West of England

Report and Accounts 2016

Contents

FINANCIAL HIGHLIGHTS

Combined Ratio at **83.6%**

Owned and chartered tonnage in excess of **100** million GT

Investment return of **$2.8** million

Free Reserves increased to **$276.7** million

AM Best **A-** financial strength rating

Members' claims frequency and values remain low

Free Reserves growth of **13.5%**

	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
2016	276.7m	83.6%	0.8%	72.1m
2015	243.7m	97.4%	4.3%	68.5m
2014	216.2m	100.8%	3.4%	59.2m
2013	197.4m	102.5%	3.8%	53.7m
2012	179.4m	108.7%	1.8%	50.9m

CHAIRMAN'S STATEMENT

"Free reserves are up again, this time by some 13.5%, to a record $277 million and our combined ratio reflecting our operating performance has reduced from 97.4% to 83.6%."

Francis Sarre
Chairman

A significant change for our Board this year has been Mathew Los's decision to step down as Chairman after an extremely distinguished tenure of some eight years. As his successor, I am particularly privileged to have been able to take on his responsibilities at a time when he has presided with great knowledge, skill and good humour over a period of continuous improvement in the Club's affairs. I am delighted that he will remain for the time being a member of the Board so that his experience and wise counsel will continue to be available to us all.

A year ago Mathew noted with satisfaction that 2014 had been the best financial year for the Club since his appointment in 2008. I am delighted to be able to report as his successor that 2015 has been even more satisfying. For a seventh successive year all our key numbers have been positive and have generally exceeded our forecasts. This again confirms a strong and well-established trend which reinforces the stability and reliability of our operations in what clearly are difficult times for the majority of our Members and the wider shipping community.

Free reserves are up again, this time by some 13.5%, to a record $277 million and our combined ratio reflecting our operating performance has reduced from 97.4% to 83.6%. This figure is well below our recently revised financial target of better than 100% and arises, I am pleased to say, from better than expected claims outcomes, mainly from our own Members. In particular, claims developments for the 2014 policy year over the past twelve months have been unusually benign, a pattern that we do not expect will be likely to be repeated for subsequent policy years.

An excellent claims trend from our own Members has not only ensured that our core cost is down, but also that our contribution to other Clubs' Pool claims remains at a low level. Notwithstanding a significant and gratifying increase during the year in our entered mutual tonnage from 67.5 million GT to over 72 million GT, also a key measure of our Pool contribution calculation, our Pool share has remained at about 6%, reflecting our own positive Pool performance.

Our investment return was also satisfactory. Despite a 1% loss on pure financial assets in what was a distressed investment environment, especially in the final quarter, an increase in the value of our office building in London resulted in an overall net return of $2.8 million.

The effect of all these strong figures is a further strengthening in the Club's free capital, which has enabled us to easily fulfill the capital demands of the new Solvency II rules that finally became effective in January 2016. These new rules are not only concerned with the adequacy of the Club's capital. They also require us to be continuously focused on the way in which we assess and manage the risks to which our business as a mutual Club is routinely exposed so that our capital will be robust enough to counter future adverse financial volatility.

For that reason your Board has again concluded that strategically we should continue to be clearly committed to being a dedicated mutual Club providing cost effective P&I and FD&D cover through excellent, high quality service.

As Mathew Los has noted in previous reports, this does not mean that we are not open minded about diversification. We will not, however, diversify for its own sake or where the Club's capital will be exposed to unknown or inappropriate risks. We remain cautious about engaging in activities like hull and energy insurance that for now at least appear to us to be over-subscribed and so are unlikely to add value. It is interesting to note that our decision in 2013 to provide cover for owned entries for vessels of up to 5,000 GT on a fixed premium basis has remained low key as planned. An overwhelming majority of the Club's Members that qualified for the cover has remained entered on a mutual basis despite the availability of fixed premium facilities that have in the meantime proliferated with varying degrees of success.

The strength of the Club's capital raises understandable questions about how much further a pure mutual should go in increasing its capital strength. Last year we highlighted the difficulty all mutuals face in striking the necessary balance between the requirements of our regulators and the demands of conforming to first-class financial strength ratings as determined by rating agencies. Your Board's challenge is to ensure that we maintain the Club's standing within the rating agencies' "A" range without losing sight of mutuality and of the fact that a Member's capital is held on trust and should not be more than is required, especially when trading conditions for many ship owners are so harsh. Clearly, this year's results take us close to the point where any targeting of further capital growth can be more constrained.

Since last year's report the Board's and our Managers' focus has been not only on the Club's financial affairs but also on the need to make sure that we continue to offer excellent service and advice to all our Members. Since 1981 we have operated through a fully functional branch office in Hong Kong for our Members based in the region, which has serviced all their underwriting, loss prevention and claims needs. Rightly, it enjoys a high reputation in the industry. This year we have approved the opening of a second Asian branch office in Singapore to enhance and complement Hong Kong, which will enable us to take advantage of the expansion of the owning and operating community in that market and in South East Asia generally. We anticipate that it will be operational before the end of 2016. This latest change will, for the time being at least, complete our review of our regional offices which we began in 2013 with the relocation of our office in Greece to Akti Miaouli in Piraeus.

The structure of our Board itself is also undergoing some review this year as we adjust to the changes that result from best practice guidelines for corporate governance that arise under the Solvency II rules. The size of the Board is set to reduce as greater scrutiny will be devoted in the future to the necessary skills, qualifications and attendance of our Directors, whether executive or non-executive. Of course, this review will involve an assessment of how a balance can be struck between a more efficient board and the workings of a mutual P&I insurer in the context of proper corporate governance.

During the year I am delighted to report that we have welcomed Messrs Ali Alharbi, Mark Cameron, Ajay Hazari and Stelios Ioannou to the Board. They come from a diverse group of our Members and each will, I am sure, make valuable contributions to our business in the coming years. During the year Mohammed Al-Otaibi, Ali Al-Yabhouni and Qin Jiong have retired from the Board. We are most grateful to them all for their help and guidance.

Finally, may I thank our Managers on behalf of the Board. My colleagues and I are confident that we have a fully focused team of the highest quality that will continue to ensure that our results remain excellent in the years to come. Some changes during the year do call for special comment. Michael Kelleher, our Senior Claims Director, retires this June and is to be succeeded by Suzanne Byrne, who rejoined the management in 2015. Michael's contribution has been of the highest calibre after some 38 years with the company. His detailed knowledge and experience that is widely acknowledged in the wider insurance and shipping communities will be hard to match. We also say farewell to our Loss Prevention Director, Mark Williams, whose tireless work to ensure that Members understand and adhere to best operating practices has also become widely recognised in our industry.

Francis Sarre
Chairman

GENERAL INFORMATION

Directors

F G Sarre *(Chairman)*	Antwerp
J A Drakos *(Vice-Chairman)*	Connecticut
P R L Lorenz-Meyer *(Vice-Chairman)*	Hamburg
B Aagaard-Svendsen	Copenhagen
A A Alharbi	Riyadh
A M Cameron	Cork
P G De Brabandere	Antwerp
M B Ergin	Istanbul
Feng Jianhua	Beijing
P Gripari	Athens
F M Haukedal	Lysaker
A K Hazari	Hong Kong
S Ioannou	Athens
Y Khatau	Mumbai
T C Litton	Texas
M T Los	Athens
V A Mednikov	Moscow
N Notias	New York
I Perantinos	Piraeus
T Petalas	Monaco
K S Rajvanshy	Hong Kong
A M W Staring	Antwerp
L Tsangarides	London
Ye Weilong	Beijing
G Woodford	London
E S Yordanov	Varna

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MANAGERS' REVIEW

"The results not only exceed the forecasts in the Club's business plan, but also represent a significant advance from the most recent previous position reported in September 2015."

Peter Spendlove
Managing Director

Overall Financial Performance

The Financial Statements accompanying this Review portray an excellent performance from the Club's insurance activities and cautious conservation of capital on the non-technical side which together enable it to report its strongest ever financial position.

The results not only exceed the forecasts in the Club's business plan, but also represent a significant advance from the most recent previous position reported in September 2015.

They must, however, be viewed against a continuing backdrop of depressed and exacting economic and business conditions, which remain a severe constraint on our Members' operations. These conditions also affect the Club's investment activity, reinforcing the ongoing need for financial management generally which is prudent and risk averse.

The results also reflect the fact that since the 2008 financial crisis a steady and conservative path has been followed which has led to a balance sheet today that is more robust than at any point in the Club's history and is well-positioned to meet the challenges of the future, with Free Reserves at February 2016 up from the previous year by 13.5%, to $276.7 million.

Underwriting

A key indicator by which the Club measures its underwriting performance is the combined ratio, a measure which compares net premium with the aggregate of net claims and operating costs. The figure is expressed as a percentage where a figure below 100% represents operating at better than breakeven. Last year, to 20 February 2015, the Club recorded a combined ratio of 97.4%. This was the first point in a long sequence of improving underwriting performances where the figure had been better than breakeven. This year, the figure has improved again, to 83.6%. As noted in last year's Managers' Review, the Club had a business objective to operate at a combined ratio better than 105% for several years, recognising that for a mutual organisation it is appropriate that some contribution to overall results should be from investment return. However, expected investment returns in today's constrained and volatile investment environment are likely to be less than the amount that would enable the Club to meet that objective. This year the Board consequently redefined the objective so that the Club will in future operate to achieve a combined ratio of below 100% over a rolling three-year period.

Premium

Premium levels are set to reflect the perceived underwriting risk of the Club's portfolio of entered vessels. The headline gross premium figure in the Club's financial statements shows an increase of 5% last year, exactly in line with its annual growth target. There are several components to the figure but not all of them are likely to be sustainable into 2016. First, it should be remembered that the West of England is the only Club that transparently charges Group reinsurance costs separately, as a fixed cost per GT. The gross premium line in the financial statements is inclusive of these costs and, for Policy Year 2015, rates, excluding passenger vessels, reduced. Rates for 2016 have reduced again, which will put downward pressure on gross premiums in the new year.

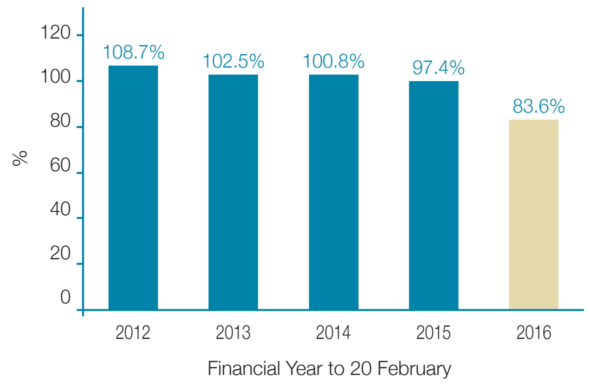
Secondly, the continuing moderate claims performance of the Club's

MANAGERS' REVIEW
continued

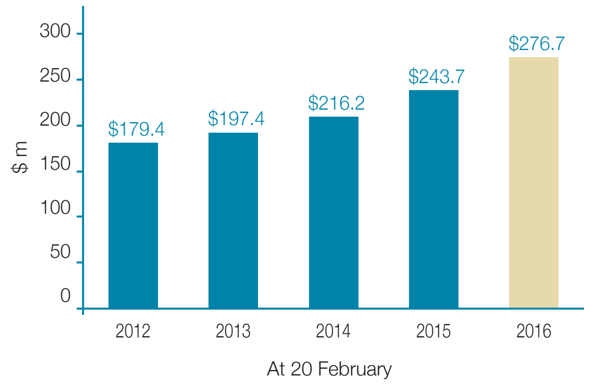
Membership as a whole (described in the next Section) has further suppressed gross premium. Challenges to underwriting discipline are also still posed by "churn", where older vessels are replaced, usually by larger, lower-rated ones, and by competitive pressures where underwriters are asked to quote on vessels to obtain new business at rates which do not appear sustainable.

Media attention is often given to the size of a club's entry in tonnage terms. A better overall measure of risk is the number of entered vessels; the chart on Page 11 shows how the number of vessels entered in the Club has risen steadily, but also reflects the increase in average vessel size with a disproportionate growth in entered tonnage over the same period. By way of illustration, for the 2015 renewal, mutual tonnage grew by nearly 5 million GT but with only a small overall change in number of vessels. At the recent renewal, 20 February 2016, the figures were less pronounced. The mix of business remains similar. Overall, although gross premium per GT is likely to decline slightly gross premium per entered vessel has actually increased.

Combined ratio



Free reserves



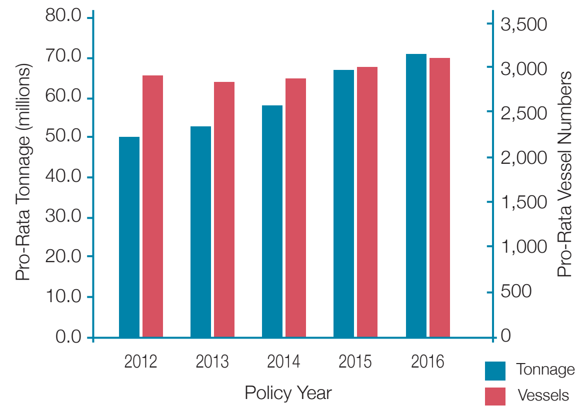
Claims

The Club's conservative and consistent approach to reserving has been described in previous Managers' Reviews and other publications. Improvements in combined ratio have been coupled with a strengthening of claims reserves rather than, as often with such trends, a release of provision. For this year, the Board have set the reserves for the technical liabilities at a level consistent with that of the previous year's Balance Sheet, measured both in terms of confidence levels and IBNR (claims incurred but not reported) as a percentage of claims estimates. The Club has had a formal policy within its overall ERM framework for a number of years relating to net technical liabilities to ensure a stable confidence level from year to year.

The chart on Page 14 shows the development pattern for Class 1 Members' claims for recent Policy Years. As has been noted before, years from Policy Year 2011 follow a consistent pattern and run at a significantly lower level than prior years. The Club has benefitted from a different level of exposure following the de-risking of its portfolio in 2011 but it is notable that net claims are consistently following a level of approximately half that experienced per policy year in the middle of the last decade. Whether this is the "new normal", reflecting lower asset and cargo values, higher deductibles, and trading and operational patterns is a matter for speculation but even against this background it now seems certain that Policy Year 2014 has proved exceptional by recording a lower claims development curve which "flattens" earlier. This may though be an exceptionally benign year for the whole International Group, as is evident from the record for Pool claims (see the table on Page 12). The Managers do not anticipate such a benign result for Policy Year 2015, where the position after 12 months can be seen in the chart and in the 20 February 2016 Policy Year position (Note 20 to the Financial Statements).

The other factor of note, not so easily seen from the charts, is that the Club experienced several favourable movements in the development patterns of a number of earlier policy years in the last three months of the financial year. This has had a positive impact on year-end claims reserving and is a primary reason for the lower than anticipated combined ratio figure recorded for the year as a whole. The Managers currently base their claims expectations for Policy Year 2016 on the more general trend seen for Policy Years 2011 to 2015 excluding 2014, adjusted for exposure arising from the increase in the size of the Club by reference to the number of entered vessels.

Mutual tonnage and vessel numbers



Reinsurance and Pooling

The International Group Pool and Excess of Loss reinsurance programme remains unique, providing exceptional security and protection through Group clubs to their respective memberships. For the Excess of Loss cover, premium rates charged for Policy Year 2016 will be lower, following reductions for all except passenger vessels in 2015. The reductions reflect not only a "softer" reinsurance market but are also linked to the generally favourable record for large claims seen across the Group in recent years. Members see the full benefit of reductions and also, when reinsurance rates do have to rise, are able to understand the full cost as a result of the Club's unique practice in the charging of such costs as separate fixed costs.

Concerning the Pool and Excess Loss record, it has been said already that Policy Year 2014 appears especially benign for the Pool and that 2015 does not appear at this early stage to be developing at anything other than a "normal" level. However the experience of 2011, with the COSTA CONCORDIA and RENA incidents illustrates the potential volatility of result from year to year and demonstrates the need for such a comprehensive and extensive reinsurance programme.

For Policy Year 2016 the individual Club retention has been increased to $10 million each vessel each incident. The Pool retention remains unchanged at $80 million but with an additional 5% placing with Hannover Re added to the two previous "vertical slices" underwritten by Berkshire Hathaway and Liberty Mutual to give 15% up to $100 million. The first layer of the Group's Excess of Loss reinsurance programme for $500 million will therefore take effect at $80 million and the Group will continue to co-insure various shares of risks within the layer to $580 million. These retained shares are reinsured by Hydra, the Group's captive, which itself protects its exposure with market reinsurance. The full structure is shown opposite.

For the Club's own retention, below the Pool, the Club continues to buy reinsurance from first class reinsurers with the largest placings with Swiss Re and Partner Re.

For the Club's Charterers' Comprehensive Cover programme,

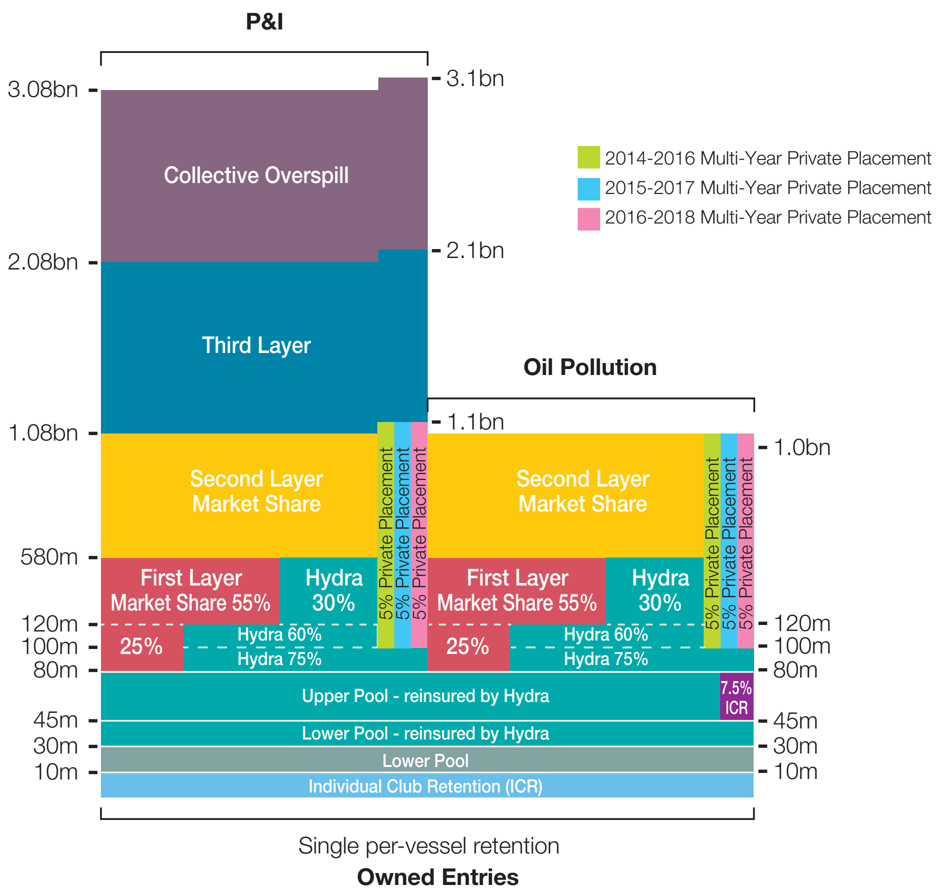
International Group Pool

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
2006	312.5	463.9	515.9	508.5	505.7	511.0	514.8	523.8	553.5	552.5
2007	303.2	436.9	479.8	485.9	515.4	530.0	530.0	520.1	525.2	
2008	87.6	120.4	110.3	126.0	124.0	123.6	126.9	129.0		
2009	233.8	229.4	231.3	227.0	254.4	275.9	267.9			
2010	192.9	263.5	291.6	276.1	271.7	280.1				
2011	331.0	469.2	484.5	512.1	511.8					
2012	375.3	460.2	485.8	483.8						
2013	287.1	340.3	385.9							
2014	177.1	190.5								
2015	251.6									

Group Excess of Loss Reinsurance Programme

Policy Year 2016



which includes Damage to Hull where required, substantial and versatile reinsurance continues to allow the Club to provide a valuable and flexible product. The limit remains unchanged at $500 million. Cover is however available for $750 million for those Members that require it on specific application to the Managers. Precise terms of entry for all chartered entries continue to be subject to agreement with individual Members on a case by case basis.

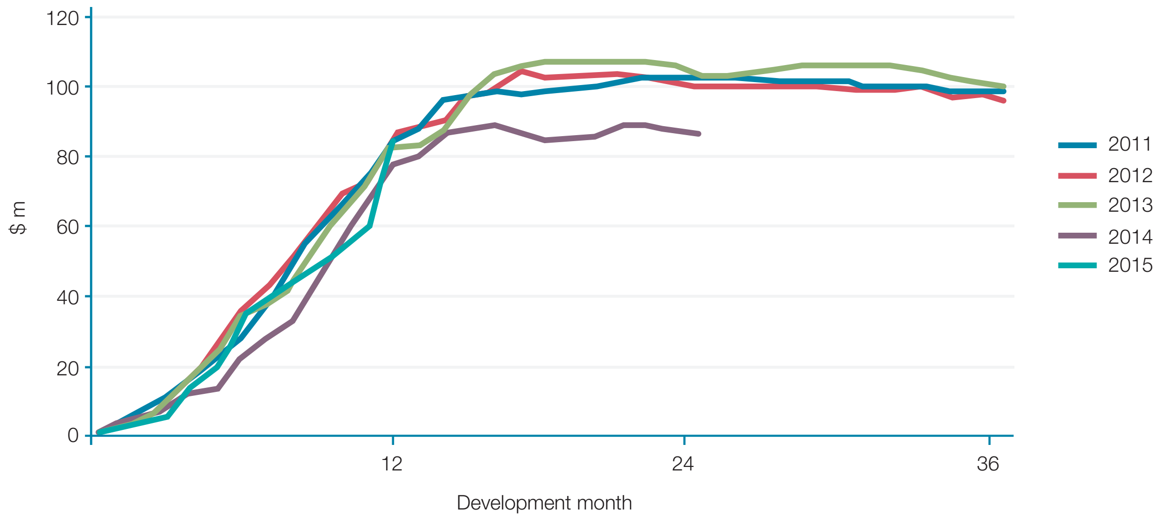
For Class 2, in 2015 the "Rules" cover was extended to a limit of $10 million for both new building and other Class 2 risks, allowing a higher limit to be provided to meet increasing demand. As a result reinsurances were extended to cover all Class 2 claims for losses up to $10 million. This position continues into 2016.

Capital Management

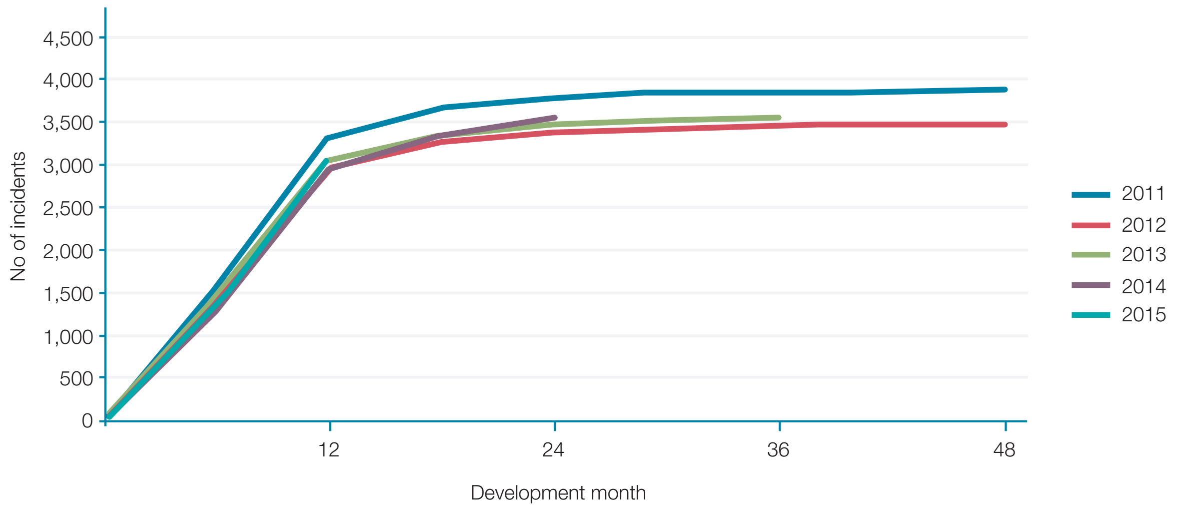
After a long gestation (and several postponements) the new prudential

Incurred monthly development by Policy Year (Class 1 Members)

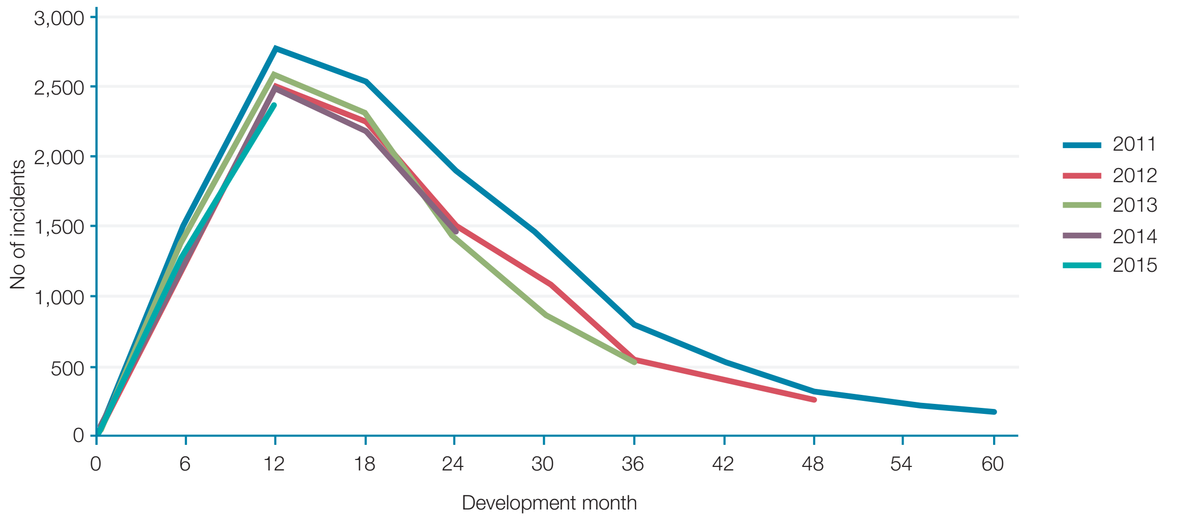
Paid plus estimates net of General Excess of Loss Reinsurance recoveries, Pool and CCC recoveries



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

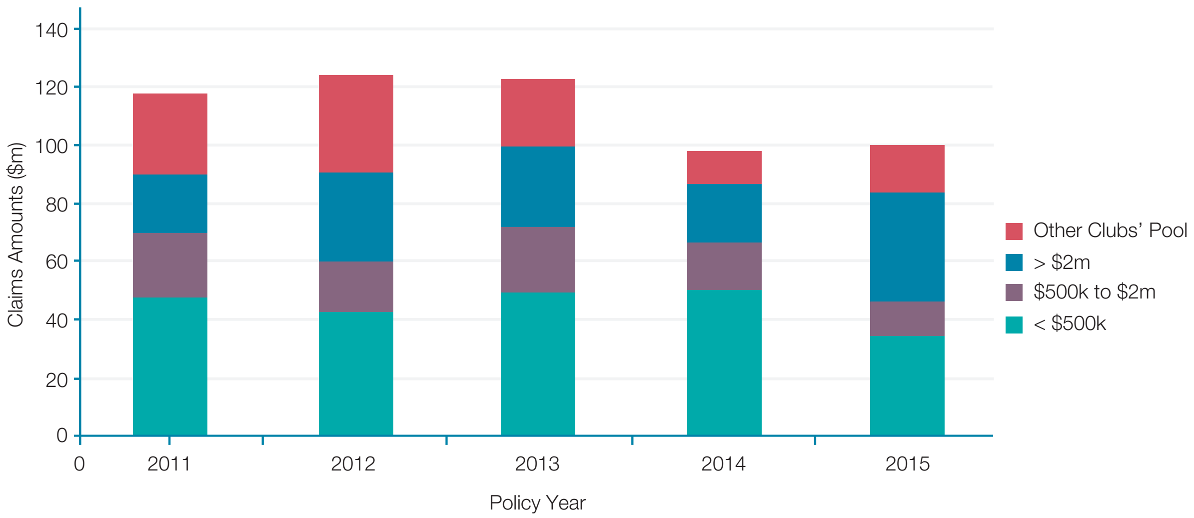


Number of open incidents by Policy Year (Class 1 Members)

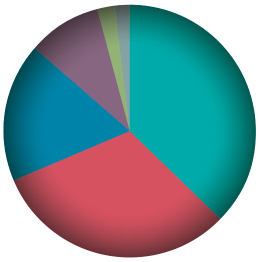


Incurred claims analysed by size, by Policy Year (Class 1)

At 20 February 2016

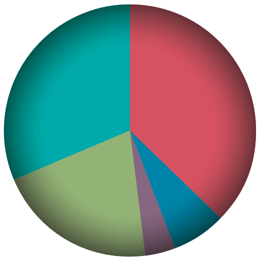


Entered tonnage by vessel type
(Class 1 owner entry)
Policy Year 2016



- Bulk cargo carriers **37.5%**
- Tankers & OBOs (inc LPG/LNG) **31.3%**
- Container vessels **17.6%**
- General cargo & reefers **9.7%**
- Ferries & passenger liners **2.2%**
- Specialist vessels & misc. **1.7%**

Entered tonnage by area of management
(Class 1 owner entry)
Policy Year 2016



- Asia **37.4%**
- Middle East/Africa etc **6.9%**
- Americas **3.9%**
- Greece **20.5%**
- Other Europe **31.3%**

regime for insurance companies, Solvency II, finally entered into force on 1 January 2016. The Club has long been a participant in the preparation process, engaging in quantitative impact studies from an early stage and in the lobbying and discussions to ensure that the formative rules when enacted in the Directive would reflect the mutual business model.

From a business management perspective, the Club has worked for many years to adopt the fundamental concepts of Solvency II and its requirements and in any case has consistently set out to follow best practice, for instance in areas such as governance and ERM. Solvency II's commencement is consequently regarded by the Managers as "business as usual".

The Club's solvency capital sits well above the solvency capital requirement (SCR) under Solvency II. Now that the regulations are "live" it is to be expected that the regime will receive less specific attention on its effect on the P&I Clubs but there is still a degree of uncertainty regarding the impact that it will have in the longer-term, as insurers seek to derive efficiencies from improved risk management and modelling that have resulted from or run alongside implementation, and from the remaining uncertain side-effects of changed and wider public disclosures. This latter area remains far from finalised – it may be that the impact will be less than some commentators have speculated.

The strengthening of the Club's Balance Sheet since 2008 and conservative approach taken to risk - for instance in its prudent investment asset allocation - have been reflected in an extremely robust capital position. Apart from the Solvency II model and the Board's own risk and solvency assessment (ORSA), which sets not only a regulatory requirement but a level of capital which the Board itself assesses as necessary to operate, the Club also measures itself against the models of its two interactive rating agencies, AM Best and Standard & Poor's. During the year, the Board set a key financial objective to "maintain" a level of capital on both models within the AAA range. This wording replaced an objective to "target" a level of AA on both models, a level that had been already more than met. In so doing, the Board wished to be clear and unambiguous that they have no intention of reducing the Club's level of capital from that now held, with reference to the rating agencies' models or in absolute terms.

Investments

The Club's overall investment return for the financial year to 20 February 2016 was a positive $2.8 million, net of tax and charges and inclusive of a material revaluation gain arising from the Club's London property, Tower Bridge Court. For this last financial year, the portfolio of financial assets (excluding property) returned a loss of 0.8%, arising from challenging equity markets, the strength of the US dollar and adverse movements in emerging bonds. Cash and fixed income investments have returned on average +0.4% while equity holdings declined by 10.8%, still outperforming MSCI World by some 0.5%.

The Club has continued to maintain a conservative investment strategy, consistent with the risk appetite set and regularly reviewed by the Board. The strategy is driven by the longer-term objective of maintaining low volatility

and therefore overall stability of capital so that few changes are envisaged to the Club's investment approach in 2016/2017 and beyond.

For that purpose the Club has a limited exposure to equity markets of some 10%, close to its strategic target, with a strict rebalancing policy. Cash and bond positions have also been maintained with a view to caution, within the Club's overall strategic investment allocation. Financial assets are only invested in high quality liquid securities and the fixed income holding is increasingly aligned with the cash-flow pattern of the Club's technical liabilities to provide a matching effect.

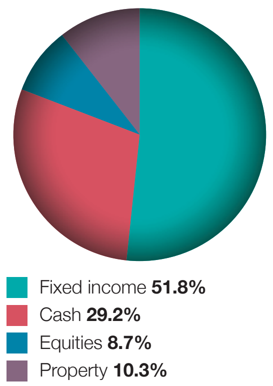
Diversification across markets and securities is also an important feature of the Club's approach and a natural way to mitigate market risks in the medium term.

The price of reduced risk is a subdued expected return. This is particularly true in a world of very low interest rates and easy monetary policy in most major developed economies. This low expected return has been fully reflected in the Club's business plan and financial forecast.

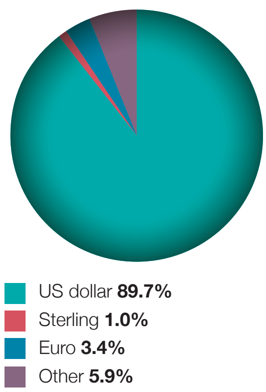
The Board is expecting global growth to slow in 2016/2017, but no recession. Advanced economies should decelerate generally while emerging economies should start to recover slightly. An uptick in inflation is also expected, both in the US and elsewhere, driven by a modest recovery in the oil price, the closing of the output gap, faster wage growth and a stable US currency. Key economic drivers in 2016/2017 will be China, commodities and central banks. A big devaluation of the Chinese currency and subsequent capital outflows is potentially the biggest economic challenge. Commodity prices may have already bottomed out while central banks will remain dovish but with a diminishing impact on the real economy.

The United States Federal Reserve appears to have limited room to manoeuvre. The Board expects Fed Funds to be no higher than 1% at 31 December 2016 and the 10-Year US Treasury to trade at a yield of around 2.1% over the same time horizon. Equity markets in general are seen to

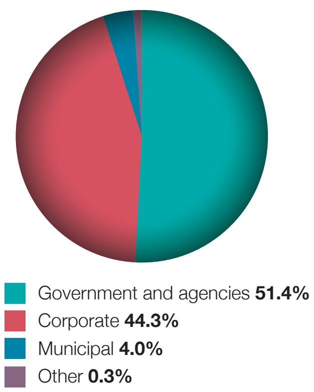
Investment allocation
at 20 February 2016



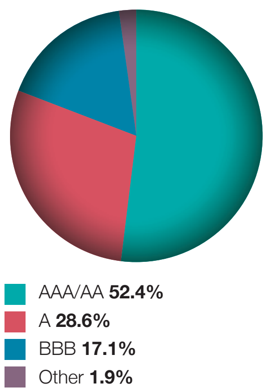
Investments by currency (excluding property)
at 20 February 2016



Fixed income by issuer type
at 20 February 2016



Fixed income by rating
at 20 February 2016



have limited upside after the recovery experienced in March and April this year but with possibly more momentum from emerging market equities. Corporate credit should remain attractive in a world of slow growth. Emerging market bonds may also improve significantly should the economic situation in a number of countries stabilise.

The Board has identified its main macro risks. The most prominent scenarios are a disruptive Chinese devaluation threat, political issues in Europe (arising from the “Brexit” debate and related disharmony EU-wide) and the Middle East, and an inflation alert in the USA linked to bond market over-reaction and monetary policies running out of ammunition and losing credibility.

Against this lacklustre economic and financial backdrop, expected returns will remain small, volatility will increase and liquidity will worsen.

Property

The financial statements reflect, for the second year, a sizeable increase in the independent valuation placed on the Club's freehold premises next to Tower Bridge in London. The building is now valued at £42 million. This year's increase, over 22%, reflects prevailing rental levels in the market linked to continuing strong demand for smaller and mid-sized offices. The valuation also reflects the building's distinct location in an area which has seen significant commercial modernisation and development and which overlooks a World Heritage Site. Despite uncertainties over the future London commercial property market, which at the time of writing include the impact of "Brexit", it is probable that there is significant further value in this asset.

Business Development and Operations

During 2015 the Board gave their approval to the opening of a Singapore branch office to complement and enhance our existing office in Hong Kong. It expects to be operational by the end of 2016. Together, the Singapore and Hong Kong offices are expected to handle more than a third of the Club’s worldwide business.

Sanctions

During the year the E3/EU+3 powers and the Islamic Republic of Iran reached a diplomatic agreement whereby nuclear-related sanctions against Iran would be lifted in return for Iran completing certain steps regarding its nuclear programme.

These were verified as having been achieved – on so-called Implementation Day – in January and all EU nuclear-related and US secondary sanctions were lifted. Shipowners are now able to legitimately carry a wide range of previously prohibited cargoes, most notably Iranian crude oil and petroleum products.

This welcome relief in challenging freight markets proved to be somewhat illusory, however. US primary sanctions, which have been in continuous effect since 1979 and prohibit US persons from undertaking any transaction with an Iranian connection, were unaffected by the agreement and will continue for the foreseeable future. This precludes both the American Club and any US domestic reinsurers on the IG’s Group Excess Loss (GXL) programme from being involved in Iranian claims. Under Clubs’ rules any reinsurance shortfalls due to sanctions are borne by the Member and many shipowners were understandably reluctant to commit to renewed trading with Iran where a very large incident could involve their having to bear some part of the liability because of primary sanctions.

The IG Clubs responded by purchasing a separate “fall-back” reinsurance cover which will respond to those Iranian liabilities which the US reinsurers on the GXL are unable to pay, and agreeing to pool any GXL sanctions shortfalls arising from non-certificated liabilities so long as the fall-back reinsurance remains in place. The Clubs already pool reinsurance shortfalls due to sanctions for certificated liabilities and this will continue.

With the American Club obtaining an OFAC licence to pay the majority of their share of Iranian pool claims, the risk to individual shipowners in trading to Iran has effectively been transferred in very large measure onto the IG pool.

But one other major obstacle to renewed widespread trading with Iran remains in the form of reluctance by the banks to undertake Iranian transactions. Whilst US banks are unable to do so because of primary sanctions, non-US banks are no longer constrained by sanctions as long as the remittance is in a currency other than US dollars. Their compliance departments seemingly feel otherwise however and have not been willing to commit to funding Iranian trade. It is of considerable frustration to the maritime community that even though sanctions against Iran have been lifted the intransigence of banks is preventing the full resumption of trade.

Outside of Iran, sanctions remain in place against states such as Syria, Russia, Cuba and North Korea. Whilst relations with some like Cuba are showing some early signs of thawing, others remain firmly in place and it is clear that sanctions are the current tool of choice in attempting to influence the behaviour of states. They are consequently likely to remain a potential encumbrance to maritime trade for some time to come.

Pollution

Efforts to resolve the unsatisfactory situation left by the dispute between the Gard Club and the 1971 International Oil Pollution Compensation Fund (IOPC Fund) in the NISSOS AMORGOS case have continued.

The system of making interim payments to victims of oil pollution from tankers in order to alleviate hardship before a vessel's CLC fund can be distributed by a court was put in jeopardy by the refusal of the IOPC Fund to reimburse Gard and the subsequent finding by the English Courts that the IOPC Fund enjoys a right of immunity. If there is a risk that a national court may order a shipowner to pay the CLC limit in full over and above any interim payments already made, the shipowner and his Club would be unlikely to risk making such payments where the safety net of the longstanding arrangement with the IOPC Fund to reimburse liabilities in excess of the CLC limit might no longer be in place.

The tenor of the discussions between the IG and the IOPC Fund have reflected the importance which all parties place on interim payments continuing to be made. Although a comprehensive agreement to allow interim payments to be made with safety in all cases may not be reached, it is hoped that a standard form of agreement which gives comfort to both parties can be signed on a case-by-case basis. This is not an ideal solution when viewed from the perspective of shipowners or the victims of oil pollution, but it is at least a solution which has potentially breathed some life back into the concept of interim payments.

Another elderly but contentious pollution claim re-emerged during the year. Spain's Supreme Court issued its judgement on the PRESTIGE spill in 2002, holding – most regrettably – that the Master's custodial sentence should be confirmed but also that the P&I Club concerned could face potential liability for up to the full $1 billion of their pollution coverage because they "voluntarily" provided cover in excess of the vessel's CLC limit. This finding appears to be a flagrant circumvention of the limitation and other provisions of CLC and potentially has far reaching consequences. Various lines of appeal for both the Master and the Club are being considered.

PEME programme

Of the Club's annual expenditure on claims approximately $8 million relates to crew illness. These claims can include costly repatriation and extensive medical expenses and are often related to a pre-existing medical condition which had not been identified by statutory seafarer medicals.

During the year the Managers introduced an Enhanced Pre-Employment Medical Examination or PEME programme operating in the active seafarer recruitment centres of the Philippines and Ukraine and which have seen the preponderance of these types of illness claims. The programme gives Members the opportunity to have their potential seafarers put through a rigorous medical examination at one of a number of PEME clinics which have been vetted and approved by the Club's medical advisers.

Whilst the PEME programme is not mandatory it is hoped that as many Members as possible will take advantage and so reduce the burden of these illness claims not only on the Club but also on the operational efficiency of their own fleets.

Service

The year saw two notable retirements from the Management Board. Michael Kelleher has served the Club with great distinction for 27 years as Claims Director. After training as a barrister Michael joined the then Cargo Department in 1978. He was appointed a Director in 1989 and managed the Club's Hong Kong office between 1985 and 1988. His extensive knowledge and experience and pragmatic approach to claims management has been of great value to the Club and to the International Group throughout his leadership of the Claims Department. Suzanne Byrne will take over this role in June 2016 and Michael will continue as a consultant.

Mark Williams' retirement from his role as Loss Prevention Director marks the end of a career with the Club of nearly 25 years, during which Mark has transformed the loss prevention activity from a low key, essentially surveying function to being a major component of the Club's operation today, offering a wide range of technical and risk management advice and information to the Club's Members as well as providing vital technical input into the claims and underwriting functions. His background as a Master Mariner and then working ashore in ship management gave Mark an excellent insight into Members' operations and many have benefitted from his valuable advice.

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 21 September 2016 at 12:30 hours for the following purposes:

1. To approve the Report of the Directors and the Consolidated Accounts for the year ended 20 February 2016 and to grant discharge to the Directors and Auditor for the year under review.
2. To elect Directors.
3. To reappoint Deloitte Audit Société à responsabilité limitée as Auditor of the Association and to fix their remuneration.
4. To transact any other ordinary business of the Association.

By order of the Board

T Brevet
Secretary

31 Grand-Rue
L-1661 Luxembourg

18 May 2016

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 consolidated accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg) and its subsidiaries (collectively "the Association" or "the Group") for the year ended 20 February 2016.

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 and contributed surplus to the Hydra West of England Cell which is wholly owned by the Association and, during the year, participated in reinsurance activities.

The Association does not perform any research and development activity.

Future Developments and Events since the Balance Sheet Date

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

Risk Management

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

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

The Board oversees the development and operational implementation of these policies and procedures. It ensures on-going compliance with them through its own enquiries and 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 2016 this reinsurance covers claims from $10 million to $3.1 billion. This programme is the Association's primary reinsurance protection, above which the IG's "overspill" arrangements apply. For retained claims outside the IG programme, the Association uses modelling techniques to identify where reinsurance will be most effective and additional reinsurance protection is purchased.

b) Financial risk

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

i. Capital management

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

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

The Association's key investment risk is that its financial assets together with investment returns generated by them are insufficient to fund its liabilities arising from its insurance and investment operations and do not enable it to maintain adequate operational solvency or the required solvency margin for compliance purposes. The Association's Statement of Investment Principles (SIP) and Investment Policy (IP) 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.

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.

Consolidated accounts

These consolidated accounts conform to the Luxembourg law of 8 December 1994 (as amended) in all respects except that investments are stated at market value, land and buildings at valuation and for the presentation of subrogation and salvages. Luxembourg legislation requires that investments are stated at the lower of historic amortised cost or estimated market value and that subrogation and salvage recovery items are disclosed gross. The treatment adopted in these financial statements is consistent with the basis of accounting generally accepted by the other members of the International Group of P&I Clubs and includes additional disclosures relating to cash flows, policy year positions and average expense ratio to meet the generally accepted reporting bases or specific disclosure requirements of the International Group. The consolidated accounts are set out on pages 32 to 60 with the principal accounting policies summarised on pages 37 to 40. Consolidated accounts conforming fully to the Luxembourg legislation are filed with the Luxembourg authorities: copies are available on request from our principal office.

These consolidated accounts show a surplus for the year of $25.6 million (2015 $18.0 million) before the transfer to the Reserve Deposit Fund of $0.4 million (2015 $0.4 million) and a net transfer from the Class 1 Policy Year Reserve Account of $4.0 million (2015 $10.5 million to Class 1 Policy Year Reserve Account). In addition the Revaluation Reserve increased by $7.4 million (2015 $9.5 million). Total reserves at 20 February 2016 were therefore $276.7 million (2015 $243.7 million).

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

Chairman

Mr F G Sarre was appointed as Chairman of the Association with effect from 3 February 2016 replacing Mr M T Los who resigned with effect from the same date. Mr M T Los continues to hold office as a Director.

Directors

The present Directors of the Association, who are listed on page 5, held office throughout the year under review with the exception of Mr A K Hazari who joined the Board with effect from 29 October 2015, and Mr A A Alharbi, Mr A M Cameron and Mr S Ioannou who joined the Board with effect from 7 March 2016.

In addition, Messrs Trinh Quang Tuyen, M O Al-Otaibi, Qin Jiong and A O Al-Yabhouni retired from the Board with effect from 21 May 2015, 17 June 2015, 21 January 2016 and 20 February 2016 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.

Principal Office

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

Directors and Officers Liability Insurance

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

Auditor

At the Annual General Meeting on 21 September 2016 the Directors will propose a resolution for the re-appointment of Deloitte Audit Société à responsabilité limitée for the year commencing 20 February 2016.

By order of the Board

T Brevet
Secretary
18 May 2016

Deloitte.

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated annual accounts

We have audited the accompanying consolidated accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg), which comprise the consolidated balance sheet as at 20 February 2016, the consolidated income and expenditure account and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated accounts have been prepared by the Board of Directors in accordance with the significant accounting policies set out in notes 2 and 3 to the consolidated accounts.

Board of Directors' responsibility for the consolidated annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with the significant accounting policies set out in notes 2 and 3 to the consolidated accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend of the réviseur d'entreprises agréé's judgement, including the assessment of the risks of material

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N° d'autorisation d'établissement: 10022179

misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of The West of England Ship Owners Mutual Insurance Association (Luxembourg) as at 20 February 2016, and of the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with the significant accounting policies set out in notes 2 and 3 to the consolidated accounts.

Basis of Accounting

Without modifying our opinion, we draw attention to notes 2 and 3 to the consolidated accounts, which describe the basis of accounting. The consolidated accounts are prepared to assist The West of England Ship Owners Mutual Insurance Association (Luxembourg) to meet its financial information requirements to its Members and to be consistent with the basis adopted by the other members of the International Group of P&I Clubs. As a result, the consolidated accounts may not be suitable for another purpose.

Other matter

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has prepared a separate set of consolidated accounts as at 20 February 2016 in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the consolidated accounts on which we issued a separate auditor's report to the Members of The West of England Ship Owners Mutual Insurance Association (Luxembourg) dated 23 May 2016.

For Deloitte Audit, Cabinet de révision agréé

Luxembourg, 23 May 2016

Jérôme Lecoq, Réviseur d'entreprises agréé

Partner

CONSOLIDATED BALANCE SHEET
as at 20 February 2016

	Note(s)	**2016 $'000**	2015 $'000
ASSETS			
Investments			
Land and buildings	4	**68,209**	60,945
Other financial investments	5	**400,150**	382,907
		468,359	443,852
Reinsurers' share of technical provisions			
Claims outstanding	13	**198,194**	188,539
Debtors			
Member debtors		**13,051**	13,937
Reinsurance debtors	7	**5,333**	3,614
Additional calls not yet charged	8	**30,214**	30,509
Other debtors	9	**1,329**	8,878
		49,927	56,938
Other assets			
Tangible assets	10	**1,726**	2,025
Cash at bank and in hand		**192,647**	184,590
		194,373	186,615
Prepayments and accrued income			
Accrued interest		**2,582**	2,745
Other prepayments and accrued income		**913**	967
		3,495	3,712
TOTAL ASSETS		**914,348**	879,656

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

CONSOLIDATED BALANCE SHEET
as at 20 February 2016

	Note(s)	**2016 $'000**	2015 $'000
LIABILITIES			
Capital and reserves			
Reserve deposit fund	1,19	**21,250**	20,850
Revaluation reserve	4,19	**40,099**	32,717
Class 1 policy year reserve account	19	**27,548**	37,410
Income and expenditure account	19	**187,764**	152,715
		276,661	243,692
Technical provisions			
Claims outstanding	13	**601,699**	598,825
Creditors			
Member creditors		**11,473**	12,845
Reinsurance creditors		**8,298**	7,105
Other creditors	11	**16,217**	17,189
		35,988	37,139
TOTAL LIABILITIES		**914,348**	879,656

Chairman

Director

18 May 2016

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

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 20 February 2016

	Note(s)	**2016 $'000**	**2016 $'000**	2015 $'000	2015 $'000
TECHNICAL ACCOUNT					
Earned premiums, net of reinsurance					
Gross premiums written		**227,614**		216,798	
Outward reinsurance premiums		**(43,927)**		(40,619)	
Earned premiums, net of reinsurance	12		**183,687**		176,179
Allocated investment return transferred from the non-technical account			**(3,668)**		14,591
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(150,528)**		(184,185)	
Reinsurers' share		**25,675**		36,342	
Net claims paid	13	**(124,853)**		(147,843)	
Change in the provision for claims					
Gross amount		**(2,874)**		(49,341)	
Reinsurers' share		**9,655**		60,904	
Change in the net provision for claims	13	**6,781**		11,563	
Claims incurred, net of reinsurance			**(118,072)**		(136,280)
Operating expenses	14		**(35,466)**		(35,350)
Balance on the technical account			**26,481**		19,140
NON-TECHNICAL ACCOUNT					
Balance on the technical account			**26,481**		19,140
Investment income	16		**29,353**		54,659
Investment charges	16		**(33,021)**		(40,068)
Allocated investment return transferred to the technical account			**3,668**		(14,591)
Surplus on ordinary activities before tax			**26,481**		19,140
Tax on ordinary activities	17		**(859)**		(1,146)
Surplus on ordinary activities after tax			**25,622**		17,994

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 20 February 2016

	Note(s)	**2016 $'000**	2015 $'000
Cash flows from operating activities			
Gross premiums received from Members		**227,204**	215,728
Reinsurance premiums paid		**(40,941)**	(38,179)
Gross claims paid		**(152,103)**	(186,498)
Reinsurance recoveries received		**23,955**	39,959
Operating expenses paid		**(35,193)**	(34,744)
Tax on ordinary activities paid		**(689)**	(1,380)
Net cash generated from / (used in) operating activities		**22,233**	(5,114)
Cash flows from investing activities			
Income received from land and buildings		**2,402**	1,638
Purchases of property and equipment	10	**(42)**	(202)
Proceeds from sale of property and equipment		**12**	120
Interest income received		**11,487**	9,225
Dividend income received		**1,109**	1,471
Investment management expenses paid		**(884)**	(1,306)
Net cash flows from shares and other variable yield securities and units in unit trusts		**(6,883)**	37,901
Net cash flows from debt securities and other fixed interest securities		**(21,325)**	(18,237)
Net cash (used in) / generated from investing activities		**(14,124)**	30,610
Net increase in cash at bank and in hand		**8,109**	25,496
Cash at bank and in hand as at beginning of year		**184,590**	159,185
Exchange losses on cash at bank and in hand		**(52)**	(91)
Cash at bank and in hand as at end of year		**192,647**	184,590

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

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note(s)	**2016 $'000**	2015 $'000
Surplus on ordinary activities after tax		**25,622**	17,994
Depreciation	14	**673**	668
Gain on fixed asset disposal	14	**(12)**	(21)
Exchange gain on cash balances		**(35)**	(294)
Decrease in net insurance liabilities	13	**(6,781)**	(11,563)
Increase in insurance and other debtors		**(556)**	(2,072)
(Decrease) / increase in insurance and other creditors		**(346)**	4,765
Investment income	16	**(29,353)**	(54,659)
Investment charges	16	**33,021**	40,068
Net cash generated from / (used in) operating activities		**22,233**	(5,114)

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

NOTES TO THE CONSOLIDATED ACCOUNTS
for the year ended 20 February 2016

1 General

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

In 1995, to comply with European Union and Luxembourg minimum insurance solvency margin requirements, a reserve fund, the Reserve Deposit Fund, was established, to which allocations are made periodically to meet the minimum solvency levels required.

2 Presentation of the consolidated accounts

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

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

- Land and buildings and other financial investments are stated at estimated market value;

- Subrogation and salvages are presented on a net basis within the balance sheet;

- Additional disclosures are included relating to consolidated cash flows, policy year positions and average expense ratio.

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

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

	Land and buildings $'000	Other financial investments $'000
Presented herein – Estimated market value	68,209	400,150
Statutory consolidated accounts – Net book value	19,200	385,091

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

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

2 Presentation of the consolidated accounts (continued)

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

The consolidated accounts have been drawn up to incorporate the terms of an agreement dated 18 October 1985 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 accounts have been prepared in US dollars and incorporate the assets and liabilities of the Association and its group undertakings, listed below, at 20 February 2016 and the results of the year ended on that date. The group undertakings are 100% owned and are fully consolidated.

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

The West of England Ship Owners Mutual Insurance Association (Luxembourg) has guaranteed all outstanding liabilities as at 20 February 2016 of its wholly owned subsidiary, The West England Ship Owners’ Insurance Services Limited, UK registered number 01611499, such that it may apply for an audit exemption under UK law (Section 479A of the Companies Act 2006) for the year ended 20 February 2016. The financial results and position of The West England Ship Owners’ Insurance Services Limited are included within these consolidated annual accounts.

Classes and policy years

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

Calls and reinsurance premiums are credited or charged to the policy year to which cover relates 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 13 and 18.

3 Summary of significant accounting policies

Foreign currencies

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

Land and buildings

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

Other financial investments

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

Debtors

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

Claims outstanding

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

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

3 Summary of significant accounting policies (continued)

Tangible assets

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

Premiums

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

Claims incurred

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

Investment income

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

Expenses

General and management expenditure is charged to the consolidated income and expenditure account on an accruals basis.

Pension costs

Defined benefit pension costs are charged to the income and expenditure account over the service lives of the eligible employees in accordance with the advice of qualified actuaries. Pension obligations relating to defined final salary benefits are determined on a projected unit method. Contributions are charged as an expense in the year of payment.

Transfer of investment return

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

4 Land and buildings

Land and buildings comprise the Association's freehold premises at Tower Bridge Court, London, which are partly occupied by the Association, and a property in Hong Kong which is fully occupied by the Association. The London property was revalued at 20 February 2016 by Dron & Wright at £42.0 million ($59.9 million) (2015 £34.3 million / $52.6 million) and the Hong Kong property at 20 February 2016 by Jones Lang LaSalle Ltd at HK$64.4 million ($8.3 million) (2015 HK$64.4 million / $8.3 million). The resultant surpluses on revaluation were taken to the revaluation reserve.

5 Other financial investments

	2016 $'000 Market value	**2016 $'000 Cost**	2015 $'000 Market value	2015 $'000 Cost
Shares and other variable yield transferable securities and units in unit trusts	**57,393**	**55,751**	58,179	48,462
Debt securities and other fixed interest transferable securities	**342,757**	**333,926**	324,728	313,302
	400,150	**389,677**	382,907	361,764

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

	2016 $'000 Contract / notional amount	**2016 $'000 Fair value asset**	**2016 $'000 Fair value liability**	2015 $'000 Contract / notional amount	2015 $'000 Fair value asset	2015 $'000 Fair value liability
Forward foreign exchange contracts	**104,526**	**543**	**1,329**	119,213	3,110	89

At 20 February 2016 forward foreign exchange positions comprise long US dollar positions in 11 currencies for a total value of $77.0 million (2015 $106.4 million) and short US dollar positions in 11 currencies for a total value of $27.5 million (2015 $12.8 million).

6 Financial commitments and guarantees

The Association itself and through its subsidiaries, International Shipowners Reinsurance Company S.A. and The West of England Reinsurance (Hamilton) Limited, has pledged certain investments as security for bank guarantees and letters of credit issued on behalf of the Association. At 20 February 2016, the secured facilities for guarantees on behalf of Members, including an agreed margin where appropriate, amounted to $62.9 million (2015 $77.9 million) and guarantees issued against those facilities totalled $22.9 million (2015 $30.3 million).

Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2016 were:

	2016 $ million	2015 $ million
On behalf of Members	**22.9**	30.3
Letters of credit and other guarantees	**5.6**	5.4

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

7 Reinsurance debtors

	2016 $'000	2015 $'000
Recoveries from other members of the International Group of P&I Clubs	**878**	942
Recoveries from the Group Excess Loss reinsurance	**561**	2,046
Other reinsurances	**3,894**	626
	5,333	3,614

8 Additional calls not yet charged

	2016 $'000	2015 $'000
Class 1 (Note 20)	**28,804**	29,116
Class 2 (Note 21)	**1,410**	1,393
	30,214	30,509

9 Other debtors

	2016 $'000	2015 $'000
Mortgages	**57**	146
Investment debtors	**543**	8,014
UK Corporation Tax	**59**	-
Other debtors	**670**	718
	1,329	8,878

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% (2015 5%) and are repayable over various periods up to the end of each Director's service.

10 Tangible assets

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

10 Tangible assets (continued)

	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

11 Other creditors

	2016 $'000	2015 $'000
UK Corporation Tax	**5,031**	3,298
Luxembourg municipal and state taxes	**896**	727
Accrued expenses	**2,479**	1,908
Investment creditors	**1,577**	4,208
Other creditors	**6,234**	7,048
	16,217	17,189

UK Corporation Tax includes $122,000 (2015 $149,000) of deferred tax arising on timing differences and $4,682,000 (2015 $2,907,000) of deferred tax arising due to capital gains on the revaluation of the Association's freehold premises at Tower Bridge Court, London. All other creditors are payable within one year.

12 Earned premiums, net of reinsurance

	Class 1	Class 2	**2016 $'000 Total**
Gross premiums by policy year			
Policy year 2015/16	186,031	9,694	**195,725**
Policy year 2014/15	31,144	1,860	**33,004**
Policy year 2013/14	(378)	12	**(366)**
Other	(395)	(59)	**(454)**
Total gross premiums	216,402	11,507	**227,909**
Movement in additional calls not yet charged (Note 8)	(312)	17	**(295)**
	216,090	11,524	**227,614**
Reinsurance premiums	(43,020)	(907)	**(43,927)**
Earned premiums, net of reinsurance	**173,070**	**10,617**	**183,687**

	Class 1	Class 2	2015 $'000 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	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

13 Insurance claims and loss adjustment expenses

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

13 Insurance claims and loss adjustment expenses (continued)

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

Claims outstanding includes $98.4 million (2015 $95.3 million) in respect of other clubs' claims through the International Group Pool, including appropriate provision for claims incurred but not reported. Recoveries shown include amounts statistically projected as recoverable against claims incurred but not reported.

13 Insurance claims and loss adjustment expenses (continued)

	2015 $'000 Class 1	2015 $'000 Class 2	2015 $'000 Reinsurance of WoE (London)	2015 $'000 Non-Class	2015 $'000 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

13 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

14 Operating expenses

	2016 **$'000**	2015 $'000
Directors' fees	**337**	374
Auditor's remuneration	**369**	418
Other expenses	**8,578**	9,619
Depreciation	**673**	668
Profit on disposal of fixed assets	**(12)**	(21)
Administrative expenses	**9,945**	11,058
Acquisition costs	**25,521**	24,292
	35,466	35,350

Remuneration granted to the Directors in respect of their duties and responsibilities during the financial year amounted to $337,157 (2015 $374,200). No loans or advances were granted to the Directors during the year and no commitments were entered into on their behalf.

The fees of the auditor in relation to the audit of the annual accounts in 2016 amount to $282,000 (2015 $291,000); the fees related to other assurance services provided including tax services amount to $87,000 (2015 $127,000).

Included within acquisition costs is $16.2 million (2015 $15.4 million) in respect of commission.

15 Staff costs

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

	2016 $'000	2015 $'000
Wages and salaries	**16,436**	16,878
Other staff related costs	**1,282**	1,400
Social security costs	**1,669**	1,733
Other pension costs	**2,559**	3,263
	21,946	23,274

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

	2016 Number	2015 Number
Claims	**64**	65
Underwriting	**35**	33
Administration	**34**	36
	133	134

The majority of the staff is included in a defined benefit pension scheme, The West of England Ship Owners' Insurance Services Limited Retirement Benefits Scheme (the "Scheme"). From 30 June 2004 the Scheme was changed from one where benefits provided were based on final salaries to a cash contribution scheme where benefits are based on contributions linked to annual salaries and inflation.

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

In accordance with the trustees' strategy to de-risk the Scheme, a "buy-in" bulk annuity policy was entered into in April 2014 in respect of pensioners within the final salaries section of the Scheme, representing the majority of Scheme pensioners. This policy is valued in the Scheme assets and liabilities at 20 February 2016, as shown below, at £45.3 million ($64.5 million), (2015 £49.1 million ($75.6 million)).

15 Staff costs (continued)

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

	2016 $'000	2015 $'000
Present value of Scheme liabilities	**(133,502)**	(160,193)
Market value of Scheme assets	**146,203**	162,153
Surplus in the Scheme	**12,701**	1,960

The principal assumptions underlying these valuations were:

	2016 % per annum	2015 % per annum
Discount rate	**3.75**	3.25
RPI inflation assumption	**2.7**	3.2
CPI inflation assumption	**1.7**	2.2
Limited price indexation pension increases	**2.7**	3.2

The average duration of the Scheme's liabilities is approximately 18 years (2015 19 years).

A small number of staff has other pension arrangements provided.

16 Investment income and charges

	2016 $'000	2015 $'000
Income from land and buildings	**2,201**	1,854
Investment income	**10,348**	10,700
Gains on realisation of investments	**3,344**	25,451
Unrealised gains on investments	**-**	262
Gains from forwards and exchange	**13,460**	16,392
Total investment income	**29,353**	54,659
Investment management expenses	**(1,051)**	(1,255)
Losses on realisation of investments	**(1,070)**	(6,167)
Unrealised losses on investments	**(12,414)**	(16,328)
Losses from forwards and exchange	**(18,486)**	(16,318)
Total investment charges	**(33,021)**	(40,068)
Total investment return	**(3,668)**	14,591

The investment return has been attributed as follows:

	2016 $'000	2015 $'000
Class 1	**(3,164)**	11,527
Class 2	**(168)**	558
The West of England Reinsurance (Hamilton) Limited	**(736)**	2,106
	(4,068)	14,191
Reserve deposit fund	**400**	400
	(3,668)	14,591

17 Tax on ordinary activities

	2016 $'000	2016 $'000	2015 $'000	2015 $'000
Luxembourg municipal and state taxes		**(407)**		(405)
UK Corporation Tax:				
Current tax on income for the year	**(404)**		(461)	
Adjustment in respect of prior years	**-**		(1)	
Deferred tax	**18**		13	
		(386)		(449)
Other taxes		**(66)**		(292)
		(859)		(1,146)

18 Summarised income and expenditure account by Class

					2016 $'000
	Class 1	**Class 2**	**Reinsurance of WoE (London)**	**Non-Class**	**Total**
Earned premiums, net of reinsurance (Note 12)	173,070	10,617	-	-	**183,687**
Claims incurred, net of reinsurance (Note 13)	(113,821)	(5,425)	311	863	**(118,072)**
Net operating expenses (Note 14)	(32,888)	(2,520)	-	(58)	**(35,466)**
	26,361	2,672	311	805	**30,149**
Investment return, net of tax (Notes 16 and 17)	(3,578)	(212)	-	(737)	**(4,527)**
Surplus for the financial year	**22,783**	**2,460**	**311**	**68**	**25,622**

18 Summarised income and expenditure account by Class (continued)

2015
$'000

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

19 Reserves

2016
$'000

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

19 Reserves (continued)

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 18)	-	-	-	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

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:

	2016 $'000	2015 $'000
Class 1	**38,411**	31,374
Class 2	**1,650**	1,305
Other	**38**	38
	40,099	32,717

The revaluation reserve is net of $4,682,000 (2015 $2,907,000) of deferred tax arising due to capital gains on property revaluation (Note 11).

Total Reserves by Class

	2016 $'000	2015 $'000
Class 1	**203,955**	174,569
Class 2	**22,388**	19,581
Other reserves	**50,318**	49,542
Total reserves at 20 February	**276,661**	243,692

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

20 Class 1 policy year position at 20 February 2016

$'000

	2013/14	2014/15	2015/16	Unallocated investment income	TOTAL
Calls and premiums:					
- Year to 20 February 2016	(378)	2,028	186,031		187,681
- Prior years	196,266	205,455	-		401,721
Future additional calls (Note 8)	-	-	28,804		28,804
Gross premiums	195,888	207,483	214,835		618,206
Reinsurance premiums	(36,300)	(40,119)	(43,183)		(119,602)
Acquisition costs	(22,714)	(23,276)	(24,066)		(70,056)
Net premiums	**136,874**	**144,088**	**147,586**		**428,548**
Investment income	20,850	5,000	5,000	65,959	96,809
Net income	**157,724**	**149,088**	**152,586**	**65,959**	**525,357**
Net claims paid – Members	(74,294)	(57,028)	(16,034)		(147,356)
Net claims outstanding – Members	(45,979)	(49,064)	(105,535)		(200,578)
Net claims incurred – Members	**(120,273)**	**(106,092)**	**(121,569)**		**(347,934)**
Net claims paid – Pool	(13,335)	(7,639)	(961)		(21,935)
Net claims outstanding – Pool	(13,665)	(9,861)	(29,039)		(52,565)
Net claims incurred - Pool	**(27,000)**	**(17,500)**	**(30,000)**		**(74,500)**
Net claims paid	(87,629)	(64,667)	(16,995)		(169,291)
Net claims outstanding	(59,644)	(58,925)	(134,574)		(253,143)
Net claims incurred	**(147,273)**	**(123,592)**	**(151,569)**		**(422,434)**
Operating expenses	(10,455)	(9,700)	(8,713)		(28,868)
Net expenditure	**(157,728)**	**(133,292)**	**(160,282)**		**(451,302)**
Forecast balance on open years	**(4)**	**15,796**	**(7,696)**	**65,959**	**74,055**
Forecast balance on closed years					**129,900**
Forecast balance on Class 1 at 20 February 2016					**203,955**

20 Class 1 policy year position at 20 February 2016 (continued)

Based on the position at 20 February 2016 a resolution will be put to the Board of Directors at their meeting on 18 May 2016 to allocate $0.85 million to policy year 2013/14 and $5.0 million to policy year 2015/16 from the Class 1 policy year reserve account and thereafter, under the same resolution, to close the 2013/14 policy year.

Future additional calls represent 35% for policy year 2015/16 (due 20 August 2016). 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 2013/14, at 10% for policy year 2014/15 and at 20% for policy year 2015/16. The estimated yields of these releases, if charged, would be $4.9 million, $10.2 million and $21.7 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 0% for policy year 2014/15 and 10% for policy year 2015/16, equivalent to 0% and 7.4% respectively of the estimated total mutual call (or "ETC") which includes additional calls charged and forecast. The estimated yield of the 2015/16 release call would be $10.8 million if charged.

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

(a) Disclosure relating to calls

	2013/14 $'000	2014/15 $'000	2015/16 $'000
Additional calls and releases already charged	37,505	37,907	9,472
Estimated product of a further 10% additional call	9,876	10,233	10,873

The additional call products shown take account of calls already charged, and Members released, at 20 February 2016 and therefore do not represent 10% of the original advance call for each year. The additional call is based on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium.

(b) Disclosure relating to claims paid

	2013/14 $'000	2014/15 $'000	2015/16 $'000
Claims paid - own business	(74,294)	(74,229)	(16,034)
Claims paid – other clubs' Pool claims	(13,335)	(7,639)	(961)
Gross claims paid	(87,629)	(81,868)	(16,995)
Recoveries from the Pool	-	-	-
Recoveries from the Group Excess Loss reinsurance	-	-	-
Recoveries from Hydra Insurance Company Ltd	-	-	-
Recoveries from other reinsurances	-	17,201	-
Reinsurance recoveries on claims paid	-	17,201	-
Net claims paid	(87,629)	(64,667)	(16,995)

20 Class 1 policy year position at 20 February 2016 (continued)

(c) Disclosure relating to claims outstanding

	Closed Years $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	**Total $000**
Outstanding claims – own business	(184,425)	(54,334)	(133,808)	(110,535)	**(483,102)**
Outstanding claims – other clubs' Pool claims	(47,271)	(13,665)	(9,861)	(29,039)	**(99,836)**
Gross outstanding claims (Note 13)	(231,696)	(67,999)	(143,669)	(139,574)	**(582,938)**
Recoveries from the Pool	28,917	2,156	-	2,500	**33,573**
Recoveries from the Group Excess Loss reinsurance	36,763	-	-	-	**36,763**
Recoveries from Hydra Insurance Company Ltd	1,460	-	-	-	**1,460**
Recoveries from West of England Reinsurance (Hamilton)	-	-	-	-	**-**
Recoveries from other reinsurances	32,955	6,199	84,744	2,500	**126,398**
Reinsurance recoveries on outstanding claims (Note 13)	100,095	8,355	84,744	5,000	**198,194**
Net claims outstanding	(131,601)	(59,644)	(58,925)	(134,574)	**(384,744)**

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

21 Class 2 policy year position at 20 February 2016

$'000

	2011/12	2012/13	2013/14	2014/15	2015/16	Unallocated investment income	TOTAL
Calls & premiums							
- Year to 20 February 2016	(62)	(6)	12	468	9,694		10,106
- Prior years	8,225	7,953	8,935	9,557	-		34,670
Future additional calls (Note 8)	-	-	-	-	1,410		1,410
Gross premiums	8,163	7,947	8,947	10,025	11,104		46,186
Reinsurance premiums	(1,274)	(501)	(552)	(627)	(874)		(3,828)
Acquisition costs	(796)	(774)	(894)	(1,151)	(1,310)		(4,925)
Net premiums	**6,093**	**6,672**	**7,501**	**8,247**	**8,920**		**37,433**
Investment income	1,125	-	-	-	-	4,083	5,208
Net income	**7,218**	**6,672**	**7,501**	**8,247**	**8,920**	**4,083**	**42,641**
Net claims paid	(5,046)	(2,844)	(4,146)	(3,550)	(1,108)		(16,694)
Net claims outstanding	(1,171)	(2,103)	(2,802)	(4,136)	(7,068)		(17,280)
Net claims incurred	**(6,217)**	**(4,947)**	**(6,948)**	**(7,686)**	**(8,176)**		**(33,974)**
Administration expenses	(999)	(1,002)	(982)	(1,298)	(1,174)		(5,455)
Net expenditure	**(7,216)**	**(5,949)**	**(7,930)**	**(8,984)**	**(9,350)**		**(39,429)**
Forecast balance on open years	**2**	**723**	**(429)**	**(737)**	**(430)**	**4,083**	**3,212**
Forecast balance on closed years							**19,176**
Forecast balance on Class 2 at 20 February 2016							**22,388**

Investment income includes all amounts earned up to 20 February 2016. Based on the position at 20 February 2016 a resolution will be put to the Board of Directors at their meeting on 18 May 2016 to allocate $1.125 million to policy year 2011/12 and thereafter, under the same resolution, to close the policy year.

Future additional calls represent 35% for the 2015/16 policy year and are due 20 August 2016. In addition, releases have been set at 0% for open years 2011/12 and 2012/13, at 5% for 2013/14, at 10% for 2014/15 and at 20% for 2015/16. 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 2013/14 and 2014/15 to 0% and 2015/16 to 10%, equivalent to 0% and 7.4% respectively of the estimated total mutual call (or "ETC") which includes additional calls charged and forecast.

22 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 2016 is 15.50% (2015: 14.86%).

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