West of England

Report and Accounts 2015

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Financial highlights

Combined Ratio
97.4%

Owned and chartered tonnage increased to over
90
million GT

Investment return of
4.3%
($27 million)

Free Reserve increased to record
$243.7
million

Combined Ratio improved for 7th year running

Members' claims frequency and values remain low

Free Reserve growth of
12.7%

	Free Reserves At 20 February ($)	Combined Ratio Year to 20 February	Investment Return Year to 20 February (inc property)	Gross Tonnage Mutual pro rata by Policy Year
2015	**243.7m**	**97.4%**	**4.3%**	**67.5m**
2014	216.2m	100.8%	3.4%	57.2m
2013	197.4m	102.5%	3.8%	53.7m
2012	179.4m	108.7%	1.8%	50.9m
2011	182.7m	118.0%	9.1%	49.2m

Chairman's statement

Matheos Los
Chairman

The 2014 year has been the most satisfying financial year for the Club for many years and certainly since I began writing this report in 2008.

A year ago I was pleased to note that 2013 had also been a very positive year, with improvements in our key numbers for a sixth consecutive year. Continuing this trend and despite the very challenging times in the industry, it is very satisfying to be able to report further substantial progress this year which has exceeded our forecasts.

Free reserves have increased again, this time by 12.7%, to a record $243.7 million and our combined ratio which reflects the Club's operating performance, has improved for a seventh successive year from 100.8% last year to a very positive 97.4%. This latest figure falls well within the key objective set in our business plan of achieving better than 105% and compares favourably with a perfect mutual Club result of 100%.

The most satisfying element in all our numbers is the consistent progress that has been made by our own Members. Their claims for 2014, both in value and frequency, are at a similar low level as for all the policy years since 2011. Claims incurred for earlier policy years have also continued to reduce as the years have matured, confirming a trend which has been evident since 2009. This may, to some degree, be attributable to luck but good luck rarely smiles on poor ship management.

We have also benefitted from our own sound claims record with the International Group's Pool. That record continues to keep our Pool share at about 6%, which for 2014, has been complemented by the cost of Pool claims for the year appearing at this early stage to be developing well below the levels of the previous three years.

The effect of these satisfactory claims figures is that the contingency margins included in our balance sheet for liabilities are at even stronger levels. They will help to ensure that our operating performance continues to be in line with our key objective. This will, I hope make it possible for premium levels to remain stable for our Members at a time when there is an acute awareness that freight markets for so many regrettably remain so difficult.

In previous reports I have commented in some detail on our long-term business plan, which was again reaffirmed by your Board in 2014 in the light of a Member and Broker Survey that our Managers undertook last summer.

For several years it has been central to our strategy to remain a fully focused P&I and FD&D mutual committed primarily to the provision of excellent claims and advisory services through our London and regional offices in Hong Kong and Greece. We have consistently resisted pursuing a policy of diversification into activities like hull and energy insurance which appear to your Board to be already oversubscribed and, we believe, will struggle to add value especially if the risks threaten to erode the Club's capital base.

Such a traditional view of the purpose of an International Group Club may not have been so

fashionable in recent years given the extent to which some Group Clubs have sought to diversify into other risks, whether correlated or not. Recent developments suggest, however, that the traditional view may be re-asserting itself more widely. Market competition, and excessive levels of cheaply priced alternative capital, make it difficult to see that other classes of marine business, underwritten on a fixed premium basis, can deliver the necessary returns in the foreseeable future without risking the strong capital base that has been painstakingly built up over the past few years.

The setting and maintenance of the appropriate level of capital for the Club has become a constant theme for all Group Clubs in recent years. Any indication that a Club may be either over or under capitalised will be a matter of concern to any Club Board. The difficulty, however, is the conflicting nature of the environment in which the assessment has to be made.

On the one hand all Clubs must be capitalised to the levels now required by the Solvency II capital framework which, after several postponements, is now set to take effect in January 2016. For us this presents no issues as the Club's capital today is greatly in excess of the Solvency Capital Requirement set by the regulations. On the other hand, to meet increasing market demand that Clubs conform to first-class financial strength ratings as determined by rating agencies, we also have to set our capital requirements so that we are capitalised to the levels indicated by rating agencies' capital models. Your Board's difficult task is to achieve a position which will maintain the Club's position within an "A" range with rating agencies without losing sight of the fundamental concept of mutuality and of the fact that a Member's capital is held on trust by the Club and that there is a duty on Clubs not to hold more capital than is required, especially at a time of such commercial stress for so many of our Members. A Club that diversifies and moves away from mutual business to a significant extent will most likely need to apply a different business model targeting a higher level of capitalisation. But we have explicitly chosen not to adopt that model.

During the year your Board has as usual considered other significant issues that affect our Members. Sanctions legislation has become more widespread in particular against Russian and Ukrainian individuals, and the anticipated relaxation of sanctions against Iran has not in practice materialised. Whilst the threat of piracy may have apparently abated especially in the Gulf of Aden and the Arabian Sea, hijackings in South East Asia and West Africa have increased with a sharp escalation in acts of violence against seafarers resulting in tragic loss of life. Vigilance to avoid these threats has to be maintained and the Club's managers have always remained available to give advice on these difficult issues where security regulations may differ from flag state to flag state.

Last year I wrote about the Board's serious concerns over the dispute between a Group Club and the 1971 International Oil Pollution Compensation Fund (IOPC Fund) which arose from an oil spill from the tanker NISSOS AMORGOS in 1997. Since then the matter has reached a most unsatisfactory conclusion following legal action before the English Courts and the subsequent decision to wind-up the IOPC Fund. This raises fundamental questions about how a partnership between the Group Clubs and the 1992 and Supplementary Funds – which is vital if the compensation conventions are to operate successfully – will work in future oil spills. Discussions between the parties are continuing and it is hoped that a satisfactory outcome can be reached for the benefit of all.

More information about these and other issues that are affecting our Members appears in our Managers' Review elsewhere in this Report and Accounts.

With regard to the Board, I would like to welcome to the Board Messrs P G De Brabandere, Ye Weilong and Qin Jiong. May I thank Messrs Liu Guoyuan and Zhang Denghui who retired from the Board in 2014 for their help and guidance. Since the date of these

Accounts, Trinh Quang Tuyen has also advised us of his wish to retire. His appointment to the Board was the first of a Director representing our Vietnamese entries and marked a long-established and much valued relationship for the Club. We wish him a very rewarding retirement after much significant work in building a durable relationship with those Members. I would also like to say a personal thank you to Philip Aspden, now finally retired, who first stepped down as General Manager in 2010 after many years of service and then returned to assist us so valuably pending the appointment of Thierry Brevet as his successor in Luxembourg last year.

As always, I wish to thank all my colleagues on the Board for their constant, valuable and very dedicated contribution to the success of the Club. On their behalf I must also thank our Managers under the ever watchful leadership of Peter Spendlove for their dedication in ensuring that our interests will continue to be served so well in the future.

Matheos Los
Chairman

General Information

Directors

M T Los (Chairman)	Athens
J A Drakos (Vice-Chairman)	Connecticut
P R L Lorenz-Meyer (Vice-Chairman)	Hamburg
F G Sarre (Vice-Chairman)	Antwerp
B Aagaard-Svendsen	Copenhagen
M O Al-Otaibi	Riyadh
A O Al-Yabhouni	Abu Dhabi
P G De Brabandere	Antwerp
M B Ergin	Istanbul
Feng Jianhua	Beijing
P Gripari	Athens
F M Haukedal	Lysaker
Y Khatau	Mumbai
T C Litton	Texas
V A Mednikov	Moscow
N X Notias	New York
I Perantinos	Piraeus
T Petalas	Monaco
Qin Jiong	Shanghai
K S Rajvanshy	Hong Kong
A M W Staring	Antwerp
Trinh Quang Tuyen	Hanoi
L M Tsangarides	London
Ye Weilong	Beijing
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Managers' review

Peter Spendlove
Managing Director

There is good reason for the results reported in this year's Financial Statements to be viewed as highly satisfactory. Both the underwriting result and the investment return performed ahead of expectations. The overall figures - an increase in the Club's Free Reserve of $27.5 million (12.7%), generated from an underwriting surplus of $4.5m (representing a combined ratio of 97%) and an investment return net of tax of $23.0 million – have been achieved in a climate of continuing economic uncertainty and poor trading conditions for Members.

The Club has experienced significant changes in recent years, both in the economic environment, which worsened considerably with the financial crisis of 2008 and continues to deliver a depressed market for shipowners and operators, and in the fluctuations of the investment market. It needs not only to steer through such difficult times, but also to engineer positive change to adapt itself to what may be new and more permanent challenges. Against that background the Club's underwriting result is all the more positive in that it represents the seventh consecutive year that the combined ratio has fallen and the first in this sequence where the underwriting result has been better than breakeven. This can be seen as the fruition of an action plan implemented over this period which involved modifications to both the Club's risk profile and claims reserving process.

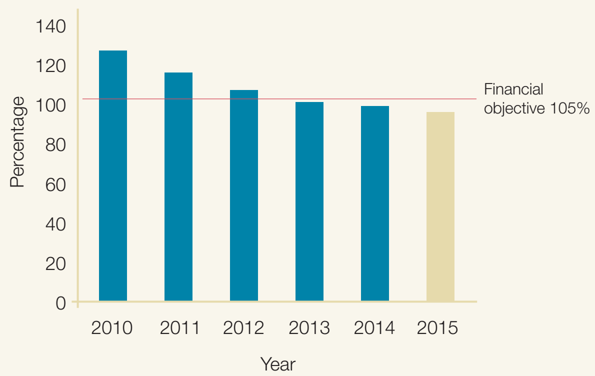
To maintain this forward momentum the Club needs to be vigilant. Its Enterprise Risk Management (ERM) framework has been developed and continually enhanced to achieve the Club's longer term objectives, by identifying key risks, establishing suitable tolerances for those risks and then setting controls to ensure that the Club is not exposed to the potential of unacceptable losses. All risks, whether underwriting or market, are managed within the same process so that the Club operates within defined levels of potential loss or volatility, but the underwriting account and its risks should remain the primary focus of any Club if the placing of excessive pressures on the non-technical account and an over-reliance on investment return are to be avoided.

Capital Management

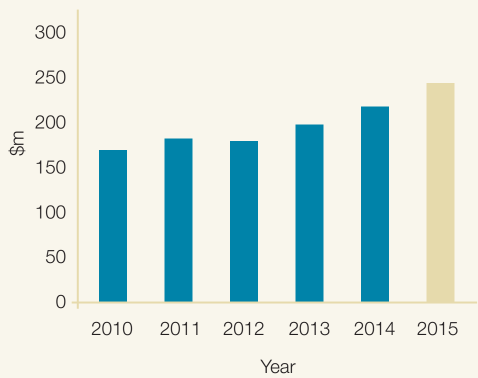
There has been much recent debate in the P&I market - from brokers, industry financial analysts and Clubs themselves - as to what the appropriate level of capital for a mutual should be over and above the required regulatory capital which, although related, centres on a minimum risk-based capital level for solvency rather than the appropriate on-going capital needed for operations. Quite rightly, certainty of call has always been important for Members for budgeting and cash-flow purposes. A mutual should therefore hold enough capital to maintain stability of calls. But the unique mutual P&I model which has operated successfully for so many years has been subjected to more pressures in the last decade than possibly ever before in the industry's long history. Amongst them, changes in insurance regulation, combined with growing rating agency attention

and demands from purchasers of insurance for “satisfactory” credit ratings have led to Clubs being required to hold levels of capital above traditional levels. In assessing the appropriate capital level, a Club must remain mindful that its capital remains that of its Members and that excess capital strength, above that necessary to achieve its business objectives, will be unwelcome.

Combined ratio
Year to 20 February



Free reserves
At 20 February



In Europe, the Solvency II regulatory regime which has been a long time in development finally comes into effect on 1 January 2016. The Club’s ERM framework has been developed partly in response to Solvency II’s “Pillar II” but more as a catalyst for the evolution of the Club’s internal capital modelling and own assessment of its capital needs, as defined in its ORSA (Own Risk and Solvency Assessment), with the ORSA and forward-looking assessment of risk now an integral part of the Club’s management of its capital and of its ERM framework.

The Club’s solvency capital comfortably meets the requirement under the new legislation but even though the advent of Solvency II is less than a year away, there is still uncertainty as to how much of any insurer’s capital position and other related information will become publicly disclosed. Public disclosure (within “Pillar III”) will add another dimension to the means by which purchasers of insurance and their advisers measure the relative strength of Clubs and may change the nature of the rating agency process.

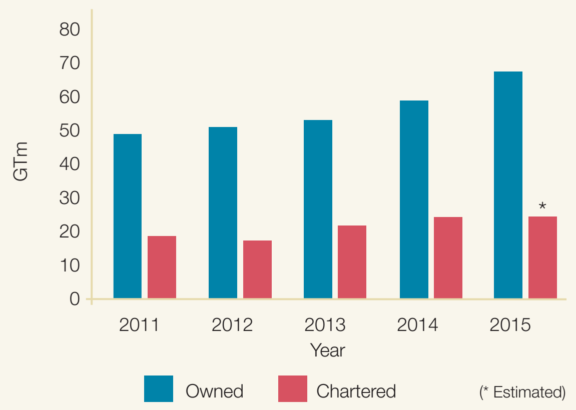
A fundamental concept of Solvency II is that insurers will become more efficient in their measurement and management of capital. The reality may be though that the regulatory process gives insufficient recognition to the strength of the mutual system. Furthermore, it is likely to be the capital models and interactive processes of credit rating agencies, which set a higher benchmark for Club capital, rather than regulatory requirements which will prevail if Clubs are to meet the expectations of brokers and insurance purchasers. They may themselves become more restricted by their own compliance tests which may force them to follow rating agency assessments rather than their own analysis and judgement or the tests applied by regulators.

The Club’s financial objective is to target a capital level of AA on both the Standard & Poor’s (S&P) and A.M. Best rating agency capital models. The Club’s position at 20 February 2015 on the S&P capital model sits marginally below the level required for AAA. The A.M. Best capital model shows a similar picture. However, interactive rating processes are not only about a Club's capital position. Other, more subjective, judgements are taken into account by rating agencies determining overall ratings.

The Board has nevertheless recognised the Club's increased capital levels by making significant reductions to the Class 1 and Class 2 release percentages for all open years at its meeting in May 2015, full details of which were announced in the Club's Notice to Members No.4 2015/2016.

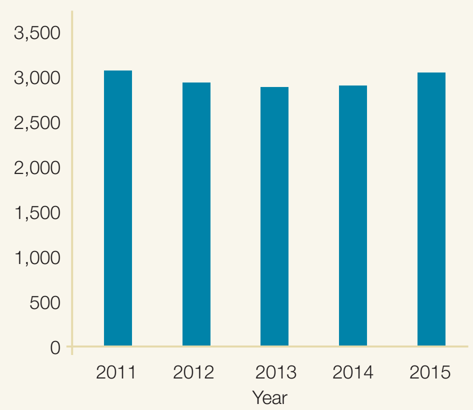
Tonnage by Policy Year

Class 1, pro rata by period of entry



Number of vessels by Policy Year

Class 1 Owners, pro rata by period of entry



Underwriting

One of the Club's key business objectives is to operate at a combined ratio below 105%. The combined ratio is by custom expressed as a percentage and shows the relationship between net premium and net claims and operating costs. A figure of below 100% represents an underwriting surplus. In setting a figure above 100% the Club recognises that for a mutual it is appropriate that some contribution to the result should be made by investment return, reflecting the fact that a Club's capital belongs only to its Members.

Premium

Previous Reviews have noted the impact on premium of "churn", the effect where a newer, lower-rated vessel, replaces an older, higher-rated one. Churn has been a feature of the entire P&I market over recent years, reflecting the growth in the world fleet which accompanied the major economic expansion seen prior to 2008 and the demand for larger and more efficient vessels. There are also commercial pressures on premium from an increasingly competitive P&I market and a difficult freight market, making it a challenge to ensure that premium continues to match future underwriting risk.

The February 2015 renewal was characterised by a small increase in overall premium for existing vessels and the addition of nearly 5 million GT of mutual vessels comprising both additional entries for existing fleets or entirely new Members, with an estimated $7.7 million of annualised gross premium. The Club was also asked to quote on a large volume of other business - reflecting the recognition by the market of the Club's significantly increased financial strength and its long-standing reputation for service and support to its Members – but a large proportion of that potential business was declined in order to maintain the quality of risk underwritten.

Although the Club's tonnage has increased significantly at this last renewal and over recent periods, the Managers consider that the underlying risk profile of the Club has not changed materially, because the number of vessels entered on a mutual basis (and the mix by vessel type) has not shown such a significant change over the last four years. The Managers believe that vessel numbers are a better general overall indicator of exposure and risk than GT.

Further support for the Club was also reflected in increased chartered business from a number of significant new and existing charterer Members at renewal. Such business is not always subject to the constraints of the International Group Agreement and can therefore be more affected by price competition from a variety of providers. Extra care must consequently be taken in risk selection to ensure that such business is compatible with the Club's existing risk profile.

Likewise, Class 2 (FD&D) entries and premiums increased at renewal. In order to position the Club more favourably in the market and especially for new building risks, the limit on FD&D cover was raised significantly, starting for the 2015 policy year, from an existing $5 million for navigating risks and $2 million for new building risks to $10 million for all risks or $15 million should individual Members require it.

Claims and Reserving

The Club is determined to follow a consistent and prudent approach to reserving for its claims liabilities. The seven-year combined ratio improvement, including this year's figure below breakeven, has been achieved as claims reserving and balance sheet strength have again been increased following the pattern of year-on-year strengthening adopted since 2009. The confidence level of sufficiency within the Club's projected net liabilities has been gradually increased over the period while the combined ratio has fallen. The provision for

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
2005	102.2	212.1	219.4	249.3	246.2	250.6	250.3	249.9	245.1	245.2
2006	312.5	463.9	515.9	508.5	505.7	511.0	514.8	523.8	553.5	
2007	303.2	436.9	479.8	485.9	515.4	530.0	530.0	520.1		
2008	87.6	120.4	110.3	126.0	124.0	123.6	126.9			
2009	233.8	229.4	231.3	227.0	254.4	275.9				
2010	192.9	263.5	291.6	276.1	271.7					
2011	331.0	469.2	484.5	512.1						
2012	375.3	460.2	485.8							
2013	287.1	340.3								
2014	177.1									

IBNR (claims incurred but not reported) within the overall projected ultimate liabilities has increased proportionately while those overall net liabilities have fallen.

For claims themselves, it appears from early data at least, that Policy Year 2014 has generally been a benign claims year for the industry, with only one or two exceptions. Reflecting that fact, at the 12 month stage, the Club's own claims experience for 2014 looks to be the lowest claims year for Members' claims for many years but this follows three other years with remarkably similar characteristics. Policy Years 2011 to 2014 have all followed similar patterns below the levels of previous years and are developing to their ultimate cost more quickly. Claims numbers reflect the same trend as claims values. The charts on pages 16 and 17 illustrate this.

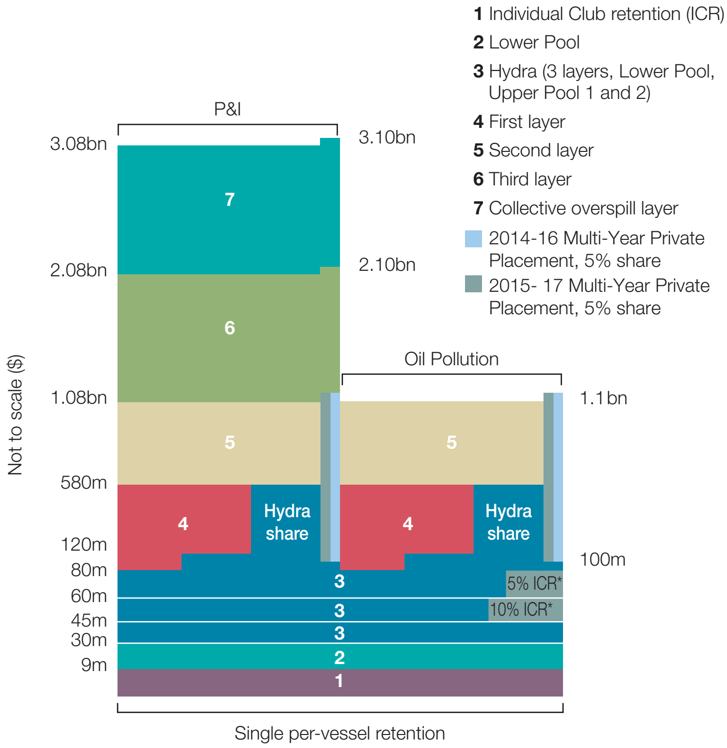
For the International Group Pool, 2014 also appears to be a more moderate claims year with only fifteen claims reported by Clubs by February 2015. The Pool has the ability to develop adversely at a relatively late stage but it may now be said with some confidence that there are unlikely to be any individual major incidents above normal Pool levels to cause such movements.

It is possible that the strong US dollar is one reason for the moderate claims experience in 2014, though this would be more apparent at the attritional level rather than for claims involving the Pool. It is often difficult to identify the underlying currency exposure within claims liabilities and the effect of currency movements on claims developments. Whilst the potential impact of such effects is considered when projecting and modelling likely future movements in claims costs, such projections will always be imperfect.

It is also probable that the economic environment has led to a reduction in claims levels. Asset values are depressed and there are arguably fewer trading pressures on Members and their vessels that result in claims.

Group Excess of Loss Reinsurance Programme

Policy Year 2015



(* ICR = retained Club share for claiming Club)

Reinsurance

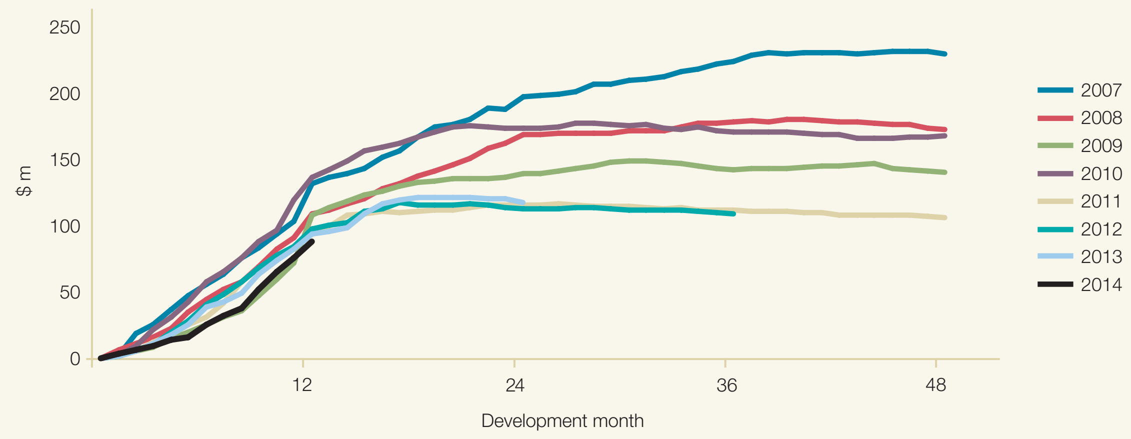
As always, the Club's underwriting activity is underpinned by the International Group Pool and the Group Excess of Loss reinsurance programme (GXL). Further changes to the GXL structure have been agreed for Policy Year 2015 with the key features being the introduction of a second "vertical slice", placed with Liberty Mutual, which follows the addition of a 5% placing with Berkshire Hathaway last year, and an increase to Hydra's share of the first layer between \$80 million and \$120 million. The full structure is shown above.

The Club's Pool loss ratio remains favourable and its claims sharing percentage remains stable at just over 6% on the lower Pool.

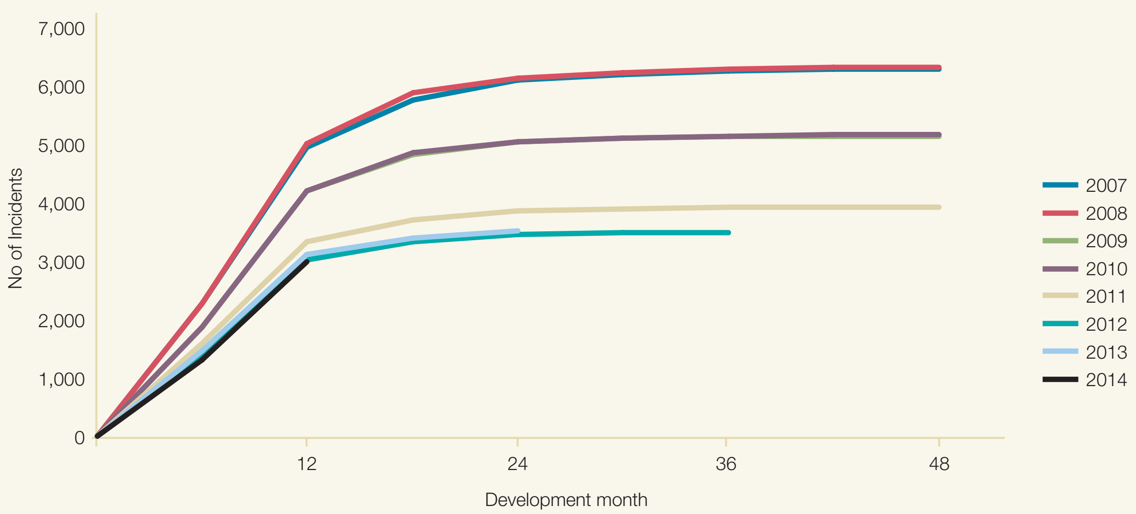
The Club's retained risks outside the GXL are supported by strong retention reinsurance,

Incurred claims development by Policy Year (Class 1 Members)

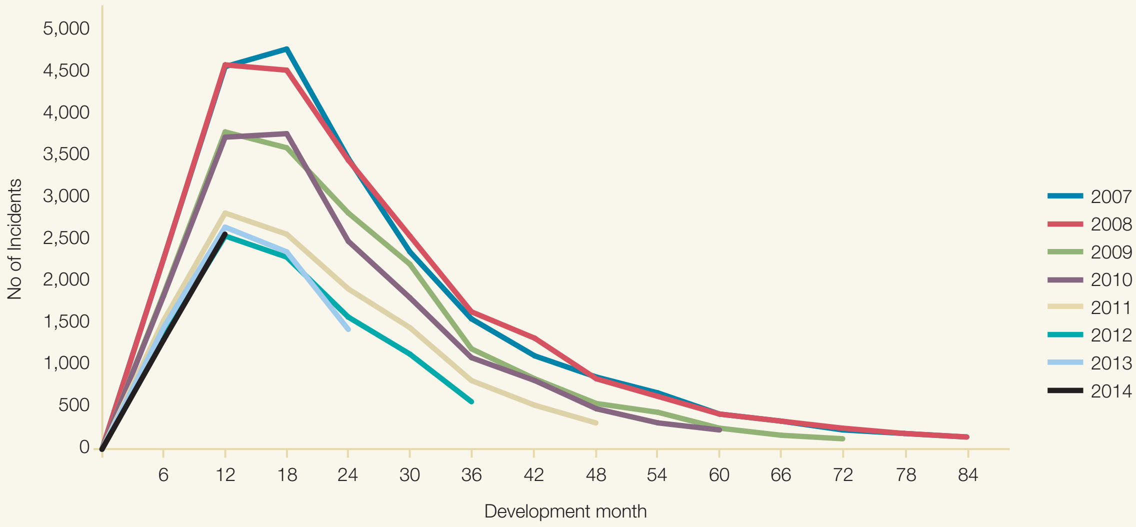
Paid plus estimates net of General Excess of Loss Reinsurance recoveries and Pool



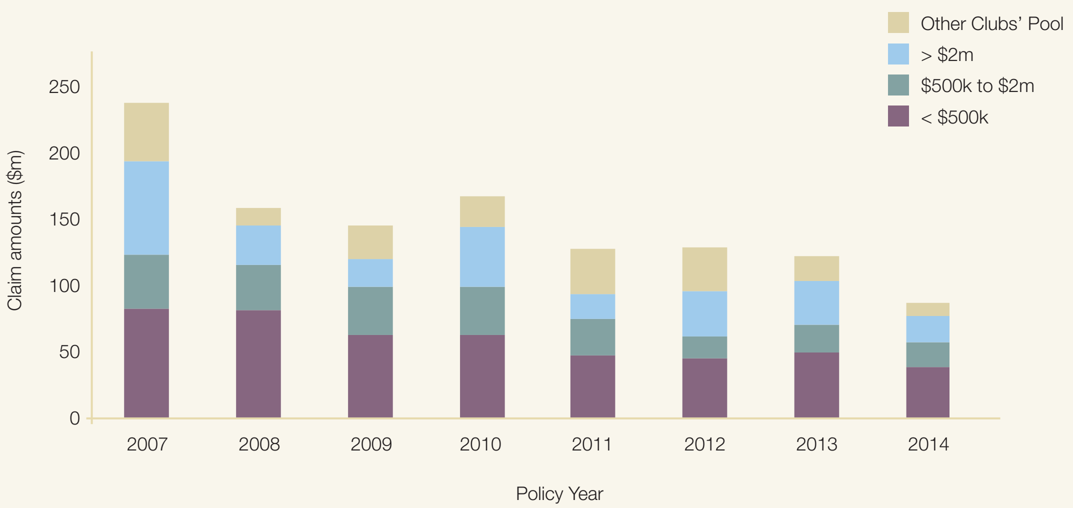
Cumulative development of number of incidents by Policy Year (Class 1 Members)



Number of open incidents by Policy Year (Class 1 Members)



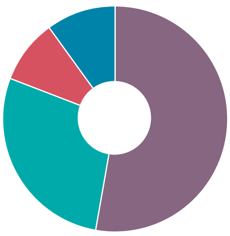
Incurred claims analysed by size, by Policy Year (Class 1)
At 20 February 2015



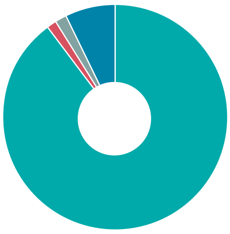
provided by Swiss Re, Partner Re, Endurance Re and Montpelier Re.

The Club's chartering and owners' fixed premium facilities are also reinsured with first class security. The primary layer is placed with the Watkins syndicate at Lloyd's together with Swiss Re.

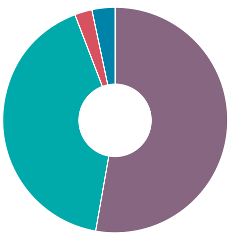
Investment allocation
at 20 February 2015



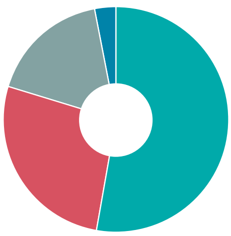
Investments by currency (excluding property)
at 20 February 2015



Fixed income by issuer type
at 20 February 2015



Fixed income by rating
at 20 February 2015



Investments

The Board has continued to pursue a strategy of reducing risk in its financial assets. This process is strongly aligned with the requirements of the capital model described earlier; for increased return there must be increased risk and this is recognised in capital models by "risk charges" for "risk assets" such as equities. Models differ but the principle is the same in each and although no model can precisely reflect reality, the Board has sought to reduce risk, and volatility, by a combination of reducing its equity holdings, removing absolute return from the asset allocation and reducing the complexity of the fixed income portfolio.

This year, the Club has restructured its fixed income portfolio - simplifying the portfolio and moving to a "buy and hold" approach in one of its two externally managed mandates. The mandate was also further restricted so that only forward currency contracts for hedging purposes are used.

The price of reduced risk is a lower expected return. Today's market is one where return is in any case difficult to identify. As a result prices for some assets have been chased to unrealistic levels. The low interest rate environment has persisted for far longer than most analysts predicted and seems likely to continue. Speculation as to when the US Federal Reserve will raise rates also continues but, whenever that will be, it seems probable that rates will not rise too rapidly from that point. There is similar speculation in the UK but for the Eurozone the picture is different, with a slower timetable for rate increases and the ECB's quantitative easing programme scheduled to continue until at least September 2016.

The Board has remained wary of interest rate rises for some time, as reflected by the fact that the Club remains overweight in cash and underweight in equities and fixed income. The duration of the fixed income portfolio has been managed to protect the Club from the reaction when interest rates do start to rise. The Club's cautious allocation to equities, which remains at 10%, stems not just from modelled risk charges

but from a view that equity valuations look generally full. The 2013 "taper tantrum" demonstrated how sensitive these markets are to Federal Reserve communications, and indeed to other, often misread, signals.

Threats identified by the Club's investment committee include Eurozone uncertainty, continuing impacts from instability and turmoil in the Ukraine and Middle East and the slowdown in China. There is in addition the unexpected, as was demonstrated by the steep fall in the oil price last year and its effect on markets.

The overall return from financial investment assets, net of charges, was 2.66%, equivalent to $14.6 million. By asset class, the returns were fixed income 3.08%, equities 6.97% and cash 0.34%.

In addition to its portfolio of financial assets, the Club owns two properties which add diversification to its asset base, one in Hong Kong and the other the management company's office in London, next to Tower Bridge. The buoyant London commercial property market has led to a valuation of this building at February of £34.3 million, a rise of 33% in the year. Although in the Club's reporting currency, US dollars, there was an adverse exchange effect, the valuation contributed about $9 million to the Club's Free Reserve this year, net of tax. The property's value benefits from its location and also from particular demand for offices of its size. Ownership of the property also contributes to the financial result by eliminating the need to pay external rent for the management company's offices and by the receipt of rent from tenants. During 2014, additional space was let to a third tenant, increasing the rent charged overall and supporting an enhanced review of existing tenants' leases.

Conventions

As had been anticipated, the Special Tripartite Committee which oversees the Maritime Labour Convention (MLC) decided to amend the Convention to the effect that shipowners will be required to provide financial security in respect of contractual claims for death and injury and for the payment of up to four months of back wages and other entitlements.

Whilst the personal injury requirements are already part of Club cover and therefore present few problems in providing certification, the issue of crew wages is clearly more difficult. Apart from the very narrow circumstances of seafarers' unemployment indemnity payments in the event of a casualty, Clubs have traditionally not been involved with issues of seafarer remuneration.

The changes to the Convention will come into force in early 2017 and shipowners will need to carry appropriate certification on board their vessels by then. Against that background all Club Boards considered how cover and certification might be provided for what is more of a credit risk than a traditional third party liability. Underlining the value to shipowners of the P&I system, Club Boards supported the view that while the risk should not form part of normal Poolable P&I cover, a solution should nevertheless be found utilising the Club structure. Work is now underway to determine how cover and accompanying certification can be most efficiently provided.

In doing so consideration will have to be given to both the likelihood and the potential impact of the risk. Non-passenger tonnage usually carries smaller crew complements and it would require a sudden and catastrophic failure of the shipowner tied to an inability to recover any loss from a sale of such a vessel for the insurer to ultimately bear the full financial burden. Viewed against those parameters the risk is arguably moderate. But where multiple vessels in one fleet are involved or a passenger vessel where complements of crew and others on board – all of which are likely to be viewed as "seafarers" under the Convention – might number into the thousands, there is a significant aggregation of risk if they are abandoned. If, as the majority of Club Boards made clear, there is no support for the sharing of this liability via the International Group's Pool then careful consideration will be required over the structure of cover to be provided and the equitable sharing of cost to reflect the risk which each vessel represents.

The Nairobi Wreck Removal Convention came into force in April 2015. In view of the continued prominence of high cost wreck removal claims, which are likely to involve the International Group Pool, the Large Casualty Working Group continued its outreach programme with major maritime states. The aim is to engage states in discussions regarding the practicalities of responding to wreck removal incidents and to reinforce on a wider basis the objectives set out in the Nairobi Convention for removal efforts to be reasonably necessary and proportionate to the hazard posed, a logic which can sometimes be lost in the midst of a casualty. Meetings and seminars have already been held with a number of states and a Memorandum of Understanding setting out the parties' intentions to work co-operatively in the event of a casualty has been signed with South Africa, Australia and New Zealand, with Singapore and the UK expected to follow later this year.

The initial data analysis performed by the Working Group is being expanded by the collection of data from Clubs relating to more recent large wreck removal claims in order to further refine and corroborate conclusions to be drawn as to what costs in particular affect such claims. There can be no doubt that there will be continued scrutiny over these types of events in the aftermath of the COSTA CONCORDIA and RENA casualties.

Sanctions

Shipowners have continued to labour under an increased burden of sanctions during the year, often targeted or implemented in such a way that pays little or no heed to the practicalities of maritime transport.

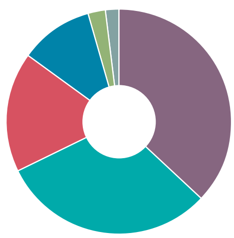
In particular sanctions imposed by both the United States and the European Union in reaction to the annexation of Crimea and the situation in eastern Ukraine were expanded at regular intervals. Broad restrictions were imposed on the carriage of materials and the provision of resources such as specialised floating craft for use in shale oil, Arctic and deep water oil and gas exploration in Russia and more generally any goods which originate in Crimea. Ukraine also threatened to blacklist any vessel which has previously called at a Crimean port.

The US additionally set out so-called sectorial sanctions. Although several prominent Russian banks and energy companies (who are leading vessel charterers) have been targeted, the effect has so far been limited to certain prohibitions on debt financing. The stage is clearly set however to expand these measures to include maritime trade should it be deemed politically expedient to do so.

The US and EU sanctions are targeted at individuals as well as corporate or public entities, which impose a greater burden of due diligence on shipowners when trading to this important region to check all parties to the venture and ensure that they are not owned or controlled by a sanctioned person.

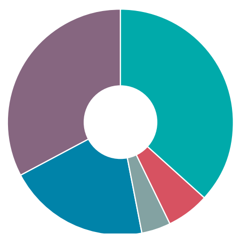
Although no new sanctions were implemented in relation to Iran, the relaxation of certain sanctions under the Joint Plan of Action (JPOA) first implemented in January 2014 and continued throughout the year remain of limited value to shipowners. Not only are they of benefit only to certain sectors – broadly the

Entered tonnage by vessel type
(Class 1 owner entry) Policy Year 2015



- Bulk cargo carriers **37.2%**
- Tankers & OBOs (inc LPG/LNG) **30.7%**
- Container vessels **17.2%**
- General cargo & reefers **10.7%**
- Ferries & passenger liners **2.5%**
- Specialist vessels & misc. **1.7%**

Entered tonnage by area of management
(Class 1 owner entry) Policy Year 2015



- Asia **36.9%**
- Middle East/Africa etc **6.0%**
- Americas **4.3%**
- Greece **20.1%**
- Other Europe **32.7%**

carriage of Iranian petrochemicals and automotive parts for use in Iran – but refusal by firstly both the US and the EU and latterly by just the EU to allow payments to be made in respect of liabilities incurred during the relaxation period after that period has expired has meant that the operation of Club cover for what are otherwise perfectly legitimate trades remains problematical in practice.

Recent discussions between the P5+1 Powers and Iran have pointed towards a possible comprehensive agreement which would see sanctions relaxed in return for certain verifiable steps being taken with regard to Iran's nuclear programme. Whether or not such an agreement is reached and the scope and pace of any relaxation in sanctions remains to be seen.

Pollution

The dispute between the Gard Club and the 1971 International Oil Pollution Compensation Fund (IOPC Fund) reached a highly unsatisfactory conclusion. Gard initially succeeded in winning an injunction against the 1971 Fund being wound up because of outstanding liabilities arising from the NISSOS AMORGOS oil spill in Venezuela in 1997. In the subsequent substantive proceedings however the English High Court found that there was no legal requirement for the IOPC Fund to reimburse the club for the amounts in excess of the vessel's CLC limitation of liability. The court also ruled that the IOPC Fund enjoys a right of immunity under the terms of its Headquarters Agreement with the UK Government. The judge accepted that Gard may well have anticipated receiving reimbursement from the IOPC Fund, not least because this reflects the way in which the partnership in running the compensation conventions between the IG Clubs and the IOPC Fund has operated for many decades, but found there was no basis in law to support this expectation.

The conventions have been the bedrock on which the principles of channelling compensation to the victims of oil pollution from tankers quickly and easily have been built. Doing so has required Clubs and the IOPC Fund to work as partners and the system has to date worked for the benefit of all. Whilst that partnership must continue because of the interlocking relationship between the different components of the convention system, there can be no doubt that the outcome of the NISSOS AMORGOS case could have profound implications for the manner in which that partnership operates in future spills. The question of making interim payments to avoid financial hardship for claimants is particularly difficult and Clubs will have to examine carefully how they respond to requests for those payments if the safety net of the IOPC Fund assuming responsibility for any sums above the vessel's CLC limit can potentially no longer be relied upon. This is a development which the Clubs view with the greatest concern and discussions with the IOPC Fund are continuing in an effort to find a solution.

Member Survey

The consistent delivery of excellent service and a strong mutual ethos remain at the core of the Club's philosophy. During the year the Managers commissioned independent research to gather information from Members and brokers about the Club, its strengths and where improvements may be required.

The survey encompassed a wide cross-section of the Club's membership across all vessel types and geographical locations. The response rate was encouragingly high and the results provided a strong endorsement of the Club's values and recent performance, with both Members and brokers expressing high levels of satisfaction and a willingness to recommend the Club to others.

One area singled out for particular support both in the survey and elsewhere amongst brokers was the Club's unique treatment of the IG's reinsurance cost, which is charged as a fixed cost and separated out from the mutual premium. The Club continues to believe that this is a fairer and more transparent treatment and the survey overwhelmingly supported the approach being continued rather than the cost being combined into a single premium together with mutual premium. This was subsequently endorsed by leading brokers in their publications in the lead up to renewal.

Diversification into other product areas has become a theme for many Clubs in recent times but the survey strongly endorsed the Board's view that the West of England's focus on its core strengths as a mutual insurer should continue. That does not remove the need for product innovation however and the Managers will continue to develop additional covers to support and complement P&I and FD&D cover.

Management Board

During the year the Club's senior management team has been strengthened. Tom Bowsher has been promoted to Senior Underwriting Director with overall responsibility for all the Club's underwriting and business development activities in London, and in the Club's regional offices. He will be supported in his new role by Simon Parrott and Richard Macnamara who continue as Underwriting Directors in London and Hong Kong respectively.

Suzanne Byrne was also appointed as a Claims Director in January 2015. Suzanne is well known to the Club and its Members having worked for the Managers for 14 years before joining a shipowner as risk manager. She now returns to the Company bringing significant operational experience and expertise to claims management.

In Luxembourg Thierry Brevet was appointed as the Club's General Manager in Luxembourg in succession to Philip Aspden who finally retired after long and dedicated service to the Club.

Michael Stevenson, formerly Claims Director of the Managers, retired from his role as consultant. He was particularly active in managing the Club's occupational disease claims and also in mentoring students undertaking the IG's P&I Qualification programme.

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 23 September 2015 at 10:00 hours for the following purposes:

1. To approve the Report of the Directors and the Financial Statements for the year ended 20 February 2015 and to grant discharge to the Directors and Auditor for the year under review.
2. To elect Directors.
3. To appoint an 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

33 Boulevard Prince Henri
L-1724 Luxembourg

20 May 2015

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.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of The West of England Ship Owners Mutual Insurance Association (Luxembourg) ("the Association") for the year ended 20 February 2015.

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. 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 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 over 90% 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, contributed surplus and reinsurance premiums to the Hydra West of England Cell which is wholly owned by the Association and, during the year, participated in IG 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 a dedicated 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 risk.

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 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 2015 this reinsurance covers claims from $9 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 (both existing Solvency I and prospective Solvency II) 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) documents 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 diversification within its strategic asset allocation to manage interest rate risk.

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. The Association may also from time to time enter into interest rate futures contracts or other derivative transactions in order to minimise the interest rate risk on specific maturities.

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.

Financial Statements

These financial statements conform to the Luxembourg law of 8 December 1994 (as amended) in all respects except that

Report of the Directors
continued

investments are stated at market value, land and buildings at valuation and for the presentation of subrogation and salvages. Luxembourg legislation requires that land and buildings are stated at the lower of historic amortised cost or market value and that other investments are stated at the lower of amortised cost or market value; also 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 financial statements are set out on pages 34 to 63 with the principal accounting policies summarised on pages 39 to 42. Financial statements conforming fully to the Luxembourg legislation are filed with the Luxembourg authorities: copies are available on request from our principal office.

These statements show a surplus for the year of $18.0 million (2014 $12.4 million) before the transfer to the Reserve Deposit Fund of $0.4 million (2014 $0.4 million) and a net transfer to the Class 1 Policy Year Reserve Account of $10.5 million (2014 $11.5 million). In addition the Revaluation Reserve increased by $9.5 million (2014 $6.4 million). Total reserves at 20 February 2015 were therefore $243.7 million (2014 $216.2 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 7, held office throughout the year under review with the exception of Mr P G De Brabandere, Mr Ye Weilong and Mr Qin Jiong who joined the Board with effect from 11 March 2015, 31 March 2015 and 15 April 2015 respectively. In addition, Messrs Liu Guoyuan and Zhang Denghui retired from the Board with effect from 21 May 2014 and 24 September 2014 respectively.

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

General Manager

Mr T Brevet was appointed as General Manager and Company Secretary of the Association on 24 September 2014, which took effect from 2 October 2014 replacing Mr P A Aspden who retired with effect from 2 October 2014.

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 forthcoming Annual General Meeting on 23 September 2015 the Directors will propose a resolution for the appointment of an Auditor for the year commencing 20 February 2015.

By order of the Board

T Brevet
Secretary
20 May 2015

Audit report

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

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg), which comprise the balance sheet as at 20 February 2015, the 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.

Board of Directors' responsibility for the consolidated annual accounts
The Board of Directors is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with the identified basis of accounting as set out in Note 1 to the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated annual 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 annual 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 about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the

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R.C.S. Luxembourg B 65 477 - TVA LU25482518

judgement of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated annual 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 annual 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 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 annual 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 annual accounts give a true and fair view of the financial position of The West of England Ship Owners Mutual Insurance Association (Luxembourg) as of 20 February 2015, and of the results of its operations for the year then ended in accordance with the Accounting Policies adopted by the Association as presented in Note 1.

In order for these consolidated annual accounts to be prepared on a basis consistent with accounting policies adopted by other members of the International Group of P&I Clubs, investments are stated at market value and, as described in Notes 1 and 2 and for the reasons stated therein, land and buildings are stated at estimated market value. At 20 February 2015, and previously, land and buildings were revalued, and the change in the total revaluation surplus transferred to the revaluation reserve. Luxembourg law requires investments and land and buildings to be stated at the lower of cost and market value, and for buildings to be depreciated over their estimated useful lives. Statutory consolidated financial statements in conformity with Luxembourg law (using the option of lower of cost and market value for the valuation of investments, as well as the disclosure of the salvages and subrogation on a gross basis within the balance sheet and profit and loss accounts) which differ from these consolidated financial statements only in these respects and which do not include the consolidated statement of cash flows, Notes 18, 19 and 20, (which relate to the Class 1 and 2 policy year positions and the Average Expense Ratio), are filed with the Commissariat Aux Assurances and the Registre de Commerce in Luxembourg, and our audit opinion thereon is unqualified.

Report on other legal and regulatory requirements

The Report of the Directors, which is the responsibility of the Board of Directors, is consistent with the consolidated annual accounts.

PricewaterhouseCoopers, Société coopérative,
Represented by

Marc Voncken
Luxembourg, 20 May 2015

Consolidated balance sheet
at 20 February 2015

	Note(s)	2015 $'000	2014 $'000
ASSETS			
Investments			
Land and buildings	2	**60,945**	50,710
Other financial investments	3	**382,907**	395,074
		443,852	445,784
Reinsurers' share of technical provisions			
Claims outstanding	11	**188,539**	127,635
Debtors			
Member debtors		**13,937**	8,309
Reinsurance debtors	5	**3,614**	7,231
Additional calls not yet charged	6	**30,509**	30,402
Other debtors	7	**8,878**	26,845
		56,938	72,787
Other assets			
Tangible assets	8	**2,025**	2,277
Cash at bank and in hand		**184,590**	159,185
		186,615	161,462
Prepayments and accrued income			
Accrued interest		**2,745**	2,398
Other prepayments and accrued income		**967**	689
		3,712	3,087
TOTAL ASSETS		**879,656**	810,755

The accompanying notes are an integral part of these financial statements

Consolidated balance sheet

at 20 February 2015

	Note(s)	**2015 $'000**	2014 $'000
LIABILITIES			
Capital and reserves			
Reserve deposit fund	1,17	**20,850**	20,450
Revaluation reserve	2,17	**32,717**	23,264
Class 1 policy year reserve account	17	**37,410**	40,928
Income and expenditure account	17	**152,715**	131,554
		243,692	216,196
Technical provisions			
Claims outstanding	11	**598,825**	549,484
Creditors			
Member creditors		**12,845**	10,491
Reinsurance creditors		**7,105**	4,664
Other creditors	9	**17,189**	29,920
		37,139	45,075
TOTAL LIABILITIES		**879,656**	810,755

Chairman

Director

20 May 2015

The accompanying notes are an integral part of these financial statements

Consolidated income and expenditure account

for the year ended 20 February 2015

	Note(s)	2015 $'000	2015 $'000	2014 $'000	2014 $'000
TECHNICAL ACCOUNT					
Earned premiums, net of reinsurance					
Gross premiums written		**216,798**		203,311	
Outward reinsurance premiums		**(40,619)**		(36,369)	
Earned premiums, net of reinsurance	10		**176,179**		166,942
Allocated investment return transferred from the non-technical account			**14,591**		14,342
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(184,185)**		(166,101)	
Reinsurers' share		**36,342**		25,866	
Net claims paid	11	**(147,843)**		(140,235)	
Change in the provision for claims					
Gross amount		**(49,341)**		46,313	
Reinsurers' share		**60,904**		(39,563)	
Change in the net provision for claims	11	**11,563**		6,750	
Claims incurred, net of reinsurance			**(136,280)**		(133,485)
Operating expenses	12		**(35,350)**		(34,854)
Balance on the technical account			**19,140**		12,945
NON-TECHNICAL ACCOUNT					
Balance on the technical account			**19,140**		12,945
Investment income	14		**54,659**		48,006
Investment charges	14		**(40,068)**		(33,664)
Allocated investment return transferred to the technical account			**(14,591)**		(14,342)
Surplus on ordinary activities before tax			**19,140**		12,945
Tax on ordinary activities	15		**(1,146)**		(594)
Surplus on ordinary activities after tax			**17,994**		12,351

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flows

for the year ended 20 February 2015

	Note(s)	2015 $'000	2014 $'000
Cash flows from operating activities			
Gross premiums received from Members		**215,728**	202,212
Reinsurance premiums paid		**(38,179)**	(35,348)
Gross claims paid		**(186,498)**	(165,051)
Reinsurance recoveries received		**39,959**	32,893
Operating expenses paid		**(34,744)**	(31,661)
Tax on ordinary activities paid		**(1,380)**	(507)
Net cash (used in) / generated from operating activities		**(5,114)**	2,538
Cash flows from investing activities			
Income received from land and buildings		**1,638**	1,430
Purchases of property and equipment	8	**(202)**	(1,807)
Proceeds from sale of property and equipment		**120**	88
Interest income received		**9,225**	8,892
Dividend income received		**1,471**	1,027
Investment management expenses paid		**(1,306)**	(1,705)
Net cash flows from shares and other variable yield securities and units in unit trusts		**37,901**	(3,749)
Net cash flows from debt securities and other fixed interest securities		**(18,237)**	20,516
Net cash generated from investing activities		**30,610**	24,692
Net increase in cash at bank and in hand		**25,496**	27,230
Cash at bank and in hand as at beginning of year		**159,185**	131,029
Exchange (losses) / gains on cash at bank and in hand		**(91)**	926
Cash at bank and in hand as at end of year		**184,590**	159,185

The accompanying notes are an integral part of these financial statements

Note to the consolidated statement of cash flows
for the year ended 20 February 2015

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

	Note(s)	**2015 $'000**	2014 $'000
Surplus on ordinary activities after tax		**17,994**	12,351
Depreciation	12	**668**	691
Gain on fixed asset disposal	12	**(21)**	(19)
Exchange gain on cash balances		**(294)**	(812)
Decrease in net insurance liabilities	11	**(11,563)**	(6,750)
(Increase) / decrease in insurance and other debtors		**(2,072)**	7,583
Increase in insurance and other creditors		**4,765**	3,836
Investment income	14	**(54,659)**	(48,006)
Investment charges	14	**40,068**	33,664
Net cash (used in) / generated from operating activities		**(5,114)**	2,538

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

for the year ended 20 February 2015

1 Accounting policies

General

The West of England Ship Owners Mutual Insurance Association (Luxembourg) 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 are made periodically to meet the minimum solvency levels required.

Presentation of financial statements

These financial statements have been prepared in conformity with the law of 8 December 1994 (as amended) on financial statements with respect to insurance and reinsurance undertakings except that investments (including land and buildings) are not stated at historic amortised cost but at valuation, and subrogation and salvage recovery items have been presented net. 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. A summary of the more important accounting policies is set out below.

The preparation of financial statements 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 financial statements in the period in which the assumption changed. The Board of Directors believes that the underlying assumptions are appropriate and that the financial statements 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.

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

The financial statements have been drawn up to incorporate the terms of an agreement dated 18 October 1985 whereby the Association has reinsured the totality of the risks insured by The West of England Ship Owners Mutual Insurance Association (London) Limited up to 20 February 1986 for Class 2 and 20 February 1987 for Classes 3 and 4. The risks under Classes 3 and 4 may now be regarded as fully run off. In accordance with the agreement, the assets of The West of England Ship Owners Mutual Insurance Association (London) Limited have been held by that Association in trust for The West of England Ship Owners Mutual Insurance Association (Luxembourg) throughout the financial year.

Basis of consolidation

The consolidated financial statements have been prepared in US dollars and incorporate the assets and liabilities of the Association and its group undertakings, listed below, at 20 February 2015 and the results of the year ended on that date. The group undertakings are 100% owned and are fully consolidated.

1 Accounting policies (continued)

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 Insurance Services (Luxembourg) S.A.	Luxembourg

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 except in the case of the reinsurance transactions with The West of England Ship Owners Mutual Insurance Association (London) Limited which are maintained separately. 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 11 and 16.

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.

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.

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.

1 Accounting policies (continued)

Investments

Investments are stated at market value or at values provided by independent brokers or managers, except for interest rate swaps and over-the-counter options which are valued at their intrinsic value and dealer-supplied valuations, respectively.

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”.

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.

Claims incurred

Claims incurred comprises claims and related costs, including claims handling expenses, approved by the Directors and 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.

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.

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 are charged as an expense in the year of payment.

1 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.

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.

2 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 2015 by Dron & Wright at £34.3 million ($52.6 million) (2014 £25.8 million / $42.8 million) and the Hong Kong property at 20 February 2015 by Jones Lang LaSalle Ltd at HK$64.4 million ($8.3 million) (2014 HK$61.6 million / $7.9 million). The resultant surpluses on revaluation were taken to the revaluation reserve.

If the properties were to be presented in conformity with Luxembourg law then the cost, depreciation and net book values would be as follows:

	2015 $'000	2014 $'000
Cost	**30,004**	30,004
Currency fluctuation adjustments	**(1,534)**	472
Accumulated depreciation brought forward	**(6,733)**	(6,337)
Depreciation charge for the year	**(396)**	(396)
Net book value	**21,341**	23,743

In determining the accumulated depreciation and depreciation charge above, which is based on an expected economic life of fifty years for the London property and the leasehold period for the Hong Kong property, no account has been taken of the Directors' reassessment of the useful life and residual values of the buildings, nor of any reassessment of the relative values of land and buildings arising from the revaluation carried out at 20 February 2015.

2 Land and buildings (continued)

On 24 August 2012, the Association, through its subsidiary The West of England Ship Owners Insurance Services Limited, charged its freehold interests in Tower Bridge Court in favour of the trustees of The West of England Ship Owners' Insurance Services Limited Retirement Benefits Scheme as security for its, West of England Insurance Services (Luxembourg) S.A.'s and The West of England Ship Owners Insurance Services Limited's liabilities as guarantors of the liabilities of the Scheme. This charge was released by the trustees on 19 December 2014.

3 Other financial investments

	2015 $'000 Market value	**2015 $'000 Cost**	2014 $'000 Market value	2014 $'000 Cost
Shares and other variable yield securities and units in unit trusts	**58,179**	**48,462**	92,885	72,437
Debt securities and other fixed interest securities	**324,728**	**313,302**	302,189	291,663
	382,907	**361,764**	395,074	364,100

Debt securities include investments in collective investment schemes, the underlying investments of which are fixed interest securities.

Derivatives can be broken down as follows:

	2015 $'000 Contract / notional amount	**2015 $'000 Fair value asset**	**2015 $'000 Fair value liability**	2014 $'000 Contract / notional amount	2014 $'000 Fair value asset	2014 $'000 Fair value liability
Forward foreign exchange	**119,213**	**3,110**	**89**	133,704	151	974
Futures contracts	**-**	**-**	**-**	32,235	102	14
Interest rate swaps and credit default swaps	**-**	**-**	**-**	66,767	687	1,006
Options and warrants	**-**	**-**	**-**	61,132	76	180
Total at 20 February	**119,213**	**3,110**	**89**	293,838	1,016	2,174

The use of derivatives for leveraging purposes is not permitted although certain of the Association's investment managers have authority to invest in derivative financial instruments but only for hedging purposes. During the year, the investment guidelines were amended to restrict derivative usage to forward foreign exchange.

At 20 February 2015 forward foreign exchange positions comprise long US dollar positions in 10 currencies for a total value of $106.4 million (2014 $126.9 million) and short US dollar positions in 5 currencies for a total value of $12.8 million (2014 $6.8 million).

3 Other financial investments (continued)

At 20 February 2015, the Association does not hold any futures contracts (2014 $31.7 million notional commitment in US dollar contracts and $0.5 million commitment in euro contracts).

At 20 February 2015, the Association does not hold any swap contracts (2014 $43.9 million notional commitment in US dollar contracts and $22.9 million in other contracts denominated in sterling, Brazilian real, Australian dollars and Japanese yen).

At 20 February 2015, the Association does not hold any options and warrants (2014 $58.8 million notional commitment in US dollar contracts and $2.3 million commitment in sterling contracts).

4 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 2015, the secured facilities for guarantees on behalf of Members, including an agreed margin where appropriate, amounted to $77.9 million (2014 $79.4 million) and guarantees issued against those facilities totalled $30.3 million (2014 $35.6 million).

The International Group of P&I Clubs discontinued the Designated Reserves procedures with effect from 20 February 2014.

In 2012, the Association executed a charge in favour of The West of England Insurance Services Limited Retirement Benefits Scheme (the "Scheme") over a bank deposit of £5 million ($8.3 million) with Nordea Bank Finland plc., representing security under a pension scheme recovery plan between the West of England Insurance Services (Luxembourg) S.A., as employer, and the trustees of the Scheme to secure the liabilities of the Association to the Scheme (Note 13). This charge was released by the trustees on 14 March 2014.

Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2015 were:

	2015 $ million	2014 $ million
On behalf of Members	**30.3**	35.6
The International Group of P&I Clubs Designated Reserves	**-**	22.9
Letters of credit and other guarantees	**5.4**	5.4
The West of England Insurance Services Limited Retirement Benefits Scheme	**-**	8.3

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

5 Reinsurance debtors

	2015 $'000	2014 $'000
Recoveries from other members of the International Group of P&I Clubs	**942**	1,091
Recoveries from the Group Excess Loss reinsurance	**2,046**	505
Other reinsurances	**626**	5,635
	3,614	7,231

6 Additional calls not yet charged

	2015 $'000	2014 $'000
Class 1 (Note 18)	**29,116**	29,086
Class 2 (Note 19)	**1,393**	1,316
	30,509	30,402

7 Other debtors

	2015 $'000	2014 $'000
Mortgages	**146**	158
Investment debtors	**8,014**	25,873
Other debtors	**718**	814
	8,878	26,845

The mortgages are in respect of loans to Directors of West of England Insurance Services (Luxembourg) S.A., a subsidiary, for house improvement or purchase. They are secured on the respective properties and other assets, have an interest rate of 5% (2014 5%) and are repayable over various periods up to the end of each Director's service.

8 Tangible assets

	2015 Motor vehicles $'000	2015 Fixtures and fittings $'000	2015 Total $'000
Cost			
At beginning of year	558	2,472	**3,030**
Additions	178	24	**202**
Disposals	(233)	-	**(233)**
At end of year	**503**	**2,496**	**2,999**
Accumulated depreciation			
At beginning of year	339	414	**753**
Provided during year	103	252	**355**
Disposals	(134)	-	**(134)**
At end of year	**308**	**666**	**974**
Net Book Value	**195**	**1,830**	**2,025**

	2014 Motor vehicles $'000	2014 Fixtures and fittings $'000	2014 Total $'000
Cost			
At beginning of year	743	834	1,577
Additions	169	1,638	1,807
Disposals	(354)	-	(354)
At end of year	558	2,472	3,030
Accumulated depreciation			
At beginning of year	486	166	652
Provided during year	139	248	387
Disposals	(286)	-	(286)
At end of year	339	414	753
Net Book Value	219	2,058	2,277

During 2014, West of England Insurance Services (Luxembourg) S.A. carried out significant improvements and refurbishment of the buildings it occupies in London and Piraeus. The costs incurred have been capitalised and will be depreciated over their useful economic life which has been determined as ten years.

9 Other creditors

	2015 $'000	2014 $'000
UK Corporation Tax	**3,298**	721
Luxembourg municipal and state taxes	**727**	804
Accrued expenses	**1,908**	2,354
Investment creditors	**4,208**	19,818
Other creditors	**7,048**	6,223
	17,189	29,920

UK Corporation Tax includes $149,000 (2014 $174,000) of deferred tax arising on timing differences and $2,907,000 (2014 nil) 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.

10 Earned premiums, net of reinsurance

2015 $'000

	Class 1	Class 2	**Total**
Gross premiums by policy year			
Policy year 2014/15	176,339	8,164	**184,503**
Policy year 2013/14	30,059	1,821	**31,880**
Policy year 2012/13	43	27	**70**
Other	241	(3)	**238**
Total gross premiums	206,682	10,009	**216,691**
Movement in additional calls not yet charged (Note 6)	30	77	**107**
	206,712	10,086	**216,798**
Reinsurance premiums	(40,015)	(604)	**(40,619)**
Earned premiums, net of reinsurance	**166,697**	**9,482**	**176,179**

2014 $'000

	Class 1	Class 2	Total
Gross premiums by policy year			
Policy year 2013/14	166,206	7,114	173,320
Policy year 2012/13	26,357	1,188	27,545
Policy year 2011/12	(210)	3	(207)
Other	(153)	44	(109)
Total gross premiums	192,200	8,349	200,549
Movement in additional calls not yet charged	2,540	222	2,762
	194,740	8,571	203,311
Reinsurance premiums	(35,828)	(541)	(36,369)
Earned premiums, net of reinsurance	158,912	8,030	166,942

11 Insurance claims and loss adjustment expenses

	2015 $'000	2015 $'000	2015 $'000	2015 $'000	2015 $'000
	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Gross claims paid and loss adjustment expenses					
- Members' claims	150,540	4,924	78	-	**155,542**
- International Group of P&I Clubs	28,643	-	-	-	**28,643**
	179,183	4,924	78	-	**184,185**
Reinsurance recoveries on claims paid					
- Recoveries from other members of the International Group of P&I Clubs	(24,285)	-	-	-	**(24,285)**
- Recoveries from the Group Excess Loss reinsurance	(4,953)	-	-	-	**(4,953)**
- Recoveries from other reinsurances	(7,937)	461	-	372	**(7,104)**
Reinsurance recoveries on claims paid	(37,175)	461	-	372	**(36,342)**
Net claims paid and loss adjustment expenses	**142,008**	**5,385**	**78**	**372**	**147,843**
Insurance liabilities, gross	578,780	20,011	34	-	**598,825**
Reinsurers' share of insurance liabilities					
- Recoveries from other members of the International Group of P&I Clubs	(39,952)	-	-	-	**(39,952)**
- Recoveries from the Group Excess Loss reinsurance	(48,150)	-	-	-	**(48,150)**
- Recoveries from other reinsurances	(102,919)	(946)	-	3,428	**(100,437)**
Reinsurers' share of insurance liabilities	(191,021)	(946)	-	3,428	**(188,539)**
Net insurance liabilities carried forward	**387,759**	**19,065**	**34**	**3,428**	**410,286**
Net insurance liabilities brought forward	401,519	16,257	45	4,028	421,849
Change in the net provision for insurance liabilities	**(13,760)**	**2,808**	**(11)**	**(600)**	**(11,563)**
Net insurance claims and loss adjustment expenses	**128,248**	**8,193**	**67**	**(228)**	**136,280**

11 Insurance claims and loss adjustment expenses (continued)

	2015 $'000 Gross	2015 $'000 Reinsurance	2015 $'000 Net
Current year claims and loss adjustment expenses	199,893	(55,000)	**144,893**
Movement in cost of prior year claims and loss adjustment expenses	33,633	(42,246)	**(8,613)**
Total insurance claims and loss adjustment expenses	**233,526**	**(97,246)**	**136,280**
Claims paid and loss adjustment expenses	184,185	(36,342)	**147,843**
Change in the provision for insurance liabilities	49,341	(60,904)	**(11,563)**
Total insurance claims and loss adjustment expenses	**233,526**	**(97,246)**	**136,280**

Claims outstanding includes $95.3 million (2014 $99.4 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.

11 Insurance claims and loss adjustment expenses (continued)

	2014 $'000	2014 $'000	2014 $'000	2014 $'000	2014 $'000
	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Gross claims paid and loss adjustment expenses					
- Members' claims	128,012	5,015	54	-	133,081
- International Group of P&I Clubs	33,020	-	-	-	33,020
	161,032	5,015	54	-	166,101
Reinsurance recoveries on claims paid					
- Recoveries from other members of the International Group of P&I Clubs	(2,688)	-	-	-	(2,688)
- Recoveries from the Group Excess Loss reinsurance	(7,743)	-	-	-	(7,743)
- Recoveries from other reinsurances	(16,820)	(552)	-	1,937	(15,435)
Reinsurance recoveries on claims paid	(27,251)	(552)	-	1,937	(25,866)
Net claims paid and loss adjustment expenses	133,781	4,463	54	1,937	140,235
Insurance liabilities, gross	532,322	17,117	45	-	549,484
Reinsurers' share of insurance liabilities					
- Recoveries from other members of the International Group of P&I Clubs	(31,924)	-	-	-	(31,924)
- Recoveries from the Group Excess Loss reinsurance	(32,625)	-	-	-	(32,625)
- Recoveries from other reinsurances	(66,254)	(860)	-	4,028	(63,086)
Reinsurers' share of insurance liabilities	(130,803)	(860)	-	4,028	(127,635)
Net insurance liabilities carried forward	401,519	16,257	45	4,028	421,849
Net insurance liabilities brought forward	406,340	15,924	53	6,282	428,599
Change in the net provision for insurance liabilities	(4,821)	333	(8)	(2,254)	(6,750)
Net insurance claims and loss adjustment expenses	128,960	4,796	46	(317)	133,485

11 Insurance claims and loss adjustment expenses (continued)

	2014 $'000 Gross	2014 $'000 Reinsurance	2014 $'000 Net
Current year claims and loss adjustment expenses	165,545	(15,000)	150,545
Movement in cost of prior year claims and loss adjustment expenses	(45,757)	28,697	(17,060)
Total insurance claims and loss adjustment expenses	119,788	13,697	133,485
Claims paid and loss adjustment expenses	166,101	(25,866)	140,235
Change in the provision for insurance liabilities	(46,313)	39,563	(6,750)
Total insurance claims and loss adjustment expenses	119,788	13,697	133,485

12 Operating expenses

	2015 $'000	2014 $'000
Directors' fees	**374**	352
Audit and regulatory fees	**291**	344
Other expenses	**9,746**	10,129
Depreciation	**668**	691
Profit on disposal of fixed assets	**(21)**	(19)
Administrative expenses	**11,058**	11,497
Acquisition costs	**24,292**	23,357
	35,350	34,854

Included within acquisition costs is $15.4 million (2014 $14.3 million) in respect of commission.

13 Staff costs

Staff costs disclosed below are in respect of the employees and directors of West of England Insurance Services (Luxembourg) S.A., together with the costs of the five (2014 six) staff directly employed by the Association and International Shipowners Reinsurance Company S.A.. The total costs for all staff are:

	2015 $'000	2014 $'000
Wages and salaries	**16,878**	17,276
Other staff related costs	**1,400**	1,330
Social security costs	**1,733**	1,733
Other pension costs	**3,263**	2,946
	23,274	23,285

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

	2015 Number	2014 Number
Claims	**65**	63
Underwriting	**33**	31
Administration	**36**	39
	134	133

The majority of the staff is included in a defined benefit pension scheme, The West of England 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 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. Under the terms of that plan, funding contributions by the Association ceased for a three-year period commencing 1 July 2012 and the Association agreed to provide security to the Scheme consisting of security over a cash deposit and a freehold property owned by The West of England Ship Owners' Insurance Services Limited. At its valuation dated 31 December 2013 the Scheme was re-assessed by the Scheme actuary as fully funded and the trustees subsequently agreed to release the security. The security over the cash deposit was released on 14 March 2014 and that over the freehold property on 19 December 2014.

In accordance with a 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 2015, as shown below, at £49.1 million ($75.6 million).

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.

13 Staff costs (continued)

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

	2015 $'000	2014 $'000
Present value of Scheme liabilities	**(160,193)**	(143,058)
Market value of Scheme assets	**162,153**	158,000
Surplus in the Scheme	**1,960**	14,942

The principal assumptions underlying these valuations were:

	2015 % per annum	2014 % per annum
Discount rate	**3.25**	4.3
Expected long-term rate of return on Scheme assets	**3.25**	4.3
Increase in salaries	**5.2**	5.5
RPI inflation assumption	**3.2**	3.5
CPI inflation assumption	**2.2**	2.5
Limited price indexation pension increases	**3.2**	3.5

The average duration of the Scheme's liabilities is approximately 19 years (2014 19 years).

A small number of staff has other pension arrangements provided.

14 Investment income and charges

	2015 $'000	2014 $'000
Income from land and buildings	**1,854**	1,430
Investment income	**10,700**	12,584
Gains on realisation of investments	**25,451**	19,706
Unrealised gains on investments	**262**	13,021
Realised exchange gains	**11,766**	1,260
Unrealised forward currency gains	**4,330**	5
Unrealised exchange gains	**296**	-
Total investment income	**54,659**	48,006
Investment management expenses	**(1,255)**	(1,693)
Losses on realisation of investments	**(6,167)**	(11,629)
Unrealised losses on investments	**(16,328)**	(16,640)
Realised exchange losses	**(3,647)**	(2,139)
Unrealised forward currency losses	**(154)**	(134)
Unrealised exchange losses	**(12,517)**	(1,429)
Total investment charges	**(40,068)**	(33,664)
Total investment return	**14,591**	14,342

The investment return has been attributed as follows:

	2015 $'000	2014 $'000
Class 1	**11,527**	12,093
Class 2	**558**	525
The West of England Reinsurance (Hamilton) Limited	**2,106**	1,324
	14,191	13,942
Reserve deposit fund	**400**	400
	14,591	14,342

15 Tax on ordinary activities

	2015 $'000	2015 $'000	2014 $'000	2014 $'000
Luxembourg municipal and state taxes		**(405)**		310
UK Corporation Tax:				
Current tax on income for the year	**(461)**		(1,026)	
Adjustment in respect of prior years	**(1)**		1	
Deferred tax	**13**		286	
		(449)		(739)
Other taxes		**(292)**		(165)
		(1,146)		(594)

16 Summarised income and expenditure account by Class

2015 $'000

	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Earned premiums, net of reinsurance (Note 10)	166,697	9,482	-	-	**176,179**
Claims incurred, net of reinsurance (Note 11)	(128,248)	(8,193)	(67)	228	**(136,280)**
Net operating expenses (Note 12)	(32,854)	(2,436)	-	(60)	**(35,350)**
	5,595	(1,147)	(67)	168	**4,549**
Investment return, net of tax (Notes 14 and 15)	10,834	505	-	2,106	**13,445**
Surplus/(deficit) for the financial year	**16,429**	**(642)**	**(67)**	**2,274**	**17,994**

16 Summarised income and expenditure account by Class (continued)

2014
$'000

	Class 1	Class 2	Reinsurance of WoE (London)	Non-Class	Total
Earned premiums, net of reinsurance (Note 10)	158,912	8,030	-	-	166,942
Claims incurred, net of reinsurance (Note 11)	(128,960)	(4,796)	(46)	317	(133,485)
Net operating expenses (Note 12)	(32,899)	(1,894)	-	(61)	(34,854)
	(2,947)	1,340	(46)	256	(1,397)
Investment return, net of tax (Notes 14 and 15)	11,924	500	-	1,324	13,748
Surplus/(deficit) for the financial year	8,977	1,840	(46)	1,580	12,351

17 Reserves

2015
$'000

	Reserve deposit fund	**Revaluation reserve**	**Class 1 policy year reserve account**	**Income and expenditure account**	**Total reserves**
As at 20 February 2014	20,450	23,264	40,928	131,554	**216,196**
Revaluation	-	10,896	-	-	**10,896**
Exchange	-	(1,443)	-	49	**(1,394)**
Surplus for financial year (Note 16)	-	-	-	17,994	**17,994**
Transfers from income and expenditure account	400	-	10,482	(10,882)	**-**
Release from reserve	-	-	(14,000)	14,000	**-**
At 20 February 2015	**20,850**	**32,717**	**37,410**	**152,715**	**243,692**

17 Reserves (continued)

	Reserve deposit fund	Revaluation reserve	Class 1 policy year reserve account	Income and expenditure account	Total reserves
					2014 ($'000)
As at 20 February 2013	20,050	16,810	44,432	116,129	197,421
Revaluation	-	5,386	-	-	5,386
Exchange	-	1,068	-	(30)	1,038
Surplus for financial year (Note 16)	-	-	-	12,351	12,351
Transfers from income and expenditure account	400	-	11,496	(11,896)	-
Release from reserve	-	-	(15,000)	15,000	-
At 20 February 2014	20,450	23,264	40,928	131,554	216,196

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.

Revaluation reserve by Class

The balance on the revaluation reserve is attributed to Classes as follows:

	2015 $'000	2014 $'000
Class 1	**31,374**	22,277
Class 2	**1,305**	949
Other	**38**	38
	32,717	23,264

The revaluation reserve is net of $2,907,000 (2014 nil) of deferred tax arising due from capital gains on property revaluation (Note 9).

Total Reserves by Class

	2015 $'000	2014 $'000
Class 1	**174,569**	149,393
Class 2	**19,581**	19,866
Other reserves	**49,542**	46,937
Total reserves at 20 February	**243,692**	216,196

Other reserves consist of reserves not specific to Class including The West of England Reinsurance (Hamilton) Limited and the reserve deposit fund.

18 Class 1 policy year position at 20 February 2015

$'000

	2012/13	2013/14	2014/15	Unallocated investment income	TOTAL
Calls and premiums:					
- Year to 20 February 2015	44	974	176,339		177,357
- Prior Years	185,265	195,292	-		380,557
Future additional calls (Note 6)	-	-	29,116		29,116
Gross premiums	185,309	196,266	205,455		587,030
Reinsurance premiums	(28,736)	(36,293)	(40,129)		(105,158)
Acquisition costs	(22,315)	(22,712)	(23,086)		(68,113)
Net premiums	**134,258**	**137,261**	**142,240**		**413,759**
Investment income	29,000	20,000	5,000	68,784	122,784
Net income	**163,258**	**157,261**	**147,240**	**68,784**	**536,543**
Net claims paid – Members	(87,124)	(56,707)	(25,059)		(168,890)
Net claims outstanding – Members	(24,175)	(69,393)	(92,144)		(185,712)
Net claims incurred – Members	**(111,299)**	**(126,100)**	**(117,203)**		**(354,602)**
Net claims paid – Pool	(22,439)	(7,253)	(2,266)		(31,958)
Net claims outstanding – Pool	(18,561)	(17,747)	(17,734)		(54,042)
Net claims incurred - Pool	**(41,000)**	**(25,000)**	**(20,000)**		**(86,000)**
Net claims paid	(109,563)	(63,960)	(27,325)		(200,848)
Net claims outstanding	(42,736)	(87,140)	(109,878)		(239,754)
Net claims incurred	**(152,299)**	**(151,100)**	**(137,203)**		**(440,602)**
Operating expenses	(10,871)	(10,455)	(9,700)		(31,026)
Net expenditure	**(163,170)**	**(161,555)**	**(146,903)**		**(471,628)**
Forecast balance on open years	**88**	**(4,294)**	**337**	**68,784**	**64,915**
Forecast balance on closed years					**109,654**
Forecast balance on Class 1 at 20 February 2015					**174,569**

18 Class 1 policy year position at 20 February 2015 (continued)

Based on the position at 20 February 2015 a resolution will be put to the Board of Directors at their meeting on 20 May 2015 to allocate $4 million to policy year 2012/13, $5 million to policy year 2013/14 and $5 million to policy year 2014/15 from the Class 1 policy year reserve account and thereafter, under the same resolution, to close the 2012/13 policy year.

Future additional calls represent 35% for policy year 2014/15 (due 20 August 2015). 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 5% for policy year 2012/13, at 15% for policy year 2013/14 and at 30% for policy year 2014/15. The estimated yields of these releases, if charged, would be $5.2 million, $15.1 million and $31.6 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 5% for policy year 2013/14 and 10% for policy year 2014/15, equivalent to 3.7% and 7.4% respectively of the estimated total mutual call (or “ETC”) which includes additional calls charged and forecast. The estimated yields of these releases would be $5.0 million and $10.5 million respectively if charged.

The following disclosure is in conformity with the agreed accounting standards of the International Group of Protection and Indemnity Associations:

(a) Disclosure relating to calls	2012/13 $'000	2013/14 $'000	2014/15 $'000
Additional calls and releases already charged	34,337	37,359	8,657
Estimated product of a further 10% additional call	10,371	10,090	10,542

The additional call products shown take account of calls already charged, and Members released, at 20 February 2015 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.

18 Class 1 policy year position at 20 February 2015 (continued)

(b) Disclosure relating to claims paid

	2012/13 $'000	2013/14 $'000	2014/15 $'000
Claims paid - own business	(94,332)	(56,707)	(25,059)
Claims paid – other clubs' Pool claims	(22,439)	(7,253)	(2,266)
Gross claims paid	(116,771)	(63,960)	(27,325)
Recoveries from the Pool	6,959	-	-
Recoveries from the Group Excess Loss reinsurance	-	-	-
Recoveries from Hydra Insurance Company Ltd	-	-	-
Recoveries from other reinsurances	249	-	-
Reinsurance recoveries on claims paid	7,208	-	-
Net claims paid	(109,563)	(63,960)	(27,325)

(c) Disclosure relating to claims outstanding

	Closed Years $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	**Total $000**
Outstanding claims – own business	(216,618)	(39,982)	(77,156)	(147,144)	**(480,900)**
Outstanding claims – other clubs' Pool claims	(43,838)	(18,561)	(17,747)	(17,734)	**(97,880)**
Gross outstanding claims (Note 11)	(260,456)	(58,543)	(94,903)	(164,878)	**(578,780)**
Recoveries from the Pool	38,438	-	1,514	-	**39,952**
Recoveries from the Group Excess Loss reinsurance	45,551	-	-	-	**45,551**
Recoveries from Hydra Insurance Company Ltd	2,599	-	-	-	**2,599**
Recoveries from West of England Reinsurance (Hamilton)	2,482	-	-	-	**2,482**
Recoveries from other reinsurances	23,381	15,807	6,249	55,000	**100,437**
Reinsurance recoveries on outstanding claims (Note 11)	112,451	15,807	7,763	55,000	**191,021**
Net claims outstanding	(148,005)	(42,736)	(87,140)	(109,878)	**(387,759)**

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.

19 Class 2 policy year position at 20 February 2015

$'000

	2010/11	2011/12	2012/13	2013/14	2014/15	Unallocated investment income	TOTAL
Calls & premiums							
- Year to 20 February 2015	7	8	27	505	8,164		8,711
- Prior Years	9,410	8,217	7,925	8,430	-		33,982
Future additional calls (Note 6)	-	-	-	-	1,393		1,393
Gross premiums	9,417	8,225	7,952	8,935	9,557		44,086
Reinsurance premiums	(2,295)	(1,274)	(501)	(552)	(594)		(5,216)
Acquisition costs	(721)	(797)	(780)	(894)	(1,106)		(4,298)
Net premiums	**6,401**	**6,154**	**6,671**	**7,489**	**7,857**		**34,572**
Investment income	2,710	-	-	-	-	5,076	7,786
Net income	**9,111**	**6,154**	**6,671**	**7,489**	**7,857**	**5,076**	**42,358**
Net claims paid	(6,471)	(4,794)	(2,465)	(3,394)	(723)		(17,847)
Net claims outstanding	(1,678)	(2,312)	(2,964)	(4,001)	(6,967)		(17,922)
Net claims incurred	**(8,149)**	**(7,106)**	**(5,429)**	**(7,395)**	**(7,690)**		**(35,769)**
Administration expenses	(958)	(999)	(1,002)	(982)	(1,298)		(5,239)
Net expenditure	**(9,107)**	**(8,105)**	**(6,431)**	**(8,377)**	**(8,988)**		**(41,008)**
Forecast balance on open years	**4**	**(1,951)**	**240**	**(888)**	**(1,131)**	**5,076**	**1,350**
Forecast balance on closed years							**18,231**
Forecast balance on Class 2 at 20 February 2015							**19,581**

Investment income includes all amounts earned up to 20 February 2015. Based on the position at 20 February 2015 a resolution will be put to the Board of Directors at their meeting on 20 May 2015 to allocate $2.71 million to policy year 2010/11 and thereafter, under the same resolution, to close the policy year.

Future additional calls represent 35% for the 2014/15 policy year and are due 20 August 2015. In addition, releases have been set at zero for open years 2010/11 and 2011/12, at 5% for 2012/13, at 15% for 2013/14 and at 30% for 2014/15. 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 2012/13 to zero, 2013/14 to 5% and to set 2014/15 to 10%, equivalent to 3.7% and 7.4% respectively of the estimated total mutual call (or "ETC") which includes additional calls charged and forecast.

20 Average expense ratio

In accordance with Schedule 3 of the International Group Agreement 2008, 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 2015 is 14.86% (2014: 14.24%).

Notes

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