ANNUAL REPORT AND FINANCIAL STATEMENTS

20 FEBRUARY 2020

BRITANNIA P&I
TRUSTED SINCE 1855

CONTENTS

KEY STATISTICS

241 MEMBERS

29 COUNTRIES

3,465 SHIPS

117.5m OWNED TONNAGE

45m CHARTERED TONNAGE

ENTERED TONNAGE BY AREA OF MANAGEMENT CLASS 3 (% OF TOTAL)

45.7 ASIA

15.2 SCANDINAVIA

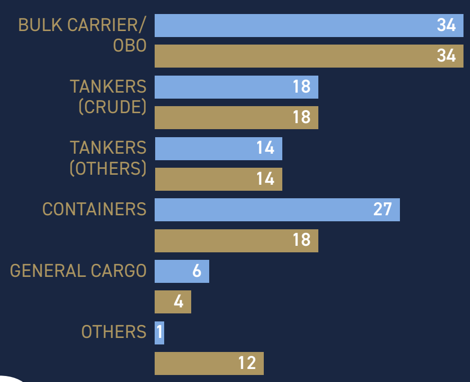
32.6 REST OF EUROPE

3.9 AMERICAS

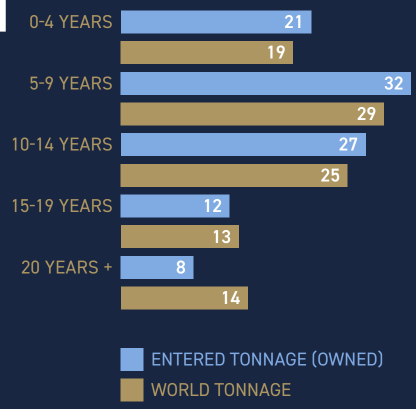
2.2 MIDDLE EAST

0.4 AUSTRALASIA

SHIPS BY TYPE (% OF TOTAL)



AGE OF SHIPS (% OF TOTAL)



	20 FEB 2020 (m gt)	20 FEB 2019 (m gt)	20 FEB 2018 (m gt)
ENTERED TONNAGE (OWNED)	117.5	111.9	107.0
ENTERED TONNAGE (CHARTERED)	45.0	19.0	20.0

KEY FINANCIAL DATA

	USD(000)	USD(000)	USD(000)
CALLS AND PREMIUMS	201,185	204,415	208,147
NET CLAIMS INCURRED	(111,667)	(119,599)	(93,552)
INVESTMENT INCOME	61,868	(2,643)	48,626
NET OPERATING EXPENSES	(31,891)	(28,649)	(25,666)
NET INCOME AFTER TAXATION	56,427	(9,296)	80,615
FREE RESERVES*	422,088	390,661	429,957
NET LOSS RATIO	79.9%	83.8%	61.4%
AVERAGE EXPENSE RATIO	11.50%	10.90%	9.73%
STANDARD & POOR'S RATING	A (stable)	A (stable)	A (stable)

*The Group also retains the benefit of its reinsurance contract with Boudicca Insurance Company Limited (see note 4 to the financial statements).

	USD(000)	USD(000)	USD(000)
SURPLUS ASSETS IN BOUDICCA	172,300	196,900	211,600

Surplus investment assets in Boudicca available to meet future claims by the Group.

CHAIRMAN'S STATEMENT

MY FIRST DRAFT OF THIS STATEMENT WAS WRITTEN, IT SEEMS, A LIFETIME AGO. IN THE INTERVENING WEEKS THE SPREAD OF COVID-19 HAS CHANGED THE WORLD. WIDESPREAD TRAVEL RESTRICTIONS AND VARYING DEGREES OF 'SOCIAL DISTANCING' ARE THE NEW NORM, AT LEAST FOR THE MOMENT. IT IS HOPED THAT THESE MEASURES WILL HAVE BEEN RELAXED BY THE TIME THIS REPORT IS PUBLISHED. THEIR EFFECTS, HOWEVER, ARE LIKELY TO BE FAR-REACHING AND LONGER LASTING.

In the meantime, COVID-19 is an immediate risk to seafarers as well as Members' and the Managers' onshore staff and families. The adverse impact on global trade will inevitably affect shipping. However, some comfort may be taken from Britannia remaining robust and, as far as possible, business as usual continuing in the running of your Club. This includes assisting, through our global network, our Members by providing updates on local regulations and requirements as well as advice on charterparty/bill of lading obligations.

The maritime industry remains fundamental to world economic activity, moving the vast majority of world trade and being a primary enabler of globalisation. However, even before the current challenges, all sectors of the industry were finding it difficult to achieve sustainable freight rate levels, with a constant need to improve productivity and efficiency whilst reducing costs. The current crisis adds to those burdens. Ships are the most efficient mode of transporting large quantities of goods over long distances with the least environmental impact. This is not likely to change. Although controversial in how it was implemented, the environmental footprint of shipping improved considerably with the implementation of IMO 2020.

The tremendous efforts of the whole industry, especially owners and the officers and crews on board, have received little recognition for that improvement. The environment is increasingly the focus of the international and national authorities that regulate shipping. The customers of the shipping industry are also taking a greater interest in the sustainability of all elements of their supply chains. The International Group of P&I Clubs is well positioned to continue to support shipowners in responding to the likely increasing emphasis on sustainability.

CHAIRMAN'S STATEMENT

THE AMOUNT OF OWNED AND CHARTERED TONNAGE ENTERED BY MEMBERS IS AT A RECORD LEVEL, WHICH IS A CLEAR MESSAGE FROM THE MEMBERS THAT THEY VALUE THE SERVICES AND SECURITY PROVIDED BY BRITANNIA.

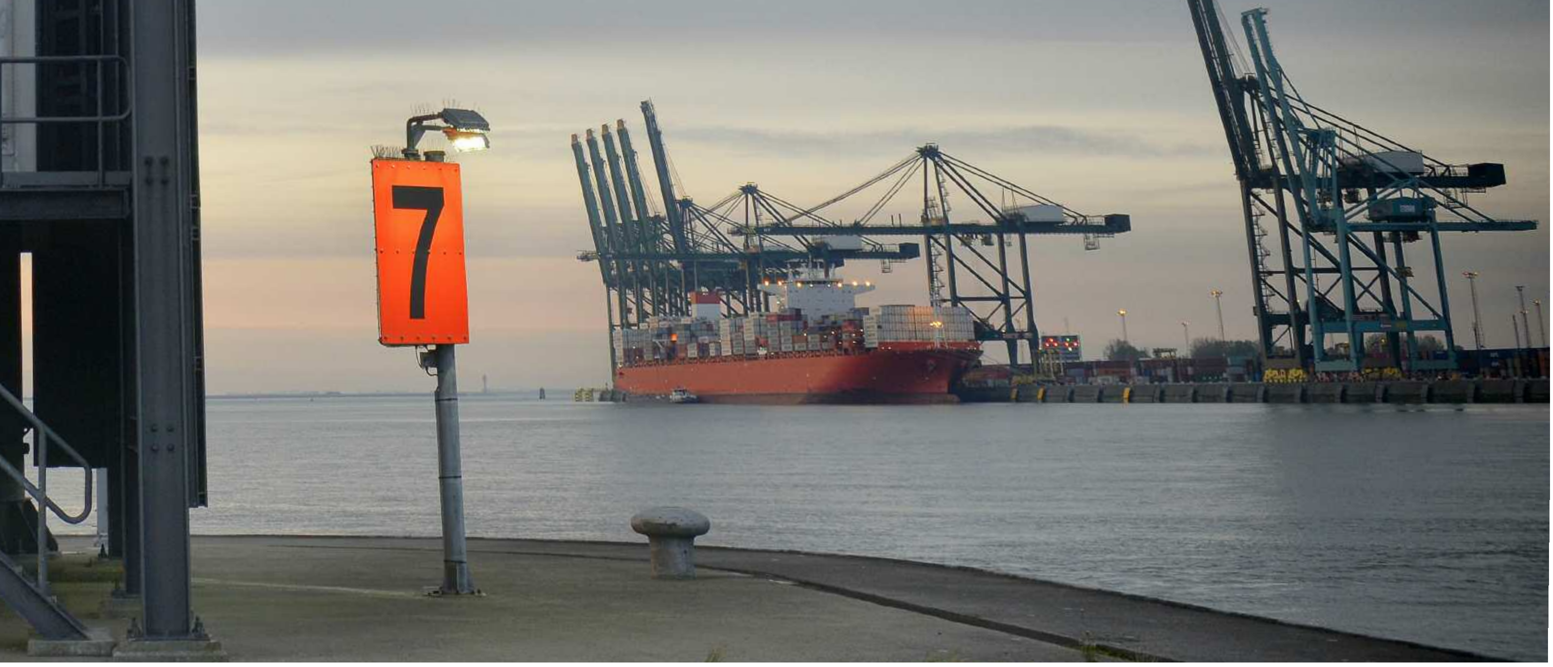
Britannia has supported its Members in their efforts to control costs and implement changes in the industry, by continuously ensuring a high level of cost efficiency in its organisation as well as improving levels of support. A major factor in the Club's ability to invest in the expansion of the regional hubs network, its IT systems and an improved loss prevention capability, is Britannia's solid financial strength. Britannia, for the third year in a row, made capital distributions to its mutual P&I Members, while at the same time maintaining the Club's 'A' (strong) rating, with a 'stable' outlook, 'AAA' financial strength and 'exceptional' liquidity. The results of the 2019 Members' Survey are another confirmation of the Club's level of service and the importance of its strong financial position. The amount of owned and chartered tonnage entered by Members is at a record level, which is a clear message from the Members that they value the services and security provided by Britannia.

Britannia has prepared itself for the final stages of the UK leaving the European Union (Brexit). This has seen the establishment of The Britannia Steam Ship Insurance Association Europe in Luxembourg and a new group structure to ensure that Members do not experience any negative effects.

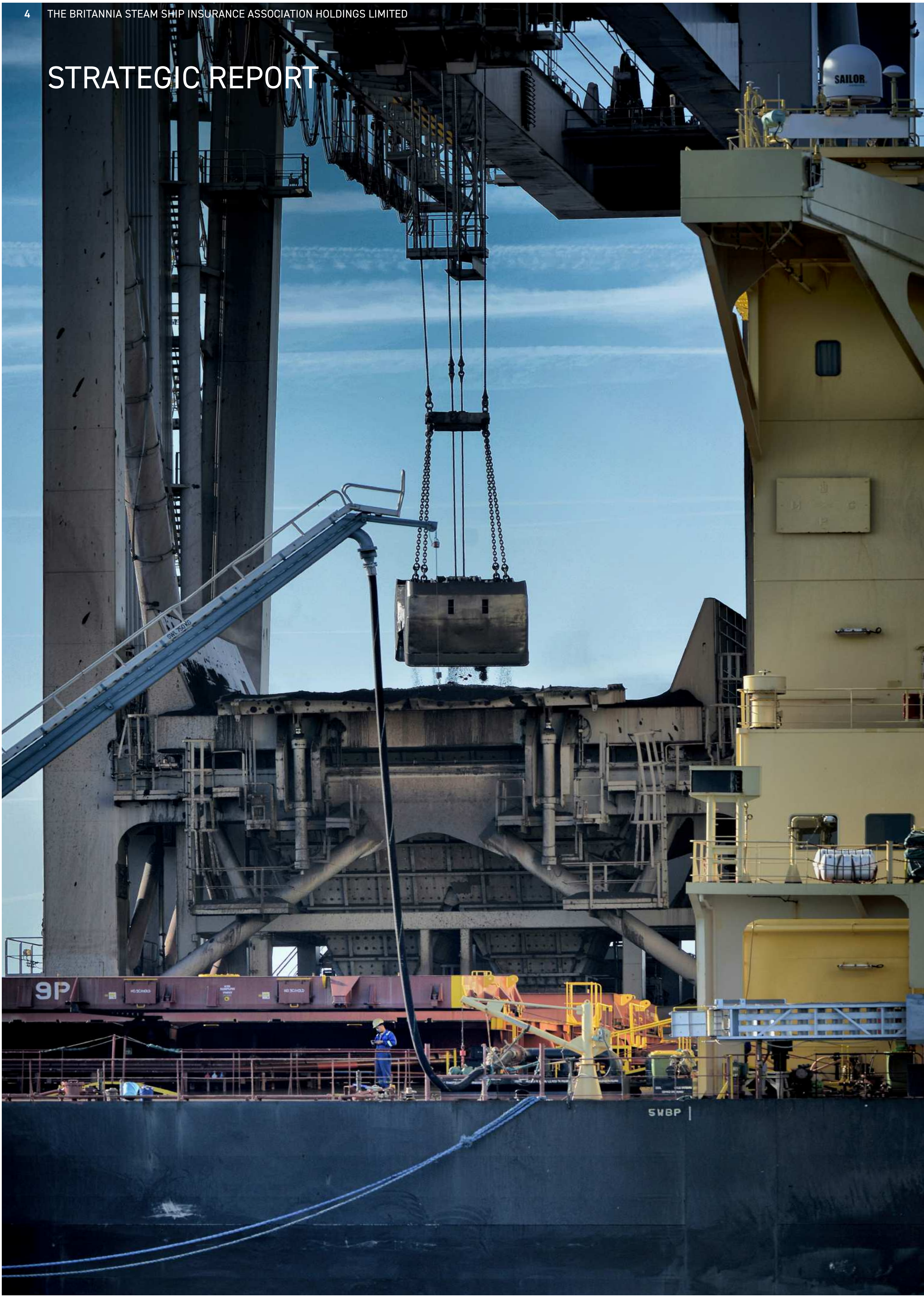
The oversight and management of Britannia are the responsibility of the Members Representative Committee (MRC) and the Board. This year saw two people leave the Board after exceptional service to the Club, who deserve mentioning here. Y Yamawaki served on the Board (previously called the Committee) for almost ten years until May 2019. His support and opinion were always welcome and highly valued.

Nigel Palmer played a key role for Britannia for almost 20 years, initially as a director and from 2008 to 2019 as its Chairman. As Chairman of both the MRC and Board he managed to find solutions to all the various challenges over the years which were always in the interests of the Members of the Club. The strength of the Club today is a reflection of his leadership and Britannia and its Members have a lot for which to thank Nigel.

Anthony Firmin Chairman



STRATEGIC REPORT



FINANCIAL REVIEW

THE BRITANNIA GROUP BEGAN THE YEAR IN A VERY STRONG FINANCIAL POSITION, WITH CAPITAL RESOURCES WELL IN EXCESS OF THE TARGET SET BY THE BOARD.

At its meeting in May 2019, at which the financial statements for the year ended 20 February 2019 were approved, the Board took the decision to continue the recent policy of returning the surplus to the membership and agreed a further capital distribution of USD15m to the mutual P&I Members with ships on risk on 9 May 2019. In October 2019, the Board decided to make a further capital distribution of USD10m to the mutual P&I Members with ships on risk on 15 October 2019, bringing the total distribution for the year to USD25m. Since May 2017, USD85m of surplus capital has been returned to Members.

In the year ended 20 February 2020, calls and premiums were slightly lower year on year by 1.6% at USD201.2m (2019 – USD204.4m). The Group's strong financial position had allowed a third consecutive renewal for 2019/20 with no general rate increase and many Members, given their individual claims records, benefited from a cut in their rates. Tonnage growth during the year was strong, which resulted in additional premiums being earned, and the impact of churn was negligible.

The cost of retention claims in the 2019/20 policy year after 12 months' development was lower than in the prior year – USD132.3m against USD152.0m. The number of claims in total was also lower, but the number of large claims, those expected to cost USD1m or more, was 20 compared to 18. By contrast, claims on the Pool were higher. At the 12-month stage, Pool claims were at their highest level since 2012/13. Claims within the retention and from the Pool in the older policy years, as is usual for the Group, developed positively, which allowed the release of USD67.2m from the claims provisions in those years. As a result of these three factors, claims incurred in the financial year were USD111.7m, down from USD119.6m in the prior financial year, a movement of 6.6%.

An increase in operating costs to USD31.9m reflected a number of factors, including the continuing costs incurred in planning for the UK's departure from the EU plus the costs of IT development.

The balance on the technical account, including investment return based on the longer-term rate of USD33.1m, was a surplus of USD29.3m, which is a satisfactory underwriting result for the year.

The Group's investment portfolio produced a strong return of USD61.9m for the year. Further details are set out in the section on investment performance. After taking account of the investment return allocated to the technical account, which, as noted above, is based on the long-term rate of return, the Group's overall financial result for the year after tax was a surplus of USD56.4m.

The total capital of the Group shown on the statement of financial position was higher than last year by USD31.4m, after allowing for the USD25m capital distribution referred to above. This represents a very satisfactory result.

Almost immediately after the year end, investment markets began to be impacted by the economic uncertainty caused by the coronavirus pandemic. Much of the growth in the investment portfolio seen during 2019/20 has been reversed, but the Group is in such a strong capital position that it is very well placed to weather this particular storm and to face a more uncertain global economy.

SINCE MAY 2017, USD85M OF SURPLUS CAPITAL HAS BEEN RETURNED TO MEMBERS.

INVESTMENT STRATEGY AND PERFORMANCE

THE BRITANNIA GROUP'S INVESTMENT STRATEGY IS THE RESPONSIBILITY OF THE BOARD, ASSISTED BY ITS INVESTMENT ADVISERS LANE CLARK & PEACOCK LLP (LCP).

There has been no material change to the Group's investment strategy during the year.

The investment strategy is a long-term one, reflecting the long-tail nature of many of the liabilities and the nature of mutuality. Its objectives are twofold:

• To hold a portfolio of government bonds and cash which matches, in terms of average duration and currency, the claims liabilities of the Group. This is known as the 'matching portfolio'. The matching portfolio includes a 'cash buffer' sufficient to ensure appropriate liquidity; and

• To invest the assets in excess of the matching portfolio, in accordance with the 'prudent person principle', in such a way as to achieve the maximum return for a level of risk consistent with the Group's investment risk appetite. This is known as the 'growth portfolio'.

At 20 February 2020, the portfolios had the following compositions:

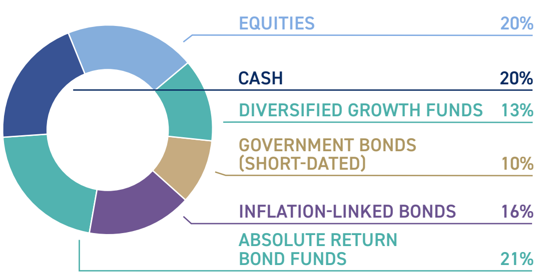
ASSET CLASS	PROPORTION (%)
MATCHING PORTFOLIO:	
Government bonds and cash	**46**
GROWTH PORTFOLIO:	
Absolute return bond funds	**21**
Equities	**20**
Diversified growth fund	**13**
	100

INVESTMENT PERFORMANCE

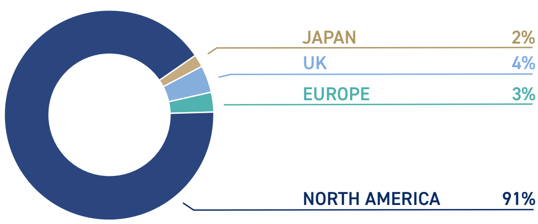
In the year ended 20 February 2020, the overall return on investments was 7.1%, which is equivalent to USD61.9m.

The best performing asset classes were equities, which returned 16.5%, and the diversified growth fund, which returned 11.4%. The remaining asset classes all generated positive returns during the financial year, adding to the overall investment return.

INVESTED FUNDS AT MARKET VALUE
20 FEBRUARY 2020
TYPE OF INVESTMENT



GEOGRAPHICAL DISTRIBUTION



CLASS 3 – PROTECTION AND INDEMNITY (P&I) CLAIMS

ATTRITIONAL CLAIMS CONSTITUTE THE VAST MAJORITY OF CLAIMS BY NUMBER, WHILE HIGH VALUE CLAIMS, ALTHOUGH FAR FEWER BY NUMBER, CONSTITUTE A VERY HIGH PROPORTION OF THE TOTAL ESTIMATED CLAIMS COST.

RETENTION CLAIMS

As at 20 February 2020, the total number of attritional claims notified in respect of the 2019/20 policy year was 4,175. This represents a small reduction on the 4,364 claims notified at the same time in the 2018/19 policy year. The total number of attritional claims has remained relatively consistent since the 2016/17 policy year, when 4,276 claims were reported. These levels remain well below the 7,351 claims notified as at 20 February 2012. This historical reduction reflects a number of factors, such as a number of liner operators moving to higher deductibles and the move to combined deductibles (which apply to the underlying claim, plus costs, fees and expenses).

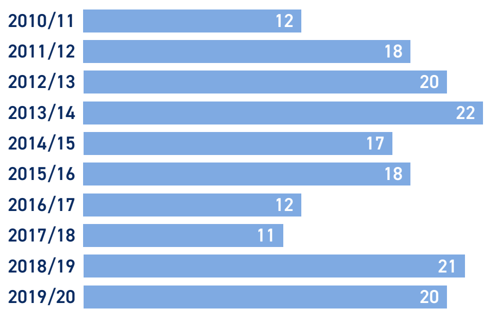
The aggregate cost of retention claims, including the estimates for outstanding amounts, was USD132m as at 20 February 2020. This compares to USD152m at the same stage in the prior year.

High value incidents are much less frequent than attritional claims, however they can have a significant impact on the outcome of a policy year. In 2019/20, 20 high value claims were reported, with a current estimate of USD69.5m. This compares with 18 claims estimated at USD83.9m at the end of the 2018/19 policy year. Three damage to property claims exceeded the Group's USD10m retention, whilst ten significant cargo claims were also notified.

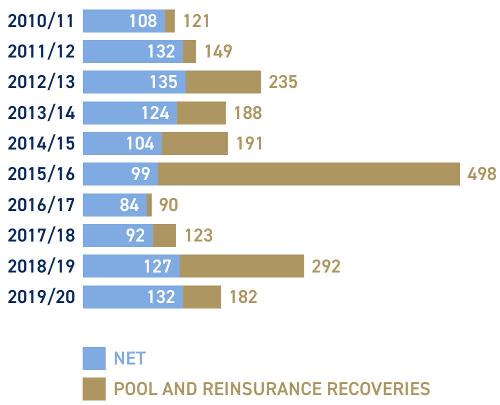
POOL CLAIMS

At 20 February 2020, 18 Pool claims had been notified in the 2019/20 policy year, with an aggregate estimated cost of USD355m. This compares to the same number of notifications in 2018/19, but an increase in the aggregate cost from USD304m. The largest claim relates to the grounding and capsize of a car carrier laden with over 4,000 vehicles off Brunswick, Georgia. The wreck removal operation is expected to be complex and significant pollution prevention measures are needed to protect the environment.

CLASS 3 P&I CLAIMS NUMBER OF CLAIMS ON THE GROUP THAT ARE GREATER THAN USD1M (NET) AT 20 FEBRUARY 2020



GROUP'S ESTIMATED RETAINED CLAIMS (USDM) AT 20 FEBRUARY 2020



CLASS 3 – PROTECTION AND INDEMNITY (P&I)
TONNAGE/MEMBERSHIP

THE BRITANNIA GROUP'S OWNED TONNAGE GREW BY 3.5M GT DURING THE COURSE OF THE 2019/20 POLICY YEAR.

As has been the case in recent years, the majority of this growth has come from existing Members, particularly those who have joined in the last five years.

Three new Members joined the Group during the 2019/20 policy year, while two were withdrawn. Six new Members joined at renewal on 20 February 2020. Owned tonnage was up on 20 February, as a result of new Members and additions to existing fleets. The net tonnage gain at renewal was 2.2m gt.

The Group's chartered entry grew by 3m gt during the 2019/20 policy year, with a further net gain of 23m gt at renewal. This very large gain at 20 February 2020 was primarily the result of the addition of several very large new Members, though there were also large increases from a number of existing fleets.

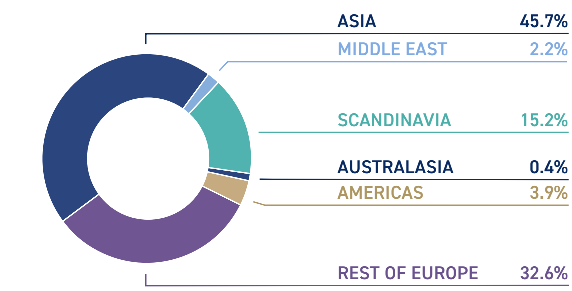
Once again, the number of new vessels committed by existing Members for the upcoming policy year was particularly positive. More than 6.12m gt is expected to join the Group during the 2020/21 policy year.

At the beginning of 2020/21, the Group's owned tonnage totalled approximately 117.5m gt, a figure that is expected to increase as the new commitments come on risk.

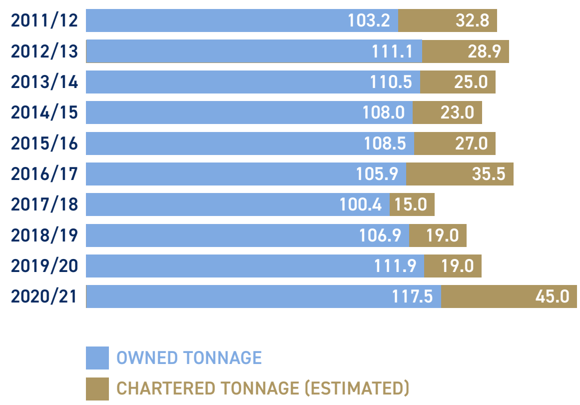
European fleets (excluding Scandinavia) now make up 32.6% of the Group's owned tonnage, with Scandinavia at 15.2%. Asia overall now represents 45.7%, with entries from Japan (18.9%), South Korea (9.5%) and Taiwan (7.7%) making up the largest share of Asian tonnage by country.

AT THE BEGINNING OF 2020/21, THE GROUP'S OWNED TONNAGE TOTALLED APPROXIMATELY 117.5M GT.

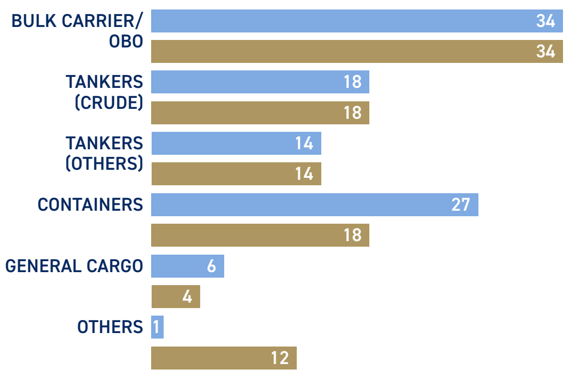
ENTERED TONNAGE BY AREA OF MANAGEMENT – CLASS 3



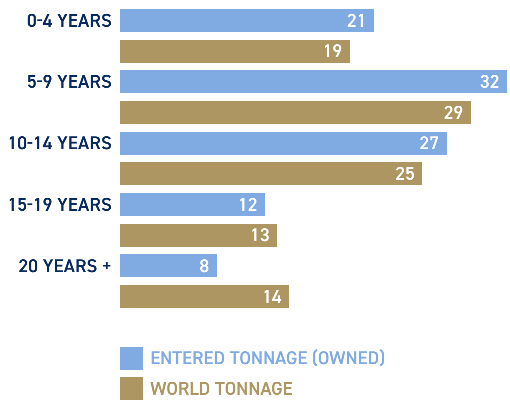
TONNAGE ENTERED – CLASS 3 (M GT)
(BEGINNING OF POLICY YEAR)



SHIPS BY TYPE (% OF TOTAL)

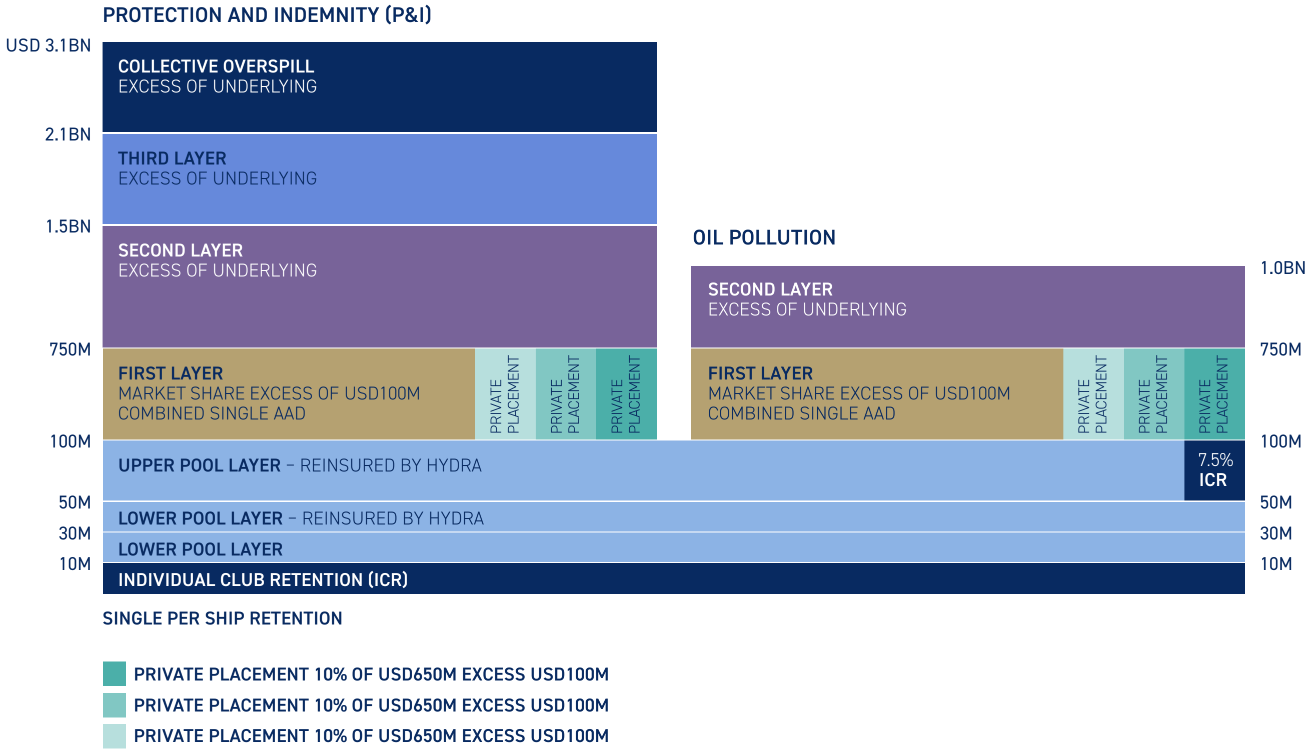


AGE OF SHIPS (% OF TOTAL)



CLASS 3 – PROTECTION AND INDEMNITY (P&I)
INTERNATIONAL GROUP REINSURANCE

INTERNATIONAL GROUP EXCESS OF LOSS REINSURANCE PROGRAMME
2020/21 POLICY YEAR (NOT TO SCALE)



STRUCTURE
The Britannia Group is party to the International Group (IG) Pooling Agreement and therefore participates in the IG's excess of loss (GXL) reinsurance programme, which provides reinsurance cover for claims up to USD2.1bn in excess of the Club and Pool retentions. There is a lower limit of cover for oil pollution claims of USD1bn. In addition, an IG overspill reinsurance protects Clubs and their members against their share of overspill liabilities for claims up to USD1bn excess USD2.1bn.

RENEWAL
The loss experience of the GXL programme in the policy years 2012/13 to 2019/20 remains acceptable to reinsurers. The IG's reinsurance captive Hydra continues to give positive results through its loss retention strategy. In addition, there has been considerable appetite in the market to write multi-year private placements at competitive pricing. Together, these factors enabled the IG to achieve another satisfactory GXL programme renewal result, with rates for shipowners remaining flat across all vessel categories.

REINSURANCE STRUCTURE CHANGES
Following the structural changes made in 2019/20 (which also saw co-brokers being appointed), the IG's Reinsurance Subcommittee decided not to make significant changes this year. This was to allow time for the new programme to bed in and produce results.

However, for 2020/21 there is a modest adjustment, with the two expiring 5% private placements in the USD1bn excess of USD100m layer being replaced by two new 10% multi-year private placements in the first layer. This therefore sees three 10% private placements for the 2020/21 policy year, with the 70% balance placed in the market.

Otherwise, the USD100m Annual Aggregate Deductible (AAD) (retained by the IG's captive Hydra), within the 70% market share of the first layer of the programme (from USD100m to USD750m) remains. The second layer covers USD750m to USD1.5bn and the third layer from USD1.5bn to USD2.1bn. There is no change to the Collective Overspill layer, which provides USD1bn of cover in excess of USD2.1bn.

CLASS 3 – PROTECTION AND INDEMNITY (P&I) INTERNATIONAL GROUP REINSURANCE

HYDRA PARTICIPATION
Hydra continues to retain 100% of the Pool layer USD30m – USD50m and 92.5% of the Pool layer USD50m – USD100m. In addition, from 2020/21, Hydra will retain a USD100m AAD in the 70% market share of the GXL programme.

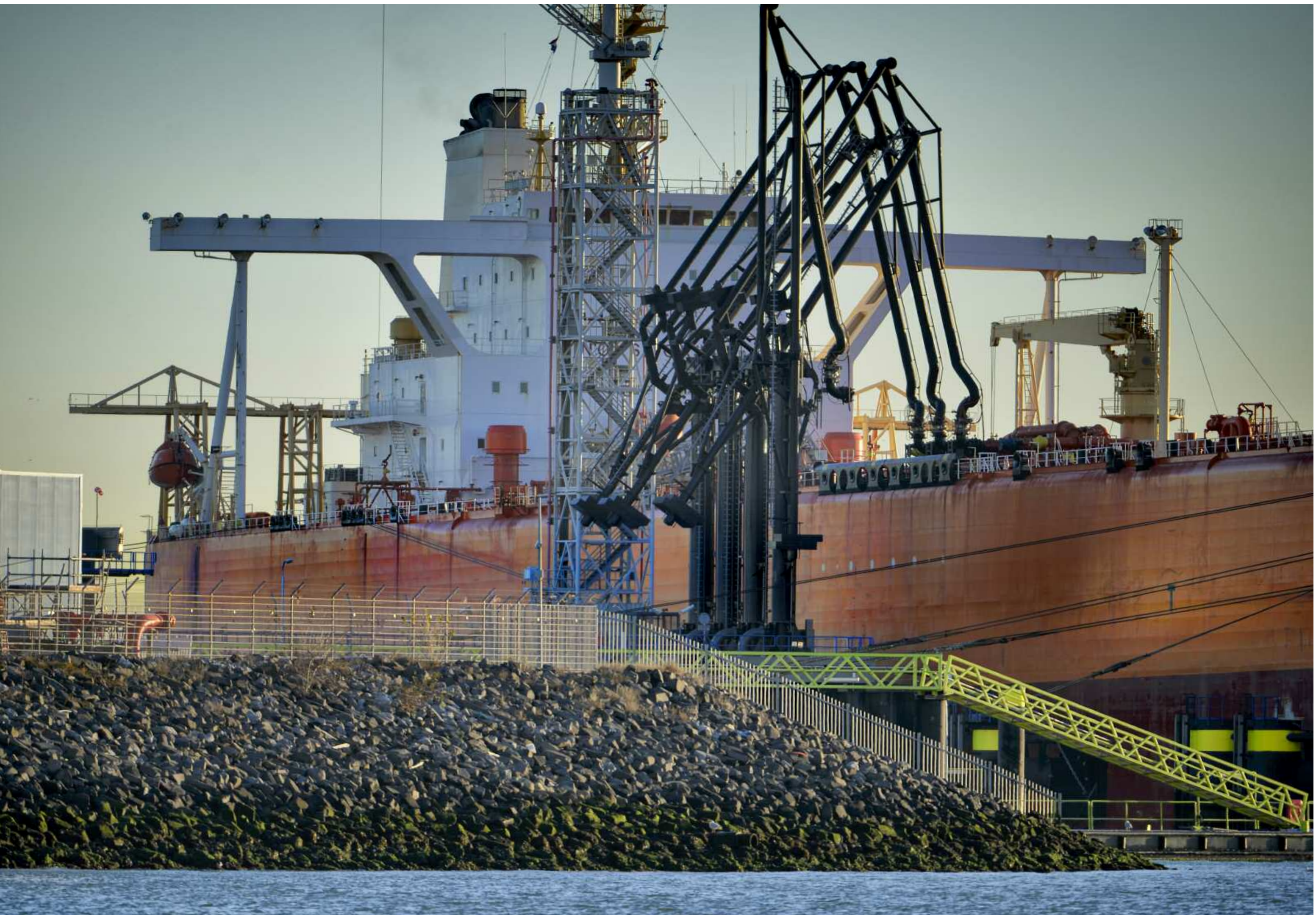
MARITIME LABOUR CONVENTION (MLC) COVER
The USD200m (excess of USD10m) market reinsurance cover was renewed unchanged for a further 12 months from 20 February 2020. That renewal was achieved at a competitive cost, which was included within the overall reinsurance cost.

WAR COVER
The excess War P&I cover was renewed for 2020/21 for a period of 12 months, with the costs included in the total rates charged to shipowners. There was a change to the terms of the placement in order to maintain the excess nature of the cover provided, increasing the minimum attachment point of the cover (where the vessel is not protected by primary War P&I up to proper hull value) from USD100m to USD500m.

2020/21 GXL PROGRAMME STRUCTURE
The diagram opposite illustrates the revised layer and participation structure of the GXL programme for 2020/21.

REINSURANCE COST ALLOCATION 2020/21
The IG's Reinsurance Subcommittee reviewed the historical data on loss against premium of the current four vessel-type categories and, based on the latest review, the Reinsurance Subcommittee considered that for the moment there should be no change in the cost of any of the four vessel-type categories.

Whilst the commercial market element of the placement has been confirmed for two years, Hydra's participation on the placement continues to be meaningful. Therefore, the Reinsurance Subcommittee decided to set rates for the 2020/21 policy year only. The cost of Hydra's participation for the 2021/22 year will be assessed in 12 months' time and any rate adjustment for the 2021/22 rates will be applied at that time.



CLASS 3 – PROTECTION AND INDEMNITY (P&I)
LOSS PREVENTION

DURING THE YEAR THE LOSS PREVENTION DEPARTMENT (LPD) HAS UNDERTAKEN A FUNDAMENTAL REVIEW OF ITS ACTIVITIES, RESULTING IN THE ADOPTION OF A REVISED STRATEGY BASED ON A MORE RISK-BASED APPROACH TO LOSS PREVENTION.

This will be underpinned by a more analytical and systematic methodology, with a greater prioritisation of research-based activities, such as causal analyses, studies and initiatives.

This revised approach is intended to help identify areas of risk that would benefit from more focussed loss prevention activity. The ultimate aim is to provide a greater degree of useful loss prevention information and deliver enhanced value to Members.

Traditional loss prevention activities, such as the Management Review of new Members and condition surveys of Members' ships, remain central to the LPD's activities. In line with the revised strategy, the survey programme will incorporate a more risk-based approach to identifying ships to be surveyed, while continuing to comply with the International Group's (IG) condition survey requirements.

The LPD continues to contribute to a range of publications as well as providing regular timely advice to Members' enquiries. This included the launch of a new series of BSafe safety posters during 2019, with the intention being to expand the BSafe campaign more widely in the coming year.

This reflects one of the aims of the revised strategy, to share knowledge and lessons learned through an increased focus on loss prevention publications and initiatives.

Work has been ongoing throughout the latter part of 2019 to implement the revised strategy. One of the initial changes has been to focus loss prevention activities into two functions:

- **LP (OPERATIONS)** is responsible for managing the condition survey programme, as well as leading on Management Reviews, loss prevention seminars and enhancing and optimising the LPD's engagement with Members;

- **LP (RISK & INSIGHTS ANALYTICS)** is responsible for leading and managing the analytical and research-based activities supporting the risk-based approach. This includes leading on the preparation of publications to share the department's knowledge and insights.

An additional LP Manager and the new position of LP Analyst, have both been recruited to support the activities and objectives of the Risk & Insights Analytics section.

Oversight of the LPD's activities continues to be provided by the Standards Subcommittee, which reports to the MRC. This ensures that the department's activities remain relevant to the needs of the membership, as well as helping to maintain standards for the mutual benefit of the Britannia Group.

CLASS 3 – PROTECTION AND INDEMNITY (P&I) POLICY YEAR DEVELOPMENT

THE UNDERWRITING POSITION FOR THE CLOSED AND OPEN POLICY YEARS UP TO 2019/20 IS SHOWN IN THE POLICY YEAR STATEMENT ON PAGE 52.

2016/17

The general increase in advance calls for this policy year was 2.5% and the budgeted deferred call was set at 45%. Retention claims are currently USD82.6m, an improvement of USD20.3m on the position last year. There are 12 claims expected to cost more than USD1m but none of these currently exceeds the Club retention. Pool claims are estimated at USD136.5m, with 16 notifications to date, the largest of which is currently estimated at USD37.0m (from the ground up), well below the IG reinsurance threshold.

This time last year, the projected surplus on the policy year was USD32.9m. Over the past 12 months the position has improved to a surplus of USD47.4m. The 2016/17 policy year was closed on 20 February 2020.

2017/18

The general increase in advance calls for this policy year was zero and the budgeted deferred call was set at 45%. Retention claims are currently USD117.6m, an improvement of USD5.4m on the position last year. Currently there are 11 claims expected to cost more than USD1m, with two estimated above the Club retention. Pool claims are estimated at USD358.5m, with 20 notifications to date, of which two have reached the IG reinsurance.

This time last year, the projected deficit on the policy year was USD14.8m. Over the past 12 months the position has improved to a deficit of USD14.2m.

2018/19

The general increase in advance calls for this policy year was zero and the budgeted deferred call was set at 45%. Retention claims are currently USD159.1m, an improvement of USD6.0m on the position last year. Currently there are 21 claims expected to cost more than USD1m, with five estimated above the Club retention. Pool claims are estimated at USD489.8m, with 27 notifications to date, of which one has reached the IG reinsurance.

This time last year, the projected deficit on the policy year was USD26.0m. Over the past 12 months the position has improved to a deficit of USD22.9m.

2019/20

The general increase in advance calls for this policy year was zero and the budgeted deferred call was set at 45%. Retention claims at 20 February 2020 are estimated at USD132.3m. Currently there are 20 claims expected to cost more than USD1m, with three estimated above the Club retention. Pool claims are estimated at USD355.4m, of which one has reached the IG reinsurance and exhausted the AAD of the first layer.

The policy year is showing a deficit of USD39.5m after the first 12 months.

2020/21

In October 2019, the Board decided that Members' individual rates would be adjusted to reflect their claims' record and risk profile for the 2020/21 policy year and that premiums would be charged on an Estimated Total Call basis, replacing the Advance Call and Deferred Call.

CAPITAL DISTRIBUTION

At the Board meetings in May and October 2019, the Board agreed capital distributions of USD10m and USD15m respectively to mutual P&I Members with ships on risk at the date of the meetings.

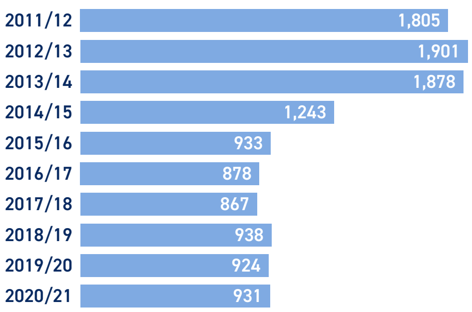
CLASS 6 – FREIGHT, DEMURRAGE AND DEFENCE (FD&D) CLAIMS

CLASS 6 PROVIDES INSURANCE FOR THE COSTS OF LEGAL OR OTHER PROCEEDINGS WHICH A MEMBER MAY TAKE OR DEFEND WITH THE GROUP'S SUPPORT AND WHICH ARE NOT INSURED UNDER CLASS 3.

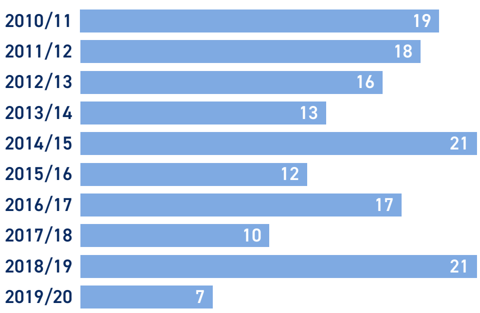
The types of proceedings covered under Class 6 include disputes in respect of hire and demurrage, ship performance, delays, damage to hull (where not covered by the hull and machinery policy), supplies, repairs, ship building and sale and purchase disputes.

The most expensive Class 6 claims inevitably involve disputes which it has not been possible to settle and have proceeded to an arbitration hearing or court trial requiring the attendance of counsel and expert witnesses. While such disputes are rare, with the vast majority of cases being settled without requiring a hearing, these costlier cases tend to develop slowly as it normally takes several years from the time of the incident until the date of the hearing. This means that the ultimate level of Class 6 claims in any given policy year usually takes longer to determine than Class 3, where the likely exposure is more predictable much sooner after the incident date.

CLASS 6 FD&D SHIPS ENTERED



CLASS 6 FD&D CLAIMS NUMBER OF CLAIMS ON THE GROUP NOTIFIED TO DATE THAT ARE GREATER THAN USD50,000 (NET)

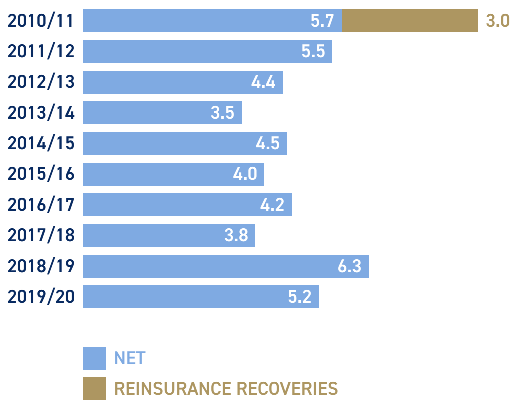


Despite this, the number and value of Class 6 claims that have been notified by the end of the policy year do provide a reasonable indication of the final exposure, especially when the nature of the largest claims is also taken into account. This is because certain types of claim, particularly ship building, repairs and sale and purchase disputes, tend to be the most expensive ones to resolve, mainly because of the large number of documents involved. At the end of the policy year it seems likely that there will only be one such dispute in 2019/20. This case involves the breach of a covenant in a sale and purchase agreement and has given rise to multi-jurisdictional issues.

With these points in mind, the figures for Class 6 claims at the end of the 2019/20 policy year suggest that it should ultimately be a better year than 2018/19 but worse than either 2016/17 or 2017/18 which, by historical standards, are proving to be relatively benign years. This again appears to confirm the continuation of a relatively stable claims environment since the upheaval caused by the global financial crisis in 2008, which resulted in an unprecedented level of Class 6 claims from that year until 2010.

There were no discernible claims trends during the 2019/20 policy year. By the end of the policy year there had been relatively few disputes arising from the introduction of the 0.5% global sulphur cap on 1 January 2020, perhaps because the requirements were known well in advance and so gave parties sufficient time to prepare. It is, however, still too early to say what the eventual effect will be. Towards the end of the policy year the coronavirus epidemic started to affect the shipping industry and it is possible that the resulting delays and costs, as well as the wider effects of the pandemic, may have a significant impact on Class 6 in the 2020/21 policy year.

GROUP'S ESTIMATED RETAINED CLAIMS (USDM) AS AT 20 FEBRUARY 2020



CLASS 6 – FREIGHT, DEMURRAGE AND DEFENCE (FD&D) POLICY YEAR DEVELOPMENT

2015/16

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage was reduced to 30%. Claims in this policy year have continued the positive development seen over the last couple of years. At 20 February 2020, the policy year was showing a surplus of USD2.1m, with no movement on the position reported this time last year. The 2015/16 policy year was closed on 20 February 2020.

2016/17

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have seen some adverse development during the last year. However, at 20 February 2020 the policy year was showing a surplus of USD0.6m, an increase of USD0.1m on the position reported this time last year.

2017/18

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have resumed the positive development seen over the last couple of years. At 20 February 2020, the policy year was showing a surplus of USD1.4m, an increase of USD0.1m on the position reported this time last year.

2018/19

The general increase in advance calls for this policy year was set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year have seen some adverse development during the last year. At 20 February 2020 the policy year was showing a deficit of USD1.2m, an increase of USD0.4m on the position reported this time last year.

2019/20

The general increase in advance calls for this policy year was again set at zero and the deferred call for Members with mutual tonnage remained at 30%. Claims in this policy year are at a lower level than those reported in the prior year and comparable to the remaining last five policy years. At 20 February 2020 the policy year was showing a deficit of USD1.8m.

2020/21

In October 2019, the Board decided that Members' individual rates would be adjusted to reflect their claims' record and risk profile for the 2020/21 policy year and that premiums would be charged on an Estimated Total Call basis, replacing the Advance Call and Deferred Call.

DEVELOPMENTS WITHIN BRITANNIA

AS STATED BY THE CHAIRMAN, THE BRITANNIA GROUP REMAINS IN ROBUST FINANCIAL AND OPERATIONAL HEALTH, AND WELL PLACED TO CONTINUE TO ASSIST OUR MEMBERS.

That strength has been tested by our Business Continuity Plan for COVID-19, with initially our Asian hubs (from late January) and from mid-March our European hubs working remotely from home. The Managers take this opportunity to thank Members and third parties for their patience during this period, although it is hoped that very little difference will have been noticed, or material delays encountered, whilst colleagues do their day jobs from home rather than from one of our offices.

Looking back, 2019 was another good year for Britannia. Both owned and chartered tonnage are at historic highs, which is the most public endorsement by our Members of their commitment to their Club. That commitment reflects the continuing steps being taken to improve Britannia, which include:

• an enhanced loss prevention offering, discussed in more detail elsewhere in this report;

• further growth in our regional hubs; and

• positive progress in our IT upgrade.

Before providing further details of those developments, it is appropriate to refer to our second Members' Survey, carried out in 2019. The level of response was encouraging, no doubt helped by the donation of USD100 to Mission to Seafarers for each Member that replied. Approximately 60% of our Members took part and in December 2019, USD14,000 was donated to Mission to Seafarers. The purpose of the survey was to identify areas that Britannia can improve on, whilst also acknowledging the areas where we perform well.

The full results can be found on Britannia's website, **ow.ly/B8te30qGjyA**, with highlights being:

• when asked how they felt as a Member of Britannia, the top four responses were Satisfied, Valued, Proud and Secure. Those four replies encompass the fundamental values and strengths of Britannia, a mutual insurer of Members' P&I and FD&D risks;

• the top three core values of Britannia were given as Professional (78% of replies), Trusted (67%) and Financial Strength (60%);

• 82% of Members rated service as the most important reason for choosing their Club, with 87% rating Britannia's service as Excellent or Very Good; and

• our various publications, with a focus on loss prevention materials, all received high ratings (most around 80%).

Clearly, we cannot rest on our laurels but we were delighted with the results. The aim is to raise the bar further, with enhanced service both from London and from our regional hubs. This has seen significant and continuing recruitment in London and the regional hubs and across all facets of the Group: claims, underwriting and loss prevention, together with IT, finance, risk and compliance and human resources.

Those enhancements have also seen us announce:

• The Managers' acquisition of B Denmark, the former exclusive correspondent in Denmark, now rebranded TR(B) Denmark. Michael Boje-Larsen heads up that office, which has been expanded with a further FD&D claims handler joining Michael's team;

• Konstantinos Samaritis taking over as head of our Greek office and, again, the recruitment of another FD&D claims handler;

• Our Singapore office has welcomed one of our loss prevention team (formerly based in London), another underwriter, a further FD&D claims handler and a local compliance lead;

• TR(B) Hong Kong's office move in December 2019, allowing for further expansion of its team and also enabling corporate events (e.g. Board functions) to be hosted from that office; and

• The establishment of our exclusive correspondent B Americas based in New York and led by Mike Unger, an experienced maritime lawyer formerly with Freehill Hogan & Mahar. B Americas will have a wide net, focusing on our Members based in the Americas, as well as assisting all Members with claims in the USA.

Our root and branch IT upgrade continues, thankfully on time and within budget. 2019 saw the roll out of the underwriting suite. Inevitably there were teething issues but the underwriting team coped well. 2020 will see us working on the new claims suite.

Finally, there is Brexit. The December 2019 UK election result saw some certainty, with the UK formally leaving the EU on 31 January 2020 but with a transition period until 31 December 2020. As reported previously, in December 2018 Britannia Europe was established in Luxembourg. Together, Britannia and Britannia Europe will provide seamless P&I and FD&D cover to our Members, with a common group approach achieved by both associations having the same controlling Member, Britannia Holdings.

WHEN ASKED HOW THEY FEEL AS A MEMBER OF BRITANNIA, THE TOP FOUR RESPONSES WERE SATISFIED, VALUED, PROUD AND SECURE.

MEMBERS OF THE BOARD

A J Firmin Hamburg[1, 2, 3]
(Chairman)

P Hunt London[1]
S-C Lan Taipei[2]
L Martel Montreal[3]
B T Nielsen Dallas[1]
N J Nolan London[1]
D F Saracakis Athens[2]

E Verbeeck Antwerp[1]
X Villers London[3]
J Warwick London[3]
A J Cutler London (Manager)[2]
J P Rodgers London (Manager)[2]

1 Risk & Audit Group
2 Nomination Subcommittee
3 Remuneration Group

Taken at the Board meeting in October 2019 in Rome.

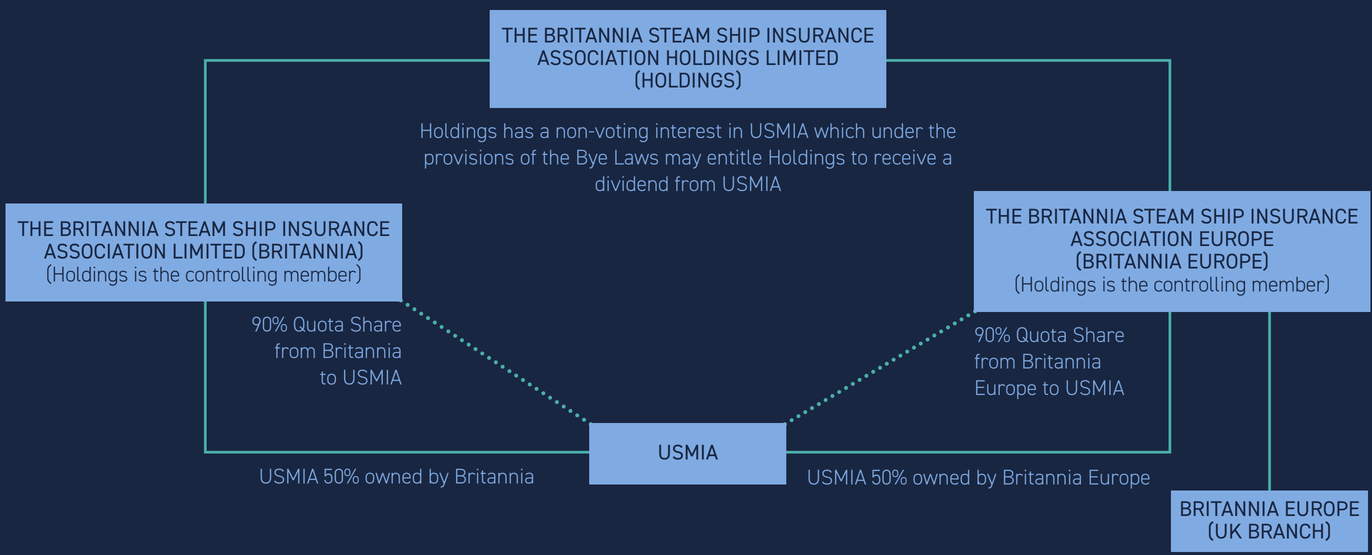
CORPORATE GOVERNANCE

THE GROUP REMAINS COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND IT COMPLIES WITH THE CORPORATE GOVERNANCE REQUIREMENTS SET OUT IN THE SOLVENCY II DIRECTIVE. CORPORATE GOVERNANCE IS SUBJECT TO A BIENNIAL REVIEW BY INTERNAL AUDIT.

GROUP STRUCTURE

As reported last year, in preparation for the UK leaving the EU, the corporate structure of the Group was changed with effect from 29 March 2019. The Group comprises The Britannia Steam Ship Insurance Association Limited (Britannia), based in the UK, The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe or BE), based in Luxembourg (together, the Associations), and a holding company, The Britannia Steam Ship Insurance Association Holdings Limited (Britannia Holdings), based in the UK. Britannia Holdings is the controlling Member of both Associations.

Universal Shipowners Marine Insurance Association Limited (USMIA), the Group's quota-share reinsurance vehicle, is 50% co-owned by the Associations. The Group structure is illustrated in the chart below.



Although BE was licensed to write insurance business by the Commissariat aux Assurances (CAA) with effect from 10 December 2018, it has not yet written any business. While the UK formally left the EU on 31 January 2020, a transition period exists whereby the UK remains in the European Single Market until 31 December 2020 (unless that deadline is extended). During this transition period, Britannia retains its rights to underwrite European business and therefore at 20 February 2020 all renewals were written by Britannia. It is not expected that BE will write any business until 1 January 2021, but the expectation is that at 20 February 2021 the entire book will be renewed into BE. The Board of Britannia is also exploring the option of transferring the entire historic book of business of Britannia to BE using a Court-sanctioned Part VII transfer, with effect from 20 February 2021. Members will be kept up-to-date on any further developments as they occur.

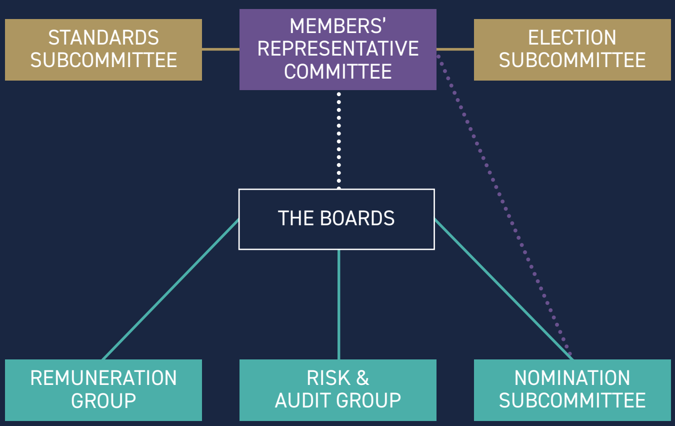
BOARDS AND MEMBERS' REPRESENTATIVE COMMITTEE

The constitution of the Boards of Britannia, BE and Britannia Holdings are identical, thus ensuring a consistency of approach across the entire business. All Members of the Associations are also Members of Britannia Holdings. The Members' Representative Committee (MRC) sits at the level of Britannia Holdings in order that it has an overview of the Associations.

CORPORATE GOVERNANCE

THE GROUP'S CORPORATE GOVERNANCE STRUCTURE IS SHOWN IN THE DIAGRAM BELOW.

THE GROUP'S CORPORATE GOVERNANCE STRUCTURE



THE MEMBERS' REPRESENTATIVE COMMITTEE (MRC)

The MRC is a larger body, comprising all of the directors of the Boards (other than the two Manager Directors), plus up to 28 other representatives drawn from the Associations' shipowner Members. The Chairman of the Boards is also the Chairman of the MRC. The MRC does not carry out any regulated functions, but the Boards have a duty to consult the MRC on key areas including strategy, investments, finance and call decisions. The MRC does have a key role in the Associations' loss prevention activities, through the Standards Subcommittee, and the consideration of claims trends and industry matters. It also retains the right to approve discretionary claims up to USD2m.

SUBCOMMITTEES OF THE MRC

ELECTION SUBCOMMITTEE

The Election Subcommittee's role is to consider and make recommendations to the MRC in respect of potential new Member representatives and potential new directors of the Boards, who would then be recommended to the Nomination Subcommittee.

STANDARDS SUBCOMMITTEE

The role of the Standards Subcommittee (SSC) is to monitor the composition of the membership, review loss prevention activities, including the condition survey programme and monitor claims trends. The SSC comprises up to five MRC members and three representatives of the Managers, including the Chief Underwriting Officer and the Director, P&I Claims.

Britannia's website provides further details of the roles and responsibilities of the various bodies (including their individual Terms of Reference) as well as listing the individuals who sit on them.
www.britanniapandi.com/about/corporate-governance

THE BOARDS

Overall responsibility for the management of the Group rests with the Boards of Britannia, BE and Britannia Holdings (the Boards). As noted above, the constitution of the Boards is identical. The Boards comprise a non-executive Chairman, up to 10 non-executive directors drawn from the Associations' shipowner Members, at least one non-executive director who is expert in insurance matters and two executive directors from the Groups' Managers. The Boards are responsible for all strategic aspects of the business of the Associations. In practice, they delegate some of their powers to subcommittees and responsibility for the day-to-day management of the Associations to Tindall Riley & Co. Ltd. which acts through its subsidiaries Tindall Riley (Britannia) Ltd. (TRB) in the UK and Tindall Riley Europe s.à.r.l. (TRE) in Luxembourg (together, the Managers). TRB also acts as a UK Branch of BE. The Managers are responsible for ensuring that appropriate information, which is adequate to enable the Boards to discharge their duties and to oversee the business effectively, is provided on a timely basis. There are nevertheless a number of matters that are reserved exclusively for decision by the Boards and these are reviewed and updated at least annually. The Boards meet five times a year.

SUBCOMMITTEES OF THE BOARDS

Certain of the Boards' powers are delegated to subcommittees. The membership of these subcommittees is set out on page 17.

RISK & AUDIT GROUP

The Associations each have a Risk & Audit Group (RAG), comprising up to five non-executive directors of the Associations. Their responsibilities include the review of the financial statements and the Solvency & Financial Condition Reports ahead of the Boards' consideration, the risk management framework, internal and external audit, and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Boards. The RAGs meet three times a year.

REMUNERATION GROUP

This Group comprises up to four non-executive directors of the Associations. Its responsibilities include an annual review of the fee paid to the Managers and periodic reviews of directors' remuneration. The Group meets twice a year.

NOMINATION SUBCOMMITTEE

This subcommittee consists of up to four non-executive directors of the Associations and the two Manager Directors. Its principal responsibilities are to make recommendations to the Boards on the appointment of new directors, the re-election of existing directors, the appointment of the Chairman of the Boards and reviewing the skills, training requirements and performance of directors and Senior Management Function holders. The subcommittee meets as required during the year.

CORPORATE GOVERNANCE

SENIOR MANAGERS AND CERTIFICATION REGIME

The Group complies with the requirements of the Senior Managers and Certification Regime (SMCR) and maintains a Management Responsibilities Map which sets out the governance structure of the Associations and identifies senior management functions, the notified non-executive directors and other significant roles that carry additional responsibility, called Certification Functions. It also shows reporting lines and the allocation of prescribed responsibilities. Changes to the Management Responsibilities Map are reviewed and approved by the Boards.

DIRECTORS' AND MRC REPRESENTATIVES' REMUNERATION

The table below sets out the fees payable to the Directors and to the members of the MRC.

	ANNUAL FEE	ATTENDANCE FEE PER MEETING
Chairman	GBP75,000	–
Expert director	GBP50,000	–
Directors	–	USD5,000
Chairman of the Risk & Audit Group	USD9,000	–
Members of the Risk & Audit Group	USD6,000	–
Other subcommittee Chairs	USD2,000	–
MRC members	–	USD6,000

Each year there are five scheduled Board meetings, three scheduled Risk & Audit Group meetings and two scheduled MRC meetings.

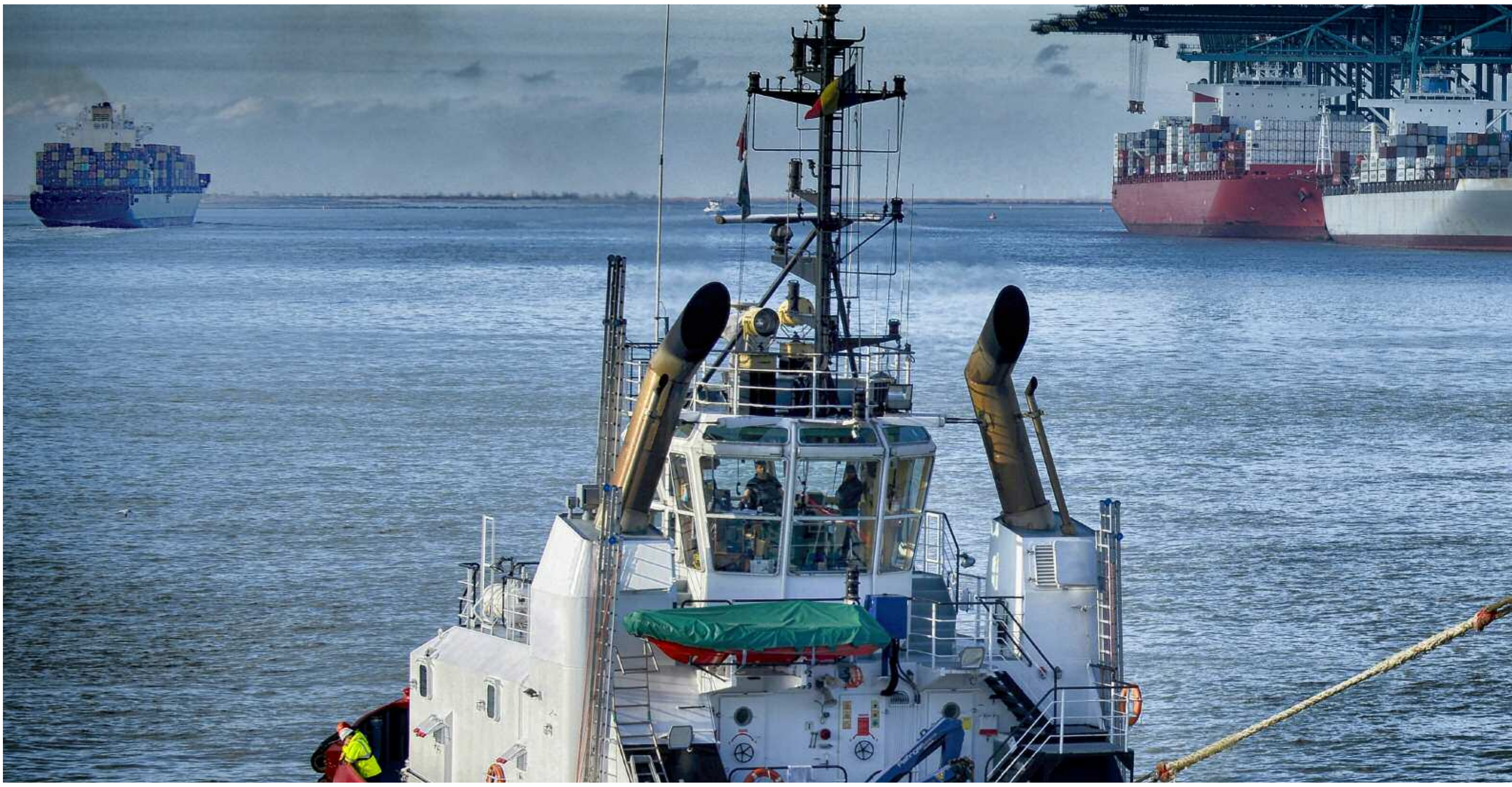
REGULATION AND RISK MANAGEMENT

Britannia is regulated in the UK by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks.

Britannia has licensed branches in Japan (regulated by the Japanese Financial Services Agency), Hong Kong (regulated by the Insurance Authority) and Singapore (regulated by the Monetary Authority of Singapore).

BE is authorised and regulated by the CAA in Luxembourg, which operates a similar risk-based supervision regime to the PRA.

The Associations' risk management frameworks are documented in a set of risk management policies approved by the respective Boards. The basis of the frameworks are seven risk appetite statements, to each of which are attached a number of risk outcomes. These in turn link to the Associations' risk registers, which record all the individual risks that have been identified as posing a threat to the achievement by the Associations of their planned strategic objectives. These risks are monitored on a quarterly basis by the Boards of the Managers, which prepare a report on risk management for the RAGs. The risk management frameworks consider risks under a number of headings, which, together with a summary of the Associations' risk mitigation approach, are set out below.



CORPORATE GOVERNANCE

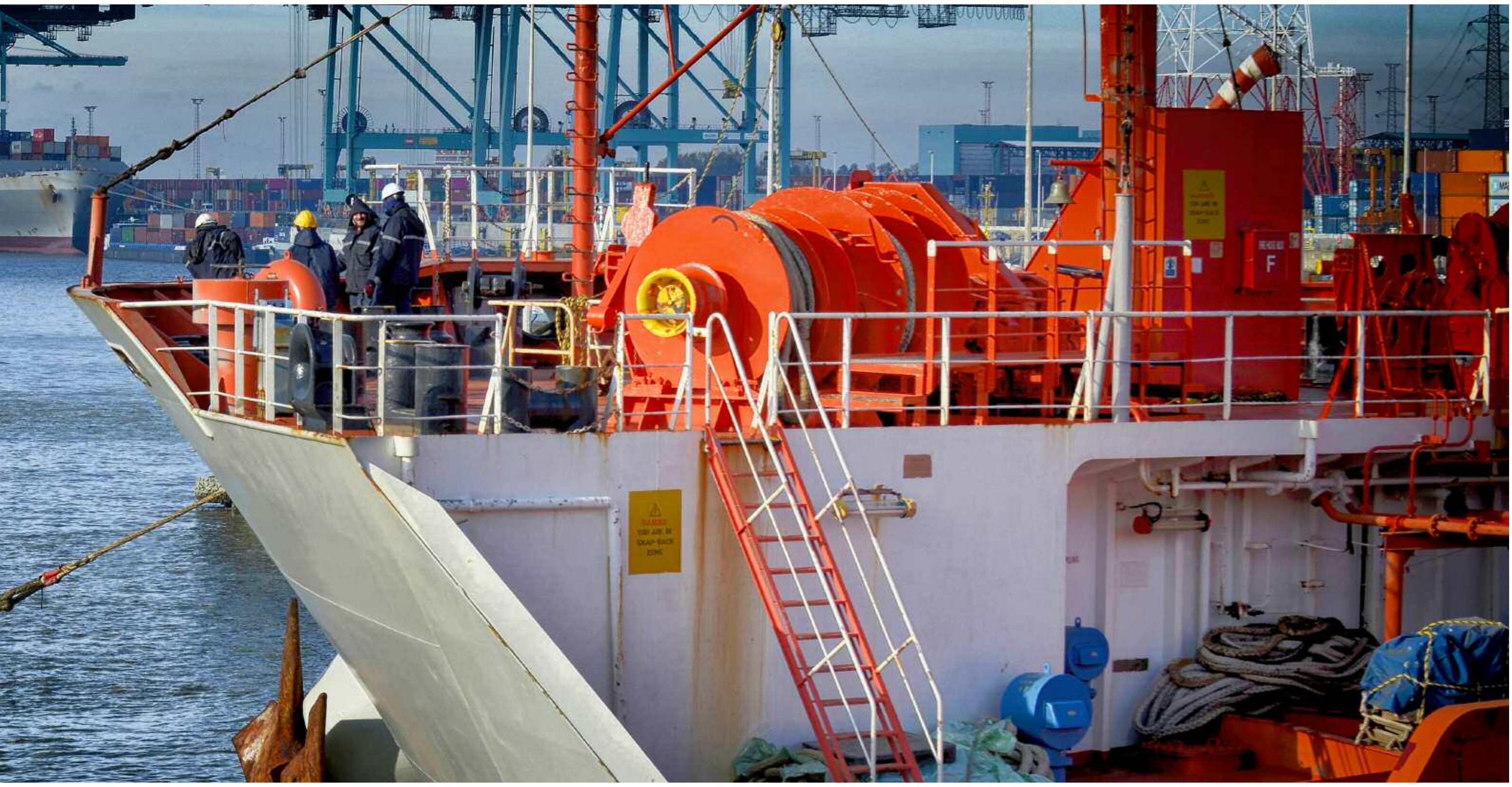
Underwriting risk arises from two sources – adverse claims development (reserve risk) and inappropriate underwriting (premium risk). Reserve risk is managed by the Associations' policy of prudent reserving of individual claims (which in most years is evident from the release of 'redundant' reserves noted in the financial statements) and frequent reviews of estimates, including oversight of large claims by a subcommittee of senior claims directors. Prudent contingency reserves are also maintained at confidence levels consistent with the Associations' risk appetite. Premium risk is managed by having in place a clear underwriting philosophy, procedures and controls in relation to pricing, rigorous selection criteria for the admission of new Members, and the diversification of risks, both by ship type and geographical location.

Reinsurance is another important method for the management of insurance risk. The Associations participate in the International Group pooling arrangement, whereby individual claims above USD10m are pooled (and reinsured above USD100m through the GXL reinsurance programme) and have a number of reinsurance covers with Boudicca Insurance Company Ltd. Judicious use of reinsurance is also made in respect of certain specific risks where additional protection is appropriate.

Market risk refers to the risk of losses on the Associations' investment portfolios, arising from fluctuations in the market value of the underlying investments. The Group has a clear investment strategy, which is reviewed regularly and is consistent with the prudent person principle. The strategy has two main objectives as set out in the investment strategy and performance section above. In summary, the underlying strategy is to match insurance liabilities in terms of currency and duration with high quality fixed-interest government securities and to hold appropriate levels of corporate bonds and equities.

Credit risk arises from the possibility of default by one or more counterparties, which include reinsurers and deposit-takers as well as Members. This risk is managed by carrying out appropriate due diligence on prospective counterparties, carrying out financial checks on potential Members, looking at the credit ratings of reinsurers and monitoring these over time (a minimum rating of 'A' is required for any of the Associations' reinsurance programmes), restricting the exposure to individual deposit-takers (currently the limit is USD10m) and having in place a robust credit control system.

Liquidity risk refers to the possibility of the Associations having insufficient cash available to settle claims and other liabilities as they fall due. The Associations prepare cash flow forecasts in order to manage likely cash requirements, based on known liabilities but leaving a prudent margin for unexpected commitments. Significant cash balances are maintained so that there are always adequate funds available to pay claims as required. In addition, the investment strategy requires substantial holdings in cash funds, which are available at very short notice and can be used to augment cash balances should the need arise.



CORPORATE GOVERNANCE

Operational risk covers the risks arising from the failure of internal processes, people or systems, or from external events. The Managers have identified the key operational risks, which are recorded in the risk registers. There is also a comprehensive procedures manual which covers every aspect of the management of the Associations and the internal audit function has proved effective in testing the internal control framework to ensure that it remains appropriate.

ECONOMIC AND REGULATORY CAPITAL

In addition to the comprehensive programme of risk mitigation actions outlined above, the Associations have an economic capital strategy, which operates at the level of the Group. This strategy defines the level of capital necessary to cover the risk of losses occurring that exceed the Group's risk appetites. A range of modelling techniques has been developed that are used to quantify the risks identified in the risk register to variable confidence levels and time horizons. The outputs from the modelling provide the Group's economic capital benchmark.

The Group also has a policy and procedures for the preparation of the Own Risk and Solvency Assessment (ORSA), which incorporates the totality of the Group's risk and capital management processes. The ORSA is a detailed assessment of the risks faced by the Group and confirmation that the Solvency Capital Requirement (SCR) adequately reflects these risk exposures. The ORSA includes a forward-looking assessment of risk and capital requirements over a three-year time horizon.

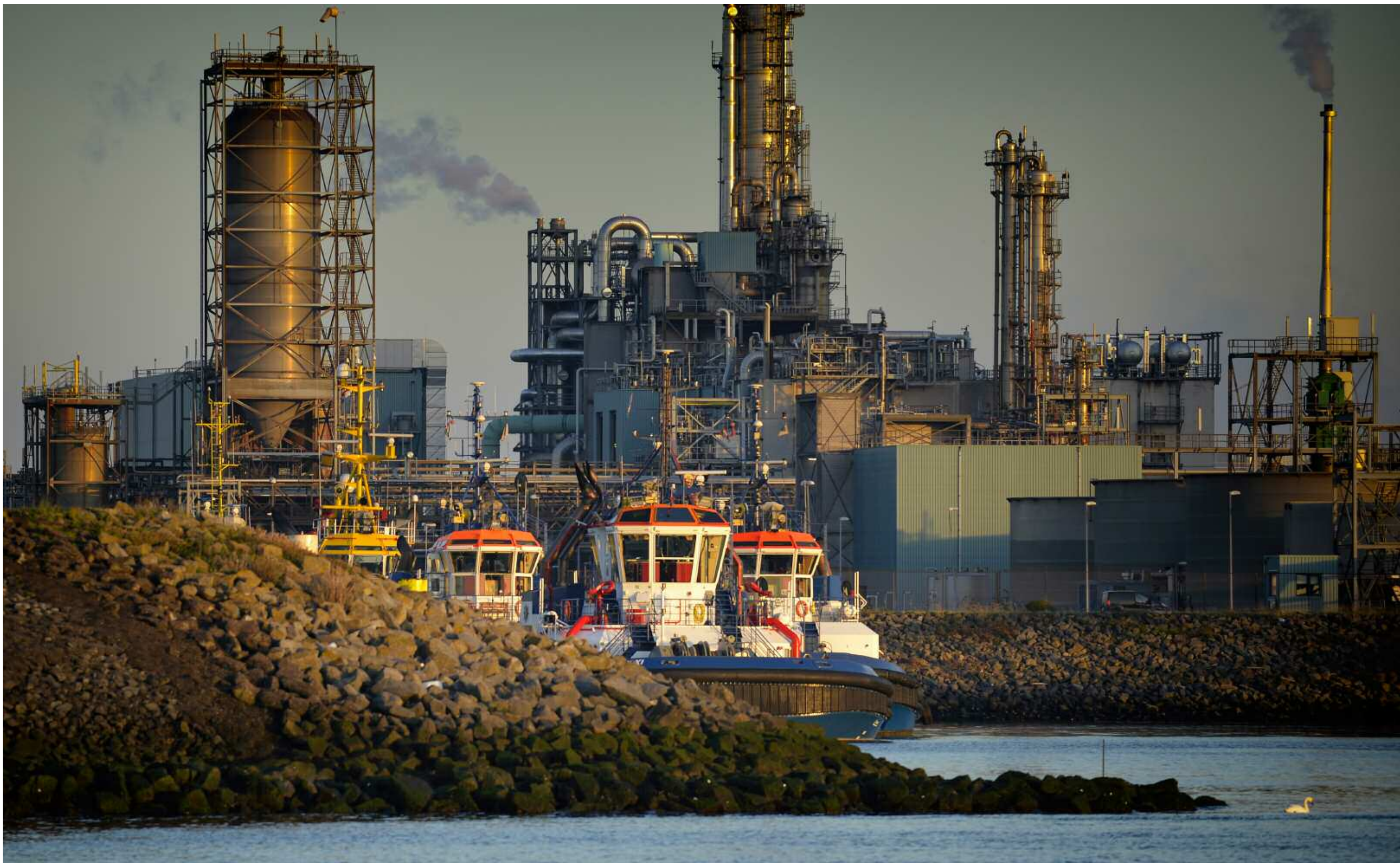
REGULATORY REPORTING

The Associations use the standard formula for the calculation of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) at both solo and Group level, and there are established procedures to ensure that the assumptions underlying the standard formula are appropriate for the Associations' business. The Group's most recent Solvency and Financial Condition Report (SFCR) is available on the Britannia website and the 2020 SFCR will be published in July 2020.

Britannia complies with all local regulatory reporting requirements in respect of its licensed branches.

INTERNAL AUDIT

The Group's internal audit function operates on a risk-based cycle to cover every aspect of the Associations' business. Internal audit works to agreed terms of reference approved by the Boards and reports to every meeting of the RAGs. In addition, the Head of Internal Audit has interim meetings with the Chairman of the RAGs.



STATEMENT OF COMPLIANCE WITH SECTION 172(1) OF THE COMPANIES ACT 2006

SECTION 172(1) OF THE COMPANIES ACT 2006 REQUIRES THE DIRECTORS TO PROMOTE THE SUCCESS OF THE GROUP FOR THE BENEFIT OF THE MEMBERS AND OTHER KEY STAKEHOLDERS.

In doing so, the directors must have regard to six main areas:

• The likely consequences of any decision taken in the long term;

• The interests of employees, which in the case of the Group relates to those employed by the Group's Managers;

• The need to foster business relationships with suppliers, customers and others;

• The impact of the operations of the Group on the community and the environment;

• The desire to maintain a reputation for high standards of business conduct; and

• The need to act fairly as between the Members of the Group.

The Group's key stakeholders are the Members, who comprise the shipowners and charterers who have ships entered with the Group. The Group's corporate governance structure, explained in detail on pages 18 and 19, includes a Members' Representative Committee, which includes representatives drawn from the Group's shipowner Members, and which allows wider engagement with the membership on the impacts of the main decisions of the Board, which include call setting, capital distributions and investment strategy.

Further engagement with the membership takes place through the Standards Subcommittee and the Loss Prevention Programme, described on page 12, initiatives such as the Member survey, explained on page 16, and the Member Forums, which take place in Europe and Asia each year.

The other principal stakeholders that have been identified by the Board are the Managers, Tindall Riley & Co. Ltd, and their employees worldwide, who carry out all the day to day operational and management functions of the Group, and those others that provide services to the Group such as investment managers, professional advisers, the exclusive and local correspondents, local experts such as surveyors, the Group's reinsurance providers and insurance brokers. The Group has built strong relationships with these stakeholders over the years. In particular, the average length of the current membership of the Group is 24 years, and the partnering relationship with the exclusive correspondents goes back in some cases over generations.

One of the Board's seven risk appetite statements relates to the long-term sustainability of the Group's business. All key decisions of the Board, such as those set out above, have regard to this principle such that 'short-termism' is avoided in favour of the long-term view. The Board also sets economic capital targets at very high levels of confidence with the aim of achieving long-term financial stability.

The relationship between the Group and the Managers, which dates back over 165 years, is symbiotic, in that the success of one is inextricably linked to the success of the other. Decisions taken by the Board that directly impact the Managers, such as the amount of the management fee, take full account of this relationship, having regard to service levels and accountability.

A recent initiative by the Board is to agree a robust Environmental, Social and Governance (ESG) policy, which will be used to assess the impact of the Group's operations on the communities in which it operates and on the wider environment. This will include an assessment of the likely effects of political and climate change.

Through its regulated entities, the Group has for many years aligned the way that it does business with the Regulators' conduct rule, such as 'treating customers fairly'. As a mutual insurance business, the fair treatment by the Group of its Members is a fundamental principle. It has in place a Standards of Business Conduct policy which sets out these regulatory conduct rules and covers additional areas such as the whistleblowing policy, how the Group manages conflicts of interest, the remuneration policy, the Group's modern slavery statement and the anti-bribery and corruption policy. The Group also has a Financial Crime policy.

The Group's reputation is fundamental to its ability to carry out its business and it seeks to protect this reputation by sticking firmly to the principles of fairness and sound business conduct that the Board has established.

STATUTORY DIRECTORS' REPORT

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT TO THE 148TH ANNUAL GENERAL MEETING OF THE MEMBERS OF THE GROUP TOGETHER WITH THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR TO 20 FEBRUARY 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Group and its subsidiaries during the year were the insurance and reinsurance of the risks of Protection and Indemnity (Class 3) and Freight, Demurrage and Defence (Class 6). The Chairman's Statement on pages 2 and 3 and the Strategic Report on pages 5 to 23 report on these activities and the financial results of the Group for the year, together with likely future developments.

DIRECTORS

The members of the Board are directors of the Group for the purposes of the Companies Act 2006. The present members of the Board are listed on page 17 of this report.

Y Yamawaki and N J Palmer resigned as directors on 9 May 2019 and 15 October 2019 respectively. On 9 May 2019, D F Saracakis and X Villers were appointed as directors and in accordance with the Articles of Association offer themselves for re-election.

A Firmin, B T Nielsen and E Verbeeck all retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election as directors.

DIRECTORS' INDEMNITY INSURANCE

The Group has purchased directors' and officers' liability insurance in respect of all of the Group's directors.

FINANCIAL INSTRUMENTS

Information on the use of financial instruments by the Group and its management of financial risk is addressed in Note 14 to the financial statements. The Group's exposure to cash flow risk is addressed under the headings of Credit risk, Liquidity risk and Market risk in that note.

FUTURE DEVELOPMENTS

Likely future developments of the Group are discussed in the Strategic Report.

AUDIT

The Managers are responsible for the preparation of the financial statements and have confirmed they have provided all relevant audit information of which they are aware. The Risk & Audit Groups have considered the financial statements with the Managers, met privately with the auditors and reported to the Board.

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

BDO LLP have expressed their willingness to be reappointed as auditors of the Group. A resolution to reappoint them as the Group's auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 5 to 23 includes a fair review of the development and performance of the business and the position of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

A description of the Principal Risks and Uncertainties facing the Group is set out at Note 14 to the Financial Statements and is also further expanded on in the Corporate Governance section on page 20 under Regulation and Risk Management.

SUBSEQUENT EVENTS

Subsequent events have been considered and are more fully disclosed in note 22 to the Financial Statements.

By order of the Board
J A Young Secretary
18 June 2020

FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and its income and expenditure for that period. In preparing these financial statements, the directors are required to:

• select suitable accounting policies and apply them consistently;

• make judgments and accounting 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;

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that show the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION HOLDINGS LIMITED

Our opinion

We have audited the financial statements of The Britannia Steam Ship Insurance Association Holdings Limited (the 'Company') and its subsidiaries (the 'Group') for the year ended 20 February 2020, which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Statement of Changes in Equity, the Company (Parent Company) Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

• give a true and fair view of the state of the Group's and the Company's affairs as at 20 February 2020 and of the Group's result for the year then ended;

• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

We have examined the appendix on page 52, showing the policy year position for Class 3. In our opinion, the appendix has been properly prepared in accordance with the accounting policies set out on pages 35 to 37.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and the Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions Technical provisions relate to four main classes of business, Retained, Pool, FD&D and Occupational Disease. Claims estimation relies on the expertise and judgment of claims handlers and their experience of assessing claims in different jurisdictions and types. There is significant judgment and estimation when setting technical provisions.	We engaged our actuarial experts to perform a review of the appropriateness of the methodologies employed by the Group when setting technical provisions. They re-projected technical provisions in order to conclude whether technical provisions are sufficient to cover the liabilities of the Group. For Retained, Pool and FD&D claims, our actuarial experts re-projected the ultimate cost of the latest 15 policy years using a stochastic model based around chain ladder methodology in order to provide both an independent benchmark and to provide assurance on the reasonableness of the Group's own projections. For Occupational Disease, our actuarial experts reviewed the model employed by the Group. Our actuarial experts obtained, reviewed and challenged the report by the Group's actuarial function and held meetings with the Group's actuarial function to discuss process, assumptions, findings and the results of the reprojection, including appropriateness of assumptions and processes and why other bases were considered less appropriate. In addition to the work performed by our actuarial experts, we have also performed: • testing of controls surrounding paid claims by assessing the appropriateness of the control and then selecting a random sample of paid claims and obtaining evidence that the expected controls were operating effectively; • substantive procedures including selecting a sample and testing that: (i) revisions to claims estimates; (ii) all material paid claims and case estimates and a sample below materiality; (iii) a sample of all claims movements in the year; and (iv) long outstanding claims covering those with no review of the estimate during the year and those entered with no case estimate, were supported by appropriate documentation and evidence; • testing that the actuarial data used by the Group's actuarial function and our appointed actuarial experts were the same by reconciling the actuarial data to the accounting records.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION HOLDINGS LIMITED

Key audit matter	How our audit addressed the key audit matter
Valuation of reinsurers' share of technical provisions Changes to the retention points and the Group's Pool share for each policy year create complexity and the risk of error.	Our work consisted of substantive testing. The principal procedures undertaken included: • reviewing the reinsurance programme to identify any changes to the prior year or to our understanding of the structure of the programme; • considering the expected impact of changes to reinsurance arrangements (including retentions and premiums) on the financial statements and assessment of whether reported results are consistent with our understanding of the programme; • testing of a sample of reinsurance recoveries by recalculating the expected recovery based on the details of the claims and our understanding of the programme; • assessing the security of reinsurers through comparing credit ratings to third party agencies and the potential impact on recoveries; and • assessing and recalculating a sample of reinsurers' share of outstanding claims based on the details of outstanding claims and our understanding of the programme.

Our application of materiality
In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgment, we determined materiality for the financial statements as a whole to be USD7,900,000 (2019: USD7,500,000). The principal determinant in this assessment was the Group's Net Assets, which we consider to be the most relevant benchmark, as this reflects the availability of reserves to provide distributions or the need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 1.9% (2019: 1.9%) of Net Assets. Parent Company materiality is USD1,000,000 and is based on 5% of total assets.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at USD5.53m (2019: USD5.25m) which represents 70% (2019: 70%) of the above lower level materiality levels.

We agreed with the Risk & Audit Groups that we would report to them any misstatements in excess of USD150,000 (2019: USD75,000) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit
The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Group when determining the level of work to be performed. We do not place reliance on the work of component auditors and instead undertake our own audit procedures and testing to gain comfort on transactions and balances recorded within the financial statements. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of the valuation of technical provisions which are subject to management judgment and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training, and the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of Board and management meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and
- review of the Group's compliance manuals, breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION HOLDINGS LIMITED

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters which we are required to address
We were first appointed in 1991 following merger with Bagshaw & Co, who were the auditors prior to that date.

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

Our audit opinion is consistent with the additional report to the Risk & Audit Groups.

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

Thomas Reed Senior Statutory Auditor
For and on behalf of BDO LLP
Statutory Auditor
London UK
19 June 2020

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

20 FEBRUARY 2020

Technical account – general business	Note	2020 USD(000)	2019 USD(000)
Earned premiums, net of reinsurance			
Calls and premiums	3	**201,185**	204,415
Reinsurance premiums	4	**(61,402)**	(61,683)
		139,783	142,732
Allocated investment return transferred from the non-technical account		**33,079**	29,873
Total income		**172,862**	172,605
Claims incurred net of reinsurance			
Net claims paid	5	**(151,721)**	(126,324)
Change in provision for claims	6	**40,054**	6,725
Net claims incurred		**(111,667)**	(119,599)
Net operating expenses	8	**(31,891)**	(28,649)
Total expenditure		**(143,558)**	(148,248)
Balance on technical account		**29,304**	24,357

Non-technical account	Note	2020 USD(000)	2019 USD(000)
Balance on the technical account		**29,304**	24,357
Net investment income	9	**61,868**	(2,643)
Allocated investment return transferred to the technical account		**(33,079)**	(29,873)
Net surplus before taxation		**58,093**	(8,159)
Taxation	11	**(1,666)**	(1,137)
Net surplus after taxation		**56,427**	(9,296)

All amounts are derived from continuing operations. The notes on pages 35 to 51 form part of these financial statements. There are no recognised gains and losses other than those included in the consolidated income and expenditure account.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

20 FEBRUARY 2020

Assets	Note	2020 USD(000)	2019 USD(000)
Investments			
Financial investments	12	**847,129**	879,514
Reinsurers' share of technical provisions			
Claims outstanding	6	**524,343**	449,097
Debtors			
Direct insurance operations – Members	16	**74,844**	76,157
Reinsurance operations	17	**60,632**	28,087
Taxation		**148**	715
Other debtors	18	**–**	12
		135,624	104,972
Other assets			
Cash at bank		**116,173**	132,499
Prepayments and accrued income			
Accrued interest		**804**	964
Other prepayments and accrued income		**10,589**	5,098
Total assets		**1,634,662**	1,572,143

Liabilities	Note	2020 USD(000)	2019 USD(000)
Capital and reserves			
Investment reserve		**130,563**	102,328
General reserve		**55,000**	55,000
Income and expenditure account		**236,525**	233,333
		422,088	390,661
Technical provisions			
Gross outstanding claims	6	**1,198,743**	1,163,551
Creditors			
Direct insurance operations – Members		**9,095**	12,519
Taxation		**43**	15
Reinsurance operations	19	**4,343**	4,197
Other creditors	20	**350**	1,200
Total liabilities		**1,634,662**	1,572,143

The notes on pages 35 to 51 form part of these financial statements.

A J Firmin Director

B T Nielsen Director

J P Rodgers
Tindall Riley (Britannia) Limited Managers
18 June 2020

CONSOLIDATED STATEMENT OF CASH FLOWS

20 FEBRUARY 2020

Cash flows from operating activities	2020 USD(000)	2019 USD(000)
Net income before tax	**58,093**	(8,159)
Adjustments for:		
Change in provision for claims (net of reinsurance)	**(40,054)**	(6,725)
Increase in insurance and other debtors	**(36,551)**	(5,436)
Decrease in insurance and other creditors	**(4,128)**	(3,605)
Investment income	**(61,868)**	2,643
Cash from operations	**(84,508)**	(21,282)
Income taxes paid	**(1,072)**	(1,204)
Net cash generated from operating activities	**(85,580)**	(22,486)
Cash flows from investing activities		
Purchase of equities	**(27,815)**	(23,499)
Purchase of fixed interest investments	**(245,952)**	(220,406)
Sale of equities	**18,643**	29,015
Sale of fixed interest investments	**290,640**	435,954
Net change to deposits with credit institutions	**49,040**	(170,372)
Income from equity investments	**3,968**	4,399
Income from fixed income investments	**4,967**	6,001
Bank and other interest	**3,528**	3,661
Investment management expenses	**(1,350)**	(1,553)
Net cash from investing activities	**95,669**	63,200
Cash flows from financing activities		
Capital distribution to Members	**(25,000)**	(30,000)
Net cash from financing activities	**(25,000)**	(30,000)
Net (decrease)/increase in cash at bank	**(14,911)**	10,714
Cash at bank at the beginning of the financial year	**132,499**	122,876
Effect of foreign exchange rate changes	**(1,415)**	(1,091)
Cash at bank at the end of the financial year	**116,173**	132,499

The notes on pages 35 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

20 FEBRUARY 2020

Total	Investment reserve USD(000)	General reserve USD(000)	Income and expenditure account USD(000)	Total USD(000)
At 20 February 2018	139,445	55,000	235,512	429,957
Deficit for the financial year	–	–	(9,296)	(9,296)
Capital distribution	–	–	(30,000)	(30,000)
Transfer from investment reserve	(37,117)	–	37,117	–
At 20 February 2019	102,328	55,000	233,333	390,661
Surplus for the financial year	–	–	56,427	56,427
Capital distribution	–	–	(25,000)	(25,000)
Transfer to investment reserve	28,235	–	(28,235)	–
At 20 February 2020	**130,563**	**55,000**	**236,525**	**422,088**

The Britannia Steam Ship Insurance Association Holdings Limited (the Company) is incorporated and registered in England and Wales as a company limited by guarantee and does not therefore have a share capital. The registered address of the Company is Regis House, 45 King William Street, London, EC4R 9AN.

The investment reserve comprises the cumulative net transfers from the income and expenditure account. Annual transfers equivalent to the net unallocated return/(deficit) on the Group's investments are made to or from this reserve.

The general reserve was established in accordance with Rule 39(1) of The Britannia Steam Ship Insurance Association Limited and The Britannia Steam Ship Insurance Association Europe m.a (the Associations) to provide for any claims, expenses, losses or other outgoings of the Associations (including any deficiency in respect of any closed policy year), or to eliminate or reduce any call in respect of any policy year. The general reserve can also be used to make a distribution to Members of such amount in such manner as the Board thinks fit.

Two capital distributions were agreed on 9 May 2019 and 15 October 2019 which amounted to USD10m and USD15m respectively for Class 3 Members with owned ships on risk as at midnight (BST) on the respective dates. Each Member's proportion of the distribution related to their share of owned net Class 3 premium in relation to the owned Class 3 premium for all ships on risk on the day of distribution. Owned net Class 3 premium is defined as gross Estimated Total Call less the cost of the International Group reinsurance.

COMPANY STATEMENT OF FINANCIAL POSITION

20 FEBRUARY 2020

Assets	Note	2020 USD(000)
Investments		
Investment in group undertakings	13	**20,500**
Total assets		**20,500**
Liabilities		
Capital and reserves		
Income and expenditure account		**20,500**
Total liabilities		**20,500**

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from presenting its own Statement of Comprehensive Income and related notes as it prepares consolidated accounts. The Company surplus and total comprehensive income for the period from incorporation to 20 February 2020 was USD20.5m.

The notes on pages 35 to 51 form part of these financial statements.

A J Firmin Director

B T Nielsen Director

J P Rodgers
Tindall Riley (Britannia) Limited Managers
18 June 2020

NOTES TO THE FINANCIAL STATEMENTS

20 FEBRUARY 2020

Basis of preparation

These group financial statements, which consolidate the financial statements of the Company and its subsidiary undertakings, have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (the Regulations) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' ('FRS 103'), the Group has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'profit and loss account' as a heading. This is replaced in these financial statements by 'income and expenditure account', consistent with the mutual status of the Group operations. The individual statement of financial position of the Company ('the parent undertaking') is prepared in accordance with the provisions of Section 394 of the Companies Act 2006 and the Regulations. Under FRS102 Section 7: Cash Flows, no Statement of Cash Flows has been presented for the Company as the cash flows of the Company are included within the Consolidated Statement of Cash Flows of the Group. An exemption has therefore been claimed under FRS 102 section 1.12 (b).

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. Subsequent events have been considered and are more fully disclosed in note 22.

Statement of compliance

These group financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'), FRS 103 and the Companies Act 2006.

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items that are material to the consolidated financial statements.

Basis of accounting

The Group's business is accounted for on an annual basis. Separate accounts are maintained for each class of business written.

For the purpose of reporting to mutual Members, all transactions are allocated to individual policy years. Calls and premiums (including reinsurance premiums), claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date of the incident giving rise to the claim. All other income and expenditure items are allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

The prospect of the UK leaving the European Union ('Brexit') and thereby losing the right to 'passport', that is, to underwrite insurance business in other EU countries from the UK, has resulted in a corporate restructuring to ensure that, post-Brexit, The Britannia Steam Ship Insurance Association Limited (Britannia) will be able to continue its current operations uninterrupted and allow its Members to continue to enjoy the full benefits of membership. The restructuring had three stages: 1) The establishment of a new, EU-based mutual insurer, with a licence to underwrite business in its country of incorporation and, through passporting, the rest of the EU; 2) The creation of a Britannia Group, whereby the current Britannia and the new European mutual become subsidiaries of a new holding company; and; 3) The rearrangement of the ownership of Britannia's reinsurance subsidiary, Universal Shipowners Marine Insurance Association Ltd (USMIA), such that it is 50% co-owned by Britannia and the European mutual.

On 30 November 2018, The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe) was incorporated as a mutual association in Luxembourg and on 10 December 2018, the Luxembourg insurance regulator, the Commissariat aux Assurances (CAA), granted Britannia Europe a licence to underwrite (stage 1 above). On 20 November 2018, The Britannia Steam Ship Insurance Association Holdings Limited (Britannia Holdings) was incorporated in the UK and the structure creating the Britannia Group was effected on 29 March 2019 (stage 2 above). On 25 February 2019, the Board of USMIA adopted revised bye laws which created two new share classes, following which Britannia transferred two non-voting shares to Britannia Holdings and 59,999 class B shares to Britannia Europe (stage 3 above).

This reorganisation was accounted for as a merger, meeting as it did the requirements under FRS 102 for the merger accounting method to be applied. The directors have applied a true and fair override, as permitted by the Companies Act 2006, as they consider that this provides a true and fair overview of the restructured Group's financial position.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 20 February each year. Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated upon consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Rates of exchange

The Group uses the US dollar as its currency of presentation and functional currency. Monetary assets and liabilities denominated in other currencies are translated into US dollars at the rates ruling at the statement of financial position date. Revenue transactions are translated at the actual rate applying at the date of transaction or, where this is not practicable, the average rate for the year. Exchange rate differences are recognised in the non-technical account of the income and expenditure account.

NOTES TO THE FINANCIAL STATEMENTS

20 FEBRUARY 2020

1 ACCOUNTING POLICIES (CONTINUED)

Calls and premiums

Calls and premiums in respect of policies incepting prior to the statement of financial position date are shown gross of acquisition costs and net of returns and bad and doubtful debts. They include deferred calls for which Members have been advised to budget, to the extent that the directors expect them to be called within 12 months of the statement of financial position date. Since all insurance policies are coterminous with the Group's financial year, there are no unearned premiums at the year-end date. Reinsurance premiums are accounted for in the same accounting period as the direct insurance premium or calls to which they relate.

Acquisition costs

Acquisition costs represent brokerage and commission charges relating to the writing of policies; underwriting management costs; renewal of existing Members' entries; negotiation with potential Members and the processing of entry documentation.

Claims paid

Claims paid comprise all claims and related expenses approved by the Board and advances made on account of claims during the year. They include the Group's share of claims under the Pooling Agreement, together with internal management costs of handling and processing claims.

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

Claims outstanding

The provision for claims outstanding in the financial statements comprises the Managers' estimate of the ultimate outcome of all reported claims based on current information, plus their forecast of the ultimate cost of claims incurred but not reported (IBNR). The provision also includes an allowance for future claims handling costs.

The Group reserves individual reported claims within its retention on a 'highest reasonable likely outcome' basis, except in circumstances where there is insufficient information available to make a meaningful estimate. In such cases, a statistically derived reserve is applied, which is based on the development of similar notifications made in earlier years.

The IBNR provision for claims within the Group's retention is determined by the Managers based on standard actuarial projection techniques supported by stochastic modelling. The model uses historical information on claims development, adjusted for inflation and other variables, such as the number of ships entered with the Group, to project the ultimate cost of claims. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims in more recent years. The confidence levels selected for setting IBNR reserves reflect the Group's risk tolerance.

Provisions in respect of the Group's share of other Clubs' Pool claims are based on information and data supplied by the other parties to the Pooling Agreement, to which the Managers apply similar actuarial techniques and models to those described above.

Provisions for all claims are based on information available at the statement of financial position date. Significant delays are experienced in the notification of certain claims (sometimes of many years' duration), and accordingly, the ultimate cost of claims cannot be known with certainty at the statement of financial position date. It is possible that subsequent information and events may result in the ultimate liability varying from the amount provided. Any such differences between claims provisions and subsequent settlement are dealt with in the technical account – general business in later years.

Claims provisions are recognised gross of any reinsurance recoveries. The reinsurers' share of claims outstanding is derived from an estimation of the amounts that will be recoverable from reinsurers based on the gross provisions (including the IBNR provisions) and the structure of the Group's reinsurance programme, and having due regard to the possibility of default by reinsurers.

Investment return

The investment return recognised in the non-technical account comprises investment income (interest and dividends), realised gains and losses on investments sold in the year and movements in unrealised gains and losses arising in the year, net of investment management expenses.

Dividends are recognised from the date on which the shares are quoted 'ex-dividend' and include related tax credits. Interest and expenses are recognised on an accruals basis. Realised gains and losses on investments are calculated as the difference between the net sales proceeds and the purchase price. The movement in unrealised gains and losses recognised in the income and expenditure account represents the difference between the valuation of investments at the statement of financial position date and either their purchase price or their valuation at the commencement of the year, with an adjustment to reverse previously recognised unrealised gains or losses on investments disposed of in the current year. Realised and unrealised gains and losses include any related exchange gains or losses.

1 ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Non-derivative financial instruments are shown at current market value at the statement of financial position date. Non-derivative listed instruments are stated at bid value. Non-derivative unlisted instruments are valued by the directors on a prudent basis, having regard to their likely realisable value. Investments in group undertakings and participating interests in the Company's own statement of financial position are stated at cost less impairment.

Derivative instruments are held to support the Group's investment return. Derivatives are categorised as held for trading and are classified as financial investments or creditors at fair value through income. Derivative instruments are measured at initial recognition, and subsequently at fair value, and changes in fair value are recognised in the income and expenditure account. Transaction costs incurred in buying and selling derivative instruments are recognised in the income and expenditure account when incurred. The fair value of a derivative instrument is determined by reference to published price quotations in an active market.

Policy year accounting

The calls and premiums, reinsurance premiums payable, claims paid and related expenses, reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. The allocated investment return and operating expenses are allocated to the current policy year.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

2 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Group will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Group uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

3 CALLS AND PREMIUMS

	2020 USD(000)	2019 USD(000)
Advance calls and premiums		
2019/20 policy year	**146,506**	–
2018/19 policy year	**1,598**	148,095
2017/18 policy year	**364**	(621)
Closed years	**1**	417
	148,469	147,891
Deferred calls		
2019/20 policy year	**54,635**	–
2018/19 policy year	**(781)**	58,450
2017/18 policy year	**(1,201)**	(814)
Closed years	**63**	(1,112)
	52,716	56,524
	201,185	204,415

All insurance transactions of the Group are transacted by the subsidiary entities of the Company and therefore no Company-only information is provided, as no such transactions are entered into by the Company.

4 REINSURANCE PREMIUMS

	2020	2019
Group excess of loss	**25,034**	23,022
Other	**36,368**	38,661
	61,402	61,683

Britannia's reinsurance contract with Boudicca Insurance Company Limited (a Bermudian reinsurer) provides limited quota share cover together with aggregate excess of loss cover for policy year deficits that, in the absence of this reinsurance, would have become a charge on the general reserve.

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4 REINSURANCE PREMIUMS (CONTINUED)

In addition, the contract provides separate excess of loss reinsurance in respect of individual claims that exceed USD4m in the 2014/15, 2017/18, 2018/19 and 2019/20 policy years, and claims that exceed USD5m in the 2016/17 policy year within the Group's retention.

Transactions with Boudicca during the year were as follows:	2020 USD(000)	2019 USD(000)
Reinsurance premiums paid to Boudicca		
Quota share/aggregate excess of loss cover	**7,250**	8,250
Individual excess of loss cover	**21,000**	21,000
	28,250	29,250
Claims recoverable from Boudicca		
Quota share/aggregate excess of loss cover	**44,761**	23,627
Individual excess of loss cover	**33,404**	21,715
	78,165	45,342
Claims recoverable from Boudicca		
On paid claims	**49,042**	20,796
Increase in provision for amounts recoverable	**29,123**	24,546
	78,165	45,342
As at 20 February 2020 the following amounts were recoverable from Boudicca		
Debtors – reinsurance operations	**27,674**	13,210
Reinsurers' share of technical provisions	**131,753**	102,630
	159,427	115,840

At the statement of financial position date surplus investment assets of Boudicca totalling USD172.3m (2019 – USD196.9m) were held to support future claims under the reinsurance contract in a manner which ensures that they cannot be dissipated to the detriment of the Group.

5 NET CLAIMS PAID

	2020 USD(000)	2019 USD(000)
Gross claims paid		
Members' claims	**241,589**	144,402
Other Clubs' Pool claims	**23,765**	23,765
	265,354	168,167
Recoveries on claims paid		
From the International Group excess of loss reinsurance	**10,885**	17,849
From the Pool	**44,214**	1,940
Other reinsurers	**58,534**	22,054
	113,633	41,843
Net claims paid	**151,721**	126,324

6 CHANGE IN NET PROVISION FOR CLAIMS

Claims outstanding		
Members' claims	**1,006,753**	969,160
Other Clubs' Pool claims	**191,990**	194,390
	1,198,743	1,163,551
Reinsurers' share of claims outstanding		
From the International Group excess of loss reinsurance	**128,921**	142,080
From the Pool	**227,722**	148,330
Other reinsurers	**167,700**	158,687
	524,343	449,097
Net claims outstanding carried forward	**674,400**	714,454
Net claims outstanding brought forward	**714,454**	721,179
Change in net provision for claims	**(40,054)**	(6,725)

Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. The IBNR reserve includes an amount for Occupational Disease claims amounting to USD81.6m (2019: USD82.1m) on a gross basis. Occupational Disease claims have a significant latency period making them particularly uncertain for reserving purposes. The reserve has been set with reference to industry studies and the Group's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of those claims.

CLAIM DEVELOPMENT TABLES

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

Insurance claims – gross (Class 3 and 6 combined)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	245,184	299,014	419,386	360,522	271,777	527,169	192,588	232,129	274,101	271,830
One year later	268,284	309,059	406,415	357,386	275,747	581,117	163,302	198,771	385,092	
Two years later	244,545	286,594	376,606	329,780	254,220	634,314	157,210	200,047		
Three years later	224,470	266,536	360,463	294,403	260,594	618,293	143,487			
Four years later	207,251	246,807	344,257	273,839	250,121	578,433				
Five years later	197,206	244,474	332,420	266,194	247,548					
Six years later	193,019	240,932	331,371	261,769						
Seven years later	191,462	239,344	317,658							
Eight years later	189,702	236,349								
Nine years later	189,125									
Current estimate of ultimate claims	189,125	236,349	317,658	261,769	247,548	578,433	143,487	200,047	385,092	271,830
Cumulative payments to date	173,090	223,603	308,920	218,624	156,054	423,991	96,357	115,134	124,090	58,602
Liability recognised in the consolidated statement of financial position	16,035	12,746	8,738	43,145	91,494	154,442	47,130	84,914	261,002	213,228
Total liability relating to the last ten policy years										932,874
Other claims liabilities										265,869
Total reserve included in the consolidated statement of financial position										**1,198,743**

Insurance claims – net (Class 3 and 6 combined)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	228,784	243,590	248,434	258,836	214,694	233,575	183,273	170,582	174,988	178,860
One year later	229,964	238,864	243,071	253,737	195,587	223,349	152,058	166,266	175,451	
Two years later	214,112	239,157	238,168	231,204	176,652	216,650	147,687	164,740		
Three years later	199,217	222,931	237,845	220,104	170,087	204,224	132,999			
Four years later	182,117	204,449	235,470	202,004	158,476	172,823				
Five years later	171,367	201,327	223,470	197,604	155,193					
Six years later	168,567	198,127	214,120	190,704						
Seven years later	167,867	196,527	209,720							
Eight years later	166,467	193,737								
Nine years later	165,767									
Current estimate of ultimate claims	165,767	193,737	209,720	190,704	155,193	172,823	132,999	164,740	175,451	178,860
Cumulative payments to date	152,612	181,236	203,301	158,958	112,047	132,018	89,404	94,265	95,960	53,599
Liability recognised in the consolidated statement of financial position	13,155	12,502	6,418	31,746	43,145	40,806	43,595	70,475	79,491	125,261
Total liability relating to the last ten policy years										466,593
Other claims liabilities										207,807
Total reserve included in the consolidated statement of financial position										**674,400**

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CLAIM DEVELOPMENT TABLES (CONTINUED)

Insurance claims – gross (Class 3 P&I)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	233,312	287,964	408,322	352,130	263,676	519,176	185,309	225,542	266,341	263,805
One year later	258,412	299,259	398,351	350,194	267,646	573,915	157,798	192,934	376,333	
Two years later	235,127	277,544	369,292	323,588	246,568	627,913	150,906	194,360		
Three years later	214,930	258,236	353,649	288,561	253,492	612,191	137,333			
Four years later	196,274	239,007	337,792	268,197	243,420	572,331				
Five years later	185,667	236,774	326,356	260,352	240,998					
Six years later	182,238	233,832	325,457	256,127						
Seven years later	180,746	232,344	311,744							
Eight years later	178,983	229,349								
Nine years later	178,603									
Current estimate of ultimate claims	178,603	229,349	311,744	256,127	240,998	572,331	137,333	194,360	376,333	263,805
Cumulative payments to date	163,000	216,906	303,316	213,335	150,095	418,619	91,171	110,836	118,357	54,543
Liability recognised in the consolidated statement of financial position	15,603	12,443	8,428	42,792	90,903	153,712	46,162	83,524	257,977	209,262
Total liability relating to the last ten policy years										920,806
Other claims liabilities										259,980
Total reserve included in the consolidated statement of financial position										**1,180,785**

Insurance claims – net (Class 3 P&I)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	216,912	232,540	237,370	250,444	206,592	225,582	175,994	163,995	167,228	170,834
One year later	220,092	229,064	235,007	246,545	187,486	216,146	146,554	160,429	166,692	
Two years later	204,740	230,107	230,854	225,012	169,001	210,248	141,383	159,053		
Three years later	190,345	214,630	231,030	214,262	162,985	198,122	126,844			
Four years later	173,745	196,649	229,005	196,362	151,774	166,722				
Five years later	163,245	193,627	217,405	191,762	148,643					
Six years later	160,645	191,027	208,205	185,062						
Seven years later	160,145	189,527	203,805							
Eight years later	158,745	186,737								
Nine years later	158,245									
Current estimate of ultimate claims	158,245	186,737	203,805	185,062	148,643	166,722	126,844	159,053	166,692	170,834
Cumulative payments to date	145,292	174,539	197,697	153,670	106,088	126,646	84,217	89,967	90,227	49,540
Liability recognised in the consolidated statement of financial position	12,953	12,199	6,108	31,392	42,554	40,076	42,627	69,086	76,466	121,295
Total liability relating to the last ten policy years										454,755
Other claims liabilities										201,967
Total reserve included in the consolidated statement of financial position										**656,722**

CLAIM DEVELOPMENT TABLES (CONTINUED)

Insurance claims – gross (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587	7,760	8,026
One year later	9,872	9,800	8,065	7,192	8,102	7,202	5,504	5,837	8,759	
Two years later	9,417	9,050	7,315	6,192	7,652	6,402	6,304	5,687		
Three years later	9,540	8,300	6,815	5,842	7,101	6,102	6,154			
Four years later	10,977	7,800	6,465	5,642	6,702	6,102				
Five years later	11,539	7,700	6,065	5,842	6,550					
Six years later	10,781	7,100	5,915	5,642						
Seven years later	10,716	7,000	5,915							
Eight years later	10,719	7,000								
Nine years later	10,522									
Current estimate of ultimate claims	10,522	7,000	5,915	5,642	6,550	6,102	6,154	5,687	8,759	8,026
Cumulative payments to date	10,090	6,697	5,604	5,288	5,959	5,372	5,186	4,298	5,734	4,059
Liability recognised in the consolidated statement of financial position	432	303	310	354	591	730	968	1,389	3,025	3,966
Total liability relating to the last ten policy years										12,069
Other claims liabilities										5,889
Total reserve included in the consolidated statement of financial position										**17,958**

Insurance claims – net (Class 6 FD&D)

Estimate of ultimate claims cost attributable to the policy year

	2010/11 USD(000)	2011/12 USD(000)	2012/13 USD(000)	2013/14 USD(000)	2014/15 USD(000)	2015/16 USD(000)	2016/17 USD(000)	2017/18 USD(000)	2018/19 USD(000)	2019/20 USD(000)
End of reporting year	11,872	11,050	11,065	8,392	8,102	7,993	7,279	6,587	7,760	8,026
One year later	9,872	9,800	8,065	7,192	8,102	7,202	5,504	5,837	8,759	
Two years later	9,372	9,050	7,315	6,192	7,652	6,402	6,304	5,687		
Three years later	8,872	8,300	6,815	5,842	7,102	6,102	6,154			
Four years later	8,372	7,800	6,465	5,642	6,702	6,102				
Five years later	8,122	7,700	6,065	5,842	6,550					
Six years later	7,922	7,100	5,915	5,642						
Seven years later	7,722	7,000	5,915							
Eight years later	7,722	7,000								
Nine years later	7,522									
Current estimate of ultimate claims	7,522	7,000	5,915	5,642	6,550	6,102	6,154	5,687	8,759	8,026
Cumulative payments to date	7,320	6,697	5,604	5,288	5,959	5,372	5,186	4,298	5,734	4,059
Liability recognised in the consolidated statement of financial position	202	303	310	354	591	730	968	1,389	3,025	3,966
Total liability relating to the last ten policy years										11,839
Other claims liabilities										5,839
Total reserve included in the consolidated statement of financial position										**17,678**

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7 MOVEMENT IN PRIOR YEARS' CLAIMS PROVISIONS

	2020 USD(000)	2019 USD(000)

Included within net claims incurred in the technical account are the following amounts in respect of adjustments to claims provisions for years ending prior to 20 February 2019.

Net provision at beginning of the year	**714,454**	721,179
Net payments in the year in respect of these provisions	**(98,121)**	(75,763)
Net provision at the end of the year in respect of claims provided for at the end of the previous year	**(549,139)**	(589,776)
Improvement in respect of prior years	**67,194**	55,640

8 NET OPERATING EXPENSES

Directors' fees	**836**	752
Auditors' remuneration	**298**	244
Other expenses	**12,127**	9,956
Administrative expenses	**13,261**	10,952
Acquisition expenses	**18,630**	17,697
Net operating expenses	**31,891**	28,649

The highest paid director received USD96,600 (2019 – USD94,990). The Group employs no staff, management services being provided by Tindall Riley (Britannia) Limited.

In accordance with the International Group Agreement 2019, the Group is required to disclose the average expense ratio for its P&I business for the past five years. The ratio measures all costs of the Group (except those directly related to the management of claims) as a function of call, premium and investment income for a five-year period. The Group's average ratio for the five years to 20 February 2020 was 11.5% (2019 – 10.9%). The ratio has been calculated in accordance with the schedule and guidelines issued by the International Group.

9 NET INVESTMENT INCOME

	2020 USD(000)	2019 USD(000)
Income from equity investments	**3,968**	4,399
Income from fixed income investments	**4,967**	6,001
Bank and other interest	**3,528**	3,661
Realised investment gain/(loss)	**7,569**	(4,854)
Unrealised investment gain/(loss)	**44,601**	(9,206)
Exchange loss on cash balances	**(1,415)**	(1,091)
Investment income	**63,218**	(1,090)
Investment management expenses	**(1,350)**	(1,553)
Net investment income	**61,868**	(2,643)

10 LONGER-TERM INVESTMENT RETURN

Investment income is allocated to the technical account – general business on the basis of longer-term rates of investment return. The longer-term rates are based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying the rates to the investible assets held during the period for each major market on a monthly basis. The following rates have been used:

	Bonds		Equities	
	2020	2019	2020	2019
US	**2.7%**	2.3%	**5.9%**	6.1%
UK	**3.0%**	2.2%	**7.1%**	7.1%
Europe			**7.0%**	7.0%
Pacific Basin			**7.0%**	7.0%
Japan	**0.5%**	0.5%	**7.0%**	7.0%

Comparison of actual return achieved with the return allocated to the technical account using longer-term rates	10 years to 2020 USD(000)	10 years to 2019 USD(000)
Actual return achieved	**304,286**	317,641
Longer-term return credited to the technical account	**276,700**	277,123
Excess of actual returns over longer-term returns	**27,586**	40,518

11 TAXATION

	2020 USD(000)	2019 USD(000)
Analysis of charge for period		
UK Corporation tax charge	**654**	288
Under provision in previous year	**23**	–
Unrelieved foreign withholding taxes	**989**	849
Taxation	**1,666**	1,137

By virtue of its mutual status, the Group is not liable to tax on its underwriting operations. The investment income of the Group's subsidiary Universal Shipowners Marine Insurance Association Limited and its cell in Hydra Insurance Company Limited are not subject to tax in Bermuda but do suffer irrecoverable withholding tax on income from investments in certain jurisdictions.

Factors affecting the tax charge for period

The tax charge for the period is lower (2019 – higher) than that produced by applying the standard rate of Corporation tax in the UK of 19% to 20th February 2020 (2019 – 19%). The differences are explained below:

	2020	2019
Net surplus before tax	**58,093**	(8,159)
Net surplus/(deficit) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 19% (2019 – 19%)	**11,100**	(1,559)
Effects of:		
Non-taxable mutual insurance underwriting operations	**721**	1,053
Non-taxable investment income	**(11,167)**	794
Current tax charge	**654**	288

12 FINANCIAL INVESTMENTS

	2020	2019
Market value		
Quoted shares and variable yield securities	**284,098**	239,259
Debt securities and other fixed income securities	**391,768**	419,892
Deposits with credit institutions	**170,984**	220,024
Derivatives at fair value through income	**55**	125
Unsettled investment transactions	**224**	214
	847,129	879,514
Cost		
Quoted shares and variable yield securities	**197,776**	182,711
Debt securities and other fixed income securities	**372,463**	412,428
Deposits with credit institutions	**170,984**	220,024
Derivatives at fair value through income	**–**	3,056
Unsettled investment transactions	**224**	214
	741,447	818,433
Included in investments at market value were:		
Listed on the UK stock exchange	**8,283**	35,733
Listed on other investment exchanges	**667,807**	623,631
	676,090	659,364

13 INVESTMENT IN GROUP UNDERTAKINGS

	Country of incorporation	Share held	Class of shares	Principal activity	2020 USD(000)	2019 USD(000)
Direct related undertakings						
The Britannia Steam Ship Insurance Association Limited (Britannia)	United Kingdom	100%	N/A	Underwriting	**–**	–
The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe)	Luxembourg	100%	*N/A	Underwriting	**20,500**	–
Indirect related undertakings						
Universal Shipowners Marine Insurance Association Limited	Bermuda	100%	Ordinary	Reinsurance	**120**	120
Hydra Insurance Company Limited – Britannia Cell	Bermuda	100%	Preferred	Reinsurance	**10**	10
Hydra Insurance Company Limited – General Cell	Bermuda	7.69%	Ordinary	Reinsurance	**20**	20
Shares in subsidiary companies					**150**	150

*Britannia Holdings' investment in Britannia Europe represents USD20.5m dollars of contributed surplus.

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13 INVESTMENT IN GROUP UNDERTAKINGS (CONTINUED)

The Britannia Steam Ship Insurance Association Europe m.a. (Britannia Europe) was incorporated as a mutual association in Luxembourg on 20 November 2018.

Hydra Insurance Company Limited (Hydra) is a Bermudian segregated cell-captive established by the Members of the International Group of P&I Clubs, to reinsure part of the risks which are shared under the Pooling Agreement. Under the terms of Hydra's byelaws and the governing instrument, assets are segregated in separate cells in such a way that they can only be used to satisfy the liabilities of the 'owning' Club. Accordingly, the Group consolidates its Hydra cell in these financial statements.

As at 20 February 2020, Britannia's investment in Hydra comprised 20,000 ordinary shares at par in the Company and preferred shares in the Britannia cell of Hydra amounting to USD10,000. Furthermore, during the year, a dividend of USD4.2m (2019 – USD5.8m) was declared and paid to Britannia by the Britannia cell of Hydra.

The following table summarises the financial statements of Britannia's Hydra cell for the year ended 20 February 2020	2020 USD(000)	2019 USD(000)
Net premiums	**22,172**	18,914
Net claims	**(17,248)**	(11,582)
Investment income (net of management expenses)	**2,752**	1,592
Other expenses	**(52)**	(52)
Surplus for the year	**7,624**	8,872
Government securities and deposits with credit institutions	**83,773**	71,612
Reinsurers' share of technical provisions	**821**	2,137
Other liabilities	**(7,094)**	(3,239)
Technical provisions	**(58,048)**	(54,481)
Shareholders' equity	**19,452**	16,029

14 RISK MANAGEMENT

The Group is governed by the Board which drives decision making within the Group from Board level through to operational decision making by the Managers. The Board considers the type and scale of risk that the Group is prepared to accept in its ordinary course of activity and this is used to develop seven Risk Appetite Statements (RAS) that are used when setting strategy or making material decisions. This is further expanded on in the Corporate Governance section on page 20, under the Regulation and Risk Management section.

The framework of governance through which risk is managed and decisions are taken is as follows:
1) The Board meets five times a year and comprises a non-executive chairman, up to 10 non-executive directors drawn from the Group's shipowner Members, one non-executive director who is an expert in insurance matters and two executive directors from the Group's Managers. Its responsibilities include undertaking reviews of the following matters: the Group's overall strategy, policy year results (including reserving) and proposed calls, reinsurance, investments, risk management, compliance matters, and capital adequacy as evidenced by the Own Risk Solvency Assessment (ORSA). The Board also oversees implementation of the Group's investment strategy.
2) The Risk & Audit Groups comprise four or more non-executive directors of the Group. Their responsibilities include the financial statements and the regulatory returns to the relevant regulatory authorities, the risk management framework, internal and external audit, and the robustness of internal financial systems and controls, including the making of recommendations thereon to the Board. The Risk & Audit Groups meet three times a year.
3) The Remuneration Group comprises up to five non-executive directors of the Group. Its responsibilities include an annual review of the fee paid to the Managers and periodic reviews of directors' remuneration. The group meets twice a year.
4) The Nomination Subcommittee comprises up to four non-executive directors of the Group and the two Manager directors. Its principal responsibilities are to make recommendations to the Board on the appointment of new directors, the re-election of existing directors, the appointment of the chairman of the Board, reviewing the skills, training requirements and performance of directors and Senior Management Function holders. The subcommittee meets as required during the year.

The Group is focused on the identification and management of potential risks. This covers all aspects of risk management including that to which the Group is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk faced by the Group can be classified as follows:

1) **Underwriting risk** – incorporating premium and reserving risk.
2) **Market risk** – incorporating equity risk, interest rate risk, spread risk and currency risk.
3) **Counterparty default risk** – being the risk that a counterparty is unable to pay amounts in full when due.
4) **Liquidity risk** – being the risk that cash may not be available to pay obligations as they fall due.
5) **Operational risk** – being the risk of failure of internal processes or controls.
6) **Strategic risk** – being the risk that strategy is poorly set, executed or is unresponsive to external developments.
7) **Group risk** – being the governance, capital, reputational or regulatory issues that can arise from having a Group structure.

14 RISK MANAGEMENT (CONTINUED)

In order to manage these risks, the Group has continued to develop and review the internal and external governance frameworks through the ORSA process.

The Board and Managers have established risk management procedures within the business through a Compliance manual, an internal quality management system and a risk management framework which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function (which reports to the Risk & Audit Groups and the Board of Tindall Riley (Britannia) Limited ('TRB'), the Managers of the Group.

The Group manages the risks relating to the operations of the Group through the quarterly risk register update, which uses metrics to monitor risk outcomes and the effect of controls, and receives attestation on less significant controls from risk owners. These risks are compared to the results of capital modelling, scenarios, self-reported risk incidents and internal audit findings to ensure that a rounded consideration of the Group's risk profile is achieved.

14.1 Underwriting risk

The Group's exposure to insurance risk is initiated by the underwriting process which selects the Members and sets the call based on assumed claims on the Group from the membership. The risk is managed through the underwriting process, acquisition of reinsurance cover, including cover provided by the International Group Pooling Agreement, the management of claims cost and the reserving process. The Group's underwriting risk is limited to two classes of business, P&I and FD&D, which are both written on a worldwide basis.

Underwriting process

The Group provides Members with cover for P&I and FD&D risks. The Group sets a target level for calls at a confidence level which should ensure that the call and investment income will be sufficient to meet net claims incurred over the policy year. The development of claims is monitored monthly by the Managers and on a quarterly basis by the TRB Board and the Board of the Group.

Underwriting authority is delegated to specific individuals who apply their expertise and set underwriting methodologies under the ongoing guidance and review of senior management. Where required, a pre-entry inspection of new ships is carried out. In addition, all new Members are usually subject to a risk management audit of their shore-based operations before joining.

Reinsurance and International Group Pooling Agreement

The establishment of the Group's reinsurance programme is driven by the Board's objective to manage risk to an acceptable level and to optimise the Group's capital position. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, facultative reinsurance to cover specific risks, cover against a single catastrophic event and an accumulation of smaller attritional claims.

The International Group Pooling Agreement provides a sharing of claims costs above an agreed retention between 13 member associations.

The Group's chartered business is reinsured outside the Pooling arrangements of the International Group. The programme is predominantly placed with Lloyd's underwriters and the liabilities from these risks are reinsured from the ground up, with the Group retaining a certain element of the risk.

Management of claims cost

The Group's strategy is to help its Members to prevent and avoid the occurrence of incidents while ensuring the efficient handling and management of claims when they occur. To facilitate this strategy, the Group has established programmes to ensure high quality of claims management and to reduce claims risk. This includes an extensive loss prevention programme comprising technical seminars for crew and designated persons ashore (DPAs), information for Members on common claims and how they may be prevented, completion of ship inspections and the production of various guides for safe carriage of goods and the avoidance of incidents.

Reserving process

The Group establishes provisions for unpaid claims, both reported and unreported, and related expenses, to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions and the key methods used by the Group in estimating liabilities are the chain ladder and stochastic bootstrap modelling methods. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management and reserves are set to give a high level of confidence that they will prove adequate. The results are reviewed by the Risk & Audit Groups.

The Group considers that the liability for insurance claims recognised in the consolidated statement of financial position is prudent. However, actual experience will differ from the expected outcome.

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14 RISK MANAGEMENT (CONTINUED)

14.1 Underwriting risk (continued)

Sensitivity

The Group carries out sensitivity testing on its claims reserves. The results of sensitivity testing are set out below, showing the impact on the surplus/deficit before tax, gross and net of reinsurance. For each sensitivity test, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Increase in loss ratio by 5 percentage points	2020 USD(000)	2019 USD(000)
Gross	**10,059**	10,221
Net	**6,989**	7,137

A 5% decrease in loss ratios would have an equal and opposite effect.

14.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises as a result of fluctuations in both the value of assets held and the value of liabilities.

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Group and is designed to maximise return while holding risk to a level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio (the growth portfolio) in assets which carry a greater risk but potentially higher return, such as equities, with the balance in lower risk investments that match liabilities and provide a cash buffer (the matching portfolio).

Foreign currency risk management

The Group is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollars. The most significant currencies to which the Group is exposed are sterling, euro and yen. In order to manage this risk, the Group holds a proportion of its investments in each currency at a level to match expected future claim payments in those currencies. The value of the assets held in foreign currency generally exceeds the value of the matched liabilities and therefore there is a low risk that unmatched liabilities will lead to currency losses.

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The Group uses a number of sensitivity management tools to understand the volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2020 USD(000)	2019 USD(000)
0.5% increase in interest rates	**2,718**	3,164
0.5% decrease in interest rates	**(2,718)**	(3,164)

Equity price sensitivity analysis

The Group is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equity instruments amounted to 20% (2019 – 16%) of the investment portfolio. The Group also holds an investment in a diversified growth fund amounting to 13% (2019 – 12%) of the portfolio.

Where available, the Group uses closing bid market values to determine the fair value of an investment holding. The carrying value of non-quoted equity holdings at the year end amounted to USD20.5m (2019 – USD0.2m).

The table below shows the anticipated change in equity investment market values from a 5% increase or decrease in underlying prices:

5% increase in equity price	**9,037**	6,795
5% decrease in equity price	**(9,037)**	(6,795)

The table above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be extrapolated or interpolated from these results. Management actions could include selling investments, changing investment portfolio allocation and taking other protective action. In addition, the financial position of the group may vary at the time that any actual market movement occurs.

14 RISK MANAGEMENT (CONTINUED)

14.3. Counterparty default risk

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The key areas where the Group is exposed to credit risk are:

- **Amounts recoverable from reinsurance contracts, including other P&I Clubs**
- **Amounts due from Members**
- **Counterparty risk with respect to cash and investments**

Amounts recoverable on reinsurance contracts

The Group is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance. In order to manage this risk, the Managers consider the financial position of significant counterparties on a regular basis and monitor aggregate exposure to each reinsurer. The Group has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The majority of reinsurance is placed with Lloyd's underwriters (A+ rated) with the benefit of the Central Guarantee Fund. Non-Lloyd's reinsurance is monitored and reported on annually to the Board of TRB.

Amounts due from Members

Amounts due from Members represent premiums owing to the Group in respect of insurance business written. The Group manages the risk of Member default through a screening process to ensure the quality of new entrants to the Group and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. The Group's policy is that Members should have paid all outstanding calls prior to being issued with Blue Cards in advance of the coming policy year. In addition, the directors reserve the right to offset outstanding debts against claim payments unless there is a contractual arrangement that prevents such offsetting. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

The investment policy manages the risk of default through ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

	2020 USD(000)	2019 USD(000)
Debt securities	**391,768**	419,892
Derivatives at fair value through income	**55**	125
Reinsurers' share of technical provisions	**524,343**	449,097
Reinsurance debtors	**60,632**	28,087
Member and other debtors	**74,991**	76,884
Unsettled investment transactions	**224**	214
Deposits with credit institutions	**170,984**	220,024
Cash at bank and in hand	**116,173**	132,499
Total financial assets bearing credit risk	**1,339,170**	1,326,822

An analysis of this exposure by credit rating is shown below		
AAA	**5,706**	–
AA	**347,767**	477,429
A	**466,351**	325,802
BBB+ and below	**82,640**	83,346
No rating	**436,706**	440,245
Total financial assets bearing credit risk	**1,339,170**	1,326,822

The unrated exposure relates principally to amounts due from Members in respect of deferred calls not yet debited, amounts recoverable from Boudicca Insurance Company Limited and the three Absolute Return Bond Funds that are invested with M&G Investments, Newton and Schroders.

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14 RISK MANAGEMENT (CONTINUED)

14.3. Counterparty default risk (continued)
Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Group has adopted an investment policy which requires the maintenance of significant holdings in cash funds and short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short-term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Group's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

At 20 February 2020	Short term assets USD(000)	Within 1 year USD(000)	1-2 years USD(000)	2-5 years USD(000)	Over 5 years USD(000)	Total USD(000)
Quoted shares and variable yield securities	**284,098**	**–**	**–**	**–**	**–**	**284,098**
Debt securities and other fixed income securities	**–**	**–**	**–**	**153,739**	**238,029**	**391,768**
Deposits with credit institutions	**170,984**	**–**	**–**	**–**	**–**	**170,984**
Derivatives at fair value through income	**55**	**–**	**–**	**–**	**–**	**55**
Unsettled investment transactions	**224**	**–**	**–**	**–**	**–**	**224**
Reinsurers' share of outstanding claims	**–**	**152,051**	**120,699**	**164,049**	**87,544**	**524,343**
Direct insurance operations – Members	**11,051**	**45,440**	**18,353**	**–**	**–**	**74,844**
Reinsurance operations	**60,632**	**–**	**–**	**–**	**–**	**60,632**
Taxation	**148**	**–**	**–**	**–**	**–**	**148**
Cash at bank	**116,173**	**–**	**–**	**–**	**–**	**116,173**
Accrued interest	**804**	**–**	**–**	**–**	**–**	**804**
Other prepayments and accrued income	**10,589**	**–**	**–**	**–**	**–**	**10,589**
Total assets	**654,758**	**197,491**	**139,052**	**317,788**	**325,573**	**1,634,662**
At 20 February 2019						
Quoted shares and variable yield securities	239,259	–	–	–	–	239,259
Debt securities and other fixed income securities	–	–	–	164,939	254,954	419,893
Deposits with credit institutions	220,024	–	–	–	–	220,024
Derivatives at fair value through income	125	–	–	–	–	125
Unsettled investment transactions	214	–	–	–	–	214
Reinsurers' share of outstanding claims	–	133,820	98,311	140,029	76,936	449,096
Direct insurance operations – Members	4,105	50,367	21,685	–	–	76,157
Reinsurance operations	28,087	–	–	–	–	28,087
Taxation	715	–	–	–	–	715
Other debtors	12	–	–	–	–	12
Cash at bank	132,499	–	–	–	–	132,499
Accrued interest	964	–	–	–	–	964
Other prepayments and accrued income	5,098	–	–	–	–	5,098
Total assets	**631,102**	**184,187**	**119,996**	**304,968**	**331,890**	**1,572,143**

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

At 20 February 2020	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	**347,617**	**275,939**	**375,046**	**200,141**	**1,198,743**
Direct insurance operations – Members	**9,095**	**–**	**–**	**–**	**9,095**
Reinsurance operations	**4,343**	**–**	**–**	**–**	**4,343**
Taxation	**43**	**–**	**–**	**–**	**43**
Other creditors	**350**	**–**	**–**	**–**	**350**
Total liabilities	**361,448**	**275,939**	**375,046**	**200,141**	**1,212,574**
At 20 February 2019					
Gross outstanding claims	346,710	254,712	362,797	199,332	1,163,551
Direct insurance operations – Members	12,519	–	–	–	12,519
Reinsurance operations	4,197	–	–	–	4,197
Taxation	15	–	–	–	15
Other creditors	1,200	–	–	–	1,200
Total liabilities	**364,641**	**254,712**	**362,797**	**199,332**	**1,181,482**

14 RISK MANAGEMENT (CONTINUED)

14.4 Operational risk
Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks, the Group documents all key processes and controls in a procedures manual. This manual is embedded within the organisation, updated on a continual basis by senior staff and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function, which is directed and reviewed by TRB and the Risk & Audit Groups. A staff handbook contains all key policies that have also been documented.

14.5 Limitation of the sensitivity analyses
The sensitivity analyses in sections 14.1, 14.2 and 14.3 above show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

14.6 Capital risk management
The Group maintains a resilient capital structure, consistent with the Group's risk appetite. The Group's objective is to maintain sufficient capital to ensure it is able to continue as a going concern, meet regulatory requirements and maintain an 'A' rating with Standard & Poor's, with a substantial margin in each case.

The Solvency II regime has been in effect since 1 January 2016. The Group is subject to these regulations. The Group is required to meet the Solvency Capital Requirement (SCR) which is calibrated to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Group calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations, as the assumptions underlying the standard formula are considered to be a good fit for the Group 's risk profile.

The Board's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the relevant regulators. The SCR is monitored and updated annually, although if anything significant (such as large investment or claims movements) occurs in the year, it is updated immediately. Other capital measures used by the Board include an Economic Capital Benchmark (ECB), which is also monitored against actual capital resources.

In order to monitor capital requirements, the Board reviews the capital position on a quarterly basis and the Managers review performance monthly.

The Group's lead regulators are the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA). The capital requirements of the Group has been disclosed in the Solvency and Financial Condition Report which have met throughout the period being reported on.

14.7 Fair value hierarchy
Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Group applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market-observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by the Managers. The Group has minimal exposure to financial assets or liabilities which are valued at other than quoted prices in an active market.

The classification criteria and their application to the group can be summarised as follows:
– The unadjusted quoted price in an active market for identical assets or liabilities that the Group can access at the measurement date (Level 1)
– 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 2)
– Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

Group	2020 USD(000)	2019 USD(000)
Level 1	**455,082**	459,283
Level 2	**392,047**	420,231
Level 3	**–**	–
	847,129	879,514

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15 TONNAGE INFORMATION

The Group provides Members with cover for P&I and FD&D risks. Members are only allowed to take up FD&D cover if they have taken up P&I cover and therefore there are no Members in the Group solely with FD&D cover. As this cover applies to ships at sea, it is not feasible to measure geographical concentration of insurance liabilities for either class of cover. Consequently, the Group has identified P&I risk to be the only reportable area.

The analysis of its tonnage from P&I cover from Members by geographical area is as follows:	2020 gt (000)	2019 gt (000)
Asia	**53,652**	49,686
Middle East	**2,607**	2,282
Scandinavia	**17,885**	17,350
Australasia	**420**	412
Americas	**4,590**	4,140
Europe	**38,342**	38,015
	117,496	111,885

16 DEBTORS – DIRECT INSURANCE OPERATIONS	2020 USD(000)	2019 USD(000)
Calls and premiums due from Members	**11,051**	4,105
Deferred call advised to Members	**63,793**	72,052
Debtors – direct insurance operations	**74,844**	76,157

The deferred call (Class 3 – P&I) represents the estimated amount (net of brokerage) to be charged to Members in October 2020 following the decision to make a 45% deferred call in respect of the 2018/19 policy year, of which 25% would not be collected for 12 months, and the 45% call in respect of the 2019/20 policy year for which Members have been advised to budget.

The figure for the prior year is the final 20% deferred call in respect of the 2017/18 policy year which was charged to Members in October 2019 and a 45% deferred call in respect of the 2018/19 policy year, 25% of which was charged to Members in October 2019, and the remainder of which will be charged in October 2020.

The deferred call (Class 6 – FD&D) represents the estimated 30% amount (net of brokerage) for which Members have been advised to budget in respect of the 2019/20 policy year (2018/19 – 30%).

17 DEBTORS – REINSURANCE OPERATIONS	2020 USD(000)	2019 USD(000)
Reinsurance recoveries		
Amounts recoverable from the Pool	**19,369**	4,110
Other	**41,263**	23,977
Debtors – reinsurance operations	**60,632**	28,087

18 OTHER DEBTORS	**–**	12

19 CREDITORS – REINSURANCE OPERATIONS		
Amounts due to the Pool	**–**	332
Other	**4,343**	3,865
Creditors – reinsurance operations	**4,343**	4,197

20 OTHER CREDITORS	**350**	1,200

21 RELATED PARTY TRANSACTIONS

The Board comprising a non executive Chairman, up to ten representatives of the membership of the Group, two independent directors and two Manager nominees, is elected to oversee the management of the Group on behalf of the Members. The members of the Board are directors of the Group and as such are related parties. Because of the mutual nature of the Group's operations and its Members, being both insured and insurers, the Members are in effect related parties. The aggregate of transactions with Members is disclosed in these financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, with Members, directors or their companies the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley & Co Limited, which manages the Group through its subsidiary Tindall Riley (Britannia) Limited, earned management fees of USD29.7m (2019 – USD29.0m) for the year. Three directors of the Group are also directors of Tindall Riley (Britannia) Limited.

22 SUBSEQUENT EVENTS

Coronavirus Disease 2019 (COVID-19) was first identified in Wuhan, China in December 2019 but spread rapidly through Asia and then Europe and North America. It was classified as a pandemic by the World Health Organisation on 11 March 2020. National governments, acting to curtail the spread of the virus, have imposed severe restrictions on individual mobility, with a resultant impact on the global economy. This has adversely affected all sectors of commerce and industry but in particular the transport, hospitality and non-food retails sectors. The directors have considered the potential impact of the pandemic on the business of the Group, under the following headings:

Investments and liquidity

Equity markets fell steeply after 20 February 2020. While the Group has some exposure to equities through direct holdings and diversified growth funds, the investment portfolio overall is well diversified and responded to the market volatility broadly as expected. The directors, on advice from their advisers, have no immediate plans to make any significant changes to the asset allocation reported in these financial statements.

The Group holds significant cash and short-dated government bonds and remains highly liquid. There is little risk that the Group will become a forced seller of under-priced growth assets.

Premiums

The impact on the operation of the Group's entered fleets has been minimal at the date on which these financial statements were approved. Container lines and bulker operations are beginning to operate at reduced levels while tankers are enjoying buoyant trading conditions. The Group does not insure cruise ships, which is the sector that has been most severely affected to date, with significant numbers of vessels laid up. The directors do not expect any significant impact on premiums as a result of its entered ships being laid up or from Members being unable to pay calls as they fall due.

Claims exposure

The most immediate impact on P&I claims is likely to come from the cruise sector, where the Group has exposure only through being a Member of the IG Pooling Agreement. At the date of the approval of these financial statements, three cruise-related COVID-19 claims had been notified to the Pool. There is the possibility of crew claims on the Group as a result of seafarers contracting the virus, but shipowners are taking appropriate precautions to prevent this as far as possible. There is also the possibility of crew claims arising as a result of restrictions on the normal timing of crew changes.

For the FD&D class, it is possible that the delays and costs resulting from the pandemic may have an impact on Class 6 in the 2020/21 policy year, but that is unlikely to impact materially the Group's claims experience over that period.

Reinsurance security

The reinsurance market will be severely impacted by the pandemic, possibly suffering its biggest ever loss from a single event. The Group's reinsurance security is well rated. The IG's GXL contract stipulates a minimum rating of A-. The non-poolable covers are placed either at Lloyd's, which is rated A+ and has the benefit of the Central Guarantee Fund, or with security with a minimum rating of A-. The Group has significant exposure to other clubs within the IG Pool, but this is subject to offsetting arrangements and security mechanisms through participation in Hydra. Boudicca is unrated, but its only exposure is to the Group.

Operations

The Group's centre of operations is London, with regional hubs in Asia and Europe. Operations have continued uninterrupted as a result of the Group's robust business continuity arrangements. We continue to provide normal levels of service, notwithstanding that the majority of our staff are working remotely.

Solvency position

The Group remains strongly capitalised with significant headroom over its statutory solvency requirements.

Conclusion

The directors have considered the impact on the Group's business of the COVID-19 pandemic and have concluded, based on the analysis above, that there is no material risk to the Group being able to continue its operations for the foreseeable future. The financial statements were authorised for issue by the Board on 12 May 2020.

CLASS 3 – PROTECTION AND INDEMNITY POLICY YEAR STATEMENT

20 FEBRUARY 2020

	2019/20 USD(000)	2018/19 USD(000)	2017/18 USD(000)	Closed years USD(000)	Total USD(000)
Advance calls and premiums					
Year to 20 February 2020	140,402	1,341	363		
Year to 20 February 2019	–	141,509	(604)		
Year to 20 February 2018	–	–	140,072		
	140,402	142,850	139,831		
Deferred calls					
Year to 20 February 2020	53,345	(775)	(1,201)		
Year to 20 February 2019	–	57,039	(772)		
Year to 20 February 2018	–	–	58,202		
	193,748	199,114	196,059		
Reinsurance premiums					
Group excess of loss	(25,852)	(23,122)	(22,498)		
Other	(35,403)	(38,044)	(33,965)		
	(61,254)	(61,167)	(56,464)		
Allocated investment return	31,866	28,742	30,114		
Taxation	(1,070)	3,305	(583)		
	163,290	169,995	169,127		
Claims paid less reinsurance recoveries	49,540	90,227	89,967		
Acquisition costs	19,088	15,672	15,941		
Administrative expenses	12,818	10,574	8,319		
	81,446	116,472	114,227		
Balance available to meet outstanding claims	81,843	53,522	54,900	771,999	962,264
Estimated outstanding claims					
Own claims	165,311	219,036	54,629	549,819	988,795
Other Clubs' Pool claims	43,951	38,941	28,895	80,204	191,990
	209,262	257,977	83,524	630,022	1,180,785
Estimated reinsurance recoveries					
Group excess of loss	–	–	–	(128,921)	(128,921)
Pool	(21,544)	(119,031)	–	(87,147)	(227,722)
Other reinsurers	(66,423)	(62,480)	(14,439)	(24,078)	(167,420)
	(87,967)	(181,511)	(14,439)	(241,967)	(524,063)
Net estimated outstanding claims	121,295	76,466	69,086	389,876	656,722
(Deficit)/surplus	(39,451)	(22,943)	(14,186)	382,122	305,542
Capital distribution	–	–	–	(85,000)	(85,000)
Balance after distributions	**(39,451)**	**(22,943)**	**(14,186)**	**297,122**	**220,542**

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