West of England

Report and Accounts 2017

FINANCIAL HIGHLIGHTS

S&P	AM BEST
A-	A-

FINANCIAL STRENGTH RATING

FREE RESERVE INCREASED TO

$306.5 MILLION

OWNED AND CHARTERED TONNAGE IN EXCESS OF **110** MILLION GT

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REVIEW

FINANCIAL STATEMENTS

INVESTMENT RETURN OF

$6.6 MILLION

COMBINED RATIO AT

87.2%

FREE RESERVES GROWTH OF

11%

	2013	2014	2015	2016	2017
FREE RESERVES At 20 February ($m)	197.4	216.2	243.7	276.7	306.5
COMBINED RATIO Year to 20 February	102.5%	100.8%	97.4%	83.6%	87.2%
INVESTMENT RETURN Year to 20 February	3.8%	3.4%	4.3%	0.8%	1.0%
GROSS TONNAGE Mutual pro rata by Policy Year	53.7m	59.2m	68.4m	73.6m	82.5m

CHAIRMAN'S **STATEMENT**

FRANCIS SARRE
CHAIRMAN

I AM VERY PLEASED TO BE ABLE TO REPORT THAT 2016 HAS BEEN ANOTHER IMPRESSIVE YEAR FOR THE CLUB. OUR YEAR-END FINANCIAL POSITION BY REFERENCE TO A NUMBER OF KEY MEASURES HAS AGAIN BEEN OUR STRONGEST EVER DESPITE SOME OBVIOUS HEADWINDS THAT AFFECT OUR INDUSTRY. OUR NUMBERS CONFIRM THE DEPTH AND STABILITY OF OUR OPERATIONS AND REINFORCE THE PREDICTABLE AND ROBUST TRENDS THAT HAVE BEEN EVIDENT FOR SOME TIME IN WHAT CONTINUES TO BE A DIFFICULT ECONOMIC ENVIRONMENT FOR MANY OF OUR MEMBERS WITH CONTINUING LOW FREIGHT RATES A DEPRESSING NORM.

Our combined ratio reflecting our technical underwriting result is 87.2%, slightly higher than last year's 83.6% but lower than our strategic target of better than 100% over a three-year rolling period. As was the case a year ago, this low ratio was mainly due to improvements in claims outcomes from our own Members for several policy years. Pool claims, especially for 2016, also proved to be lower than forecast. Notwithstanding another significant increase in entered mutual tonnage during the year from some 72 million GT to over 80 million GT for 2017, our Pool share has also remained low at about 7%, reflecting our continuing positive Pool record.

Our investment performance was also positive. Although a currency and valuation reduction on our office building in London arising primarily from the adverse effect of 'Brexit' on sterling assets reduced our overall investment gain to 1% for the year, a net overall return of $6.6 million together with a net underwriting surplus of $23.2 million gave rise to another significant increase in our free reserve from $276.7 million a year ago to $306.5 million at year end.

At this new level, the Club's balance sheet is very strong from both Solvency II and rating agency perspectives with economic capital significantly in excess of the "AAA" capital levels from both S&P and AM Best. This now raises the question of the extent to which a pure mutual Club should continue increasing its capital strength. Your Board recognises that any potential for some form of a return, whether by a reduction in premium or by some other means, however modest, will be welcome for our Members, and a careful review of our position is to be undertaken later this year. What conclusions may be drawn will depend on a number of factors. In particular, the development of open policy year claims at mid-year and the extent to which recent positive claims trends look likely to be sustained will be relevant against a background of what appears to be steadily-declining premium across our industry as a whole. As I remarked a year ago, the Club's capital adequacy should not be viewed in isolation at any particular time; it needs to be assessed in the context of the future risks to which our business as a mutual Club is routinely exposed and the extent to which it will be robust enough to counter future adverse volatility from whatever source, whether from escalating claims, low premiums or investment losses.

For that reason, a review this spring of our longer-term business strategy has already concluded that the Club should continue to be committed to being primarily a dedicated mutual Club providing cost effective P&I and FD&D cover through excellent high-quality service. This will ensure that we remain entirely focused on our core strengths.

As my predecessor and I have noted for some years, we remain open to the possibility of some form of diversification in future, provided it does not expose Club capital to inappropriate risks and provided it can be demonstrably of benefit to our Members. Excessive competition and unrealistically low premium confirm our caution in engaging in activities like hull and energy insurance, especially on fixed-premium terms. It remains the case that our decision some years ago to provide fixed premium cover for owned entries for vessels of up to 5,000 GT continues to be deliberately low key as planned. An overwhelming number of the Members that qualified for the cover has remained entered on a mutual basis, seemingly unimpressed by the availability of fixed-premium facilities that function in the commercial insurance market with varying degrees of success.

Ensuring sustainable financial strength is a core concern of both your Board and our Managers, but of equal importance to our future commercial success is our commitment to the provision of excellent, cost-effective service to our Members. This year, a focus of our business planning is to ensure that we continue to deliver claims and advisory services to the excellent level to which we aspire and for which we are well known. A year ago, we approved the opening of a new Asian branch office in Singapore to enhance and complement our branch in Hong Kong. It officially opened for business at the beginning of May and, like Hong Kong, it operates as a full function office for our Members based in the region providing for all their underwriting, loss prevention and claims requirements.

Further work has also been ongoing since last year in our plans for adopting best practice for the way our Board will operate to comply with the corporate governance rules which now apply under Solvency II. As I reported last year, the size of our Board is reducing as greater scrutiny has now to be devoted to the necessary skills and qualifications of all our Directors, whether executive or non-executive, so that we can respond effectively to the more complex technical challenges that arise, for instance, from capital and risk management and compliance. However, to ensure that the Club continues to operate as a mutual with the best interests of the Membership at the top of its priorities, a new Advisory Board is also to be established. Although its members will not have the same legal and fiduciary responsibilities as members of the Board, the Advisory Board will usually meet at the same time as the Board and will be charged with making, for example, recommendations on all matters relating to claims, whether discretionary or not, and on aspects of the Club's financial operations. Generally, appointments to the Board will, in future, be made from members of the Advisory Board.

During the year, your Board has as usual considered other significant issues that may affect our Members. The entry into force of the Maritime Labour Convention (MLC) in January this year required all International Group Clubs to consider whether or not to issue guarantees for payment of liabilities for repatriation and unpaid wages for abandoned seafarers following an owner's

CHAIRMAN'S **STATEMENT**

(CONTINUED)

insolvency. As outlined in the Managers' Review, a practical solution has now been found to provide the necessary certificates, albeit on the basis that Group Clubs have agreed that risks relating to unpaid wages should not be pooled. This pragmatic solution to a difficult problem provides an admirable illustration of the strong benefit we all derive from our membership of the International Group.

Another issue of interest to our Members will certainly be the entry into force this year of the Ballast Water Management (BWM) Convention. Fortunately, Club cover is already capable of responding to accidental breaches of the new rules and in certain circumstances, on a discretionary basis, for other types of breach.

Some questions have also inevitably been raised in the light of the 'Brexit' referendum in the UK. Although the Club's management is based primarily in London, the effect of the UK's eventual departure from the European Union on our business overall is unlikely to be significant since we are already entirely domiciled and regulated from within the European Union in Luxembourg. We must, however, assume that, in due course, our London branch will need some form of regulatory oversight by UK authorities once the separation is complete.

Since my last report, Geoff Woodford and Ali Abdulla Alharbi have retired from the Board. We are grateful to them both for their guidance and help in the steering of the Club's affairs. In particular, Geoff Woodford, who has been a Director since 2003 has been a uniquely tireless and incisive contributor to the Board's many and varied deliberations. His knowledge and wisdom will be greatly missed. May I also thank all my colleagues on the Board for their well-judged guidance on the Club's affairs. Today's responsibilities for us all are now more onerous than in the past and will require even more commitment as we move forward.

Finally, I would like to express our gratitude to our Managers. As usual, they have worked with great dedication and professional skill to ensure that we are well placed to meet the challenges that our industry faces. During the next few months they will be undergoing some significant change as a generation of our senior team is set to retire. In particular, Peter Spendlove stands down as CEO in September, to be succeeded by Tom Bowsher. Fortunately, Peter continues in the short term to be Chairman of the Management company so that there will be continuity in the way in which our new senior management team adapts to our strategy and business focus in 2018 and in the years ahead.

FRANCIS SARRE
CHAIRMAN

GENERAL **INFORMATION**

DIRECTORS

F G Sarre *(Chairman)*	Antwerp
J A Drakos *(Vice-Chairman)*	Connecticut
P R L Lorenz-Meyer *(Vice-Chairman)*	Hamburg
B Aagaard-Svendsen	Copenhagen
A M Cameron	Cork
P G De Brabandere	Antwerp
M B Ergin	Istanbul
Feng Jianhua	Beijing
P Gripari	Athens
A K Hazari	Hong Kong
S Ioannou	Athens
T C Litton	Houston
M T Los	Athens
V A Mednikov	Moscow
N Notias	New York
I Perantinos	Piraeus
T Petalas	Monaco
K S Rajvanshy	Hong Kong
A M W Staring	Antwerp
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MANAGERS' REVIEW

PETER SPENDLOVE
MANAGING DIRECTOR

RESULTS

ONCE AGAIN, THE MANAGERS ARE ABLE TO REPORT A BALANCE SHEET THAT SHOWS AN INCREASE IN THE CLUB'S FREE RESERVE RESULTING PRIMARILY FROM A CONTINUING FAVOURABLE TECHNICAL PERFORMANCE. THE CLUB'S RESULT HAS BEEN SUPPLEMENTED THIS YEAR BY A MODEST BUT POSITIVE OVERALL NET INVESTMENT RESULT.

The details are set out in the Financial Statements on pages 32 to 59. In summary, the year showed a $29.8 million gain, consisting of an overall underwriting result of $23.2 million and a net investment result, after tax and revaluations, of $6.6 million. This is the fifth consecutive year that the Free Reserve has risen and the second year in a row that our underwriting performance has been better than break-even.

CAPITAL

The Club's Free Reserve now stands at $306.5 million which is an increase of 10.8% over the position a year ago and is the highest in the Club's history. A corresponding high level of capital is also reflected in the capital models of the Club's two rating agencies and as measured for regulatory solvency, so it is unsurprising that the Club's own appraisal of its capital - its own risk and solvency assessment or "ORSA" - indicates that the Club is well placed in capital terms to face the risks and challenges ahead.

When assessing capital strength, and capital requirements, the Club must be mindful of the current trading environment, including potential economic and political threats, the challenging investment market and competition from its peers in the International Group and fixed premium market providers, which is leading to unsustainably low premium levels. It must also be mindful of the difficult trading conditions that Members have faced for several years, so when considering an appropriate level of capital it needs to not only protect itself from future risks but also take into account that it is a mutual association and that its membership will not wish it to carry "excess capital" if that capital can be better deployed elsewhere.

Over the last decade or so, P&I Clubs have changed faster than at any time in their long history, and in particular are now operated at much higher levels of capital. This change has been driven largely by new regulation such as Solvency II and by stronger requirements for compliance and financial discipline generally as well as solvency itself. It has also been influenced by increased rating agency involvement in the Club market. Of course, change has also occurred as a response to Members' evolving business needs, not just operational and service related but financial too, such as a greater demand for consistency of call and their own greater compliance requirements.

A common theme in broker commentaries and elsewhere during the 2017 renewal was an assertion that Clubs are "overcapitalised". This Club continuously assesses its capital requirements and undertakes not to hold more capital than prudently required to manage its future risks. Notwithstanding the level of capital at 20 February 2017, the Club has continued to grow in terms of the number of vessels it insures so it enters Policy Year 2017 facing greater exposure than in previous years.

RATING UPGRADE (S&P)

A highlight of 2016 came from rating agency Standard and Poor's ("S&P") who upgraded the Club to A- in December, meaning that the Club is now "A rated" by both of its interactive rating sources, S&P and A.M. Best. It is gratifying to see the Club's financial strength recognised in this way - an insurer rated "A" by S&P has "strong financial security characteristics". This will be of help in furthering the Club's business by providing potential new Members with independent assurance especially as the Club's capital has exceeded the AAA rating level on the capital models of both agencies for some time. Rating agencies rate P&I Clubs significantly below the levels indicated by their capital models for reasons relating to their market share, scale and competitive environment. In today's challenging times their approach is understandable although it may be that the rating process cannot fully recognise in absolute terms the strength of the International Group structure and Group Clubs generally.

UNDERWRITING

(i) Overall Underwriting result

The Club's $23.2 million underwriting gain is reflected in a combined ratio of 87.2%. This better than forecast figure arose primarily from reductions in claims provisions for years prior to Policy Year 2015 and from an exceptionally low International Group Pool incurred claims figure at 20 February 2017 for Policy Year 2016, allowing a significant release of provision from the figure held at the half year for the then current Policy Year. These items are covered in more detail under (iii) below.

Prior to last year, the Club's combined ratio had improved for eight consecutive years. Last year's figure was 83.6%. The Club's business objective is to operate at better than 100%, break-even, over a three-year rolling period. With premium rates falling (see (ii) below), business growth adding to the Club's exposure and with indications that the benign claims pattern may be beginning to change (as described in (iii) below), the expectation must be that this figure will not be easily repeated. It would also be imprudent to expect that the Pool for Policy Year 2017 will be as moderate as appears to be the case for 2016.

(ii) Premium

Gross premium for 2016/17 fell by approximately 2.5% to $221.8 million. This was approximately in line with the Club's business forecast and, overall, reflected reduced rates, including the recharge at a lower cost for the International Group's Excess of Loss reinsurance premium.

A key tenet of the Club's operations is to maintain underwriting discipline. Although business growth is one of the Club's long-term objectives it is a well-described feature of today's market that rates appear unsustainable, even allowing for the generally benign claims experience typically seen by the market over recent years. The Club protects its underwriting performance by exercising caution in what business it writes with due diligence processes in place which mean it declines more business than it accepts.

The Club has seen "soft" rates generally in a very competitive P&I market. For the recent renewal, attention from Members and their brokers was on price rather than service or qualitative factors but ultimately the outcome was very little movement between Clubs. Despite this the Club gained moderately in terms of numbers of vessels entered (see chart on page 12) and existing Members continued to provide solid support in the form of organic growth. At the lower end, the fixed premium market continues to offer rates which appear neither appropriate nor sustainable. This pattern of soft premium has continued into 2017. For Policy Year 2017, total premium for the Club's renewing mutual vessels reduced by approximately 3.5% which although within the forecast set by the Managers, will put pressure on the underwriting result if claims increase.

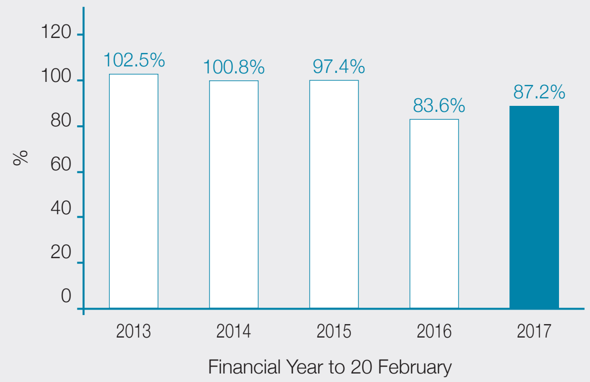
(iii) Claims

(a) Members' Claims

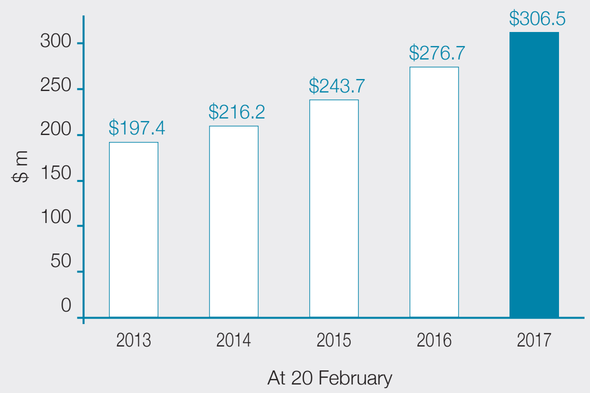
The Club has seen a consistent pattern for all policy years after Policy Year 2010. These years are comparatively benign in terms of ultimate total net cost and all display earlier development characteristics than prior years so that the point at which the ultimate outcome can be assessed with reasonable confidence is earlier than was seen historically and within 18 months from inception for each year. Against this background it is now apparent that Policy Year 2014 was an exceptionally benign year.

For this Financial Year, the actuarial assessment of the ultimate likely outcome for Policy Year 2015 has been complicated by its apparent continued upwards development beyond 18 months. This does not appear to be caused by any change in estimating practices and nor can it be attributed to a particular category of claim or even geographical area or vessel type. Policy Year 2016 at 12 months follows a similar path to its predecessors. Indeed it appears a relatively low-cost year. However, it will be another six months before it can be judged to be more like 2014 than 2015. These developments are illustrated in the chart on page 16.

COMBINED RATIO



FREE RESERVES



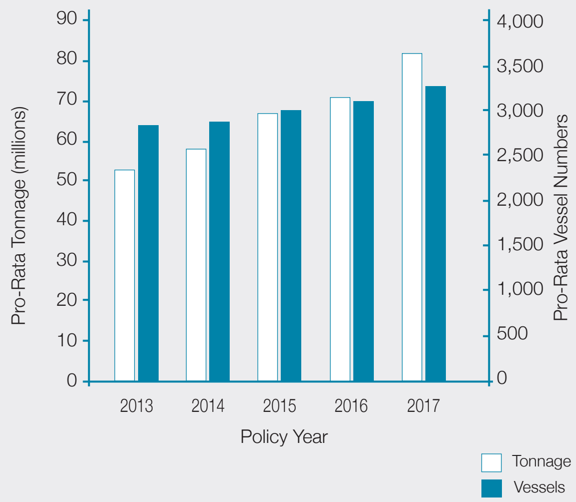
During 2016, the Club incurred the largest claim on the International Group Pool for that Policy Year, in a year where there were very few such claims. This will affect the Club's Pool percentage, under which all claims are shared. Provision for the resulting impact on Policy Year 2016 when final percentages are calculated has been made in the Financial Statements. Nevertheless, the Club's share of the Pool remains at around 7% and its Pool "loss ratio" remains below 100%, reflecting a positive record overall.

(b) International Group Pool Claims

The chart on page 14 shows the development of the Pool for the ten years since Policy Year 2007. Over this period the Club retention has increased from $7 million to its current $10 million, reflecting the retention of more risk by individual Group clubs. It can be seen that the Pool is far more variable from year to year than Members' claims and, of course, a year (such as Policy Year 2011) may be materially affected by one or two abnormally large claims, extending into the Group Excess Loss programme.

As already noted, Policy Year 2016 now appears to be an exceptionally low claims year. The projection set at 20 February 2017 for our share of other Clubs' claims for 2016 is lower by $12 million than the equivalent figure for Policy Year 2015. This is a significant contributor to the low combined ratio reported for this Financial Year and also explains why the combined ratio is significantly less than that reported at the mid-year, and because Pool years can change character from the 6-month point to that at 12 months (as seen in Policy Year 2011), a projected ultimate cost set in line with a more normal year was held through six months from the year end.

MUTUAL TONNAGE AND VESSEL NUMBERS



(iii) Reinsurance

The Club's operations, as for all Group clubs, continue to be underpinned by the International Group Pool and Excess of Loss reinsurance programme. As usual, the structure is illustrated on page 15. The overall programme for 2017 is similar to past years but the first layer of the Excess Loss contract has been simplified with the Group's captive, Hydra, retaining a co-insurance share for 100% of losses in excess of $80 million up to $100 million. A second co-insurance, for 30% of all losses from $100 million up to $600 million has been incorporated, with the separate 5% "vertical slice" placements written this year by Fidelis, Liberty Mutual and Hannover Re.

Overall premium for the Excess Loss cover reduced by 5.5% at this renewal with a reduction of over 9% being allocated to dirty tankers and dry cargo vessels. The Club's unique policy of separating out this cost in the premium it charges to Members means that the full benefit is passed on to them and is not subject to any negotiation of individual mutual rates.

It remains the Club's policy to supplement the support the Group programme provides with appropriately placed reinsurance for larger losses that occur within the Club's retention. It also supports its comprehensive and flexible offering to charterers, which includes damage to hull where required, with high quality reinsurance protection.

INVESTMENTS

The Club's overall investment return for the year to 20 February 2017 was a positive $6.6 million, net of tax and charges and inclusive of a valuation and exchange loss arising from the Club's London property, Tower Bridge Court.

(i) Financial Investments

For this financial year, the portfolio of financial assets (excluding property) returned a gain of 3.0% net of fees, driven by equity holdings (+20.4%) and fixed income portfolios (+1.7%).

The Club has continued to maintain a conservative investment strategy, consistent with the risk appetite set and regularly reviewed by the Board. This strategy is driven by the longer-term objective of maintaining low volatility, appropriate liability matching and therefore overall stability of capital. Financial assets are invested in high quality and liquid securities.

The Club has a limited exposure to equity markets of some 10% with a strict rebalancing policy. Cash and bond positions are also managed cautiously and most of the fixed income portfolio is aimed at replicating the cash flow characteristics of its technical liabilities. Diversification across markets and securities is also an important feature of the Club's investment philosophy and a natural way to mitigate market risks in the medium term.

Return expectations reflect this low risk profile in a world of continuing very low interest rates and easy monetary policy in most major developed economies. This is fully reflected in the Club's business plan and financial forecast. The Board is expecting global growth to accelerate somewhat in 2017/2018, led by the US and large emerging economies. Inflation should also increase. In this context, commodity prices are seen to have bottomed out while core interest rates are expected to continue to rise gradually as policy rates, inflation expectations and the term premium normalise.

Equity markets in general are seen to have less upside after the strong recovery experienced in the previous months. Both European and emerging market equities are probably less expensive than US equities. Emerging markets in particular should benefit from a better macro outlook and accelerating global trade.

Corporate credit should remain attractive in a world of continuing subdued growth. High yield bonds can be anticipated to outperform while emerging market bonds may also continue to improve.

In maintaining its investment strategy, the Club regularly assesses downside risks. A clear adverse scenario would be a disappointment in the US economy triggering a decline in risk appetite and a fall in equity markets. Another adverse scenario would be a sharp rebound of US inflation and a disorderly sell-off of US government bonds leading to an increase in risk premiums in all other markets.

(ii) Property

As indicated above, the year's results have been adversely impacted by both a lower valuation of the Club's London property and an exchange loss arising from the fact that it is a sterling asset and therefore its value in US dollars, the Club's functional and reporting currency, has fallen as a result of the severe weakening of sterling following the "Brexit" referendum in June 2016. The uncertainty surrounding Brexit and the London property market may continue to affect the property's value for some time but over the longer term the property has proved to be an excellent investment, not only in capital growth terms but in terms of providing both a rent free location for the Club Management and a regular sterling income stream from other tenants in the building.

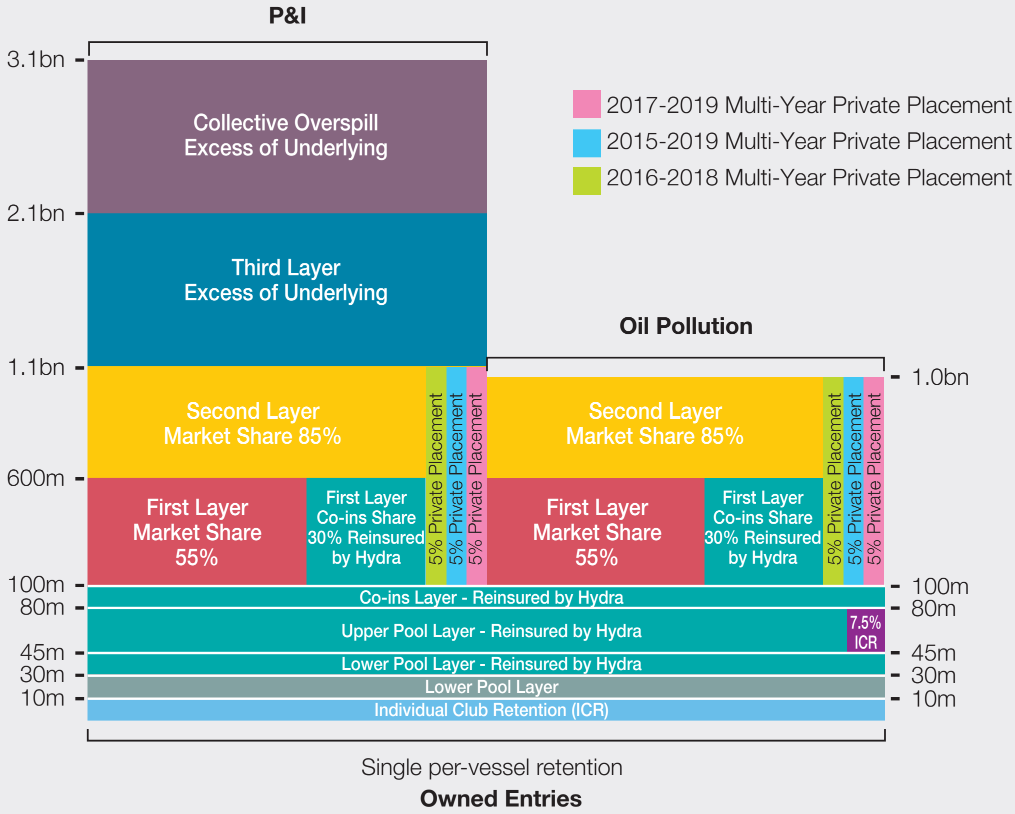
International Group Pool

Development of incurred claims by Policy Year at each 20 February ($ million)

	Years of Development									
Policy Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
2007	303.2	436.9	479.8	485.9	515.4	530.0	530.0	520.1	525.2	529.5
2008	87.6	120.4	110.3	126.0	124.0	123.6	126.9	129.0	128.5	
2009	233.8	229.4	231.3	227.0	254.4	275.9	267.9	264.6		
2010	192.9	263.5	291.6	276.1	271.7	280.1	280.3			
2011	331.0	469.2	484.5	512.1	511.8	517.5				
2012	375.3	460.2	485.8	483.8	464.1					
2013	287.1	340.3	385.9	382.7						
2014	177.1	190.5	201.3							
2015	251.6	353.7								
2016	75.6									

GROUP EXCESS OF LOSS REINSURANCE PROGRAMME

Policy Year 2017



MLC

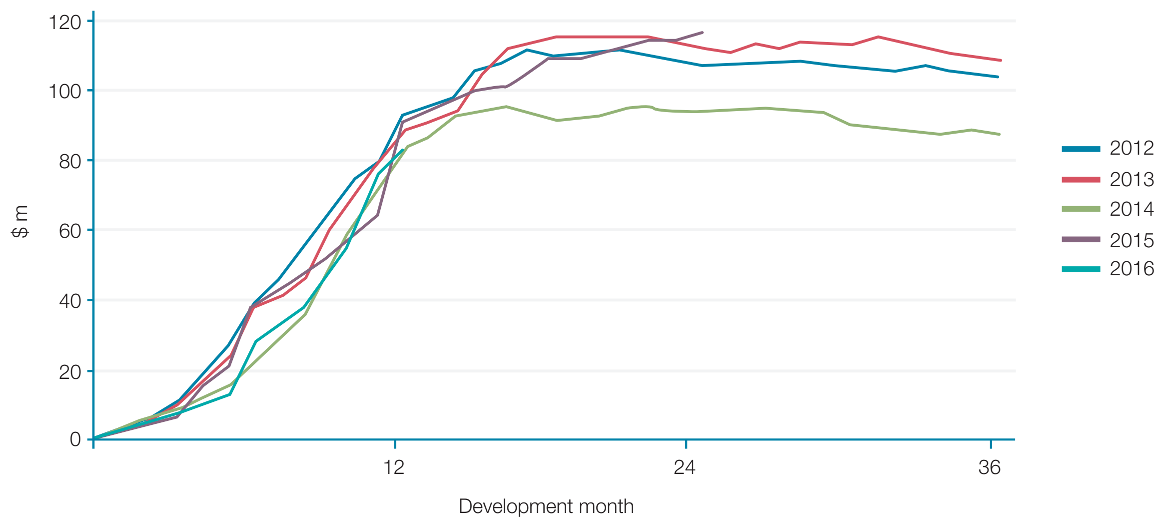
The 2014 amendments to the Maritime Labour Convention (MLC) entered into force in January, requiring all qualifying ships to carry certificates on board which guarantee payments of contractual claims of injury and death, and for repatriation expenses and up to four months' unpaid wages.

Since Clubs and States are fully conversant with the system of issuing such trading certificates, Club Boards voted to use the existing Club infrastructure to issue the required MLC certificates but only on the basis that liabilities relating to repatriation and unpaid wages should not form part of normal P&I cover. A significant reinsurance facility, wholly separate to the IG's General Excess Loss programme, was therefore bought by Group Clubs to provide cover (above an individual Club retention) for these risks.

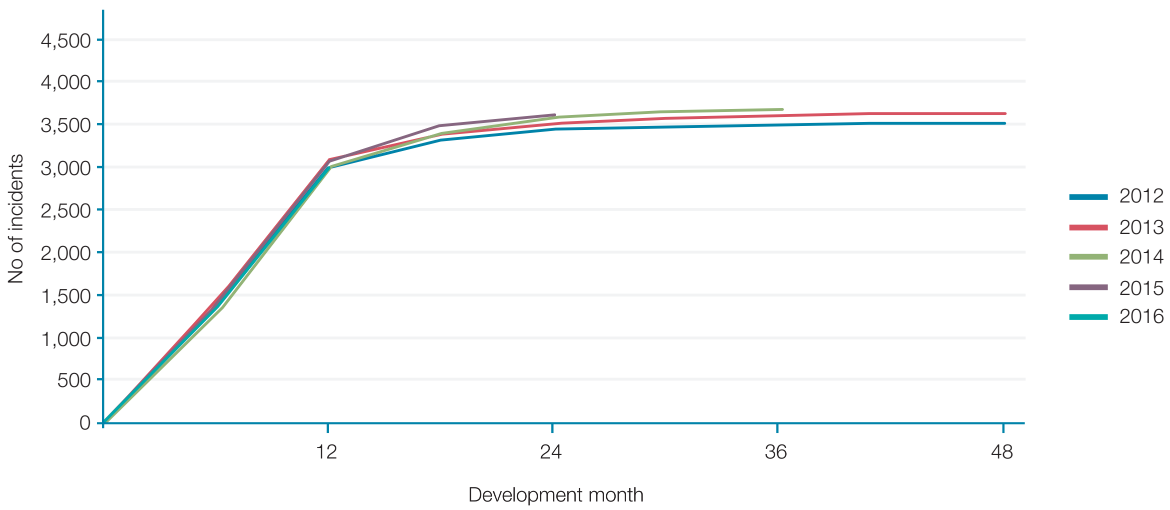
The benefits of using this well-established system were reflected in a smooth implementation of the new arrangements and the requisite certificates were issued without difficulty or delay. The Clubs' service philosophy has had something of an unexpected consequence in the months since, however, with seafarers quick to involve Clubs in wage disputes. In matters of genuine abandonment and hardship this may be appropriate but in other cases where abandonment and repatriation are not an issue and is consequently more properly characterised as an employment dispute over unpaid wages, the Clubs

INCURRED MONTHLY DEVELOPMENT BY POLICY YEAR (CLASS 1 MEMBERS)

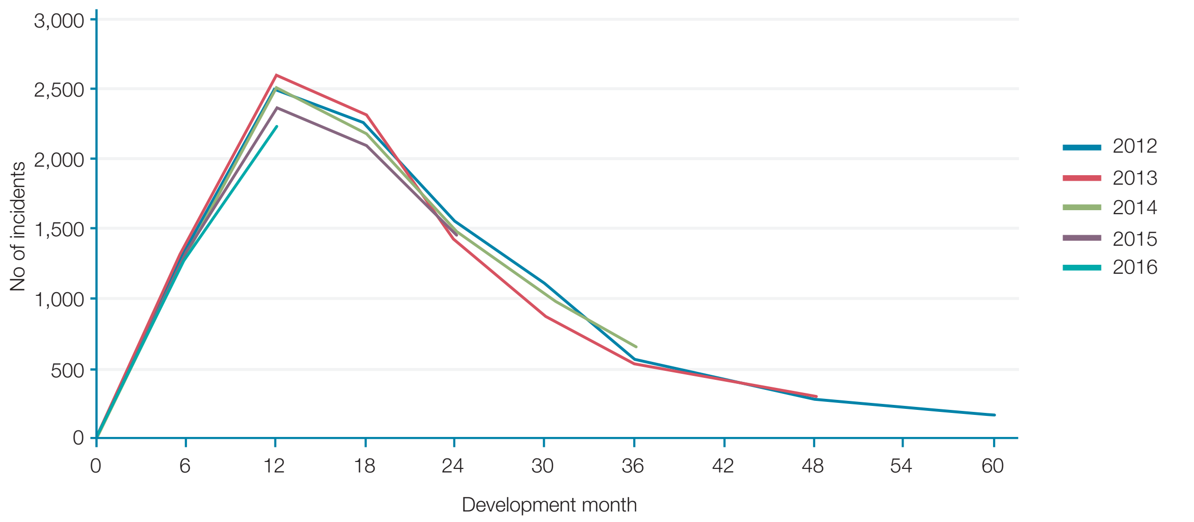
Paid plus estimates net of General Excess of Loss Reinsurance recoveries, Pool and CCC recoveries



CUMULATIVE DEVELOPMENT OF NUMBER OF INCIDENTS BY POLICY YEAR (CLASS 1 MEMBERS)

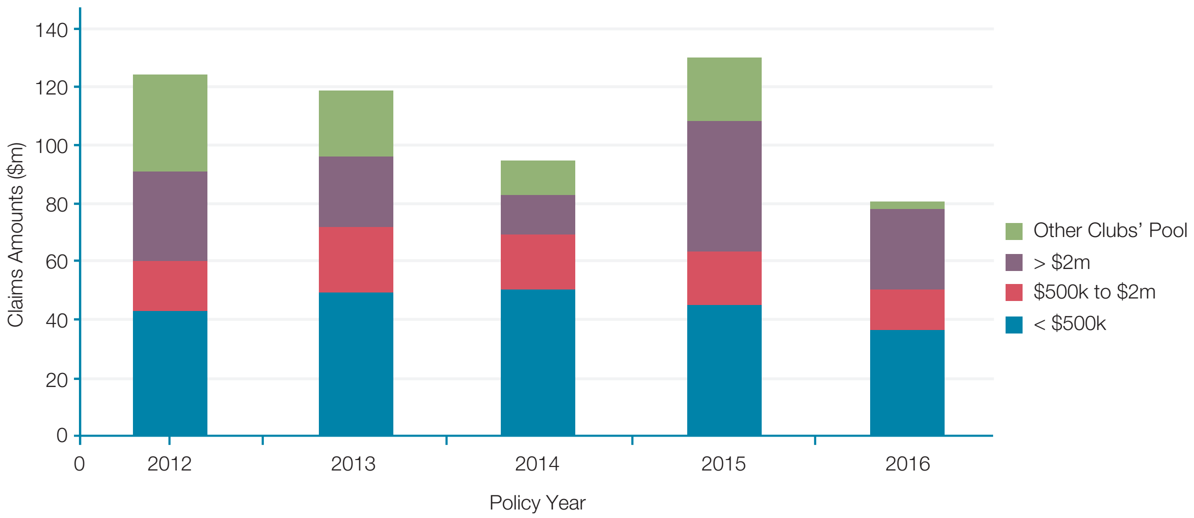


NUMBER OF OPEN INCIDENTS BY POLICY YEAR (CLASS 1 MEMBERS)



INCURRED CLAIMS ANALYSED BY SIZE, BY POLICY YEAR (CLASS 1)

At 20 February 2017



are at risk of becoming the first port of call rather than the payee of last resort as the system intends.

These are early days following the introduction of the amendments to the Convention. It is to be hoped that all sides can settle into a workable system whereby seafarers who have not been paid seek redress from their employers and unions first and thereafter only involve the Club where abandonment and repatriation appear likely.

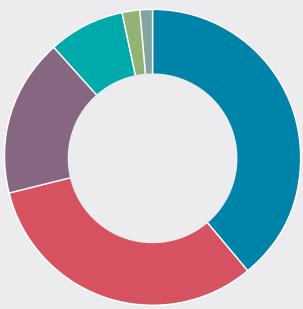
POLLUTION

This year has seen renewal of some of the underpinnings of the international pollution compensation system. The IG and the International Oil Pollution Compensation Funds (IOPC Funds) agreed on the text of an agreement which can be signed in individual cases to give the safeguards necessary for Clubs to make interim payments to the victims of oil pollution. In the wake of the "NISSOS AMORGOS" case Clubs have been understandingly reluctant to make such payments without the certainty that the Fund Convention layer of compensation will engage to protect Clubs from the risk of exposure in excess of a vessel's CLC limit should interim payment not be taken account of in any limitation proceedings by a national court.

Similarly, the Small Tanker Owners Pollution Indemnity Agreement (STOPIA) and the Tanker Owners Pollution Indemnity Agreement (TOPIA) were reviewed this year. These schemes were introduced in 2006 and intended to distribute the financial burden more evenly between shipowners and the importers of oil of spills from small tankers and for very expensive spills which engage the Supplementary Fund layer respectively.

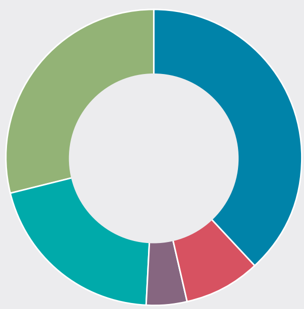
The Agreements contained a ten-year review closure and a mechanism for a possible rebalancing of the respective shares where data showed one party have borne the larger burden of paid claims. Whilst analysis did show that the shipowners and their Clubs had paid a significantly larger share of the liabilities to-date, as and when the IOPC Funds settle their share of the claims from the "HEBEI SPIRIT" spill the shares will move back towards parity. The Clubs recognise the value of these Agreements and were content to take a long-term view of the data. It was therefore agreed that the Agreements would be renewed as is (with

ENTERED TONNAGE BY VESSEL TYPE
(Class 1 owner entry) Policy Year 2017



- Bulk cargo carriers **39.1%**
- Tankers & OBOs (inc LPG/LNG) **32.1%**
- Container vessels **17.2%**
- General cargo & reefers **8.4%**
- Ferries & passenger liners **1.9%**
- Specialist vessels & misc. **1.3%**

ENTERED TONNAGE BY AREA OF MANAGEMENT
(Class 1 owner entry) Policy Year 2017



- Asia **38.2%**
- Middle East/Africa etc **8.4%**
- Americas **4.5%**
- Greece **20.1%**
- Other Europe **28.8%**

the exception of adding a sanctions clause) and that another review would take place after a further ten years.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL INSURANCE ASSOCIATION (LONDON) LTD - PART VII TRANSFER

In 1969 the decision was made to relocate the West of England's business from the United Kingdom to Luxembourg. The West of England Ship Owners Mutual Insurance Association (London) Ltd ("WoE London") which was formed in 1870 and had origins back to 1832 was put into run-off and The West of England Ship Owners Mutual Insurance Association (Luxembourg) was formed, wholly reinsuring WoE London and operating in such a way that the business continued as one Club as seamlessly as possible, with Luxembourg assuming full responsibility for claims and claims handling.

Notwithstanding the "reinsurance to close" to move the business to Luxembourg, WoE London, as an ongoing entity in run off, became subject to increasing regulation in the UK with the uneconomic prospect of that arrangement continuing for many years. The Board therefore decided to formally wind-up WoE London so that with effect from 20 February 2017, a transfer of all business of WoE London to Luxembourg took place under Part VII of the UK Financial Services and Markets Act 2000.

BREXIT

The impact on P&I Clubs of the triggering of Article 50 by the UK Government in March to exit from the European Union ("EU") within two years remains uncertain, but it is believed that the impact will not be significant for the West of England as an EU regulated club, and that "passporting" throughout the EU under Freedom of Services will remain. Although it is anticipated that the Club's UK branch will become subject to UK regulation in some form, it is not expected that this will be unacceptably onerous. The Club's primary regulator will remain in Luxembourg.

MANAGEMENT

(i) Singapore Office

The decision to open a branch office in Singapore was reported in last year's Review. Approval has been received from the local regulatory authority and the branch is now open for business, under

MANAGERS' REVIEW

(CONTINUED)

the management of Malcolm Pedley as Branch Chief Executive. A reception to mark the occasion was held in the office to coincide with the Club's Board Meeting in Singapore in May.

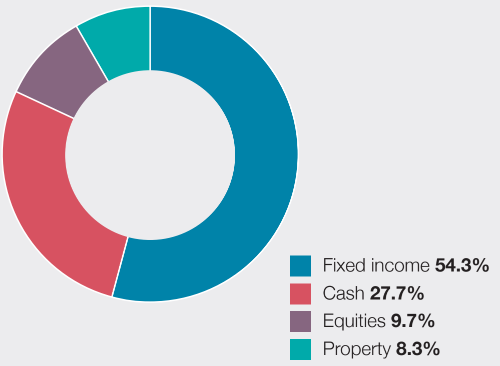
(ii) Management Changes

In March 2017 it was announced that Tom Bowsher will succeed Peter Spendlove as Managing Director and Chief Executive Officer of the Club's Managers with effect from September 20 2017, the date of the Club's Annual General Meeting.

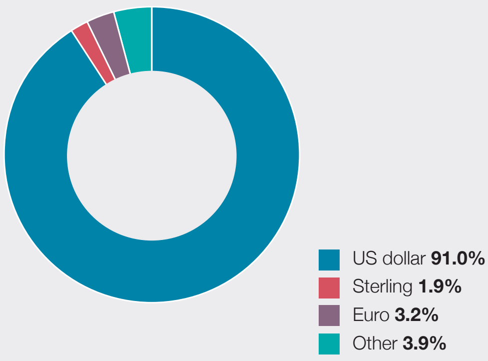
Tom, who joined the Club in 2001, was appointed Underwriting Director in 2013 before becoming Head of Underwriting and Business Development in May 2015. He will retain management responsibility for Underwriting and Business Development. On the same date, Peter will become Chairman of the Management Company until May 2018.

In June of this year, Francis Corrigan has been appointed a Director of the Management company, effectively as Finance Director designate to succeed Mark Pender, who will retire from that position in December 2017.

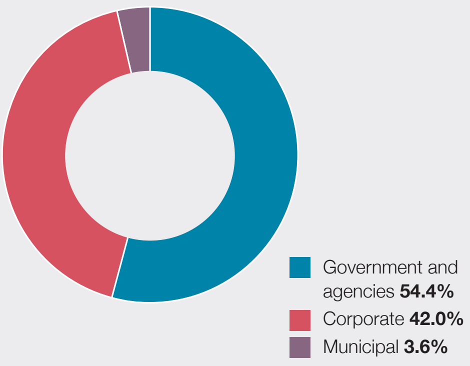
INVESTMENT ALLOCATION
at 20 February 2017



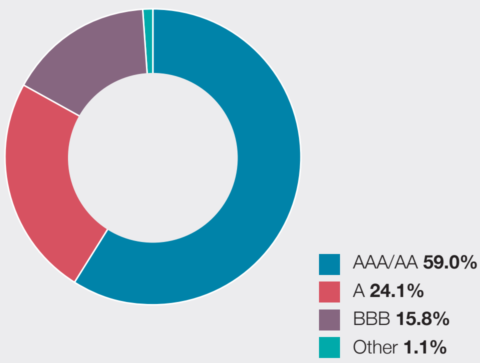
INVESTMENTS BY CURRENCY (EXCLUDING PROPERTY)
at 20 February 2017



FIXED INCOME BY ISSUER TYPE
at 20 February 2017



FIXED INCOME BY RATING
at 20 February 2017



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 in Hotel Le Royal, 12 Boulevard Royal, L-2449 Luxembourg on 20 September 2017 at 12:30 hours for the following purposes:

1. To approve the Report of the Directors and the Consolidated Accounts for the year ended 20 February 2017 and to grant discharge to the Directors and Auditor for the year under review.
2. To elect Directors.
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.

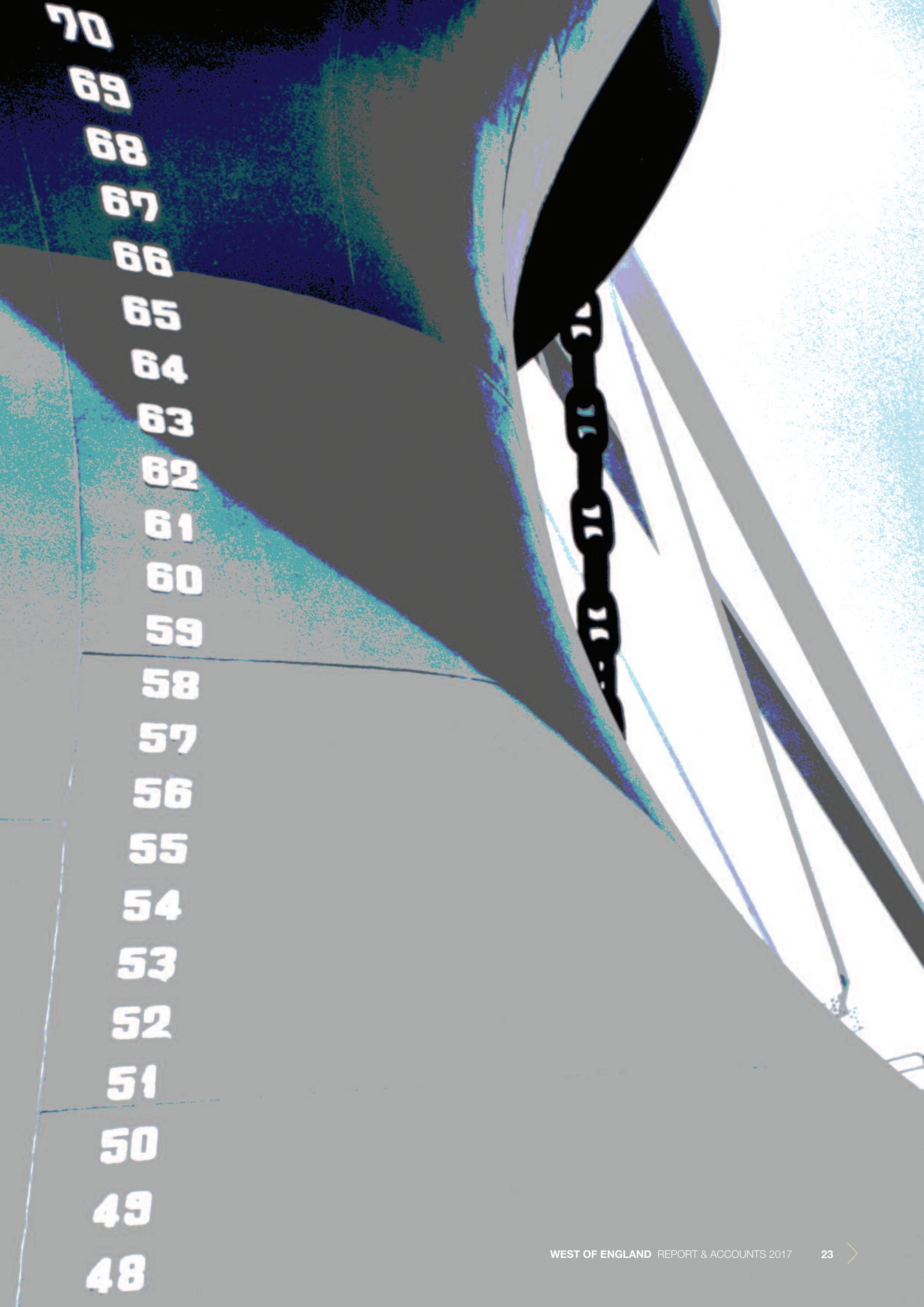
By order of the Board

T Brevet
Secretary

31 Grand-Rue
L-1661 Luxembourg

24 May 2017

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.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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 2017.

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 and Hong Kong and a representative office in Piraeus. On 6 February 2017, the Association was granted a licence from the Monetary Authority of Singapore to open a branch in Singapore which was operational from 20 February 2017. 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.

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.

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 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 external actuaries who use established statistical techniques and apply 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 2017 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 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 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.

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 59 with the principal accounting policies summarised on pages 37 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 surplus for the year of $37.0 million (2016 $25.6 million). In addition the Revaluation Reserve decreased by $7.1 million (2016 $7.4 million increase). Total reserves at 20 February 2017 were therefore $306.5 million (2016 $276.7 million).

A more detailed review of the year is contained within the Managers' review.

DIRECTORS

The present Directors of the Association, who are listed on page 6, held office throughout the year under review.

In addition, Messrs F M Haukedal and Y Khatau retired from the Board with effect from 21 September 2016 and Mr A A Alharbi with effect from 25 April 2017.

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.

PRINCIPAL OFFICE

In April 2016 the Company changed its principal office to 31 Grand-Rue, L-1661 Luxembourg.

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 20 September 2017 the Directors will propose a resolution for the re-appointment of Deloitte Audit Société à responsabilité limitée for the year commencing 20 February 2017.

By order of the Board

T Brevet
Secretary
24 May 2017

Deloitte.

Deloitte Audit
Société à responabilité limitée
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L-2220 Luxembourg
BP 1173
L-1011 Luxembourg

T: +352 451 451
www.deloitte.lu

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated accounts

Following our appointment by the General Meeting of the Members dated 21 September 2016, we have audited the accompanying consolidated accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg), which comprise the consolidated balance sheet as at 20 February 2017, the consolidated Income and Expenditure Account and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated accounts have been prepared by the Board of Directors in accordance with the significant accounting policies set out in Notes 2 and 3 to the consolidated accounts.

Board of Directors' responsibility for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with the significant accounting policies set out in Notes 2 and 3 to 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.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier.* Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts 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 entity's internal control. An audit also

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

Deloitte.

includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of The West of England Ship Owners Mutual Insurance Association (Luxembourg) as at 20 February 2017, and of the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with the significant accounting policies set out in Notes 2 and 3 to the consolidated accounts.

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.

Other matter

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has prepared a separate set of consolidated accounts as at 20 February 2017 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 24 May 2017.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Report of the Directors but does not include the consolidated accounts and our report of *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.

For Deloitte Audit, Cabinet de révision agréé

Jérôme Lecoq, *Réviseur d'entreprises agréé*

Partner

May 24, 2017

CONSOLIDATED BALANCE SHEET
AT 20 FEBRUARY 2017

	Note(s)	**2017 $'000**	2016 $'000
ASSETS			
Investments			
Land and buildings	4	**56,016**	68,209
Other financial investments	5	**433,210**	400,150
		489,226	468,359
Reinsurers' share of technical provisions			
Claims outstanding	13	**206,036**	198,194
Debtors			
Member debtors		**15,603**	13,051
Reinsurance debtors	7	**4,703**	5,333
Additional calls not yet charged	8	**28,457**	30,214
Other debtors	9	**1,024**	1,329
		49,787	49,927
Other assets			
Tangible assets	10	**1,477**	1,726
Cash at bank and in hand		**187,579**	192,647
		189,056	194,373
Prepayments and accrued income			
Accrued interest		**2,579**	2,582
Other prepayments and accrued income		**1,891**	913
		4,470	3,495
TOTAL ASSETS		**938,575**	914,348

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

CONSOLIDATED BALANCE SHEET
AT 20 FEBRUARY 2017

	Note(s)	**2017 $'000**	2016 $'000
LIABILITIES			
Capital and reserves			
Reserve Deposit Fund	1,19	**-**	21,250
Revaluation Reserve	4,19	**33,047**	40,099
Class 1 Policy Year Reserve Account	19	**-**	27,548
Income and Expenditure Account	19	**273,465**	187,764
		306,512	276,661
Technical provisions			
Claims outstanding	13	**602,525**	601,699
Creditors			
Member creditors		**7,854**	11,473
Reinsurance creditors		**7,909**	8,298
Other creditors	11	**13,775**	16,217
		29,538	35,988
TOTAL LIABILITIES		**938,575**	914,348

Chairman

Director

24 May 2017

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

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 20 FEBRUARY 2017

	Note(s)	**2017 $'000**	**2017 $'000**	2016 $'000	2016 $'000
TECHNICAL ACCOUNT					
Earned premiums, net of reinsurance					
Gross premiums written		**221,849**		227,614	
Outward reinsurance premiums		**(40,172)**		(43,927)	
Earned premiums, net of reinsurance	12		**181,677**		183,687
Allocated investment return transferred from the non-technical account			**15,756**		(3,668)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(151,540)**		(150,528)	
Reinsurers' share		**20,752**		25,675	
Net claims paid	13	**(130,788)**		(124,853)	
Change in the provision for claims					
Gross amount		**(826)**		(2,874)	
Reinsurers' share		**7,842**		9,655	
Change in the net provision for claims	13	**7,016**		6,781	
Claims incurred, net of reinsurance			**(123,772)**		(118,072)
Operating expenses	14		**(34,688)**		(35,466)
Balance on the technical account			**38,973**		26,481
NON-TECHNICAL ACCOUNT					
Balance on the technical account			**38,973**		26,481
Investment income	16		**46,167**		29,353
Investment charges	16		**(30,411)**		(33,021)
Allocated investment return transferred to the technical account			**(15,756)**		3,668
Surplus on ordinary activities before tax			**38,973**		26,481
Tax on ordinary activities	17		**(1,998)**		(859)
Surplus on ordinary activities after tax			**36,975**		25,622

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 20 FEBRUARY 2017

	Note(s)	2017 $'000	2016 $'000
Cash flows from operating activities			
Gross premiums received from Members		**219,556**	227,204
Reinsurance premiums paid		**(41,316)**	(40,941)
Gross claims paid		**(153,517)**	(152,103)
Reinsurance recoveries received		**21,993**	23,955
Operating expenses paid		**(35,568)**	(35,193)
Tax on ordinary activities paid		**(945)**	(689)
Net cash generated from operating activities		**10,203**	22,233
Cash flows from investing activities			
Income received from land and buildings		**1,950**	2,402
Purchases of property and equipment	10	**(124)**	(42)
Proceeds from sale of property and equipment		**96**	12
Interest income received		**12,258**	11,487
Dividend income received		**1,258**	1,109
Investment management expenses paid		**(908)**	(884)
Net cash flows from shares and other variable yield securities and units in unit trusts		**1,866**	(6,883)
Net cash flows from debt securities and other fixed interest securities		**(29,834)**	(21,325)
Net cash used in investing activities		**(13,438)**	(14,124)
Net (decrease) / increase in cash at bank and in hand		**(3,235)**	8,109
Cash at bank and in hand as at beginning of year		**192,647**	184,590
Exchange losses on cash at bank and in hand		**(1,833)**	(52)
Cash at bank and in hand as at end of year		**187,579**	192,647

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

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note(s)	**2017 $'000**	2016 $'000
Surplus on ordinary activities after tax		**36,975**	25,622
Depreciation	14	**667**	673
Gain on fixed asset disposal	14	**(47)**	(12)
Exchange gain on cash balances		**(209)**	(35)
Decrease in net insurance liabilities	13	**(7,016)**	(6,781)
Increase in insurance and other debtors		**(1,101)**	(556)
Decrease in insurance and other creditors		**(3,310)**	(346)
Investment income	16	**(46,167)**	(29,353)
Investment charges	16	**30,411**	33,021
Net cash generated from operating activities		**10,203**	22,233

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

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.

In 1995, to comply with European Union and Luxembourg minimum insurance solvency margin requirements, a reserve fund, the Reserve Deposit Fund, was established, to which allocations were made periodically to meet the minimum solvency levels required. This Reserve Deposit Fund is no longer required as a consequence of the new solvency regime which came into force on 1 January 2016. The opening balance has therefore been transferred in full to the Income & Expenditure Account Reserve during the year-ending 20 February 2017 (Note 19).

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	56,016	433,210
Statutory consolidated accounts – Net book value	15,967	424,758

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.

2 PRESENTATION OF THE CONSOLIDATED ACCOUNTS (CONTINUED)

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

The consolidated accounts have been 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.

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

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 2017 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 (Luxembourg) S.A.	Luxembourg

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has guaranteed all outstanding liabilities as at 20 February 2017 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 2017. 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 Notes 13 and 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 2017 by Dron & Wright at £37.75 million ($47.1 million) (2016 £42.0 million / $59.9 million) and the Hong Kong property at 20 February 2017 by Jones Lang LaSalle Ltd at HK$69.3 million ($8.9 million) (2016 HK$64.4 million / $8.3 million). The resultant deficit and surplus on revaluation were taken to the Revaluation Reserve.

5 OTHER FINANCIAL INVESTMENTS

	2017 $'000 Market value	**2017 $'000 Cost**	2016 $'000 Market value	2016 $'000 Cost
Shares and other variable yield transferable securities and units in unit trusts	**65,873**	**65,097**	57,393	55,751
Debt securities and other fixed interest transferable securities	**367,337**	**361,966**	342,757	333,926
	433,210	**427,063**	400,150	389,677

The use of derivatives for leveraging purposes is not permitted although certain of the Association's investment managers have authority to invest in forward foreign exchange but only for hedging purposes. Derivatives can be broken down as follows:

	2017 $'000 Contract / notional amount	**2017 $'000 Fair value asset**	**2017 $'000 Fair value liability**	2016 $'000 Contract / notional amount	2016 $'000 Fair value asset	2016 $'000 Fair value liability
Forward foreign exchange contracts	**69,490**	**298**	**418**	104,526	543	1,329

At 20 February 2017 forward foreign exchange positions comprise long US dollar positions in 9 currencies for a total value of $54.1 million (2016 $77.0 million) and short US dollar positions in 11 currencies for a total value of $15.4 million (2016 $27.5 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 2017, the secured facilities for guarantees on behalf of Members, including an agreed margin where appropriate, amounted to $107.8 million (2016 $62.9 million) and guarantees issued against those facilities totalled $25.0 million (2016 $22.9 million).

Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2017 were:

	2017 $ million	2016 $ million
On behalf of Members	**25.0**	22.9
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

	2017 $'000	2016 $'000
Recoveries from other members of the International Group of P&I Clubs	**932**	878
Recoveries from the Group Excess Loss reinsurance	**1,055**	561
Other reinsurances	**2,716**	3,894
	4,703	5,333

8 ADDITIONAL CALLS NOT YET CHARGED

	2017 $'000	2016 $'000
Class 1 (Note 20)	**27,191**	28,804
Class 2 (Note 21)	**1,266**	1,410
	28,457	30,214

9 OTHER DEBTORS

	2017 $'000	2016 $'000
Mortgages	**-**	57
Investment debtors	**298**	543
UK Corporation Tax	**55**	59
Other debtors	**671**	670
	1,024	1,329

The mortgage was in respect of a loan to a Director of West of England Insurance Services (Luxembourg) S.A., a subsidiary, for house improvement or purchase. It was secured on the respective property and had an interest rate of 5% (2016 5%) and was up to the end of the Director's service. The remaining balance was settled during the year ending 20 February 2017.

10 TANGIBLE ASSETS

	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**

10 TANGIBLE ASSETS (CONTINUED)

	2016 Motor vehicles $'000	2016 Fixtures and fittings $'000	2016 Total $'000
Cost			
At beginning of year	503	2,496	2,999
Additions	42	-	42
Disposals	(34)	-	(34)
At end of year	511	2,496	3,007
Accumulated depreciation			
At beginning of year	308	666	974
Provided during year	92	249	341
Disposals	(34)	-	(34)
At end of year	366	915	1,281
Net Book Value	145	1,581	1,726

11 OTHER CREDITORS

	2017 $'000	2016 $'000
UK Corporation Tax	**2,767**	5,031
Luxembourg municipal and state taxes	**923**	896
Hong Kong Profits Tax	**1,001**	-
Accrued expenses	**1,830**	2,479
Investment creditors	**716**	1,577
Other creditors	**6,538**	6,234
	13,775	16,217

UK Corporation Tax includes $83,000 (2016 $122,000) of deferred tax arising on timing differences and $2,407,000 (2016 $4,682,000) 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

			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 (Note 8)	(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**

			2016 $'000
	Class 1	Class 2	Total
Gross premiums by policy year			
Policy year 2015/16	186,031	9,694	195,725
Policy year 2014/15	31,144	1,860	33,004
Policy year 2013/14	(378)	12	(366)
Other	(395)	(59)	(454)
Total gross premiums	216,402	11,507	227,909
Movement in additional calls not yet charged	(312)	17	(295)
	216,090	11,524	227,614
Reinsurance premiums	(43,020)	(907)	(43,927)
Earned premiums, net of reinsurance	173,070	10,617	183,687

13 INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	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**

Claims outstanding includes $85.0 million (2016 $98.4 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)

	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000
	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Gross claims paid and loss adjustment expenses					
- Members' claims	126,819	5,966	(287)	-	132,498
- International Group of P&I Clubs	18,030	-	-	-	18,030
	144,849	5,966	(287)	-	150,528
Reinsurance recoveries on claims paid					
- Recoveries from other members of the International Group of P&I Clubs	(3,496)	-	-	-	(3,496)
- Recoveries from the Group Excess Loss reinsurance programme	(5,913)	-	-	-	(5,913)
- Recoveries from other reinsurances	(18,604)	(227)	-	2,565	(16,266)
Reinsurance recoveries on claims paid	(28,013)	(227)	-	2,565	(25,675)
Net claims paid and loss adjustment expenses	116,836	5,739	(287)	2,565	124,853
Insurance liabilities, gross	582,938	18,751	10	-	601,699
Reinsurers' share of insurance liabilities					
- Recoveries from other members of the International Group of P&I Clubs	(33,573)	-	-	-	(33,573)
- Recoveries from the Group Excess Loss reinsurance programme	(38,223)	-	-	-	(38,223)
- Recoveries from other reinsurances	(126,398)	-	-	-	(126,398)
Reinsurers' share of insurance liabilities	(198,194)	-	-	-	(198,194)
Net insurance liabilities carried forward	384,744	18,751	10	-	403,505
Net insurance liabilities brought forward	387,759	19,065	34	3,428	410,286
Change in the net provision for insurance liabilities	(3,015)	(314)	(24)	(3,428)	(6,781)
Net insurance claims and loss adjustment expenses	113,821	5,425	(311)	(863)	118,072

13 INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES (CONTINUED)

	2016 $'000 Gross	2016 $'000 Reinsurance	2016 $'000 Net
Current year claims and loss adjustment expenses	164,745	(5,000)	159,745
Movement in cost of prior year claims and loss adjustment expenses	(11,343)	(30,330)	(41,673)
Total insurance claims and loss adjustment expenses	153,402	(35,330)	118,072
Claims paid and loss adjustment expenses	150,528	(25,675)	124,853
Change in the provision for insurance liabilities	2,874	(9,655)	(6,781)
Total insurance claims and loss adjustment expenses	153,402	(35,330)	118,072

14 OPERATING EXPENSES

	2017 $'000	2016 $'000
Directors' fees	**340**	337
Auditor's remuneration	**378**	369
Other expenses	**7,976**	8,578
Depreciation	**667**	673
Profit on disposal of fixed assets	**(47)**	(12)
Administrative expenses	**9,314**	9,945
Acquisition costs	**25,374**	25,521
	34,688	35,466

Remuneration granted to the Directors in respect of their duties and responsibilities during the financial year amounted to $339,598 (2016 $337,157). 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 2017 amount to $321,000 (2016 $282,000); the fees related to other assurance services provided including tax services amount to $57,000 (2016 $87,000).

Included within acquisition costs is $15.8 million (2016 $16.2 million) in respect of commission.

In accordance with Schedule 3 of the International Group Agreement 2013, 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 2017 is 15.15% (2016: 15.50%).

15 STAFF COSTS

Staff costs disclosed below are in respect of the employees and directors of West of England Insurance Services (Luxembourg) S.A. and West of England (Hellas) Limited, together with the costs of the staff directly employed by the Association and International Shipowners Reinsurance Company S.A.. The total costs for all staff are:

	2017 $'000	2016 $'000
Wages and salaries	**15,608**	16,436
Other staff related costs	**1,687**	1,773
Social security costs	**1,508**	1,669
Other pension costs	**2,627**	2,068
	21,430	21,946

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

	2017 Number	2016 Number
Claims	**62**	64
Underwriting	**35**	35
Administration	**35**	34
	132	133

Most 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 where benefits are 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 2017, as shown below, at £50.8 million ($63.3 million), (2016 £45.3 million ($64.5 million)).

15 STAFF COSTS (CONTINUED)

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

	2017 $'000	2016 $'000
Present value of Scheme liabilities	**(137,419)**	(133,502)
Market value of Scheme assets	**142,171**	146,203
Surplus in the Scheme	**4,752**	12,701

The principal assumptions underlying these valuations were:

	2017 % per annum	2016 % per annum
Discount rate	2.7	3.75
RPI inflation assumption	3.3	2.7
CPI inflation assumption	2.3	1.7
Limited price indexation pension increases	3.1	2.7

The average duration of the Scheme's liabilities is approximately 18 years (2016 18 years).

16 INVESTMENT INCOME AND CHARGES

	2017 $'000	2016 $'000
Income from land and buildings	**1,935**	2,201
Investment income	**12,050**	10,348
Gains on realisation of investments	**12,845**	3,344
Gains from forwards and exchange	**19,337**	13,460
Total investment income	**46,167**	29,353
Investment management expenses	**(739)**	(1,051)
Losses on realisation of investments	**(969)**	(1,070)
Net value adjustments on investments	**(4,326)**	(12,414)
Losses from forwards and exchange	**(24,377)**	(18,486)
Total investment charges	**(30,411)**	(33,021)
Total investment return	**15,756**	(3,668)

The investment return has been attributed as follows:

	2017 $'000	2016 $'000
Class 1	**12,587**	(3,164)
Class 2	**700**	(168)
The West of England Reinsurance (Hamilton) Limited	**2,469**	(736)
	15,756	(4,068)
Reserve Deposit Fund	**-**	400
	15,756	(3,668)

17 TAX ON ORDINARY ACTIVITIES

	2017 $'000	2017 $'000	2016 $'000	2016 $'000
Luxembourg municipal and state taxes		**(397)**		(407)
Hong Kong Profits Tax		**(1,001)**		-
UK Corporation Tax:				
Current tax on income for the year	**(556)**		(404)	
Adjustment in respect of prior years	**(4)**		-	
Deferred tax	**25**		18	
		(535)		(386)
Other taxes		**(65)**		(66)
		(1,998)		(859)

18 SUMMARISED INCOME AND EXPENDITURE ACCOUNT BY CLASS

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**

18 SUMMARISED INCOME AND EXPENDITURE ACCOUNT BY CLASS (CONTINUED)

2016 $'000

	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Earned premiums, net of reinsurance (Note 12)	173,070	10,617	-	-	183,687
Claims incurred, net of reinsurance (Note 13)	(113,821)	(5,425)	311	863	(118,072)
Net operating expenses (Note 14)	(32,888)	(2,520)	-	(58)	(35,466)
	26,361	2,672	311	805	30,149
Investment return, net of tax (Notes 16 and 17)	(3,578)	(212)	-	(737)	(4,527)
Surplus for the financial year	22,783	2,460	311	68	25,622

19 RESERVES

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**

19 RESERVES (CONTINUED)

2016 ($'000)

	Reserve Deposit Fund	Revaluation Reserve	Class 1 Policy Year Reserve Account	Income and Expenditure Account	Total Reserves
As at 20 February 2015	20,850	32,717	37,410	152,715	243,692
Revaluation	-	9,586	-	-	9,586
Exchange	-	(2,204)	-	(35)	(2,239)
Surplus for financial year (Note 18)	-	-	-	25,622	25,622
Transfers from / (to) Income and Expenditure Account	400	-	(4,012)	3,612	-
Release from reserve	-	-	(5,850)	5,850	-
At 20 February 2016	21,250	40,099	27,548	187,764	276,661

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:

	2017 $'000	2016 $'000
Class 1	**31,664**	38,411
Class 2	**1,345**	1,650
Other	**38**	38
	33,047	40,099

The Revaluation Reserve is net of $2,407,000 (2016 $4,682,000) of deferred tax arising due to capital gains on property revaluation (Note 11).

Total Reserves by Class

	2017 $'000	2016 $'000
Class 1	**245,202**	203,955
Class 2	**29,821**	22,388
Other reserves	**31,489**	50,318
Total reserves at 20 February	**306,512**	276,661

At 20 February 2016 other reserves consisted of reserves not specific to Class including The West of England Reinsurance (Hamilton) Limited and the Reserve Deposit Fund.

20 CLASS 1 POLICY YEAR POSITION AT 20 FEBRUARY 2017

$'000

	2014/15	2015/16	2016/17	Unallocated investment income	TOTAL
Calls and premiums:					
- Year to 20 February 2017	69	1,062	180,869		182,000
- Prior years	207,483	214,835	-		422,318
Future additional calls (Note 8)	-	-	27,191		27,191
Gross premiums	207,552	215,897	208,060		631,509
Reinsurance premiums	(40,132)	(43,128)	(39,366)		(122,626)
Acquisition costs	(23,260)	(24,259)	(23,755)		(71,274)
Net premiums	**144,160**	**148,510**	**144,939**		**437,609**
Investment income	5,000	5,000	5,000	83,985	98,985
Net income	**149,160**	**153,510**	**149,939**	**83,985**	**536,594**
Net claims paid – Members	(71,869)	(47,036)	(23,728)		(142,633)
Net claims outstanding – Members	(23,054)	(85,450)	(107,144)		(215,648)
Net claims incurred – Members	**(94,923)**	**(132,486)**	**(130,872)**		**(358,281)**
Net claims paid – Pool	(9,490)	(11,198)	(873)		(21,561)
Net claims outstanding – Pool	(4,715)	(17,077)	(16,914)		(38,706)
Net claims incurred - Pool	**(14,205)**	**(28,275)**	**(17,787)**		**(60,267)**
Net claims paid	(81,359)	(58,234)	(24,601)		(164,194)
Net claims outstanding	(27,769)	(102,527)	(124,058)		(254,354)
Net claims incurred	**(109,128)**	**(160,761)**	**(148,659)**		**(418,548)**
Operating expenses	(9,699)	(8,713)	(8,145)		(26,557)
Net expenditure	**(118,827)**	**(169,474)**	**(156,804)**		**(445,105)**
Forecast balance on open years	**30,333**	**(15,964)**	**(6,865)**	**83,985**	**91,489**
Forecast balance on closed years					**153,713**
Forecast balance on Class 1 at 20 February 2017					**245,202**

20 CLASS 1 POLICY YEAR POSITION AT 20 FEBRUARY 2017 (CONTINUED)

Based on the position at 20 February 2017 a resolution will be put to the Board of Directors at their meeting on 24 May 2017 to allocate investment income of $5.0 million to policy year 2016/17 and to close the 2014/15 policy year.

Future additional calls represent 35% for policy year 2016/17 (due 20 August 2017). Additional calls are chargeable on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium. Furthermore, release calls have been set at 0% for policy year 2014/15, at 10% for policy year 2015/16 and at 20% for policy year 2016/17. The estimated yields of these 2015/16 and 2016/17 releases, if charged, would be $10.3 million and $21.1 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 2015/16 and 10% for policy year 2016/17, 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 2016/17 release call would be $10.6 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

	2014/15 $'000	2015/16 $'000	2016/17 $'000
Additional calls and releases already charged	37,944	38,696	10,327
Estimated product of a further 10% additional call	9,803	10,349	10,566

The additional call products shown take account of calls already charged, and Members released, at 20 February 2017 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

	2014/15 $'000	2015/16 $'000	2016/17 $'000
Claims paid - own business	(101,306)	(47,036)	(23,728)
Claims paid – other clubs' Pool claims	(9,490)	(11,198)	(873)
Gross claims paid	(110,796)	(58,234)	(24,601)
Recoveries from the Pool	-	-	-
Recoveries from the Group Excess Loss reinsurance programme	-	-	-
Recoveries from other reinsurances	29,437	-	-
Reinsurance recoveries on claims paid	29,437	-	-
Net claims paid	(81,359)	(58,234)	(24,601)

20 CLASS 1 POLICY YEAR POSITION AT 20 FEBRUARY 2017 (CONTINUED)

(c) Disclosure relating to claims outstanding

	Closed Years $'000	2014/15 $'000	2015/16 $'000	2016/17 $'000	**Total $000**
Outstanding claims – own business	(172,122)	(91,664)	(92,962)	(143,170)	**(499,918)**
Outstanding claims – other clubs' Pool claims	(48,672)	(4,715)	(17,077)	(16,914)	**(87,378)**
Gross outstanding claims (Note 13)	(220,794)	(96,379)	(110,039)	(160,084)	**(587,296)**
Recoveries from the Pool	25,067	-	1,020	36,026	**62,113**
Recoveries from the Group Excess Loss reinsurance programme	35,638	-	-	-	**35,638**
Recoveries from other reinsurances	33,183	68,610	6,492	-	**108,285**
Reinsurance recoveries on outstanding claims (Note 13)	93,888	68,610	7,512	36,026	**206,036**
Net claims outstanding	(126,906)	(27,769)	(102,527)	(124,058)	**(381,260)**

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.

21 CLASS 2 POLICY YEAR POSITION AT 20 FEBRUARY 2017

$'000

	2012/13	2013/14	2014/15	2015/16	2016/17	Unallocated investment income	TOTAL
Calls & premiums							
- Year to 20 February 2017	53	11	(25)	143	10,260		10,442
- Prior years	7,947	8,947	10,025	11,104	-		38,023
Future additional calls (Note 8)	-	-	-	-	1,266		1,266
Gross premiums	**8,000**	**8,958**	**10,000**	**11,247**	**11,526**		**49,731**
Reinsurance premiums	(501)	(552)	(627)	(867)	(912)		(3,459)
Acquisition costs	(779)	(895)	(1,154)	(1,318)	(1,388)		(5,534)
Net premiums	**6,720**	**7,511**	**8,219**	**9,062**	**9,226**		**40,738**
Investment income	-	-	-	-	-	6,471	6,471
Net income	**6,720**	**7,511**	**8,219**	**9,062**	**9,226**	**6,471**	**47,209**
Net claims paid	(3,140)	(4,440)	(4,539)	(5,031)	(864)		(18,014)
Net claims outstanding	(127)	(887)	(2,068)	(3,501)	(8,016)		(14,599)
Net claims incurred	**(3,267)**	**(5,327)**	**(6,607)**	**(8,532)**	**(8,880)**		**(32,613)**
Administration expenses	(1,002)	(982)	(1,297)	(1,174)	(1,110)		(5,565)
Net expenditure	**(4,269)**	**(6,309)**	**(7,904)**	**(9,706)**	**(9,990)**		**(38,178)**
Forecast balance on open years	**2,451**	**1,202**	**315**	**(644)**	**(764)**	**6,471**	**9,031**
Forecast balance on closed years							**20,790**
Forecast balance on Class 2 at 20 February 2017							**29,821**

Investment income includes all amounts earned up to 20 February 2017. Based on the position at 20 February 2017 a resolution will be put to the Board of Directors at their meeting on 24 May 2017 to close policy years 2012/13 and 2013/14 in surplus without allocation of investment income.

Future additional calls represent 35% for the 2016/17 policy year and are due 20 August 2017. In addition, releases have been set at zero for open years 2012/13, 2013/14 and 2014/15, at 10% for 2015/16 and at 20% for 2016/17. 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 2015/16 to zero and 2016/17 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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