WEST

Report & Accounts
2019

2019

Solvency coverage
237%

Standard & Poor's
A-
rated security

Capital remains in excess of **S&P AAA rating levels**

Combined ratio at
114%

Investment return of
3.9%

Financial Highlights

Free Reserve

At 20 February

2019	306.4 $m
2018	308.5 $m
2017	306.5 $m
2016	276.7 $m
2015	243.7 $m

Chairman's Statement

I am pleased to report another strong financial result for the Club and one which clearly demonstrates our continued excellent levels of capitalisation and balance sheet strength underpinned by its Free Reserve of US$ 306 million and the highest ever solvency coverage reported. This is further supported by the A- rating from Standard and Poor's.

This has been achieved despite ongoing adverse and divergent trends in claims and premium. It is comforting to note that the level of attritional claims has not increased notwithstanding the growth in the Club's entry but although the incidence of larger claims has moderated somewhat from the very high levels we saw in 2017, the fact remains that the frequency of claims greater than US$3 million has been higher than previous stable levels. This has been exacerbated by a greater number of claims notified by Clubs to the International Group Pool in 2018. There is no obvious driver for this apparent change in claims pattern but it is one that is evidently now common to the whole industry.

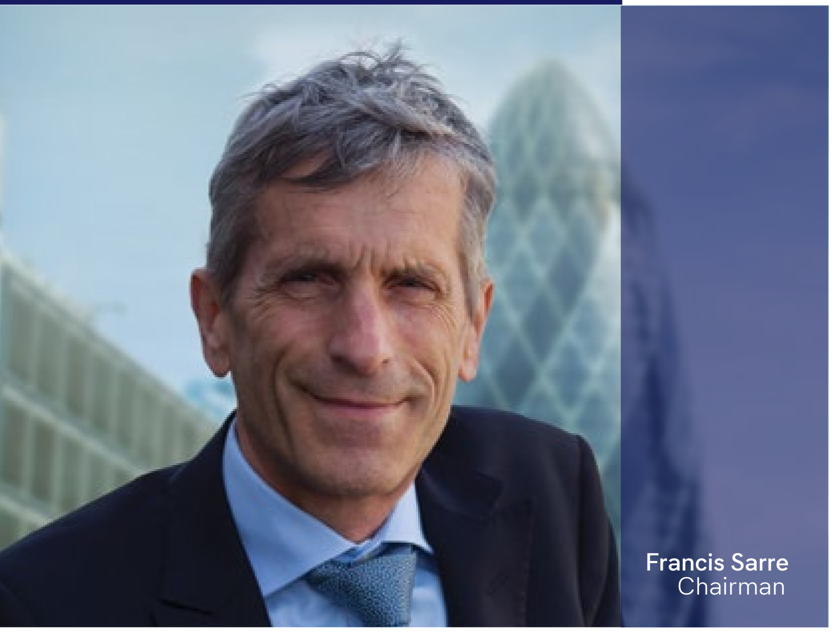
By contrast we have been clear in saying that premiums have been driven down to unsustainable and uneconomic levels. Shipowners continue to trade in challenging markets and we must of course remain cognisant of that fact, but as we have seen in the hull market in recent months ultimately insurers are unable to continue to provide cover at below expected cost for an extended period. If claims are set to rise then premium must reflect risk exposure and we are committed to addressing this imbalance in the best long-term interests of our Members.

Our results were however supported by another positive investment return. Your Board's prudent investment strategy helped insulate the Club from the vicissitudes of a very uncertain investment market during 2018 and one which looks likely to be further buffeted by global events. The proceeds of the sale of Tower Bridge Court, the Club's London office building, have been wisely invested and they have contributed to our positive investment result.

This sale has seen the Managers move into a new and much more efficient office space at One Creechurch Place in London. The office fully reflects the Club's new branding which we believe embodies our values – a Club which is modern, professional and bold in its outlook whilst retaining all the benefits of the mutual ethos to ensure that we keep our Members as the focus of everything we do.

This unwavering commitment to service is underlined by this year being the 50th anniversary of the opening of our office in Greece. We were the first Club to establish an office there and not only has it continued to serve our Greek membership but has now expanded into a regional hub providing excellent claims service to Members throughout the wider region. We look forward to welcoming our many Members and friends in that area to a celebration in Piraeus in September.

Ultimately service is all about the quality of people we employ and we are continuing to invest in our service teams to meet our Members' needs and expectations. Our strategy of



increased regionalisation has seen our Singapore office, opened in 2017, grow in staff numbers and we are also pursuing a similar expansion of resources in our New York office to enhance service to our North American Members. We will keep the need for any further regional offices under close review. Conversely there has been no need for us to open any additional office to take account of Brexit; the Club has been domiciled in Luxembourg for many years and with the London branch registered under the Temporary Permissions Regime established by the Bank of England to enable it to continue underwriting UK risks, the Club is fully insulated from the effects of Brexit without incurring any additional expense or disruption to its operations.

We also support our Members by having a strong brand of complementary products. Mutual P&I together with the long-standing Charterers Comprehensive Cover are of course the core of our business, but our Fixed Premium product has seen controlled growth in what can be a challenging market without prudent risk selection, aided by several strategic appointments who are conversant with this market. Defence Cover, which gives Members access to our team of in-house legal experts, is available both as a complement to our P&I products but also as a standalone product and we also have an enhanced Offshore product for Members operating in those specialised markets. We are in addition continuing to actively assess opportunities to diversify where it is prudent to do so and which will contribute positively both financially and to the needs of our Members.

We were sorry to see Robert-Lorenz Meyer retire from the Board this year after a long and distinguished service as both a Vice-Chairman of the Club and the Chair of the Club's investment vehicle ISRe. We offer him our sincere thanks for all his wise counsel and financial prudence over many years. The new Advisory Committee structure is working well and I offer my thanks to my colleagues on that Committee who are contributing to vibrant discussions about current operations and the future direction of the Club.

Finally my thanks to the Managers and to my colleagues on the Ship Owner Board for all their hard work and dedication. There continue to be many challenges to our industry but I believe that your Club is well positioned to continue meeting the needs of our Members. Next year will see the 150th anniversary of dedicated service to the shipping industry and the new London office building and branding reflect our confidence in continuing to do so. The interests of our Members will as always remain the focus of all our operations.

Francis Sarre
Chairman

Managers' Review

The Club's capital and solvency position have strengthened again this year. A modest reduction in the Free Reserve to $306.4m is reported but decisions taken by the Board during the year have served to increase the Club's overall financial strength.

Capital and Rating Strength

The Club's solvency coverage as measured under Solvency II is at its highest ever level and the margin in excess of the "AAA" capital requirement of the Club's rating agency S&P, a strategic threshold targeted by our Board, also increased.

The solvency coverage ratio increased to 237% reflecting the reduced volatility in the Club's Balance Sheet following the disposal of Tower Bridge Court during the year and a strengthening in the Club's claims reserves.

Standard and Poor's also re-affirmed the Club's A- rating in November 2018 reflecting their view that the Club will sustain its "extremely strong" level of capitalisation.

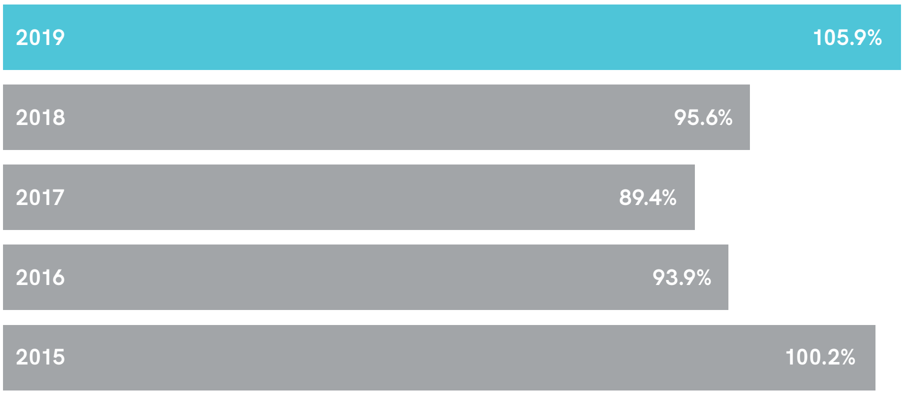
Free Reserve
At 20 February

Tom Bowsher
Group CEO

237%
SCR coverage

Standard & Poor's A-
rated security

3 Year Average Combined Ratio
Year to 20 February



Results

There are two distinct components of the Club's result. In summary, the year showed a $2.1 million deficit, consisting of an overall underwriting deficit of $26.0 million and a net investment return, after tax and revaluations, of $23.9 million.

Underwriting Result

The Club's $26 million underwriting deficit is reflected in a combined ratio of 114%. The Club's business objective is to operate at better than 100% - break-even - over a three-year rolling period and the Club has moved out of tolerance on this measure, reporting a figure of 105.9%.

Managers' Review (continued)

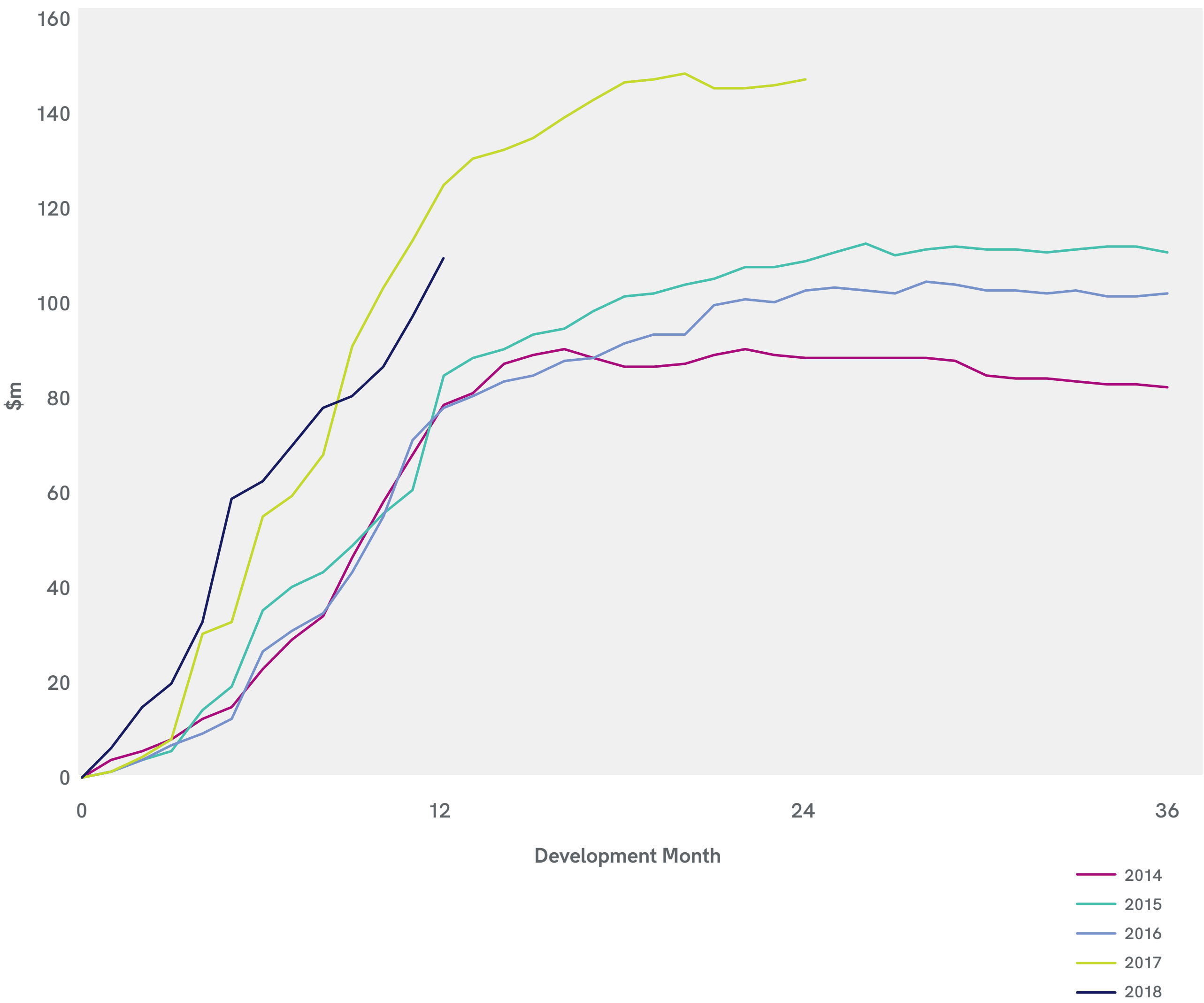
Premiums

There is undoubtedly pressure on the underwriting results across the whole market and the Club has not been immune to this. We have been clear in both our actions and our statements that the market premium is at an unsustainable level relative to several key drivers of our business: the claims risk; the increased expense of operating an effective Club (and especially one that maintains exceptional service levels to meet the growing needs of its Members); and the respective regulatory requirements in all the regions in which the Club now operates. Premiums across the market have been reduced to a level where it is difficult to foresee operating results being positive in the short-term.

Members' Claims

While attritional claims experience has been in line with or better than expectations in recent years, the Club has suffered a greater incidence of and more severe large claims than expected. This has been the case in both Policy Years 2017 and 2018 and is clearly reflected in the net incurred cost of claims.

Incurred Development by Policy Year (Class 1 Members)

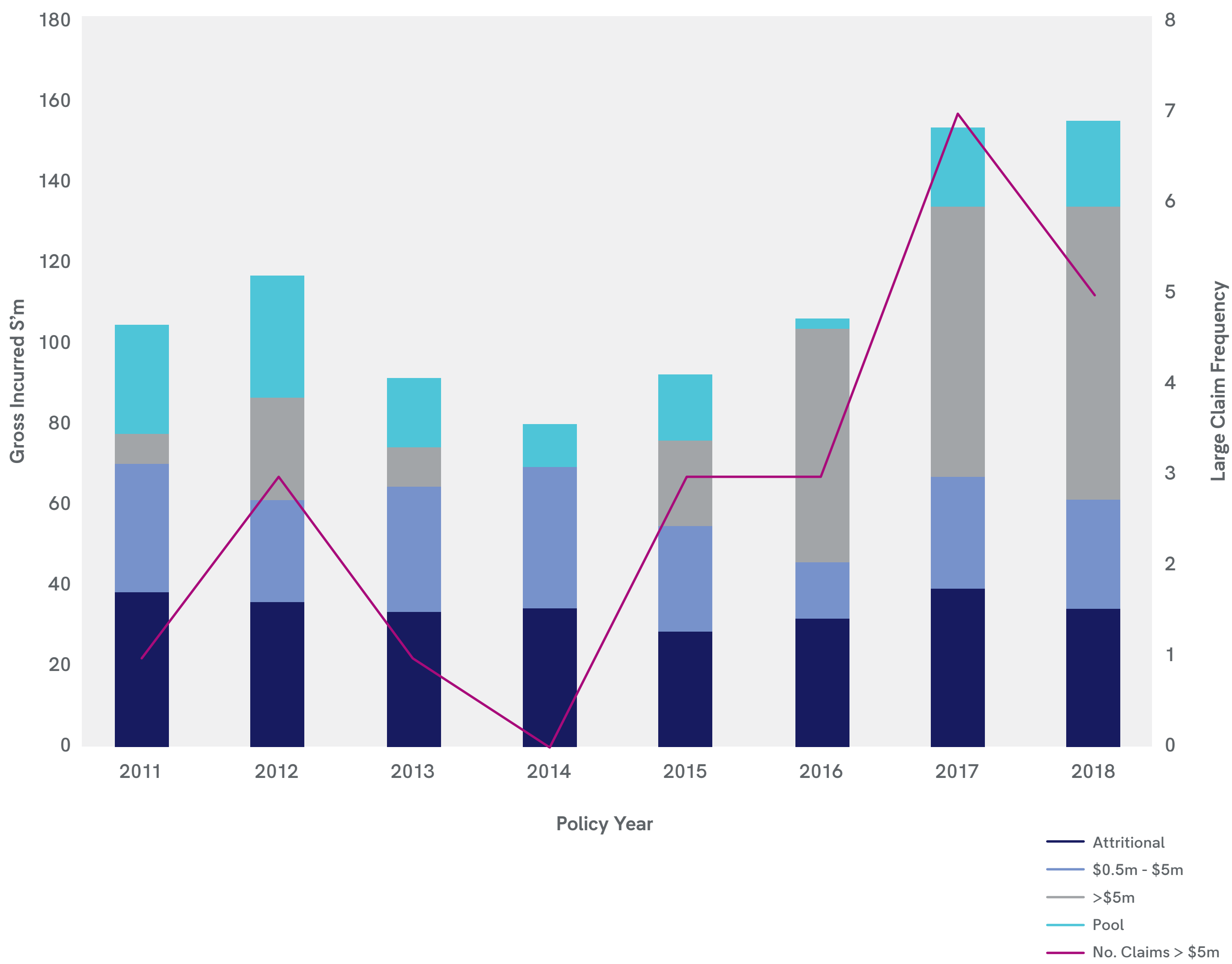


Looked at in more detail, the net incurred claims cost for incidents up to $0.5m in value on our P&I Owned mutual class, which represent 99.5% of the claims received by the Club, can be predicted with reasonable certainty. Claims in the next band, $0.5m to $5m, show more signs of volatility but it is apparent from the accompanying chart that neither Policy Year 2017 nor 2018 suffered particularly from claims up to $5m in cost.

What is clear however is that in these two Policy Years the Club has experienced an unprecedented level of large losses. Policy Years 2011 to 2016 inclusive experienced on average less than two claims in excess of $5m in cost per policy year. By contrast, Policy Year 2017 had seven claims and Policy Year 2018 five claims in excess of $5m in cost at the same development point. The cost of the five claims in Policy Year 2018 was particularly severe with the Club notifying four claims to the International Group Pool.

The Club's reinsurance programme responded to lessen the effect of these losses but the impact of this increased incidence of large losses for the Club and across the industry is nonetheless clear.

P&I Owned Gross Incurred Claims at 12 months developed



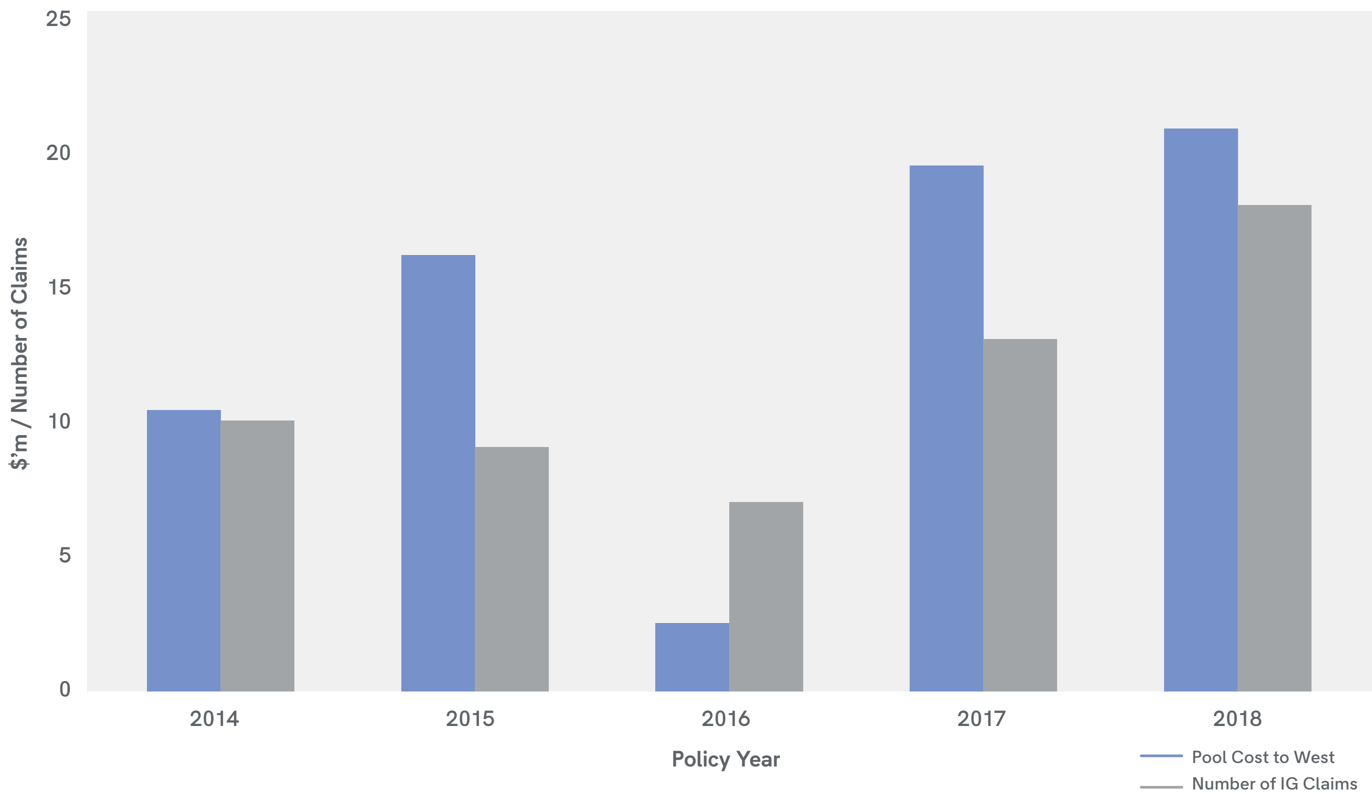
Managers' Review (continued)

Other Clubs' Pool claims

The number of claims notified to the International Group Pool has also increased and at the twelve month point eighteen claims had been declared to the Group, considerably above the recent average of notifications. Pool claims are more volatile in their nature and the Club takes a prudent approach to reserving for these.

Furthermore, despite its recent large loss experience, the Club continues to benefit from a positive loss record on the Pool which reduces the contribution it has to pay towards claims.

International Group Pool Claims at 12 Month Point

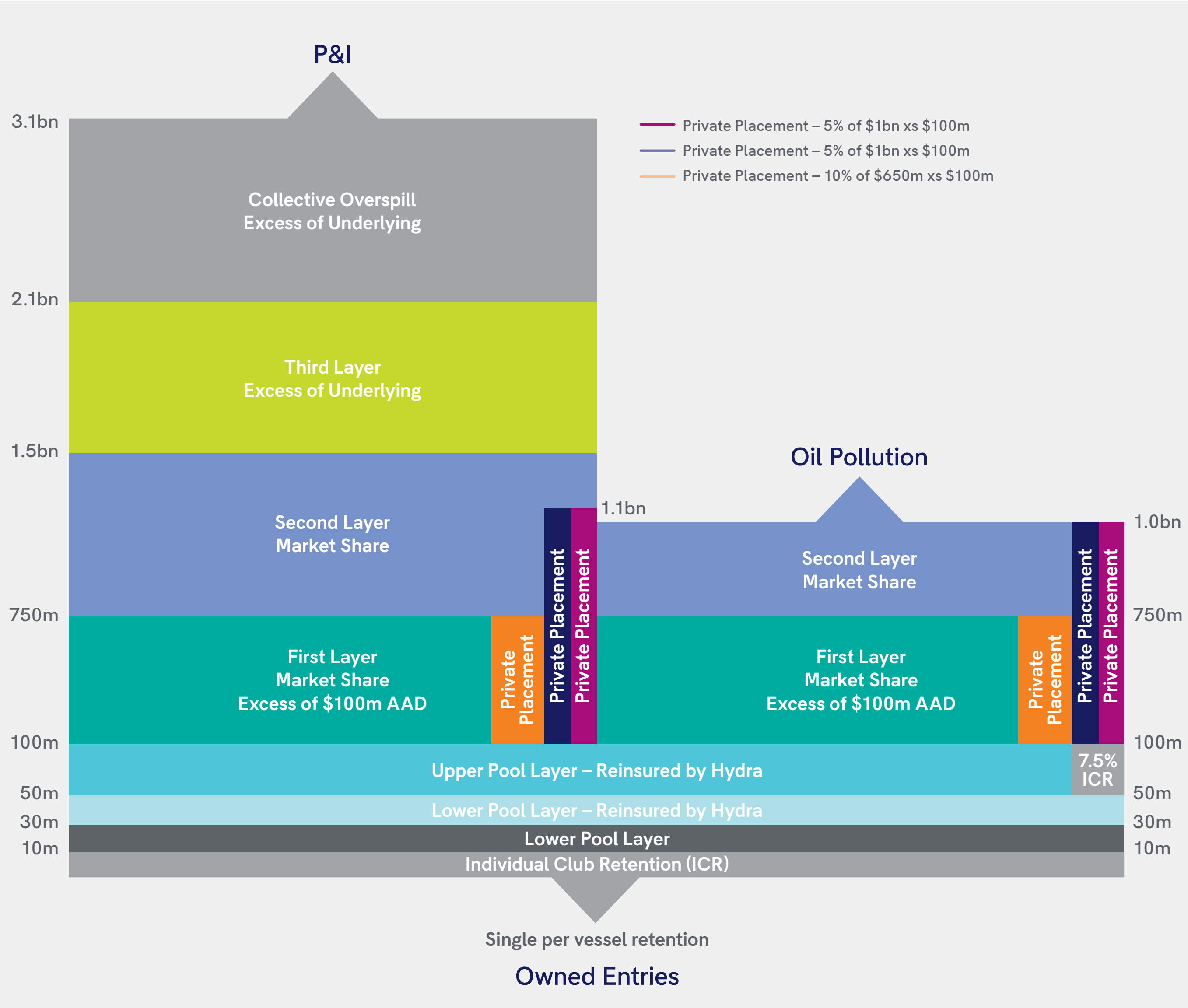


Reinsurance

Large claims are random and inherently difficult to predict and it therefore remains vital that the Club's claims continue to be underpinned by comprehensive reinsurance arrangements to mitigate the effects of extreme volatility in the underwriting result. Integral to this is the International Group Pool and Excess of Loss reinsurance programme. The main changes to the programme structure for Policy Year 2019 were adjustments to the attachment points for the second and third layer, and the introduction of an annual aggregate deductible of $100m within the 80% market share of the first layer. Additionally, a 10% private placement was introduced replacing an expiring 5% private placement.

The Club also places reinsurance for claims within its own retention and during the year carried out a formal tender process for its reinsurance broking services to ensure that the structure remained an optimal use of our Members' capital. Significant changes were made to the programme and a more comprehensive reinsurance programme has been placed for Policy Year 2019 that the Managers believe will protect our Members over the current and future policy years. Long-term relationships are fundamental to the Club's reinsurance buying strategy and the Club was pleased that a majority of our existing reinsurers continued to support the new programme.

Group Excess of Loss Reinsurance Programme Policy Year 2019



Investments

The Club's gross investment return for the financial year ending 20 February 2019 was $28.6 million (+3.9%), a tenth consecutive year of positive investment returns. This year, the global return includes a gain arising from the disposal of Tower Bridge Court, the Club's former London property. This asset had served the Club extremely well since its purchase in 1997 but, as reported last year, the Board took the decision to sell and the Club was excited to have moved into its new and far more efficient premises at One Creechurch Place in the heart of the City earlier this year.

Investment Return

Year to 20 February

Managers' Review (continued)

Financial Investments

The portfolio of financial assets, excluding the contribution of Tower Bridge Court, returned +2.2%, net of fees. This return was highly satisfactory in the context of increasing market volatility, subdued inflation and slowing economic growth. It was driven by short term and fixed income investments; the Liability Matching Portfolio invested in U.S. corporate and Government bonds returned some +3.1% while international bonds and high yield bonds returned +2.8% and +3.9% respectively.

Despite a sharp recovery at the beginning of 2019 triggered by revised guidance from central bankers and good diversification of our portfolio across markets, equities returned a disappointing -0.9% for the whole financial year.

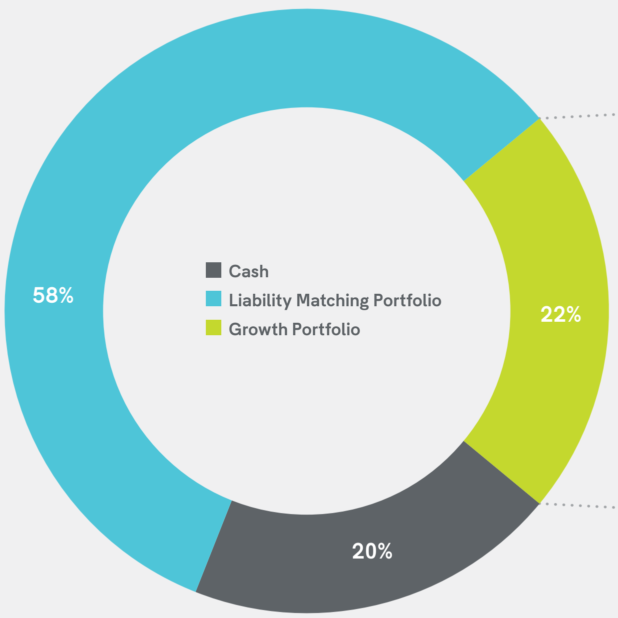
The Club continues to maintain a conservative investment strategy, consistent with the risk appetite regularly reviewed by the Board throughout the year. This strategy is driven by the objective of mitigating the downside risk of returns, preserving our Members' capital and solvency position.

Following the sale of Tower Bridge Court the Board decided to keep an exposure to real assets. This exposure aims at maintaining a good diversification across asset classes, benefiting from the risk premium of less liquid markets and protecting the economic balance sheet against long term inflation, and has increased the expected return of the portfolio.

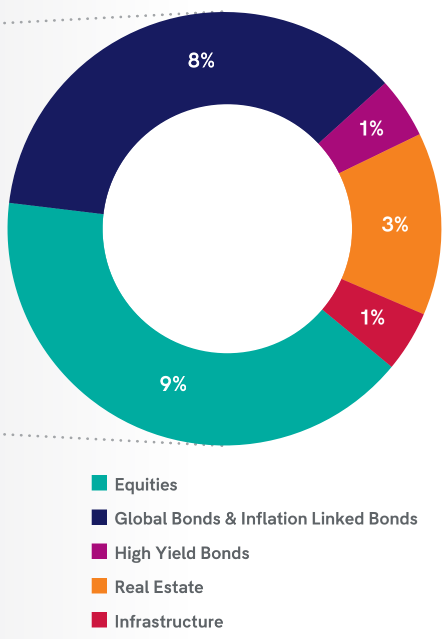
At 20 February 2019 the size of the investment portfolio was just below USD 700 million, of which 20% was allocated to cash and short-term securities, 67% to bonds, 9% to equities and 4% to real assets.

In the current economic and financial environment, the Club's Investment Committee continues to expect a moderate contribution of investments to the overall performance.

Asset Allocation
At 20 February



Growth Portfolio
At 20 February

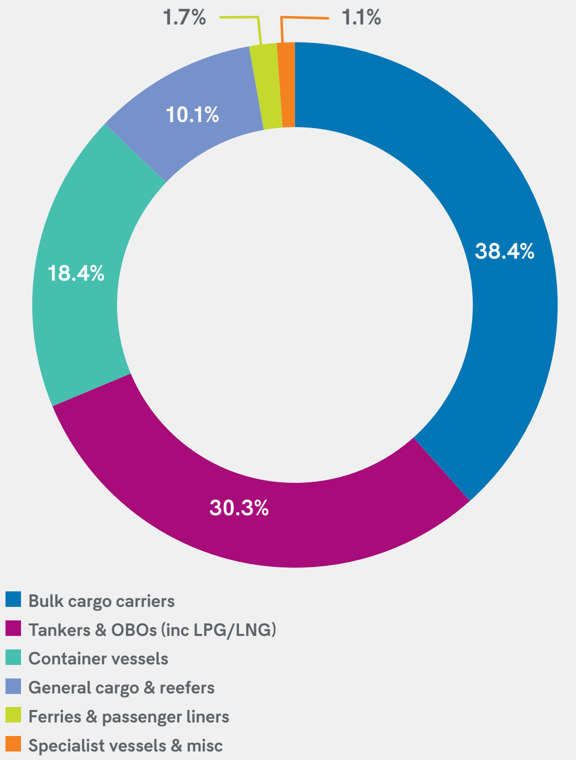


Renewals

The Club took a measured approach to renewal seeking to redress rates for Members with poorer records and maintained a conservative growth strategy in light of the unsustainable premium levels prevalent in the market. A number of Members left the Club and some new Members were welcomed but the modest growth in the mutual entry came primarily from support from our existing Members and the mix in terms of areas and vessel classes remained consistent.

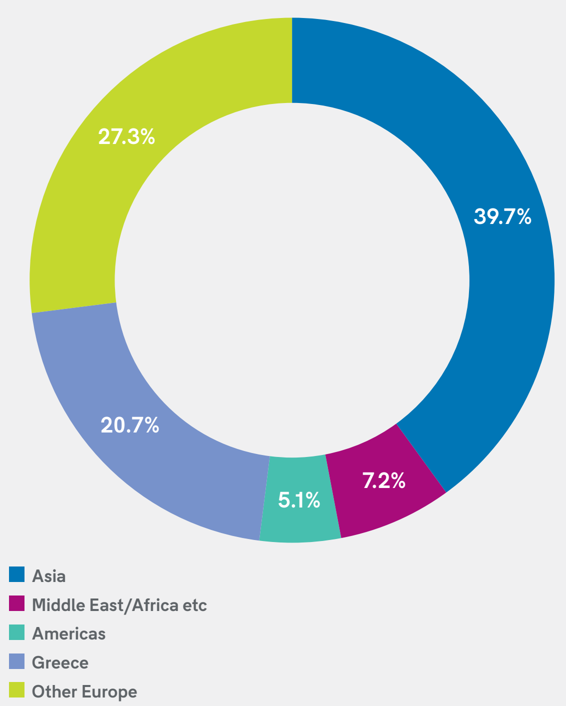
Entered Tonnage by Vessel Type %

(Class 1 Owner entry) Policy Year 2019



Entered Tonnage by Area of Management %

(Class 1 Owner entry) Policy Year 2019



Looking forward

As is reflected in the contemporary new branding that the Club recently launched, we recognise the values of the past 150 years of service to the maritime industry whilst continuing to look to the future for ways to better serve the interests of our Members. Each of our core products now has its own clear brand identity and we are investing in these products and in people to ensure that we have the product range and service capabilities to deliver the added value that our Members expect of the Club.

Shipowners face significant challenges as they battle not only uncertain freight markets but also potentially seismic legislative changes such as the 2020 Global Sulphur Cap as well as geopolitical events that might endanger vessels' security and result in tougher sanctions being imposed which are a drag on world trade. The Club continues to work tirelessly to help its Members face these challenges and is fully engaged with the other International Group Clubs to help develop industry solutions where possible.

Consolidated Accounts and Report of the Reviseur d'Entreprises Agree

20 February 2019

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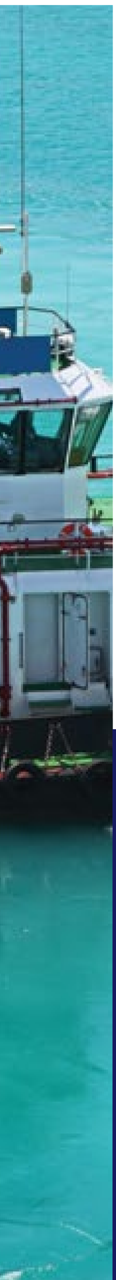

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of The West of England Ship Owners Mutual Insurance Association (Luxembourg) will be held at 31 Grand-Rue, L-1661 Luxembourg on 1 July 2019 at 13:00 hours for the following purposes:

1. To approve the Report of the Directors and the Consolidated Accounts for the year ended 20 February 2019 and to grant discharge to the Directors and Auditor for the year under review.

2. To elect Directors and appoint Advisory Committee members.

3. To reappoint Deloitte Audit Société à responsabilité limitée as Auditor of the Association and to fix their remuneration.

4. To transact any other ordinary business of the Association.

By order of the Board

T Brevet
Secretary

31 Grand-Rue
L-1661 Luxembourg

22 May 2019

Note: A Member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a Member of the Association. The instrument appointing a proxy shall be left with the Secretary not later than 48 hours before the holding of the Meeting.

General Information

Directors

F G Sarre (Chairman)	Antwerp
K S Rajvanshy (Vice-Chairman)	Hong Kong
B Aagaard-Svendsen	Copenhagen
A M Cameron	Cork
P G De Brabandere	Antwerp
A K Hazari	Hong Kong
S C Ioannou	Athens
A M W Staring	Antwerp

Advisory Committee Members

A M W Staring (Chairman)	Antwerp
O M Alkhuwaiter	Riyadh
V Bacolitsas	Athens
K S Bitnes	Oslo
L Cadji	London
A M Cameron	Cork
Feng Jianhua	Beijing
S G Gilbert	London
A K Hazari	Hong Kong
S C Ioannou	Athens
T G Mazarakis	New York
S Popravko	Limassol
K S Rajvanshy	Hong Kong
T Tokgoz	Istanbul
Ye Weilong	Beijing
E S Yordanov	Varna

Managers

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Secretary and Principal Office

T Brevet
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L-1661 Luxembourg

Telephone: +(352) 4700671

Registered Number

R.C.S. Luxembourg B 8963

Auditor

Deloitte Audit Société à responsabilité limitée
Cabinet de révision agréé
560, rue de Neudorf
L-2220 Luxembourg

Telephone: +(352) 451451


NO SMOKING

Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg) and its subsidiaries (collectively "the Association" or "the Group") for the year ended 20 February 2019.

Activities

The principal activity of the Association continues to be the insurance and reinsurance of Members' protection and indemnity risks (Class 1) and freight, demurrage and defence risks (Class 2).

In addition to its Head Office in Luxembourg, the Association has branches in London, Hong Kong and Singapore and representative offices in Piraeus and New York. Through this structure and its world-wide network of correspondent offices, the Association supports its business activities on behalf of its diversified and global Membership of ship owners and charterers.

The Association's two wholly owned subsidiaries, International Shipowners Reinsurance Company S.A. and The West of England Reinsurance (Hamilton) Limited (registered and domiciled in Luxembourg and Bermuda respectively), have continued to provide reinsurance of the Association.

West of England Insurance Services (Luxembourg) S.A., which is wholly owned by the Association, provides insurance-related management and claims handling services for the Association. West of England Insurance Services (Luxembourg) S.A. wholly owns West of England (Hellas) Limited and West of England Insurance Services (North America) Inc..

The West of England Ship Owners Insurance Services Limited, which is wholly owned by the Association, previously acted as landlord to its tenant companies until the sale of its premises in London in July 2018.

The Association is one of the members of the International Group of P&I Clubs (the "IG") who combine to pool risks and share reinsurance in providing cover to a majority of the world's merchant fleet. The Association, along with the other members of the IG, has established a 'segregated cell' insurance company, Hydra Insurance Company Ltd. registered and domiciled in Bermuda, to reinsure certain pool and quota share risks. The Association has contributed share capital to Hydra, and share capital and contributed surplus to the Hydra West of England Cell which is wholly owned by the Association and, during the year, participated in reinsurance activities.

The Association does not perform any research and development activity.

Future Developments and Events since the Balance Sheet Date

The Association will continue to maintain and develop its activities as above. There have been no significant events after the balance sheet date.

Report of the Directors (continued)

Risk Management

Luxembourg law requires disclosure, where material, of the risk management objectives and policy of the Association.

The Association's overall appetite for accepting and managing different types of risk is defined by the Board, which has developed a governance framework and policies and procedures to identify, manage, mitigate and report risk. Key risks have been identified and responsibility for each allocated to a responsible risk holder at management level. Tolerances have been set for each of these risks. This framework is designed to protect the Association's Members and other stakeholders from events that may prevent it from meeting its contractual obligations and financial and business objectives. Risk tolerances and related risk appetites are reviewed regularly and reporting of performance against them is reported to the Association's Group Audit and Risk Committee at each of its meetings.

The Board oversees the development and operational implementation of these policies and procedures. It ensures on-going compliance with them through its own enquiries and the Group has an Internal Audit function which has operational independence, clear terms of reference agreed by the Group Audit and Risk Committee and a direct reporting line to the Board.

The main sources of risk to the Association's operations and its financial position are:

a) Insurance risk

Insurance risk arises from uncertainty as to the occurrence, amount and timing of insured claims and liabilities. Insurance risk is sub-divided into Underwriting, Reserving and Reinsurance risks.

i. Underwriting risk

The underwriting objective of the Association is to charge premiums that reflect the risks it insures. The principal risk for any insurer is that the frequency and value of insured losses exceed expectations.

The Board sets an underwriting strategy which determines how the Association accepts and manages new and renewing insured risks. This strategy ensures that insured risks are diversified, for example by vessel type and geographical area, to ensure a sufficiently large and diverse population to reduce the variability of the expected outcome of insured losses.

Underwriting risk is considered both at individual fleet level and from a portfolio management perspective, where insured risks are assessed in the light of historical experience and future exposure. To assist the process of pricing and managing underwriting risk the Managers routinely perform a range of activities including:

- Documenting, monitoring and reporting on the Association's strategy to manage risk;
- Monitoring legal developments and amending the terms of entry when necessary;
- Developing processes that take account of market or economic factors in the pricing process.

The Association's insurance contracts include terms that operate to contain losses, such as deductibles being matched to the risk profile.

Monthly meetings are held to monitor claims development patterns and discuss individual underwriting issues as they arise.

The Association's pricing strategy considers the historic and future value and frequency of claims, adjusted for inflation, changes in claims patterns and external economic factors. Pricing is carried out within the Club's internal pricing framework which considers indicative rates based on internal (such as claims record and risk factors) and external (market and economic factors) data and actuarial analysis.

ii. Reserving risk

This is the risk of claims in the balance sheet being understated, i.e. the risk that reserves are inadequate due to the inherent uncertainty of knowing the ultimate cost, frequency and timing of liabilities incurred, including the provision made for claims that have not so far been notified (incurred but not reported claims).

Members are insured on a losses occurring basis. Review and reporting controls operate so that estimates are established and maintained, reflecting the Association's current best estimate of the likely final outcome for each claim. The Association has established clear and stringent estimating guidelines backed by a programme of consistent training to ensure they are applied uniformly. In addition, the Association takes advice from an independent actuary who uses established statistical techniques and applies knowledge, experience and judgement to estimate the most likely overall outcome of liabilities. In this way appropriate reserves are determined to meet claims as they fall due.

Claims developments are monitored within risk tolerances set by the Board and are reported monthly to the Management Board as part of the overall risk reporting framework.

iii. Reinsurance risk

Reinsurance risk is the risk that the reinsurance purchased by the Association does not respond as intended by reason, for example, of a mismatch with gross losses, counterparty risk or exhaustion of reinsured limits.

Reinsurance reduces claims volatility. The Association is a member of the IG and benefits from its pooling and reinsurance cover for individual claims. For Policy Year 2019 this reinsurance covers claims from $10 million to $3.1 billion. This programme is the Association's primary reinsurance protection, above which the IG's "overspill" arrangements apply. For retained claims outside the IG programme, the Association uses modelling techniques to identify where reinsurance will be most effective and additional reinsurance protection is purchased.

b) Financial risk

The Association is exposed to a range of financial risks which can be sub-divided into the risks below.

i. Capital management

The Association seeks to maintain financial strength and capital adequacy to support its business whilst retaining financial flexibility through appropriate levels of liquidity. It assesses its risk-based capital requirements and maintains an efficient capital structure consistent with its risk profile and business requirements as well as with regulatory requirements. To do this, the Association carries out an "Own Risk and Solvency Assessment" in addition to monitoring its capital position against regulatory and rating agency models.

The Association is exposed to financial risk through its financial assets and liabilities (i.e. both market and liability matching risks) and through technical assets and liabilities such as reinsurance and Members' claims. Financial assets represent a significant proportion of the Association's assets. The Association holds and invests them to fund obligations arising from it insurance activities.

Report of the Directors (continued)

The Association's key investment risk is that its financial assets together with investment returns generated by them are insufficient to fund its liabilities arising from its insurance and investment operations and do not enable it to maintain adequate operational solvency or the required solvency margin for compliance purposes. The Association's Statement of Investment Principles (SIP) and Investment Policy (IP) reflect the investment risk tolerance set by the Board and are reviewed at least once a year. They define the management of the investment portfolio within the Association's whole risk framework, covering aspects such as asset/liability matching and interest rate risks, credit default risk, equity risk, property risk, counterparty risk, currency risk and liquidity risk. The Association employs external asset managers to manage its investments and an independent custodian to monitor compliance with guidelines. ISRe, acting as the investment committee of the Board, oversees the performance of its financial assets through a regular performance, risk and compliance monitoring.

A range of tools is used to preserve the portfolio's liquidity and capital. Specific benchmarks and guidelines are set so that investments are effectively monitored and controlled, particularly in relation to the use of and exposure to derivative instruments, where applicable. The overall asset allocation is set and adjusted within ranges defined in the IP to maximise investment return within the diversification, liquidity, and risk constraints set by the Board. As part of this process, the efficiency of the asset allocation in terms of risk charges is monitored against regulatory and rating agency models.

ii. Asset/liability matching and interest rate risks

The Association continuously monitors the matching between assets and liabilities, ensuring it is not exposed to any unintended interest rate risk (to specific maturities or yield curves). It also uses interest rate risk as a source of regular income and diversification within its strategic allocation, and actively adjusts the duration of the fixed interest portfolio based on market conditions.

Fixed income investments represent the largest asset class within the Association's investment portfolio, and as a result are mainly invested in high quality, liquid, interest-bearing securities and cash equivalents.

iii. Equity risk

As part of its investment strategy, the Association also invests in equity or equity-related markets. The purpose of these investments is to generate, on average, an excess return relative to the fixed income portfolio. They are also a diversifier of the sources of performance and risk within the overall portfolio.

The maximum exposure to equities is modelled as part of the overall risk framework and the risk tolerance threshold is calculated so that a sudden market downturn would not significantly undermine the solvency position of the Association.

iv. Property risk

The Association is exposed to the volatility of market prices of real estate, through the holding of a property in Hong Kong and investments in real estate investment funds.

Property risk is mitigated by ensuring a robust diversification within the Association's real estate investments, both in term of geographical exposure and in term of segments within the real estate market.

v. Counterparty default and credit risks

The Association has exposure to counterparty default and credit risks, which are the risks of losses due to unexpected default or deterioration in the credit of a counterparty.

Key areas of exposure to counterparty default and credit risks include:

- Debt securities, cash and cash equivalents, and other investments including deposits and derivative transactions;
- Reinsurers' share of insurance liabilities and amounts due from reinsurers in respect of claims already paid, including amounts due from other Group Clubs through the IG Pool;
- Amounts due from Members.

For its financial investments, the Association mitigates the risks by setting guidelines constraining the quality and percentage of individual counterparties it is exposed to. It also mitigates the risks by delegating the management of fixed income credit portfolios to asset managers having extensive expertise and resources in monitoring credit risk.

The Association manages the counterparty default risk with reinsurers by placing and regularly reviewing limits on its exposure to a counterparty within the overall risk tolerance framework. The creditworthiness of reinsurers is reviewed before placing (including IG processes to ensure the appropriateness of reinsurers on the IG programme) and monitored regularly thereafter. Controls exist within the IG to maintain the strength of the IG Pool; the Pool itself forms a key risk mitigation.

There is no significant concentration of credit risk related to receivables as the Association has a large number of internationally dispersed ship owner and charterer Members. No single Member is sufficiently material to represent a high risk credit exposure. The Association's Rules provide significant contractual rights to safeguard the Association's position and reduce its exposure to the consequences of default or partial payment.

vi. Currency risk

Currency risk is the risk that the fair value or future cash flows of an asset or a liability will fluctuate due to changes in exchange rates. Currency risk arises from items denominated in currencies other than the Association's operating currency – US dollars.

The Association maintains a benchmark currency profile for investments which approximates to the currency exposure within its claims liabilities so that currency movements are effectively hedged. By recording the currency exposure within figured claims reserves and monitoring historical payment patterns the Association determines a measure of the currency risk and the effectiveness of the currency hedge.

vii. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due, at reasonable cost. The Association is exposed to daily calls on its available cash resources mainly from claims arising from its insurance operations including its participation in the IG Pool. Within its risk framework the Board has set limits on the minimum level of cash and liquid funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected levels of claims and other cash demands. The main part of the Association's investments is maintained in highly liquid assets which may be converted to cash at little notice or expense.

Report of the Directors (continued)

Consolidated accounts

These consolidated accounts conform to the Luxembourg law of 8 December 1994 (as amended) in all respects except that investments are stated at market value, land and buildings at valuation and for the presentation of subrogation and salvages. Luxembourg legislation requires that investments are stated at the lower of historic amortised cost or estimated market value and that subrogation and salvage recovery items are disclosed gross. The treatment adopted in these financial statements is consistent with the basis of accounting generally accepted by the other members of the International Group of P&I Clubs and includes additional disclosures relating to cash flows, policy year positions and average expense ratio to meet the generally accepted reporting bases or specific disclosure requirements of the International Group. The consolidated accounts are set out on pages 32 to 54 with the principal accounting policies summarised on pages 38 to 40.Consolidated accounts conforming fully to the Luxembourg legislation are filed with the Luxembourg authorities: copies are available on request from our principal office.

These consolidated accounts show a deficit for the year of $0.7 million (2018 $8.2 million). Other reserve movements including a transfer of $35.0 million from the Revaluation Reserve to the Income and Expenditure Account reserve following the sale of the Association's London premises, Tower Bridge Court, in July 2018 mean that total reserves at 20 February 2019 are $306.4 million (2018 $308.5 million).

Directors

The present Directors of the Association, who are listed on page 19, held office throughout the year under review with the exception of Mr A K Hazari who was appointed with effect from 5 February 2019. In addition, Mrs T Petalas and Mr P R L Lorenz Meyer resigned with effect from 1 June 2018 and 20 February 2019 respectively.

In accordance with the Constitution of the Association all Directors will retire at the forthcoming Annual General Meeting but, being eligible, may offer themselves for re-election.

Directors and Officers Liability Insurance

During the year, the Association maintained insurance cover for Directors and Officers against legal liabilities relating to the Association's activities.

Auditor

At the Annual General Meeting on 1 July 2019 the Directors will propose a resolution for the re-appointment of Deloitte Audit Société à responsabilité limitée for the year commencing 20 February 2019.

By order of the Board

T Brevet
Secretary

22 May 2019

Deloitte.

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To the Members of The West of England Ship Owners Mutual Insurance Association (Luxembourg)

Report of the Reviseur d'Entreprises Agree

Report on the Audit of the consolidated accounts

Opinion

We have audited the consolidated accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg) (the "Association"), which comprise the consolidated balance sheet as at 20 February 2019, the consolidated income and expenditure account for the year then ended and notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated accounts give a true and fair view of the financial position of the Association as at 20 February 2019, and the results of its operations for the year then ended in accordance with the significant accounting policies set out in Notes 2 and 3 to the consolidated accounts.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulations, Laws and standards are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Accounts" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Notes 2 and 3 to the consolidated accounts, which describe the basis of accounting. The consolidated accounts are prepared to assist The West of England Ship Owners Mutual Insurance Association (Luxembourg) to meet its financial information requirements to its Members and to be consistent with the basis adopted by the other members of the International Group of P&I Clubs. As a result, the consolidated accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of the audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- **Valuation of incurred but not reported ("IBNR") claims reserves:**

Risk description:

Gross claims outstanding include incurred but not reported ("IBNR") claims reserves which are typically recognised to reflect the uncertainty around the ultimate losses that will be incurred arising from claims due to the long-term nature of the Association's exposure. The judgements that are made by management in determining the valuation of incurred but not reported ("IBNR") claims reserves, as mentioned in note 3 to the consolidated accounts, are significant to the Association's financial position. Determining these incurred but not reported ("IBNR") claims reserves requires subjectivity and

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alterations in underlying assumptions may have a material impact on the financial position of the Association and on the results of its operations. In this context, the valuation of incurred but not reported ("IBNR") claims reserves in respect of management's selection of methodology and assumptions underlying the valuation of incurred but not reported ("IBNR") claims reserves has been assessed as a key audit matter.

Audit responses:

We have assessed the design and implementation of key controls which management performs in relation to insurance reserving. This included assessing the design and implementation of controls over the data provided to the Association's external actuarial expert, the internal challenge of that expert's work and the appropriate governance oversight in determining the key assumptions underpinning the valuation of incurred but not reported ("IBNR") claims reserves. We completed procedures to assess the competence and objectivity of management's external actuarial expert and involved our own actuarial specialists to assess the appropriateness of the methodology applied and the suitability of the key assumptions and judgements taken in determining the incurred but not reported ("IBNR") claims reserves.

Other matter

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has prepared a separate set of consolidated accounts as at 20 February 2019 in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the consolidated accounts on which we issued a separate auditor's report to the Members of The West of England Ship Owners Mutual Insurance Association (Luxembourg) dated May 22, 2019.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated Report of the Directors but does not include the consolidated accounts and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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 this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the Board of Directors is responsible for assessing the Group'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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the consolidated accounts

The objectives of our audit are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated accounts.

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As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the General Meeting of the Shareholders on July 10, 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

The consolidated Report of the Directors is consistent with the consolidated accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the Group Audit and Risk Committee.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

For Deloitte Audit, Cabinet de Révision Agréé

Jérôme Lecoq, Réviseur d'Entreprises Agréé
Partner

22 May 2019

Consolidated Accounts

Consolidated Balance Sheet

at 20 February 2019

	Note(s)	2019 $'000	2018 $'000
Assets			
Investments			
Land and buildings	4	**10,969**	69,457
Other financial investments	5	**592,403**	487,331
		603,372	556,788
Reinsurers' share of technical provisions			
Claims outstanding	13	**158,274**	148,872
Debtors			
Member debtors	8	**40,708**	13,977
Reinsurance debtors	7	**3,058**	19,084
Additional calls not yet charged	8	**-**	26,662
Other debtors	9	**1,706**	1,608
		45,472	61,331
Other assets			
Tangible assets	10	**497**	1,175
Cash at bank and in hand		**100,948**	145,439
		101,445	146,614
Prepayments and accrued income			
Accrued interest		**3,077**	3,216
Other prepayments and accrued income		**820**	1,710
		3,897	4,926
Total Assets		**912,460**	918,531

The accompanying notes are an integral part of these consolidated accounts.

	Note(s)	**2019 $'000**	2018 $'000

Liabilities

	Note(s)	2019 $'000	2018 $'000
Capital and reserves			
Revaluation Reserve	4,19	**8,201**	43,248
Income and Expenditure Account	19	**298,172**	265,285
		306,373	308,533
Technical provisions			
Claims outstanding	13	**567,069**	577,660
Creditors			
Member creditors		**18,128**	12,326
Reinsurance creditors		**6,501**	5,306
Other creditors	11	**14,389**	14,706
		39,018	32,338
Total Liabilities		**912,460**	918,531

Chairman

Director

22 May 2019

The accompanying notes are an integral part of these consolidated accounts.

Consolidated Income and Expenditure Account

for the year ended 20 February 2019

	Note(s)	2019 $'000	2019 $'000	2018 $'000	2018 $'000
Technical Account					
Earned premiums, net of reinsurance					
Gross premiums written		219,726		213,797	
Outward reinsurance premiums		(38,646)		(37,496)	
Earned premiums, net of reinsurance	12		181,080		176,301
Allocated investment return transferred from the non-technical account			28,601		21,227
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(224,843)		(230,979)	
Reinsurers' share		35,182		94,135	
Net claims paid	13	(189,661)		(136,844)	
Change in the provision for claims					
Gross amount		10,591		24,865	
Reinsurers' share		9,402		(57,164)	
Change in the net provision for claims	13	19,993		(32,299)	
Claims incurred, net of reinsurance			(169,668)		(169,143)
Operating expenses	14		(37,438)		(35,392)
Balance on the technical account			2,575		(7,007)
Non-Technical Account					
Balance on the technical account			2,575		(7,007)
Investment income	16		73,141		33,951
Investment charges	16		(44,540)		(12,724)
Allocated investment return transferred to the technical account			(28,601)		(21,227)
Surplus / (deficit) on ordinary activities before tax			2,575		(7,007)
Tax on ordinary activities	17		(3,251)		(1,210)
Deficit on ordinary activities after tax			(676)		(8,217)

The accompanying notes are an integral part of these consolidated accounts.

Consolidated Statement of Cash Flows

for the year ended 20 February 2019

	Note(s)	2019 $'000	2018 $'000
Cash flows from operating activities			
Gross premiums received from Members		**219,657**	215,642
Reinsurance premiums paid		**(37,370)**	(39,426)
Gross claims paid		**(219,118)**	(224,995)
Reinsurance recoveries received		**51,204**	79,147
Operating expenses paid		**(35,965)**	(33,857)
Tax on ordinary activities paid		**(5,040)**	(2,661)
Net cash used in operating activities		**(26,632)**	(6,150)
Cash flows from investing activities			
Income received from land and buildings		**544**	1,896
Purchases of property and equipment	10	**(80)**	(28)
Proceeds from sale of property and equipment		**66,434**	12
Interest income received		**14,463**	12,339
Dividend income received		**1,279**	1,090
Investment management expenses paid		**(768)**	(745)
Net cash flows from shares and other variable yield securities and units in unit trusts		**(29,988)**	3,625
Net cash flows from debt securities and other fixed interest securities		**(72,764)**	(56,146)
Net cash used in investing activities		**(20,880)**	(37,957)
Net decrease in cash at bank and in hand		**(47,512)**	(44,107)
Cash at bank and in hand as at beginning of year		**145,439**	187,579
Exchange gains on cash at bank and in hand		**3,021**	1,967
Cash at bank and in hand as at end of year		**100,948**	145,439

The accompanying notes are an integral part of these consolidated accounts.

Note to the Consolidated Statement of Cash Flows

Reconciliation of deficit on ordinary activities after tax to net cash generated from operating activities

	Note(s)	2019 $'000	2018 $'000
Deficit on ordinary activities after tax		**(676)**	(8,217)
Depreciation	14	**996**	667
Gain on fixed asset disposal	14	**(32)**	(4)
Exchange (gain) / loss on cash balances		**(135)**	32
(Decrease) / increase in net insurance liabilities	13	**(19,993)**	32,299
Decrease / (increase) in insurance and other debtors		**17,003**	(11,089)
Increase in insurance and other creditors		**4,806**	1,389
Investment income	16	**(73,141)**	(33,951)
Investment charges	16	**44,540**	12,724
Net cash used in operating activities		**(26,632)**	(6,150)

The accompanying notes are an integral part of these consolidated accounts.

Notes to the Consolidated Accounts

Notes to the Consolidated Accounts

for the year ended 20 February 2019

1 General

The West of England Ship Owners Mutual Insurance Association (Luxembourg) ("the Association") is established in the Grand Duchy of Luxembourg as a mutual insurance association. As a mutual association under Luxembourg law, the Association has no share capital or subscribed capital.

2 Presentation of the consolidated accounts

These consolidated accounts have been prepared in accordance with the significant accounting policies set out in Note 3 to meet the financial information requirements of its Members and include information and disclosures consistent with those adopted by the other members of the International Group of P&I Clubs.

These accounting policies and disclosures are consistent with those required by the amended law of 8 December 1994 on the annual accounts of insurance and reinsurance undertakings in Luxembourg, except for the following:

- Land and buildings and other financial investments are stated at estimated market value;
- Subrogation and salvages are presented on a net basis within the balance sheet;
- Additional disclosures are included relating to consolidated cash flows, policy year positions and average expense ratio.

The Association also prepares statutory consolidated accounts ("the statutory consolidated accounts") in accordance with the legal and regulatory requirements applicable in Luxembourg, including the requirements of the amended law of 8 December 1994 on the annual accounts of insurance and reinsurance undertakings. These statutory consolidated accounts are filed with the Registre de Commerce in Luxembourg and are available at the registered office of the Association.

The impact on the valuation of land and buildings and other financial investments in the balance sheet resulting from the change in accounting policies described above between these and the statutory consolidated accounts is as follows:

	Land and Buildings $'000	Other Financial Investments $'000
Presented herein – Estimated market value	10,969	592,403
Statutory consolidated accounts – Net book value	2,790	578,374

In order to ensure adequate comparability across financial years, certain comparative figures in respect of the financial year ended 20 February 2018 have been reclassified.

The preparation of consolidated accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the consolidated accounts in the period in which the assumption changed. The Board of Directors believes that the underlying assumptions are appropriate and that the consolidated accounts therefore present the financial position and results fairly.

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Basis of consolidation

The consolidated accounts have been prepared in US dollars and incorporate the assets and liabilities of the Association and its group undertakings, listed below, at 20 February 2019 and the results of the year ended on that date. The group undertakings are 100% owned and are fully consolidated.

Group undertakings	Incorporated
Hydra Insurance Company Ltd. – The West of England Hydra Cell	Bermuda
International Shipowners Reinsurance Company S.A.	Luxembourg
The West of England Reinsurance (Hamilton) Limited	Bermuda
The West of England Ship Owners' Insurance Services Limited	United Kingdom
West of England (Hellas) Limited	Jersey
West of England Insurance Services (North America) Inc.	United States
West of England Insurance Services (Luxembourg) S.A.	Luxembourg

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has guaranteed all outstanding liabilities as at 20 February 2019 of its wholly owned subsidiary, The West of England Ship Owners' Insurance Services Limited, UK registered number 01611499, such that it may apply for an audit exemption under UK law (Section 479A of the Companies Act 2006) for the year ended 20 February 2019. The financial results and position of The West of England Ship Owners' Insurance Services Limited are included within these consolidated annual accounts.

Classes and policy years

Members are insured in accordance with the Rules of the Association. Separate records are maintained for all Classes of insurance. Mutual policy balance accounts are maintained, individual accounts being held for all open policy years for each Class. The accumulated balance for all policy years is available, if required, for any exceptional future charges.

Calls and reinsurance premiums are credited or charged to the policy year to which cover relates. Claims are included in policy years by reference to the date of the incident and reinsurance recoveries are matched accordingly. General and management expenditure is allocated to Classes on the basis of calls and premium income and is charged to the policy year in which it is incurred. Investment income is allocated to policy years as determined by the Directors.

Activities relating to specific Classes, Class 1 and Class 2, and the activity relating to The West of England Reinsurance (Hamilton) Limited, which is not attributable to any Class of business, are disclosed separately in Note 18.

3 Summary of significant accounting policies

Foreign currencies

Revenue and expense transactions are converted at the rate ruling at the date of the relevant transactions. Assets and liabilities in currencies other than US dollars are converted to US dollars at the rate prevailing at the balance sheet date. Exchange differences are analysed between realised and unrealised, and taken to the consolidated Income and Expenditure Account. Exchange movements arising from the retranslation of brought forward reserve balances are taken directly to capital and reserves. Unsettled forward exchange transactions are translated into US dollars at the forward rate prevailing on the balance sheet date for the remaining term of the contracts. Unrealised profit or loss on hedging transactions is charged in the consolidated Income and Expenditure Account and disclosed as an asset or a liability in the consolidated balance sheet.

Land and buildings

Land and buildings are stated at estimated market value, based on periodic valuations by independent valuers. Buildings are amortised over their useful life on a straight-line basis, taking into account their residual value. The residual value and economic useful life of buildings are reassessed by the Directors on a periodic basis. Leasehold properties are written down over the period of the lease.

Other financial investments

Investments are stated at market value or at values provided by independent brokers or managers.

Debtors

Full provision is made for amounts owing which are more than one year in arrears and in respect of other balances considered to be doubtful.

3 Summary of significant accounting policies (continued)

Claims outstanding

Statistical projections are calculated for claims outstanding at the balance sheet date based upon paid claims and estimates of notified outstanding claims. Provision is made for future claims handling expenses. Significant delays may occur before claims are settled and, accordingly, a substantial measure of experience and judgement is required in assessing the ultimate cost of outstanding and unnotified claims, which cannot be known with certainty at the balance sheet date.

The reinsurers' share in claims outstanding represents the part of the gross claims outstanding that the Association is entitled to recover from reinsurers under contractual reinsurance arrangements.

Tangible assets

Tangible fixed assets are valued at purchase price including any acquisition expenses. Tangible fixed assets are depreciated over their useful economic life which has been determined as ten years for fixtures and fittings and four years for motor vehicles.

Premiums

Gross premiums written consist of calls, premiums, releases and other fees together with movements in additional calls not yet charged which have been notified to Members less return premiums and provisions for bad and doubtful debts. Premium is recognised on an accruals basis in the period in which the contract is related. Reinsurance premiums are charged to the consolidated Income and Expenditure Account on an accruals basis.

Claims incurred

Claims incurred comprises claims and related costs, including claims handling expenses, advances made on account of claims during the year, including the Association's share of claims under pooling agreements, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Credit is taken for reinsurance recoveries due in respect of claims accounted for at the balance sheet date.

Investment income

Income from investments is included, together with the related tax credit, in the non-technical account on an accruals basis. Account is taken of dividend income when the related investment is declared "ex-dividend".

Expenses

General and management expenditure is charged to the consolidated Income and Expenditure Account on an accruals basis.

Pension costs

Defined benefit pension costs are charged to the Income and Expenditure Account over the service lives of the eligible employees in accordance with the advice of qualified actuaries. Pension obligations relating to defined final salary benefits are determined on a projected unit method. Contributions to both the defined benefit pension and defined contribution pension schemes are charged as an expense in the year to which they relate.

Transfer of investment return

A transfer of investment return, including unrealised exchange gains and losses, expenses and charges, is made from the non-technical account to the technical account to reflect the return made on those assets directly attributable to the insurance business.

4 Land and buildings

Land and buildings comprise a property in Hong Kong which is fully occupied by the Association. The property was revalued at 20 February 2019 by Jones Lang LaSalle Ltd at HK$86.1 million ($11.0 million) (2018 HK$83.2 million / $10.6 million) and the resultant surplus on revaluation was taken to the Revaluation Reserve.

The Association's former freehold premises at Tower Bridge Court, London was sold in July 2018 for £51m ($66.4m) and the resultant profit on disposal is included within investment income in the consolidated Income and Expenditure Account.

5 Other financial investments	2019 $'000 Market Value	2019 $'000 Cost	2018 $'000 Market Value	2018 $'000 Cost
Shares and other variable yield transferable securities and units in unit trusts	101,045	91,873	72,436	61,892
Debt securities and other fixed income transferable securities	491,358	490,695	414,895	417,024
	592,403	582,568	487,331	478,916

Derivatives can be broken down as follows:

	2019 $'000 Contract/ Notional Amount	2019 $'000 Fair Value Asset	2019 $'000 Fair Value Liability	2018 $'000 Contract/ Notional Amount	2018 $'000 Fair Value Asset	2018 $'000 Fair Value Liability
Forward foreign exchange contracts	34,992	147	434	38,275	340	423

The use of derivatives for leveraging purposes is not permitted although certain of the Association's investment managers have authority to invest in derivative financial instruments but only for hedging purposes and as a substitute for cash securities.

At 20 February 2019 forward foreign exchange positions comprise long US dollar positions in 14 currencies for a total value of $29.8 million (2018 $32.8 million) and short US dollar positions in 8 currencies for a total value of $5.2 million (2018 $5.5 million).

6 Financial commitments and guarantees

The Association itself and through its subsidiaries, International Shipowners Reinsurance Company S.A. and The West of England Reinsurance (Hamilton) Limited, has pledged certain investments as security for bank guarantees and letters of credit issued on behalf of the Association. At 20 February 2019, the secured facilities for guarantees on behalf of Members, including an agreed margin where appropriate, amounted to $107.5 million (2018 $107.7 million) and guarantees issued against those facilities totalled $17.3 million (2018 $46.3 million).

Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2019 were:

	2019 $ million	2018 $ million
On behalf of Members	17.3	46.3
Letters of credit and other guarantees	5.7	5.6

For guarantees issued on behalf of Members for claims, appropriate balance sheet provision has been made within claims outstanding.

As at 20 February 2019, the Association has an outstanding commitment to subscribe shares in an investment fund for a value of $7.5 million (2018 nil) and has committed to the future use of office space for a value of $13.0 million (2018 $2.0 million).

7 Reinsurance debtors	2019 $'000	2018 $'000
Recoveries from other members of the International Group of P&I Clubs	**1,106**	3,934
Recoveries from the Group Excess Loss reinsurance	**912**	12,039
Other reinsurances	**1,040**	3,111
	3,058	19,084

8 Member debtors and additional calls not yet charged	2019 $'000	2018 $'000
Member debtors	**40,708**	13,977
Additional calls not yet charged	**-**	26,662
	40,708	40,639

With effect from policy year 2018/19 the Association changed its calling basis so that rather than charging its estimated mutual call ("ETC") as an advance call plus an additional call, it is charged as a total mutual call. At 20 February 2018 additional calls not yet charged represented 35% of policy year 2017/18 advance call.

Ageing analysis

The following is an ageing analysis of member debtors, net of allowance for doubtful debts:

	2019 $'000	2018 $'000
Neither past due nor impaired	**32,334**	33,234
Overdue for up to 3 months	**5,417**	3,987
Overdue for over 3 months	**2,957**	3,418
	40,708	40,639

9 Other debtors	2019 $'000	2018 $'000
Investment debtors	**147**	340
Hong Kong Profits Tax	**725**	248
Other debtors	**834**	1,020
	1,706	1,608

10 Tangible assets	2019 Motor Vehicles $'000	2019 Fixtures and Fittings $'000	2019 Total $'000
Cost			
At beginning of year	400	2,496	2,896
Additions	80	-	80
Disposals	(141)	-	(141)
At end of year	339	2,496	2,835
Accumulated depreciation			
At beginning of year	306	1,415	1,721
Provided during year	57	680	737
Disposals	(120)	-	(120)
At end of year	243	2,095	2,338
Net Book Value	**96**	**401**	**497**

	2018 Motor Vehicles $'000	2018 Fixtures and fittings $'000	2018 Total $'000
Cost			
At beginning of year	404	2,496	2,900
Additions	28	-	28
Disposals	(32)	-	(32)
At end of year	400	2,496	2,896
Accumulated depreciation			
At beginning of year	258	1,165	1,432
Provided during year	72	250	322
Disposals	(24)	-	(24)
At end of year	306	1,415	1,721
Net Book Value	94	1,081	1,175

11 Other creditors	2019 $'000	2018 $'000
UK Corporation Tax	**3,116**	4,285
Luxembourg municipal and state taxes	**453**	529
Accrued expenses	**2,275**	2,254
Investment creditors	**1,951**	423
Other creditors	**6,594**	7,215
	14,389	14,706

Other creditors include $783,400 becoming due and payable after one year. All other creditors are payable within one year.

12 Earned premiums, net of reinsurance			2019 $'000
	Class 1	Class 2	**Total**
Gross premiums by policy year			
Policy year 2018/19	205,631	11,977	**217,608**
Policy year 2017/18	26,517	1,712	**28,229**
Policy year 2016/17	19	37	**56**
Other	349	146	**495**
Total gross premiums	232,516	13,872	**246,388**
Movement in additional calls not yet charged (Note 8)	(25,447)	(1,215)	**(26,662)**
	207,069	12,657	**219,726**
Reinsurance premiums	(37,618)	(1,028)	**(38,646)**
Earned premiums, net of reinsurance	**169,451**	**11,629**	**181,080**

			2018 $'000
	Class 1	Class 2	Total
Gross premiums by policy year			
Policy year 2017/18	176,110	10,582	186,692
Policy year 2016/17	27,619	1,279	28,898
Policy year 2015/16	197	54	251
Other	(237)	(12)	(249)
Total gross premiums	203,689	11,903	215,592
Movement in additional calls not yet charged	(1,744)	(51)	(1,795)
	201,945	11,852	213,797
Reinsurance premiums	(36,542)	(954)	(37,496)
Earned premiums, net of reinsurance	165,403	10,898	176,301

13 Insurance claims and loss adjustment expenses	2019 $'000	2019 $'000	2019 $'000
	Class 1	Class 2	Total
Gross claims paid and loss adjustment expenses			
Members' claims	203,068	4,294	**207,362**
International Group of P&I Clubs	17,481	-	**17,481**
	220,549	4,294	**224,843**
Reinsurance recoveries on claims paid			
Recoveries from other members of the International Group of P&I Clubs	(27,920)	-	**(27,920)**
Recoveries from the Group Excess Loss reinsurance programme	(3,554)	-	**(3,554)**
Recoveries from other reinsurances	(3,708)	-	**(3,708)**
Reinsurance recoveries on claims paid	(35,182)	-	**(35,182)**
Net claims paid and loss adjustment expenses	**185,367**	**4,294**	**189,661**
Insurance liabilities, gross	**557,227**	**9,842**	**567,069**
Reinsurers' share of insurance liabilities			
Recoveries from other members of the International Group of P&I Clubs	(72,892)	-	**(72,892)**
Recoveries from the Group Excess Loss reinsurance programme	(15,868)	-	**(15,868)**
Recoveries from other reinsurances	(69,514)	-	**(69,514)**
Reinsurers' share of insurance liabilities	(158,274)	-	**(158,274)**
Net insurance liabilities carried forward	**398,953**	**9,842**	**408,795**
Net insurance liabilities brought forward	419,059	9,729	**428,788**
Change in the net provision for insurance liabilities	**(20,106)**	**113**	**(19,993)**
Net insurance claims and loss adjustment expenses	**165,261**	**4,407**	**169,668**

	2019 $'000	2019 $'000	2019 $'000
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	246,580	(50,868)	**195,712**
Movement in cost of prior year claims and loss adjustment expenses	(32,328)	6,284	**(26,044)**
Total insurance claims and loss adjustment expenses	**214,252**	**(44,584)**	**169,668**
Claims paid and loss adjustment expenses	224,843	(35,182)	**189,661**
Change in the provision for insurance liabilities	(10,591)	(9,402)	**(19,993)**
Total insurance claims and loss adjustment expenses	**214,252**	**(44,584)**	**169,668**

Claims outstanding includes $96.2 million (2018 $92.6 million) in respect of other clubs' claims through the International Group Pool, including appropriate provision for claims incurred but not reported. Recoveries shown include amounts statistically projected as recoverable against claims incurred but not reported.

13 Insurance claims and loss adjustment expenses (continued)	2018 $'000	2018 $'000	2018 $'000
	Class 1	Class 2	Total
Gross claims paid and loss adjustment expenses			
Members' claims	208,583	6,208	214,791
International Group of P&I Clubs	16,188	-	16,188
	224,771	6,208	230,979
Reinsurance recoveries on claims paid			
Recoveries from other members of the International Group of P&I Clubs	(9,289)	-	(9,289)
Recoveries from the Group Excess Loss reinsurance programme	(14,458)	-	(14,458)
Recoveries from other reinsurances	(70,388)	-	(70,388)
Reinsurance recoveries on claims paid	(94,135)	-	(94,135)
Net claims paid and loss adjustment expenses	130,636	6,208	136,844
Insurance liabilities, gross	567,931	9,729	577,660
Reinsurers' share of insurance liabilities			
Recoveries from other members of the International Group of P&I Clubs	(66,315)	-	(66,315)
Recoveries from the Group Excess Loss reinsurance programme	(27,509)	-	(27,509)
Recoveries from other reinsurances	(55,048)	-	(55,048)
Reinsurers' share of insurance liabilities	(148,872)	-	(148,872)
Net insurance liabilities carried forward	419,059	9,729	428,788
Net insurance liabilities brought forward	381,260	15,229	396,489
Change in the net provision for insurance liabilities	37,799	(5,500)	32,299
Net insurance claims and loss adjustment expenses	168,435	708	169,143

	2018 $'000	2018 $'000	2018 $'000
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	253,131	(48,482)	204,649
Movement in cost of prior year claims and loss adjustment expenses	(47,017)	11,511	(35,506)
Total insurance claims and loss adjustment expenses	206,114	(36,971)	169,143
Claims paid and loss adjustment expenses	230,979	(94,135)	136,844
Change in the provision for insurance liabilities	(24,865)	57,164	32,299
Total insurance claims and loss adjustment expenses	206,114	(36,971)	169,143

14 Operating expenses	2019 $'000	2018 $'000
Directors' fees	**260**	316
Auditor's remuneration	**340**	366
Other expenses	**8,719**	8,969
Depreciation	**996**	667
Profit on disposal of fixed assets	**(32)**	(4)
Administrative expenses	**10,283**	10,314
Acquisition costs	**27,155**	25,078
	37,438	35,392

Remuneration granted to the Directors in respect of their duties and responsibilities during the financial year amounted to $259,863 (2018 $316,379). No loans or advances were granted to the Directors during the year and no commitments were entered into on their behalf.

The fees of the auditor in relation to the audit of the annual accounts in 2019 amount to $318,039 (2018 $351,572); the fees related to other assurance services provided including tax services amount to $21,533 (2018 $14,089).

Included within acquisition costs is $16.2 million (2018 $14.9 million) in respect of commission.

In accordance with Schedule 3 of the International Group Agreement 2016, all members of the International Group of P&I Clubs are required to prepare and disclose an "average expense ratio" which expresses expenses as a percentage of total income, calculated as a five year moving average. The figure for the year ended 20 February 2019 is 14.68% (2018: 14.75%).

15 Staff costs	2019 $'000	2018 $'000
Wages and salaries	**16,441**	16,490
Other staff related costs	**2,101**	1,861
Social security costs	**1,613**	1,695
Other pension costs	**2,540**	2,727
	22,695	22,773

The average weekly number of employees during the year, by department, was:

	2019 Number	2018 Number
Claims	**64**	64
Underwriting	**40**	39
Administration	**35**	35
	139	138

15 Staff costs (continued)

Certain employees are included in a defined benefit pension scheme, The West of England Ship Owners' Insurance Services Limited Retirement Benefits Scheme (the "Scheme").

From 30 June 2004 the Scheme was changed from one where benefits provided were based on final salaries to a cash contribution scheme with benefits based on contributions linked to annual salaries and inflation. The Scheme was closed to new entrants on 1 September 2016. Employees commencing employment after that date have the option to enrol in a new defined contribution scheme under which no future liability accrues to the Association.

The assets of the Scheme are held in a separate fund, administered by trustees, and are invested independently of the Association's assets. Funding requirements are assessed by an independent professionally qualified actuary on the basis, among others, that the Scheme is fully funded in respect of benefits provided for service up to 30 June 2004 (the date that the Scheme was closed for further accrual of final salary related benefit) in line with a pension scheme recovery plan approved by the UK pensions regulator and that the cost of benefits for service subsequent to that date is spread over the remaining service period of the staff concerned. The rate at which the Association funds the Scheme has been set on the basis of a valuation using government bond yields and mortality assumptions in line with required scheme valuation practice. The Directors intend to maintain the funding rate necessaryto meet the requirements of the plan.

In accordance with the trustees' strategy to de-risk the Scheme, a "buy-in" bulk annuity policy was entered into in April 2014 in respect of pensioners within the final salaries section of the Scheme, representing the majority of Scheme pensioners. This policy is valued in the Scheme assets and liabilities at 20 February 2019, as shown below, at GBP 47.9 million (USD 62.6 million), (2018 GBP 49.0 million (USD 68.6 million)).

On an IAS 19 basis the pension scheme is valued at:

	2019 $'000	2018 $'000
Present value of Scheme liabilities	**(136,542)**	(149,627)
Market value of Scheme assets	**143,611**	157,109
Surplus in the Scheme	**7,069**	7,482

The principal assumptions underlying these valuations were:

	2019 % per annum	2018 % per annum
Discount rate	**2.6**	2.6
RPI inflation assumption	**3.2**	3.2
CPI inflation assumption	**2.1**	2.1
Limited price indexation pension increases	**3.1**	3.1

16 Investment income and charges	2019 $'000	2018 $'000
Income from land and buildings	645	1,877
Investment income	17,250	14,599
Gains on realisation of investments	49,374	1,607
Net value adjustments on investments	-	2,326
Gains from forwards and exchange	5,872	13,542
Total investment income	73,141	33,951
Investment expenses (including management expenses)	(2,668)	(2,955)
Losses on realisation of investments	(1,503)	(845)
Net value adjustments on investments	(35,402)	-
Losses from forwards and exchange	(4,967)	(8,924)
Total investment charges	(44,540)	(12,724)
Total investment return	28,601	21,227

The investment return has been attributed as follows:

	2019 $'000	2018 $'000
Class 1	25,485	17,981
Class 2	1,520	1,051
The West of England Reinsurance (Hamilton) Limited	1,596	2,195
	28,601	21,227

17 Tax on ordinary activities	2019 $'000	2019 $'000	2018 $'000	2018 $'000
Luxembourg municipal and state taxes		(347)		(368)
Hong Kong Profits Tax		(117)		(5)
UK Corporation Tax:				
Current tax on income for the year	(2,503)		(663)	
Adjustment in respect of prior years	13		(22)	
Deferred tax	-		7	
		(2,490)		(678)
Other taxes		(297)		(159)
		(3,251)		(1,210)

18 Summarised Income and Expenditure Account by Class

	Class 1	Class 2	Non-Class	2019 $'000 Total
Earned premiums, net of reinsurance (Note 12)	169,451	11,629	-	**181,080**
Claims incurred, net of reinsurance (Note 13)	(165,261)	(4,407)	-	**(169,668)**
Net operating expenses (Note 14)	(34,585)	(2,791)	(62)	**(37,438)**
	(30,395)	**4,431**	**(62)**	**(26,026)**
Investment return, net of tax (Notes 16 and 17)	22,417	1,337	1,596	**25,350**
(Deficit) / surplus for the financial year	**(7,978)**	**5,768**	**1,534**	**(676)**

	Class 1	Class 2	Non-Class	2018 $'000 Total
Earned premiums, net of reinsurance (Note 12)	165,403	10,898	-	176,301
Claims incurred, net of reinsurance (Note 13)	(168,435)	(708)	-	(169,143)
Net operating expenses (Note 14)	(32,754)	(2,578)	(60)	(35,392)
	(35,786)	7,612	(60)	(28,234)
Investment return, net of tax (Notes 16 and 17)	16,838	984	2,195	20,017
(Deficit) / surplus for the financial year	(18,948)	8,596	2,135	(8,217)

19 Reserves	Revaluation Reserve	Income and Expenditure Account	Total Reserves
2019 ($'000)			
As at 20 February 2018	43,248	265,285	**308,533**
Revaluation	(35,047)	35,573	**526**
Exchange	-	(2,010)	**(2,010)**
Deficit for financial year (Note 18)	-	(676)	**(676)**
At 20 February 2019	**8,201**	**298,172**	**306,373**
2018 ($'000)			
As at 20 February 2017	33,047	273,465	306,512
Revaluation	6,560	-	6,560
Exchange	3,641	37	3,678
Deficit for financial year (Note 18)	-	(8,217)	(8,217)
At 20 February 2018	43,248	265,285	308,533

Revaluation Reserve by Class

The balance on the Revaluation Reserve is attributed to Classes as follows:

	2019 $'000	2018 $'000
Class 1	**7,852**	41,364
Class 2	**349**	1,846
Other	-	38
	8,201	43,248

Total Reserves by Class

	2019 $'000	2018 $'000
Class 1	**226,609**	235,991
Class 2	**44,608**	38,920
Other reserves	**35,156**	33,622
Total reserves at 20 February	**306,373**	308,533

At 20 February 2019 other reserves consisted of reserves not specific to Class including The West of England Reinsurance (Hamilton) Limited.

20 Subsequent events

The Association has evaluated the period after the balance sheet date up to and including 22 May 2019, the date the consolidated accounts were approved by the Board, and determined that there were no subsequent events or transactions that required recognition or disclosure in the annual accounts.

21 Class 1 policy year position at 20 February 2019	2016/17 $'000	2017/18 $'000	2018/19 $'000	Unallocated investment Income $'000	Total $'000
Calls and premiums:					
- Year to 20 February 2019	19	1,071	205,631		206,721
- Prior years	208,488	201,557	-		410,045
Gross premiums	**208,507**	**202,628**	**205,631**		**616,766**
Reinsurance premiums	(38,913)	(36,994)	(37,612)		(113,519)
Acquisition costs	(23,753)	(23,900)	(25,454)		(73,107)
Net premiums	**145,841**	**141,734**	**142,565**		**430,140**
Investment income	5,000	35,000	35,000	49,457	124,457
Net income	**150,841**	**176,734**	**177,565**	**49,457**	**554,597**
Net claims paid – Members	(87,651)	(97,802)	(51,337)		(236,790)
Net claims outstanding – Members	(30,581)	(70,042)	(102,111)		(202,734)
Net claims incurred – Members	**(118,232)**	**(167,844)**	**(153,448)**		**(439,524)**
Net claims paid – Pool	(3,987)	(11,202)	(4,228)		(19,417)
Net claims outstanding – Pool	(5,407)	(17,106)	(31,301)		(53,814)
Net claims incurred - Pool	**(9,394)**	**(28,308)**	**(35,529)**		**(73,231)**
Net claims paid	(91,638)	(109,004)	(55,565)		(256,207)
Net claims outstanding	(35,988)	(87,148)	(133,412)		(256,548)
Net claims incurred	**(127,626)**	**(196,152)**	**(188,977)**		**(512,755)**
Operating expenses	(8,145)	(9,053)	(9,017)		(26,215)
Net expenditure	**(135,771)**	**(205,205)**	**(197,994)**		**(538,970)**
Forecast balance on open years	15,070	(28,471)	(20,429)	49,457	15,627
Forecast balance on closed years					210,982
Forecast balance on Class 1 at 20 February 2019					**226,609**

Based on the position at 20 February 2019 a resolution will be put to the Board of Directors at their meeting on 22 May 2019 to allocate $35.0 million to policy year 2018/19 and to close the 2016/17 policy year.

Release calls as a percentage of the estimated total mutual call have been set at 0% for policy year 2016/17, at 7.4% for policy year 2017/18 and at 15% for policy year 2018/19. The estimated yields of these 2017/18 and 2018/19 releases, if charged, would be $10.1 million and $20.2 million respectively. No account of these releases has been taken in the policy year figures above.

Under the resolution referred to above, the Board of Directors will be asked to review these releases for the remaining open years and to set them at zero for policy year 2017/18 and 7.5% for policy year 2018/19. The estimated yield of the 2018/19 release call would be $10.1 million if charged.

The following disclosure is in conformity with the agreed accounting standards of the International Group of P&I Clubs:

(a) Disclosure relating to calls	2016/17 $'000	2017/18 $'000	2018/19 $'000
Estimated product of a 10% additional call	10,129	9,944	10,156

The additional call products shown take account of calls already charged, and Members released, at 20 February 2019 and therefore do not represent 10% of the original advance call for each year. The additional call is based on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium.

(b) Disclosure relating to claims paid	2016/17 $'000	2017/18 $'000	2018/19 $'000
Claims paid - own business	(106,808)	(114,276)	(54,390)
Claims paid – other clubs' Pool claims	(3,987)	(11,202)	(4,228)
Gross claims paid	(110,795)	(125,478)	(58,618)
Recoveries from the Pool	19,157	7,888	3,053
Recoveries from the Group Excess Loss reinsurance programme	-	-	-
Recoveries from other reinsurances	-	8,586	-
Reinsurance recoveries on claims paid	19,157	16,474	3,053
Net claims paid	(91,638)	(109,004)	(55,565)

(c) Disclosure relating to claims outstanding	Closed Years $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	Total $'000
Outstanding claims – own business	(167,556)	(37,194)	(105,119)	(149,773)	**(459,642)**
Outstanding claims – other clubs' Pool claims	(43,771)	(5,407)	(17,106)	(31,301)	**(97,585)**
Gross outstanding claims (Note 13)	(211,327)	(42,601)	(122,225)	(181,074)	**(557,227)**
Recoveries from the Pool	16,124	6,613	10,748	39,407	**72,892**
Recoveries from the Group Excess Loss reinsurance programme	15,868	-	-	-	**15,868**
Recoveries from other reinsurances	36,930	-	24,329	8,255	**69,514**
Reinsurance recoveries on outstanding claims (Note 13)	68,922	6,613	35,077	47,662	**158,274**
Net claims outstanding	(142,405)	(35,988)	(87,148)	(133,412)	**(398,953)**

The figure for outstanding claims includes appropriate provision for claims incurred but not reported and future claims handling expenses. Recoveries include amounts statistically projected as recoverable against claims incurred but not reported. Recoveries from the Pool include the International Group's retained share of the Excess of Loss programme.

22 Class 2 policy year position at 20 February 2019	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	Unallocated Investment Income	Total
Calls & premiums						
- Year to 20 February 2019	(4)	37	497	11,978		12,508
- Prior years	11,300	11,539	11,797	-		34,636
Gross premiums	**11,296**	**11,576**	**12,294**	**11,978**		**47,144**
Reinsurance premiums	(867)	(897)	(966)	(1,031)		(3,761)
Acquisition costs	(1,317)	(1,375)	(1,437)	(1,548)		(5,677)
Net premiums	**9,112**	**9,304**	**9,891**	**9,399**		**37,706**
Investment income	-	-	-	-	9,217	9,217
Net income	**9,112**	**9,304**	**9,891**	**9,399**	**9,217**	**46,923**
Net claims paid	(5,667)	(4,482)	(3,676)	(1,264)		(15,089)
Net claims outstanding	(350)	(870)	(2,124)	(5,624)		(8,968)
Net claims incurred	**(6,017)**	**(5,352)**	**(5,800)**	**(6,888)**		**(24,057)**
Administration expenses	(1,174)	(1,110)	(1,201)	(1,204)		(4,689)
Net expenditure	**(7,191)**	**(6,462)**	**(7,001)**	**(8,092)**		**(28,746)**
Forecast balance on open years	1,921	2,842	2,890	1,307	9,217	18,177
Forecast balance on closed years						26,431
Forecast balance on Class 2 at 20 February 2019						**44,608**

Investment income includes all amounts earned up to 20 February 2019. Based on the position at 20 February 2019 a resolution will be put to the Board of Directors at their meeting on 22 May 2019 to close policy year 2015/16 in surplus without allocation of investment income.

Release calls as a percentage of estimated mutual call have been set at zero for open years 2015/16 and 2016/17, at 7.4% for 2017/18 and at 15% for 2018/19. No account of these releases has been taken in the policy year figures above. Under the resolution referred to above, the Board of Directors will be asked to review these releases for the remaining open years and to reduce policy year 2017/18 to zero and 2018/19 to 7.5%.

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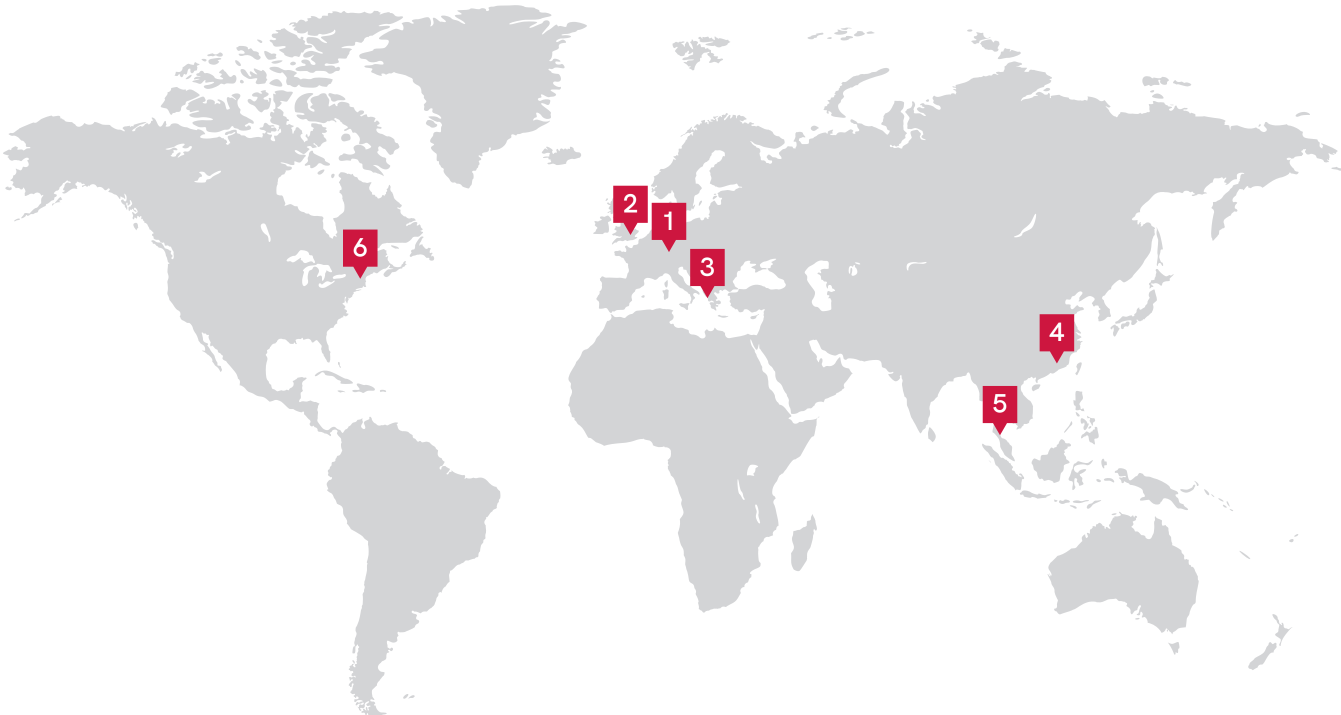

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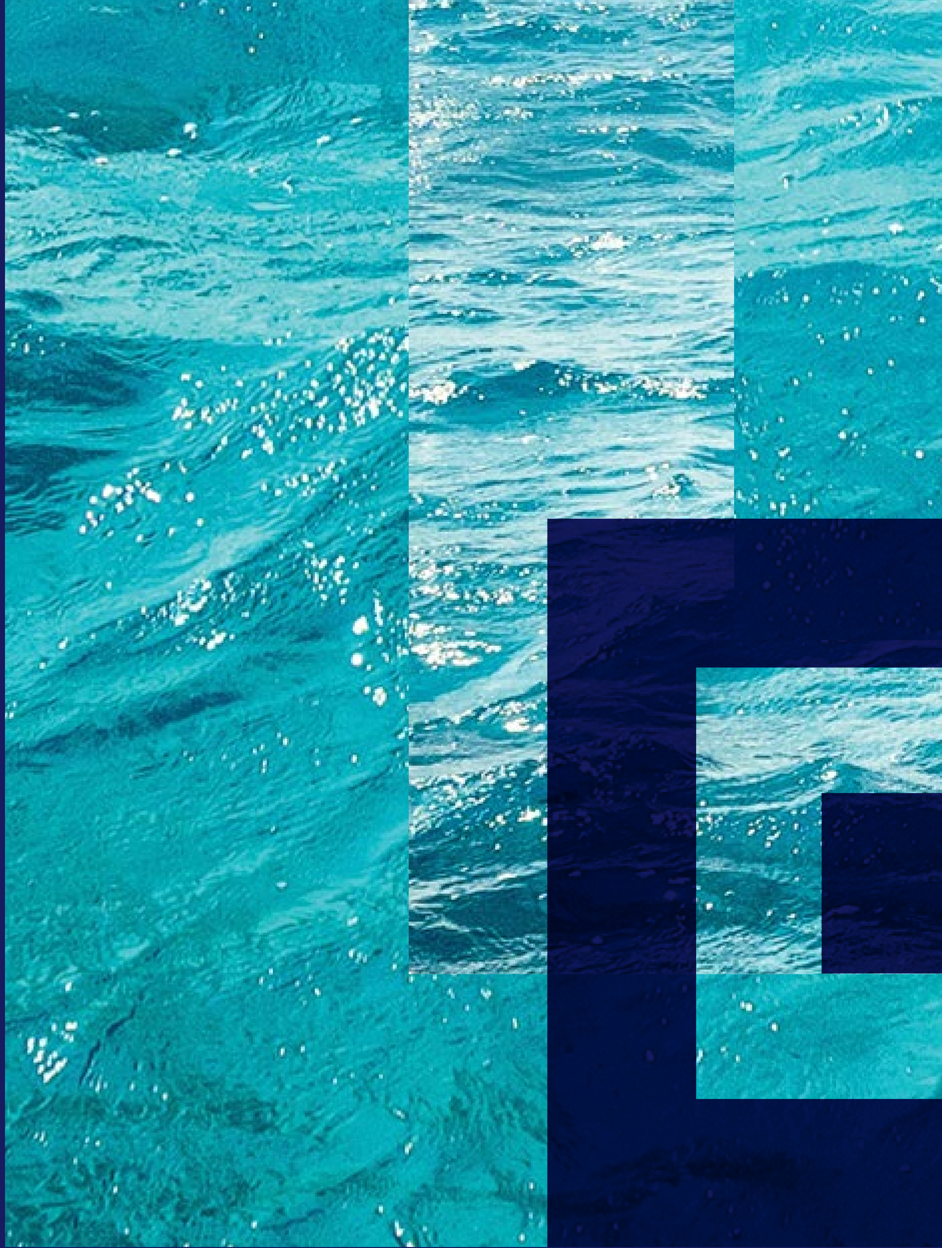

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