West of England

ANNUAL REPORT 2018

Highlights

S&P

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FINANCIAL STRENGTH RATING

Contents

3 YEAR AVERAGE COMBINED RATIO

95.6%

OWNED & CHARTERED TONNAGE IN EXCESS OF

120 MILLION GT

FREE RESERVE INCREASED TO

$308.5

MILLION

INVESTMENT RETURN OF

$30.2

MILLION

	2014	2015	2016	2017	2018
FREE RESERVES At 20 February ($m)	216.2	243.7	276.7	306.5	308.5
3 YEAR AVERAGE COMBINED RATIO Year to 20 February	104.0%	100.2%	93.9%	89.4%	95.6%
INVESTMENT RETURN Year to 20 February	3.4%	4.3%	0.8%	1.0%	4.8%
GROSS TONNAGE Mutual pro rata by Policy Year (GT m)	59.2	68.4	73.4	83.7	90.6

Chairman's Statement

Francis Sarre
Chairman

I am pleased to report another set of strong financial results for the Club in 2017, with the Free Reserve increasing to $308.5m, its highest ever level. This underlines the strength of the balance sheet and the Club's robust financial health, with capital continuing to be well in excess of the S&P "AAA" rating levels and the requirements of Solvency II.

These results have however been achieved in the face of a significant change in the pattern of Members' claims in 2017 when compared with previous policy years. Whilst more claims might have been expected because of the higher number of vessels entered in the Club, the magnitude of claims in 2017 is forecast to reach a level not seen for many years and has included an unusually large number of losses arising from collisions and navigational errors. Whilst claims on the International Group Pool in 2017 also looked to be more positive initially, two very large claims, the stranding of the "KEA TRADER" and the tragic loss of the "SANCHI" have now been notified. The full financial impact of these two casualties has yet to become clear.

It is also not clear whether or not the claims development in 2017 was simply an aberration or is evidence of a more sustained increase in claims across the industry. If claims values are moving away from the stable levels the Club has enjoyed over recent years, then premium will need to respond to meet this new pattern. This will be unwelcome news for ship owners, many of whom continue to trade in depressed markets, but caution dictates that to counteract increased claims, more premium will be necessary to avoid putting at risk the financial strength we have carefully built over recent years.

The claims performance I have described is directly reflected in an increase in our combined ratio to 116% for the year, but I am pleased to say that the Board's objective of a rolling three-year average combined ratio of better than 100% is at a satisfactory figure of 95.6%. Volatile claims years are not new to our industry and are to be expected from time-to-time; it is testament to the inherent flexibility of the mutual system and the strength of our balance sheet that they can be absorbed without undue impact.

Our strong performance and commitment to high-value service were again recognised during the year by existing Members continuing to commit their new vessels to the Club. This support, combined with a satisfactory renewal, has seen entered mutual tonnage increase again to over 90m GT but as always growth must be tempered by sound underwriting to ensure that additional tonnage continues to be of the right quality and pays a premium which properly reflects the risk it brings to the Club.

Chairman's Statement
continued

The investment result was similarly positive, with an investment return of 4.8% which includes a revaluation gain in the value of our London office building, Tower Bridge Court. The building will not, however, feature directly in our financial results for very much longer because your Board took the decision during the year to sell it. As an asset it has served the Club extremely well since the freehold was purchased in 1997, both as an investment and as the main operational base for the Managers. However, the fabric has now reached an age at which the capital expenditure required to refurbish it to standards that are now demanded by the commercial rental market is considerable. At the same time, despite Brexit, values in the commercial property market in London continue to be resilient. Both factors were decisive in convincing your Board to conclude that a sale now is in the best interests of the Club. The decision will, of course, necessitate the Managers seeking new premises in London over the coming year.

Elsewhere and in support of our strategy of delivering excellent service to our Members, this year has seen our Singapore office enjoy its first year of operation and a new representative office open in New York. These developments reflect a growing demand to have local presence in important regional markets in addition to our long-standing and highly successful regional hubs in Greece and Hong Kong. We shall closely monitor the performance of these new offices to ensure that their presence results in the satisfactory generation of new business of the right quality and, in the case of Singapore, the effective delivery of underwriting and claims service locally in that region. The New York office currently provides valuable member and marketing support, but its role will be kept under review to see whether we might benefit by having some other functions for our North American Members performed from that office in future.

In my report last year, I wrote about the changing requirements of corporate governance under Solvency II, necessitating a reduction in the size of the Board and the need to create a separate Advisory Committee to ensure that the interests of the whole membership will continue to be reflected in the Board's decisions. These changes were enshrined in a new Constitution and Corporate Governance Charter which were adopted at the EGM in February this year. The Advisory Committee met for the first time in Dubai in May 2018.

The pattern of the Board's meetings will also change from 2018 onwards, with the AGM being held in Luxembourg in July and the September Board meeting, also in Luxembourg, now moving to October to allow the Board to take decisions further into the policy year and closer to the start of the renewal season. A consequence of this new timetable is that for this year's Report & Accounts, your Board and the Managers decided in September last year that for future years our Managers' Review, in which the Managers comment in detail on issues which concern our business, will be published separately in October each year.

As usual, your Board has been monitoring issues which will affect most of our Members. Although P&I Clubs were intended to be the guarantor of last resort under the certificates which Club Boards agreed to issue for the payment of wages for abandoned seafarers required by the amendments to the Maritime Labour Convention (MLC), experience has shown that the Club is often the first place to which a seafarer will turn when wages go unpaid for whatever reason. Whilst this is perhaps an admirable reflection of the Clubs' culture of providing help and advice, we should be careful not to allow maritime regulators to form the view that Group Clubs are the de facto mechanism for dispute resolution between seafarers and their crew or an easy means of obtaining certificates against any number of other liabilities (including credit risk liabilities) which might more properly be the concern of others.

On sanctions we have seen that although the relaxation of prohibitions against some previously sanctioned states has allowed trade to expand again, problems remain in getting related payments made by banks. Although a trade may now be perfectly legitimate it appears to be increasingly the case that any linkage whatsoever with certain states may cause a bank's compliance department to question and often decline a transaction. For ship owners who have had to endure a constriction in trade when sanctions were in place to now be denied the opportunity of legitimate trade simply because of banks' diminished risk appetite is of concern.

More troubling, however, is the news as I write that the United States has unilaterally announced its withdrawal from the JCPOA in relation to Iran. The effect of this decision is unknown for now but is likely to be significant for our industry.

Partly because of the governance changes to which I have already referred, this year has seen a larger number of changes to the Board than usual. My colleagues, James Drakos, Bullent Ergin, Paul Gripari, Ted Litton, Mathew Los, Vladimir Mednikov, Nicholas Notias, Iakovos Perantinos and Lucas Tsangarides have all retired. I am extremely grateful to them for the very considerable contributions they have all made to the affairs of the Club. I must, however, highlight some of particular value over the years.

When I took over as Chairman, I wrote in 2016 of Mathew Los's distinguished tenure as Chairman of the Club for eight years in presiding over a continuous improvement in the Club's affairs. Likewise, both James Drakos

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Financial Strength Rating

Chairman's Statement
continued

and Lucas Tsangarides have served the Board with great distinction for many years as long-standing Chairmen of the Class I and Class II Committees respectively. I am especially grateful to all three for the time they have given to the Board's affairs and for their leadership, wisdom and guidance over many years.

Since the beginning of the year, the Advisory Committee has welcomed Omar Al-Khuwaiter, Laurent Cadji, Shahram Farahbod, Thanassis Mazarakis, Sergey Popravko and Kristin Schjoødt Bitnes as members. I very much look forward to their valuable contributions to the Committee's deliberations over the coming years.

I would finally like to thank the Managers on behalf of the Board for all their hard work and dedication. Last year I told you that Peter Spendlove would be retiring as CEO during 2017 to be succeeded by Tom Bowsher but would remain as Chairman of the Management Board in the short term. At our Board's meeting in May 2018 Peter retired from the management company after nearly forty years of distinguished service to the Club, the last twenty-three as CEO. He has been a constant and very valued source of guidance and expertise for myself, my predecessors and the Board. He has, moreover, been instrumental in leaving the Club in the healthy financial state it is in today. His expertise has also helped shape our industry by his role within the International Group and for which he served as Chairman between 2006 and 2009. On behalf of the Board I wish to express our sincere thanks to Peter for the outstanding contribution he has made to the Club and the management company. We look forward to continuing to work with Tom and the senior management team in meeting the challenges ahead.

FRANCIS SARRE
CHAIRMAN

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 10 July 2018 at 12:00 hours for the following purposes:

1. To approve the Report of the Directors and the Consolidated Accounts for the year ended 20 February 2018 and to grant discharge to the Directors and Auditor for the year under review.
2. To elect Directors and Advisory Committee members.
3. To reappoint Deloitte Audit Société à responsabilité limitée as Auditor of the Association and to fix their remuneration.
4. To amend Article 15 of the Corporate Governance Charter to set the number of Member Directors appointed to the Advisory Committee at a maximum of 5 instead of a minimum of 5.
5. To transact any other ordinary business of the Association.

By order of the Board

T Brevet
Secretary

31 Grand-Rue
L-1661 Luxembourg

16 May 2018

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
P R L Lorenz-Meyer (Vice-Chairman)	Hamburg
K S Rajvanshy (Vice-Chairman)	Hong Kong
B Aagaard-Svendsen	Copenhagen
A M Cameron	Cork
P G De Brabandere	Antwerp
S C Ioannou	Athens
T Petalas	Monaco
A M W Staring	Antwerp

Advisory Committee Members

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

Managers

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United Kingdom

Telephone: +(44) (0)20 7716 6000
E-mail: mail@westpandi.com

Secretary and Principal Office

T Brevet
31 Grand-Rue
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

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 2018.

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 a representative office in Piraeus. During the year the Association established a representative office in 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, acts as landlord to its tenant companies at its premises in London.

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.

95.6%

3 Year Average Combined Ratio

Report of the Directors

continued

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.

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 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 framework of the Club's internal pricing model which provides indicative rates based on internal (such as claims record and risk factors) and external (market and economic factors) data and actuarial advice.

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.

Owned & chartered tonnage in excess of

120

million GT

Report of the Directors
continued

Free Reserve increased to

$308.5 million

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 2018 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 its insurance activities.

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 each meeting. 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, counterparty risk, currency risk and liquidity risk. The Association employs external managers to manage its investments and an independent custodian to monitor compliance with guidelines. Through its subsidiary, ISRe, acting as the investment committee of the Board, it oversees the performance of its financial assets by:

- Frequent and regular monitoring;
- Ensuring that the IP and the individual investment guidelines established with each manager are adhered to;
- Reviewing compliance reports from the custodian which ensure each portfolio manager complies with its investment guidelines.

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 SIP to achieve diversification of risk and to meet the risk tolerances and the objectives and other requirements therein. 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 ensures that the matching between assets and liabilities is appropriate. It also uses interest rate risk as a source of diversification within its strategic allocation.

Fixed income investments represent a significant proportion of the Association's assets. Use of fixed income investments primarily focuses on matching liabilities' duration and liquidity patterns, while generating a regular income. The Association continually monitors investment strategy to minimise the risk of asset/liability mismatches and adverse interest rate changes. As a result the Association invests in high quality, liquid, interest-bearing securities and cash, and actively adjusts the duration of the fixed interest portfolio.

iii. Credit default risk

The Association manages credit default risk which can arise from fixed income investments and mitigates this by setting guidelines constraining the quality and percentage of individual securities that can be held.

iv. 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

Report of the Directors
continued

average, an extra 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.

v. Counterparty risk

The Association has exposure to counterparty risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Key areas of exposure to counterparty risk include:

- Counterparty credit with respect to cash and cash equivalents, and 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.

The Association manages the counterparty risk by placing and regularly reviewing limits on its exposure to counterparties 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, such as property or a financial instrument, or liability will fluctuate due to changes in exchange rates. Currency risk does not arise from items denominated in 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. Despite the

Report of the Directors
continued

Investment Return of

$30.2 million

difficulty in determining currency exposure accurately, by monitoring historical payment patterns and recording the currency exposure within figured claims reserves, it is possible to determine a measure of the risk and therefore 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. A significant proportion of the Association's investments are maintained in highly liquid assets which may be converted to cash at little notice or expense.

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 24 to 51 with the principal accounting policies summarised on pages 29 to 32. 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 $8.2 million (2017 $37.0 million surplus). In addition the Revaluation Reserve increased by $10.2 million (2017 $7.1 million decrease). Total reserves at 20 February 2018 were therefore $308.5 million (2017 $306.5 million).

Constitution and Corporate Governance Charter

At an Extraordinary Meeting on 6 February 2018, the Association approved a new Constitution and Corporate Governance Charter to reflect a restructuring of its governance with effect from 20 February 2018. The purpose of this new governance structure is to improve the efficiency of the Board while preserving the key features of a mutual insurance undertaking.

Under the new structure the number of Directors has reduced to a maximum of 15, and an Advisory Committee has been established which provides the opportunity to a broader number of Members from all regions in which the Association operates to meet and to make recommendations to the Board. The Members of the Advisory Committee are listed on page 9.

Directors

The Directors of the Association, who are listed on page 9, held office throughout the year under review.

In addition the following retirements and resignations occurred during the year: Mr G Woodford with effect from 25 May 2017; Messrs J A Drakos, M B Ergin, T C Litton, M T Los, V A Mednikov and I Perantinos with effect from 20 September 2017, Mr L Tsangarides with effect from 5 November 2017, Mr P Gripari with effect from 7 February 2018 and Messrs Feng Jianhua, A K Hazari, N Notias, Ye Weilong and E S Yordanov with effect from 20 February 2018.

In accordance with the Constitution 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 10 July 2018 the Directors will propose a resolution for the re-appointment of Deloitte Audit Société à responsabilité limitée for the year commencing 20 February 2018.

By order of the Board

T Brevet
Secretary
16 May 2018

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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 2018, and 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 2018, 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.

Société à responabilité limitée au capital de 35.000 EUR
R.C.S. Luxembourg B 67.895
Autorisation d'établissement: 10022179

Deloitte.

- 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 are significant to the Association's financial position. Determining these incurred but not reported ("IBNR") claims reserves requires subjectivity and 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.

- IT migration:

Risk description:

The Association completed an IT migration project aiming at replacing its underwriting application. This new underwriting application is now the main source for underwriting reporting. As part of this IT migration project, interface and feeds of premiums from the underwriting application to the financial ledger have been upgraded. In this context, the IT migration in respect of migration procedures to ensure that data transfers between systems impacting the underlying data supporting financial statements are complete and accurate has been assessed as a key audit matter.

Audit responses:

With the assistance of our own IT audit specialists, our procedures included the assessment of the design and implementation of key controls which management performed on the governance oversight in implementing the IT migration project and particularly with respect to data migration and reconciliation plans. This included assessing the design and implementation of key controls which management performs to identify data processing errors in interfaces and assessing the operation of controls over reconciliations of data transferred between systems through re-performance or inspection.

We performed additional substantive testing on premiums by agreeing a sample of premiums recorded to invoices and third party evidence.

Other matter

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has prepared a separate set of consolidated accounts as at 20 February 2018 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, 2018.

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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.

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.

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- 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 September 20, 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 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 audit committee or equivalent.

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 2018

Consolidated Balance Sheet

AT 20 FEBRUARY 2018

	Note(s)	**2018 $'000**	2017 $'000
ASSETS			
Investments			
Land and buildings	4	**69,457**	56,016
Other financial investments	5	**487,331**	433,210
		556,788	489,226
Reinsurers' share of technical provisions			
Claims outstanding	13	**148,872**	206,036
Debtors			
Member debtors		**13,977**	15,603
Reinsurance debtors	7	**19,084**	4,703
Additional calls not yet charged	8	**26,662**	28,457
Other debtors	9	**1,608**	1,024
		61,331	49,787
Other assets			
Tangible assets	10	**1,175**	1,477
Cash at bank and in hand		**145,439**	187,579
		146,614	189,056
Prepayments and accrued income			
Accrued interest		**3,216**	2,579
Other prepayments and accrued income		**1,710**	1,891
		4,926	4,470
TOTAL ASSETS		**918,531**	938,575

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

Consolidated Balance Sheet

AT 20 FEBRUARY 2018

	Note(s)	**2018 $'000**	2017 $'000
LIABILITIES			
Capital and reserves			
Revaluation Reserve	4,19	**43,248**	33,047
Income and Expenditure Account	19	**265,285**	273,465
		308,533	306,512
Technical provisions			
Claims outstanding	13	**577,660**	602,525
Creditors			
Member creditors		**12,326**	7,854
Reinsurance creditors		**5,306**	7,909
Other creditors	11	**14,706**	13,775
		32,338	29,538
TOTAL LIABILITIES		**918,531**	938,575

Chairman

Director

16 May 2018

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

Consolidated Income and Expenditure Account

FOR THE YEAR ENDED 20 FEBRUARY 2018

	Note(s)	**2018 $'000**	**2018 $'000**	2017 $'000	2017 $'000
TECHNICAL ACCOUNT					
Earned premiums, net of reinsurance					
Gross premiums written		**213,797**		221,849	
Outward reinsurance premiums		**(37,496)**		(40,172)	
Earned premiums, net of reinsurance	12		**176,301**		181,677
Allocated investment return transferred from the non-technical account			**21,227**		15,756
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(230,979)**		(151,540)	
Reinsurers' share		**94,135**		20,752	
Net claims paid	13	**(136,844)**		(130,788)	
Change in the provision for claims					
Gross amount		**24,865**		(826)	
Reinsurers' share		**(57,164)**		7,842	
Change in the net provision for claims	13	**(32,299)**		7,016	
Claims incurred, net of reinsurance			**(169,143)**		(123,772)
Operating expenses	14		**(35,392)**		(34,688)
Balance on the technical account			**(7,007)**		38,973
NON-TECHNICAL ACCOUNT					
Balance on the technical account			**(7,007)**		38,973
Investment income	16		**31,767**		46,167
Investment charges	16		**(10,540)**		(30,411)
Allocated investment return transferred to the technical account			**(21,227)**		(15,756)
Deficit / (surplus) on ordinary activities before tax			**(7,007)**		38,973
Tax on ordinary activities	17		**(1,210)**		(1,998)
Deficit / (surplus) on ordinary activities after tax			**(8,217)**		36,975

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 20 FEBRUARY 2018

	Note(s)	**2018 $'000**	2017 $'000
Cash flows from operating activities			
Gross premiums received from Members		**215,642**	219,556
Reinsurance premiums paid		**(39,426)**	(41,316)
Gross claims paid		**(224,995)**	(153,517)
Reinsurance recoveries received		**79,147**	21,993
Operating expenses paid		**(33,857)**	(35,568)
Tax on ordinary activities paid		**(2,661)**	(945)
Net cash (used in) / generated from operating activities		**(6,150)**	**10,203**
Cash flows from investing activities			
Income received from land and buildings		**1,896**	1,950
Purchases of property and equipment	10	**(28)**	(124)
Proceeds from sale of property and equipment		**12**	96
Interest income received		**12,339**	12,258
Dividend income received		**1,090**	1,258
Investment management expenses paid		**(745)**	(908)
Net cash flows from shares and other variable yield securities and units in unit trusts		**3,625**	1,866
Net cash flows from debt securities and other fixed interest securities		**(56,146)**	(29,834)
Net cash used in investing activities		**(37,957)**	(13,438)
Net decrease in cash at bank and in hand		**(44,107)**	(3,235)
Cash at bank and in hand as at beginning of year		**187,579**	192,647
Exchange gains / (losses) on cash at bank and in hand		**1,967**	(1,833)
Cash at bank and in hand as at end of year		**145,439**	187,579

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

Note to the Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 20 FEBRUARY 2018

Reconciliation of (deficit) / surplus on ordinary activities after tax to net cash generated from operating activities

	Note(s)	**2018 $'000**	2017 $'000
(Deficit) / surplus on ordinary activities after tax		**(8,217)**	36,975
Depreciation	14	**667**	667
Gain on fixed asset disposal	14	**(4)**	(47)
Exchange loss / (gain) on cash balances		**32**	(209)
Increase / (decrease) in net insurance liabilities	13	**32,299**	(7,016)
Increase in insurance and other debtors		**(11,089)**	(1,101)
Increase / (decrease) in insurance and other creditors		**1,389**	(3,310)
Investment income	16	**(31,767)**	(46,167)
Investment charges	16	**10,540**	30,411
Net cash (used in) / generated from operating activities		**(6,150)**	10,203

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

Notes to the Consolidated Accounts

FOR THE YEAR ENDED 20 FEBRUARY 2018

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	69,457	487,331
Statutory consolidated accounts – Net book value	17,992	472,148

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.

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

2 Presentation of the consolidated accounts (continued)

The West of England Ship Owners Mutual Insurance Association (London) Limited

Up to 20 February 2017, the consolidated accounts were drawn up to incorporate the terms of an agreement dated 18 October 1985 under which the Association reinsured the totality of the risks insured by The West of England Ship Owners Mutual Insurance Association (London) Limited ("WoE London") up to 20 February 1986 for Class 2 and 20 February 1987 for Classes 3 and 4 which are now fully run-off.

Effective 20 February 2017, the business of WoE London, including all of its assets and liabilities, were transferred to this Association under Part VII of the UK Financial Services and Markets Act 2000 by order of the UK High Court of Justice and on 20 December 2017, also by order of the UK High Court of Justice, WoE London was dissolved.

Up to 20 February 2017, and in accordance with the reinsurance agreement mentioned above, the assets of WoE London were held by that Association in trust for the Association and the transfer of business of WoE London had no impact on the financial position of the Association.

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 2018 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 2018 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 2018. 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.

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.

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

3 Summary of significant accounting policies (continued)

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 the Association's freehold premises at Tower Bridge Court, London, which are partly occupied by the Association, and a property in Hong Kong which is fully occupied by the Association. The London property was revalued at 20 February 2018 by Dron & Wright at £42.0 million ($58.9 million) (2017 £37.75 million / $47.1 million) and the Hong Kong property at 20 February 2018 by Jones Lang LaSalle Ltd at HK$83.2 million ($10.6 million) (2017 HK$69.3 million / $8.9 million). The resultant surpluses on revaluation were taken to the Revaluation Reserve.

5 Other financial investments

	2018 $'000 Market value	**2018 $'000 Cost**	2017 $'000 Market value	2017 $'000 Cost
Shares and other variable yield transferable securities and units in unit trusts	**72,436**	**61,892**	65,873	65,097
Debt securities and other fixed income transferable securities	**414,895**	**417,024**	367,337	361,966
	487,331	**478,916**	433,210	427,063

Derivatives can be broken down as follows:

	2018 $'000 Contract / notional amount	**2018 $'000 Fair value asset**	**2018 $'000 Fair value liability**	2017 $'000 Contract / notional amount	2017 $'000 Fair value asset	2017 $'000 Fair value liability
Forward foreign exchange contracts	**38,275**	**340**	**423**	69,490	298	418

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 2018 forward foreign exchange positions comprise long US dollar positions in 12 currencies for a total value of $32.8 million (2017 $54.1 million) and short US dollar positions in 6 currencies for a total value of $5.5 million (2017 $15.4 million).

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

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 2018, the secured facilities for guarantees on behalf of Members, including an agreed margin where appropriate, amounted to $107.7 million (2017 $107.8 million) and guarantees issued against those facilities totalled $46.3 million (2017 $25.0 million).

Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2018 were:

	2018 $ million	2017 $ million
On behalf of Members	**46.3**	25.0
Letters of credit and other guarantees	**5.6**	5.6

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

7 Reinsurance debtors

	2018 $'000	2017 $'000
Recoveries from other members of the International Group of P&I Clubs	**3,934**	932
Recoveries from the Group Excess Loss reinsurance	**12,039**	1,055
Other reinsurances	**3,111**	2,716
	19,084	4,703

8 Additional calls not yet charged

	2018 $'000	2017 $'000
Class 1 (Note 21)	**25,447**	27,191
Class 2 (Note 22)	**1,215**	1,266
	26,662	28,457

9 Other debtors

	2018 $'000	2017 $'000
Investment debtors	**340**	298
UK Corporation Tax	**-**	55
Hong Kong Profits Tax	**248**	-
Other debtors	**1,020**	671
	1,608	1,024

10 Tangible assets

	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	**1,423**
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**

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

10 Tangible assets (continued)

	2017 Motor vehicles $'000	2017 Fixtures and fittings $'000	2017 Total $'000
Cost			
At beginning of year	511	2,496	3,007
Additions	124	-	124
Disposals	(231)	-	(231)
At end of year	404	2,496	2,900
Accumulated depreciation			
At beginning of year	366	915	1,281
Provided during year	74	250	324
Disposals	(182)	-	(182)
At end of year	258	1,165	1,423
Net Book Value	146	1,331	1,477

11 Other creditors

	2018 $'000	2017 $'000
UK Corporation Tax	**4,285**	2,767
Luxembourg municipal and state taxes	**529**	923
Hong Kong Profits Tax	**-**	1,001
Accrued expenses	**2,254**	1,830
Investment creditors	**423**	716
Other creditors	**7,215**	6,538
	14,706	13,775

UK Corporation Tax includes $84,500 (2017 $83,000) of deferred tax arising on timing differences and $3,861,000 (2017 $2,407,000) of deferred tax arising due to capital gains on the revaluation of the Association's freehold premises at Tower Bridge Court, London. All other creditors are payable within one year.

12 Earned premiums, net of reinsurance

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 (Note 8)	(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**

2017 $'000	Class 1	Class 2	Total
Gross premiums by policy year			
Policy year 2016/17	180,869	10,260	191,129
Policy year 2015/16	29,867	1,553	31,420
Policy year 2014/15	69	(25)	44
Other	1,025	(12)	1,013
Total gross premiums	211,830	11,776	223,606
Movement in additional calls not yet charged	(1,613)	(144)	(1,757)
	210,217	11,632	221,849
Reinsurance premiums	(39,267)	(905)	(40,172)
Earned premiums, net of reinsurance	170,950	10,727	181,677

Notes to the Consolidated Accounts

continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

13 Insurance claims and loss adjustment expenses

	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**

13 Insurance claims and loss adjustment expenses (continued)

	2018 $'000 Gross	2018 $'000 Reinsurance	2018 $'000 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**

Claims outstanding includes $92.6 million (2017 $85.0 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.

Notes to the Consolidated Accounts
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FOR THE YEAR ENDED 20 FEBRUARY 2018

13 Insurance claims and loss adjustment expenses (continued)

	2017 $'000	2017 $'000	2017 $'000	2017 $'000
	Class 1	Class 2	Reinsurance of WoE (London)	Total
Gross claims paid and loss adjustment expenses				
- Members' claims	121,122	6,898	4	128,024
- International Group of P&I Clubs	23,516	-	-	23,516
	144,638	6,898	4	151,540
Reinsurance recoveries on claims paid				
- Recoveries from other members of the International Group of P&I Clubs	(1,671)	-	-	(1,671)
- Recoveries from the Group Excess Loss reinsurance programme	(1,953)	-	-	(1,953)
- Recoveries from other reinsurances	(16,913)	(215)	-	(17,128)
Reinsurance recoveries on claims paid	(20,537)	(215)	-	(20,752)
Net claims paid and loss adjustment expenses	124,101	6,683	4	130,788
Insurance liabilities, gross	587,296	15,229	-	602,525
Reinsurers' share of insurance liabilities				
- Recoveries from other members of the International Group of P&I Clubs	(62,114)	-	-	(62,114)
- Recoveries from the Group Excess Loss reinsurance programme	(35,638)	-	-	(35,638)
- Recoveries from other reinsurances	(108,284)	-	-	(108,284)
Reinsurers' share of insurance liabilities	(206,036)	-	-	(206,036)
Net insurance liabilities carried forward	381,260	15,229	-	396,489
Net insurance liabilities brought forward	384,744	18,751	10	403,505
Change in the net provision for insurance liabilities	(3,484)	(3,522)	(10)	(7,016)
Net insurance claims and loss adjustment expenses	120,617	3,161	(6)	123,772

13 Insurance claims and loss adjustment expenses (continued)

	2017 $'000 Gross	2017 $'000 Reinsurance	2017 $'000 Net
Current year claims and loss adjustment expenses	193,565	(36,026)	157,539
Movement in cost of prior year claims and loss adjustment expenses	(41,199)	7,432	(33,767)
Total insurance claims and loss adjustment expenses	152,366	(28,594)	123,772
Claims paid and loss adjustment expenses	151,540	(20,752)	130,788
Change in the provision for insurance liabilities	826	(7,842)	(7,016)
Total insurance claims and loss adjustment expenses	152,366	(28,594)	123,772

14 Operating expenses

	2018 $'000	2017 $'000
Directors' fees	**316**	340
Auditor's remuneration	**366**	378
Other expenses	**8,969**	7,976
Depreciation	**667**	667
Profit on disposal of fixed assets	**(4)**	(47)
Administrative expenses	**10,314**	9,314
Acquisition costs	**25,078**	25,374
	35,392	34,688

Remuneration granted to the Directors in respect of their duties and responsibilities during the financial year amounted to $316,379 (2017 $339,598). 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 2018 amount to $352,000 (2017 $321,000); the fees related to other assurance services provided including tax services amount to $14,000 (2017 $57,000).

Included within acquisition costs is $14.9 million (2017 $15.8 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 2018 is 14.75% (2017: 15.15%).

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

15 Staff costs

	2018 $'000	2017 $'000
Wages and salaries	**16,490**	15,608
Other staff related costs	**1,861**	1,687
Social security costs	**1,695**	1,508
Other pension costs	**2,727**	2,627
	22,773	21,430

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

	2018 Number	2017 Number
Claims	**64**	62
Underwriting	**39**	35
Administration	**35**	35
	138	132

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 Employer.

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 necessary to 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 2018, as shown below, at GBP 49.0 million (USD 68.6 million), (2017 GBP 50.8 million (USD 63.3 million)).

15 Staff costs (continued)

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

	2018 $000	2017 $000
Present value of Scheme liabilities	**(149,627)**	(137,419)
Market value of Scheme assets	**157,109**	142,171
Surplus in the Scheme	**7,482**	4,752

The principal assumptions underlying these valuations were:

	2018 % per annum	2017 % per annum
Discount rate	**2.6**	2.7
RPI inflation assumption	**3.2**	3.3
CPI inflation assumption	**2.1**	2.3
Limited price indexation pension increases	**3.1**	3.1

The average duration of the Scheme's liabilities is approximately 17 years (2017 18 years).

16 Investment income and charges

	2018 $'000	2017 $'000
Income from land and buildings	**1,877**	1,935
Investment income	**12,415**	12,050
Gains on realisation of investments	**1,607**	12,845
Net value adjustments on investments	**2,326**	-
Gains from forwards and exchange	**13,542**	19,337
Total investment income	**31,767**	46,167
Investment management expenses	**(771)**	(739)
Losses on realisation of investments	**(845)**	(969)
Net value adjustments on investments	**-**	(4,326)
Losses from forwards and exchange	**(8,924)**	(24,377)
Total investment charges	**(10,540)**	(30,411)
Total investment return	**21,227**	15,756

Notes to the Consolidated Accounts

continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

16 Investment income and charges (continued)

The investment return has been attributed as follows:

	2018 $'000	2017 $'000
Class 1	**17,981**	12,587
Class 2	**1,051**	700
The West of England Reinsurance (Hamilton) Limited	**2,195**	2,469
	21,227	15,756

17 Tax on ordinary activities

	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Luxembourg municipal and state taxes		**(368)**		(397)
Hong Kong Profits Tax		**(5)**		(1,001)
UK Corporation Tax:				
Current tax on income for the year	**(663)**		(556)	
Adjustment in respect of prior years	**(22)**		4	
Deferred tax	**7**		25	
		(678)		(535)
Other taxes		**(159)**		(65)
		(1,210)		(1,998)

18 Summarised Income and Expenditure Account by Class

2018 $'000

	Class 1	Class 2	Non-Class	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)**

18 Summarised Income and Expenditure Account by Class (continued)

2017
$'000

	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Earned premiums, net of reinsurance (Note 12)	170,950	10,727	-	-	181,677
Claims incurred, net of reinsurance (Note 13)	(120,617)	(3,161)	6	-	(123,772)
Net operating expenses (Note 14)	(32,112)	(2,517)	-	(59)	(34,688)
	18,221	5,049	6	(59)	23,217
Investment return, net of tax (Notes 16 and 17)	10,694	595	-	2,469	13,758
Surplus for the financial year	28,915	5,644	6	2,410	36,975

19 Reserves

2018
$'000

	Revaluation Reserve	**Income and Expenditure Account**	**Total Reserves**
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**

2017
$'000

	Reserve Deposit Fund	Revaluation Reserve	Class 1 Policy Year Reserve Account	Income and Expenditure Account	Total Reserves
As at 20 February 2016	21,250	40,099	27,548	187,764	276,661
Revaluation	-	(2,054)	-	-	(2,054)
Exchange	-	(4,998)	-	(72)	(5,070)
Surplus for financial year (Note 18)	-	-	-	36,975	36,975
Transfers to Income and Expenditure Account	(21,250)	-	(27,548)	48,798	-
At 20 February 2017	-	33,047	-	273,465	306,512

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

19 Reserves (continued)

The Class 1 Policy Year Reserve Account represents all Class 1 investment income not yet allocated to specific policy years by the Directors with the exception of amounts relating to unrealised net gains on land and buildings which are held in the Revaluation Reserve. At their meeting of 8 February 2017 a resolution was agreed by the Board of Directors to transfer the balance of the reserve of $27,548,000 to the Income and Expenditure Account. In addition, under the same resolution, it was agreed to transfer the balance of the Reserve Deposit Fund of $21,250,000 to the Income and Expenditure Account.

Revaluation Reserve by Class

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

	2018 $'000	2017 $'000
Class 1	**41,364**	31,664
Class 2	**1,846**	1,345
Other	**38**	38
	43,248	33,047

The Revaluation Reserve is net of $3,861,000 (2017 $2,407,000) of deferred tax arising due to capital gains on property revaluation (Note 11).

Total Reserves by Class

	2018 $'000	2017 $'000
Class 1	**235,991**	245,202
Class 2	**38,920**	29,821
Other reserves	**33,622**	31,489
Total reserves at 20 February	**308,533**	306,512

At 20 February 2018 other reserves consisted of reserves not specific to Class including The West of England Reinsurance (Hamilton) Limited and the Reserve Deposit Fund.

20 Subsequent events

The Association has evaluated the period after the balance sheet date up to and including 16 May 2018, 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 2018

$'000

	2015/16	2016/17	2017/18	Unallocated investment income	TOTAL
Calls and premiums:					
- Year to 20 February 2018	198	428	176,110		176,736
- Prior years	215,897	208,060	-		423,957
Future additional calls (Note 8)	-	-	25,447		25,447
Gross premiums	216,095	208,488	201,557		626,140
Reinsurance premiums	(43,137)	(38,953)	(36,943)		(119,033)
Acquisition costs	(24,218)	(23,773)	(23,743)		(71,734)
Net premiums	**148,740**	**145,762**	**140,871**		**435,373**
Investment income	17,110	5,000	35,000	63,447	120,557
Net income	**165,850**	**150,762**	**175,871**	**63,447**	**555,930**
Net claims paid – Members	(71,349)	(57,546)	(42,507)		(171,402)
Net claims outstanding – Members	(56,311)	(67,993)	(120,017)		(244,321)
Net claims incurred – Members	**(127,660)**	**(125,539)**	**(162,524)**		**(415,723)**
Net claims paid – Pool	(16,666)	(2,733)	(3,615)		(23,014)
Net claims outstanding – Pool	(12,805)	(7,889)	(31,581)		(52,275)
Net claims incurred - Pool	**(29,471)**	**(10,622)**	**(35,196)**		**(75,289)**
Net claims paid	(88,015)	(60,279)	(46,122)		(194,416)
Net claims outstanding	(69,116)	(75,882)	(151,598)		(296,596)
Net claims incurred	**(157,131)**	**(136,161)**	**(197,720)**		**(491,012)**
Operating expenses	(8,713)	(8,146)	(9,053)		(25,912)
Net expenditure	**(165,844)**	**(144,307)**	**(206,773)**		**(516,924)**
Forecast balance on open years	**6**	**6,455**	**(30,902)**	**63,447**	**39,006**
Forecast balance on closed years					**196,985**
Forecast balance on Class 1 at 20 February 2018					**235,991**

Notes to the Consolidated Accounts
continued

FOR THE YEAR ENDED 20 FEBRUARY 2018

21 Class 1 policy year position at 20 February 2018 (continued)

Based on the position at 20 February 2018 a resolution will be put to the Board of Directors at their meeting on 16 May 2018 to allocate investment income of $12.11m to policy year 2015/16 and $35.0 million to policy year 2017/18 and thereafter, under the same resolution, to close the 2015/16 policy year.

Future additional calls represent 35% for policy year 2017/18 (due 20 August 2018). Additional calls are chargeable on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium. With effect from policy year 2018/19 the Association has changed its calling basis so that rather than charging its estimated mutual call ("ETC") as an advance call plus an additional call, the ETC will be charged as a total mutual call.

Release calls have been set at 0% for policy year 2015/16, at 10% for policy year 2016/17 and at 20% for policy year 2017/18. The estimated yields of these 2016/17 and 2017/18 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 2016/17 and 10% for policy year 2017/18, equivalent to 0% and 7.4% respectively of the estimated total mutual call (or "ETC") which includes additional calls charged and forecast. The estimated yield of the 2017/18 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

	2015/16 $'000	2016/17 $'000	2017/18 $'000
Additional calls and releases already charged	38,762	37,377	10,999
Estimated product of a further 10% additional call	10,060	10,137	10,108

The additional call products shown take account of calls already charged, and Members released, at 20 February 2018 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

	2015/16 $'000	2016/17 $'000	2017/18 $'000
Claims paid – own business	(76,600)	(57,546)	(53,063)
Claims paid – other clubs' Pool claims	(16,666)	(2,733)	(3,615)
Gross claims paid	(93,266)	(60,279)	(56,678)
Recoveries from the Pool	-	-	3,260
Recoveries from the Group Excess Loss reinsurance programme	-	-	-
Recoveries from other reinsurances	5,251	-	7,296
Reinsurance recoveries on claims paid	5,251	-	10,556
Net claims paid	**(88,015)**	**(60,279)**	**(46,122)**

21 Class 1 policy year position at 20 February 2018 (continued)

(c) Disclosure relating to claims outstanding

	Closed Years $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	**Total $000**
Outstanding claims – own business	(151,662)	(57,587)	(105,492)	(155,263)	**(470,004)**
Outstanding claims – other clubs' Pool claims	(42,588)	(13,188)	(7,889)	(34,262)	**(97,927)**
Gross outstanding claims (Note 13)	(194,250)	(70,775)	(113,381)	(189,525)	**(567,931)**
Recoveries from the Pool	10,977	1,274	37,499	16,565	**66,315**
Recoveries from the Group Excess Loss reinsurance programme	24,445	383	-	2,681	**27,509**
Recoveries from other reinsurances	36,365	2	-	18,681	**55,048**
Reinsurance recoveries on outstanding claims (Note 13)	71,787	1,659	37,499	37,927	**148,872**
Net claims outstanding	**(122,463)**	**(69,116)**	**(75,882)**	**(151,598)**	**(419,059)**

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.

Notes to the Consolidated Accounts
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FOR THE YEAR ENDED 20 FEBRUARY 2018

22 Class 2 policy year position at 20 February 2018

$'000

	2014/15	2015/16	2016/17	2017/18	Unallocated investment income	TOTAL
Calls & premiums						
- Year to 20 February 2018	(7)	53	13	10,582		10,641
- Prior years	10,000	11,247	11,526	-		32,773
Future additional calls (Note 8)	-	-	-	1,215		1,215
Gross premiums	**9,993**	**11,300**	**11,539**	**11,797**		**44,629**
Reinsurance premiums	(627)	(867)	(897)	(969)		(3,360)
Acquisition costs	(1,154)	(1,319)	(1,374)	(1,395)		(5,242)
Net premiums	**8,212**	**9,114**	**9,268**	**9,433**		**36,027**
Investment income	-	-	-	-	7,958	7,958
Net income	**8,212**	**9,114**	**9,268**	**9,433**	**7,958**	**43,985**
Net claims paid	(5,043)	(6,253)	(3,944)	(852)		(16,092)
Net claims outstanding	(578)	(327)	(1,952)	(6,076)		(8,933)
Net claims incurred	**(5,621)**	**(6,580)**	**(5,896)**	**(6,928)**		**(25,025)**
Administration expenses	(1,297)	(1,174)	(1,110)	(1,201)		(4,782)
Net expenditure	**(6,918)**	**(7,754)**	**(7,006)**	**(8,129)**		**(29,807)**
Forecast balance on open years	**1,294**	**1,360**	**2,262**	**1,304**	**7,958**	**14,178**
Forecast balance on closed years						**24,742**
Forecast balance on Class 2 at 20 February 2018						**38,920**

22 Class 2 policy year position at 20 February 2018 (continued)

Investment income includes all amounts earned up to 20 February 2018. Based on the position at 20 February 2018 a resolution will be put to the Board of Directors at their meeting on 16 May 2018 to close policy year 2014/15 in surplus without allocation of investment income.

Future additional calls represent 35% for the 2017/18 policy year and are due 20 August 2018. As with Class 1, with effect from policy year 2018/19 the Association has changed its calling basis so that rather than charging its estimated mutual call ("ETC") as an advance call plus an additional call, the ETC will be charged as a total mutual call.

In addition, releases have been set at zero for open years 2014/15 and 2015/16, at 10% for 2016/17 and at 20% for 2017/18. 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 2016/17 to zero and 2017/18 to 10%, equivalent to 0% and 7.4% respectively of the estimated total mutual call (or "ETC") which includes additional calls charged and forecast.

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