.3	22.1
Reinsurers' share of technical provisions	–	112.7	111.7	34.3	3.3	–	262.0
Debtors arising out of reinsurance operations	–	0.5	–	–	–	–	0.5
Accrued interest	0.7	1.4	3.0	1.9	0.1	0.1	7.2
Other assets	–	–	–	–	–	285.2	285.2
Total assets	184.3	492.3	445.7	225.9	15.3	285.7	1,649.2

Notes on the Combined Financial Statements

(continued)

17. Risk management (continued)

Credit Risk (continued)

As at 20 February 2023

	AAA \$m	AA \$m	A \$m	BBB \$m	BB and below \$m	Not rated \$m	Total \$m
Bonds and loans	85.3	248.6	261.2	166.9	15.1	–	777.1
Money market instruments	84.4	3.8	–	–	–	–	88.2
Deposits with credit institutions	–	9.1	20.4	–	–	–	29.5
Cash accounts	1.4	–	11.6	–	–	–	13.0
Derivative financial instruments	–	–	(0.4)	–	–	–	(0.4)
Cash at bank	–	15.9	3.9	–	–	1.7	21.5
Reinsurers' share of technical provisions	–	8.7	236.9	42.9	–	–	288.5
Debtors arising out of reinsurance operations	–	–	1.1	–	–	–	1.1
Accrued interest	0.5	1.5	1.9	1.6	0.1	–	5.6
Other assets	–	–	–	–	–	292.2	292.2
Total assets	171.6	287.6	536.6	211.4	15.2	293.9	1,516.3

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 2024

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	7.3	3.9	4.1	1.9	–	17.2
Debtors arising out of reinsurance operations	–	0.1	0.3	0.1	–	0.5
Total	7.3	4.0	4.4	2.0	–	17.7

As at 20 February 2023

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	3.5	1.9	3.0	1.9	0.1	10.4
Debtors arising out of reinsurance operations	–	1.1	–	–	–	1.1
Total	3.5	3.0	3.0	1.9	0.1	11.5

Notes on the Combined Financial Statements

(continued)

17. Risk management (continued)

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.

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 of the Trust having consulted with the Boards of the reinsureds. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

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

The following tables show the combined assets and liabilities by currency. The exposure to Brazilian real and UK sterling through derivative positions was \$4.4m and \$6.0m respectively at 20 February 2024 (2023: \$4.1m and \$5.7m).

As at 20 February 2024

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,479.2	38.0	111.6	8.0	–	12.4	1,649.2
Liabilities	(928.0)	(31.7)	(108.1)	(15.8)	(4.1)	(21.2)	(1,108.9)
	551.2	6.3	3.5	(7.8)	(4.1)	(8.8)	540.3

As at 20 February 2023

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,346.2	48.0	102.0	7.9	–	12.2	1,516.3
Liabilities	(900.0)	(26.8)	(104.0)	(12.4)	(2.8)	(15.9)	(1,061.9)
	446.2	21.2	(2.0)	(4.5)	(2.8)	(3.7)	454.4

IBNR and reinsurers' share of IBNR are reserved in US dollar.

Notes on the Combined Financial Statements

(continued)

17. Risk Management (continued)

Market Risk (continued)

The majority of the operating expenses are the costs of Steamship Insurance Management Services Limited, the service company of Steamship P&I Management LLP. These expenses are payable in UK sterling giving rise to a foreign exchange risk when compared to the base currency of US dollar. The hedging policy requires a percentage of future costs to be held in UK sterling to manage this risk.

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. The table below shows the change in fair value of the investments assuming a 200 basis points increase in interest rates:

	Effect on investment valuation \$m
As at 20 February 2024	(68.7)
As at 20 February 2023	(33.5)

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 \$m
As at 20 February 2024	(37.1)
As at 20 February 2023	(34.5)

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

	Effect on investment valuation \$m
As at 20 February 2024	(21.1)
As at 20 February 2023	(13.4)

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.

Liquidity risk

Liquidity risk is the risk that financial obligations cannot be met as they fall due. A highly liquid portfolio of cash, government and corporate bonds is maintained, with an average maturity similar to the average expected settlement period of claim liabilities.

Notes on the Combined Financial Statements

(continued)

17. Risk management (continued)

Liquidity Risk (continued)

The following table shows the expected maturity/liquidity of assets based on the undiscounted contractual maturities of the assets.

As at 20 February 2024

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	473.9	106.6	273.3	465.2	1,319.0
Reinsurers' share of technical provisions	98.6	56.3	76.2	30.9	262.0
Other assets	68.2	–	–	–	68.2
Total assets	640.7	162.9	349.5	496.1	1,649.2

As at 20 February 2023

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	447.1	143.5	272.1	232.7	1,095.4
Reinsurers' share of technical provisions	105.2	59.9	81	42.4	288.5
Other assets	132.4	–	–	–	132.4
Total assets	684.7	203.4	353.1	275.1	1,516.3

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

As at 20 February 2024

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	375.7	243.6	309.5	112.0	1,040.8
Other liabilities	68.1	–	–	–	68.1
Total liabilities excluding capital and reserves	443.8	243.6	309.5	112.0	1,108.9

As at 20 February 2023

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	374.3	212.8	288.1	150.6	1,025.8
Other liabilities	36.1	–	–	–	36.1
Total liabilities excluding capital and reserves	410.4	212.8	288.1	150.6	1,061.9

Operational Risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. Operational risks are identified in a risk register and appropriate controls are in place 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.

Combined Policy Year Statement – All Classes

	2023/24 \$m	2022/23 \$m	2021/22 \$m	Total \$m
Development of open policy years				
Gross premium	459.9	404.6	313.4	1,177.9
Reinsurance premium	(90.5)	(73.8)	(53.1)	(217.4)
Net earned premium	369.4	330.8	260.3	960.5
Allocated investment return from non-technical account	0.5	(2.6)	(2.4)	(4.5)
Net incurred claims				
Claims paid net of reinsurance recoveries	29.4	71.9	128.5	229.8
Claims administration expenses	26.6	19.7	18.7	65.0
Net claims outstanding	95.3	88.5	77.3	261.1
IBNR provision	155.2	50.5	27.1	232.8
Future claims administration expenses	14.5	3.8	1.4	19.7
	321.0	234.4	253.0	808.4
Operating expenses				
Brokerage	31.8	28.1	22.3	82.2
Other expenses	31.9	25.3	22.0	79.2
	63.7	53.4	44.3	161.4
Underwriting balance	(14.8)	40.4	(39.4)	(13.8)
Net investment income	83.7	(34.7)	(4.8)	44.2
Surplus/(deficit) on open policy years	68.9	5.7	(44.2)	30.4
Closed policy years				
Surplus in respect of 2019/20 and prior years at 20 February 2023				521.4
Balance on 2020/21 year as at 20 February 2023				0.3
Capital distribution				(24.2)
Movements on policy years prior to 2021/22				12.4
Surplus on all policy years				540.3

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2023/24 \$m	2022/23 \$m	2021/22 \$m
2. Net product of 10% supplementary call in respect of P&I class	33.5	29.8	22.5

- The policy year combined ratios as at 20 February 2024 are as follows:

2023/24	2022/23	2021/22
104.0%	87.8%	115.2%

Combined Policy Year Statement – All Classes

Balance available for outstanding claims by policy year	2023/24 \$m	2022/23 \$m	2021/22 \$m	Closed years \$m	Total \$m
Gross claims outstanding					
Own claims	262.4	161.1	81.3	336.1	840.9
Pool claims	39.7	18.8	31.4	86.8	176.7
Future claims administration expenses	14.5	3.8	1.4	3.5	23.2
Reinsurance recoveries outstanding					
IG Excess Loss contract	-	-	-	(32.9)	(32.9)
IG Pool	(46.4)	(2.7)	(3.6)	(102.7)	(155.4)
Other	(5.3)	(38.2)	(4.7)	(25.5)	(73.7)
Net provision for claims outstanding	264.9	142.8	105.8	265.3	778.8
Free reserves					
Surplus/(deficit) on policy years	68.9	5.7	(44.2)	274.2	304.6
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	333.8	148.5	61.6	775.2	1,319.1

Notes

1. Combined projected net outstanding claims at 20 February 2024, amounting to \$778.8m, includes IBNR provision totaling \$300.0m as follows:

2023/24 \$m	2022/23 \$m	2021/22 \$m	Closed years \$m	Total \$m
155.2	50.5	27.1	67.2	300.0

2. Combined free reserves at 20 February 2024, amounting to \$540.3m, are stated net of a provision for future expenses on outstanding claims amounting to \$23.2m.

Combined Policy Year Statement – P&I Class

	2023/24 \$m	2022/23 \$m	2021/22 \$m	Total \$m
Development of open policy years				
Gross premium	412.2	365.9	286.5	1,064.6
Reinsurance premium	(69.3)	(57.9)	(41.1)	(168.3)
Net earned premium	342.9	308.0	245.4	896.3
Allocated investment return from non-technical account	0.4	(2.3)	(1.8)	(3.7)
Net incurred claims				
Claims paid net of reinsurance recoveries	27.5	62.9	120.6	211.0
Claims administration expenses	24.7	16.3	17.5	58.5
Net claims outstanding	91.7	80.0	75.6	247.3
IBNR provision	142.7	43.6	24.9	211.2
Future claims administration expenses	13.4	3.4	1.3	18.1
	300.0	206.2	239.9	746.1
Operating expenses				
Brokerage	26.9	22.7	19.3	68.9
Acquisition and other expenses	28.7	22.9	20.2	71.8
	55.6	45.6	39.5	140.7
Underwriting balance	(12.3)	53.9	(35.8)	5.8
Allocated net investment income	74.9	(32.3)	(4.5)	38.1
Surplus/(deficit) on open policy years	62.6	21.6	(40.3)	43.9
Closed policy years				
Surplus in respect of 2019/20 and prior years at 20 February 2023				493.2
Balance on 2020/21 year as at 20 February 2023				(3.5)
Capital distribution				(24.2)
Movements on policy years prior to 2021/22				11.6
Surplus on all policy years				521.0

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2023/24 \$m	2022/23 \$m	2021/22 \$m
2. Net product of 10% supplementary call	33.5	29.8	22.5

- The policy year combined ratios are as follows:

2023/24	2022/23	2021/22
103.7%	81.8%	113.9%

Combined Policy Year Statement – P&I Class

Balance available for outstanding claims by policy year	2023/24 \$m	2022/23 \$m	2021/22 \$m	Closed years \$m	Total \$m
Gross claims outstanding					
Own claims	244.0	110.8	76.9	315.9	747.6
Pool claims	39.7	18.8	31.4	86.8	176.7
Future claims administration expenses	13.4	3.4	1.3	3.3	21.4
Reinsurance recoveries outstanding					
IG Excess Loss contract	-	-	-	(32.9)	(32.9)
IG Pool	(46.4)	(2.7)	(3.6)	(102.8)	(155.5)
Other	(2.9)	(3.3)	(4.1)	(18.1)	(28.4)
Net provision for claims outstanding	247.8	127.0	101.9	252.2	728.9
Free reserves					
Surplus/(deficit) on policy years	62.6	21.6	(40.3)	241.4	285.3
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	310.4	148.6	61.6	729.3	1,249.9

Notes

1. Combined projected net outstanding claims at 20 February 2024, amounting to \$728.9m, includes IBNR provision totalling \$273.0m as follows:

2023/24 \$m	2022/23 \$m	2021/22 \$m	Closed years \$m	Total \$m
142.7	43.6	24.9	61.8	273.0