



Steamship
Mutual

Steamship Mutual
Combined Financial
Statements 2022

Steamship

Combined Financial Statements 2022

Managers' Report

Basis of combination

The Combined Financial Statements for Steamship have been prepared by combining the consolidated accounts of Steamship Mutual Underwriting Association Limited ("SMUA"), Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE"), the consolidated accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), and The Steamship Mutual Trust ("Trust"). All the Members of SMUA and SMUAE are also Members of SMUAB and are beneficiaries of the Trust.

These Combined Financial Statements are intended to provide an overall summary of the financial position of the four entities which, whilst contractually linked, are not under common control.

The consolidated financial statements of SMUA and SMUAB and the financial statements of SMUAE and the Trust are available as separate documents at www.steamshipmutual.com.

Free reserves

As at 20 February 2022, the combined free reserves of Steamship were US\$473.6m, a decrease of US\$37.5m, or 7.3% over the financial year. For the year under review, the Directors set a 5% general increase in P&I premium. At the 2022/23 renewal the general increase was set at 12.5%.

Underwriting

The 2018/19 year was closed in June 2021.

Gross premium written of \$307.5m, compared to US\$284.4m last year. The financial year combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium decreased from 125.4% to 112.7% due to lower Covid-19 related claims.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 15% for the 2022/23 and 2021/22 policy years and 12.5% for the 2020/21 and 2019/20 policy years.

Claims

Net claims paid during the financial year on a combined basis amounted to \$217.4m, an increase of 23.9% on the previous year. Net outstanding claims increased by \$24.9m to \$700.7m, an increase of 3.7% compared to the previous year.

Gross claims arising in respect of the 2021/22 policy year, including incurred but not reported ("IBNR") claims, are projected to be \$310.8m, a decrease of 1.2% over the 2020/21 policy year (\$314.8m). Claims net of reinsurance recoveries amounted to \$272.8m, an increase of 6.7% compared to the 2020/21 policy year (\$256.0m).

Investments

There was a combined loss on investments (before currency and investment charges), excluding land and buildings, of \$1.6m, a loss on return of 0.1%. Overall cash and investments decreased by \$13.0m, or 1.1%, to \$1,192.9m.

A review of investment performance is provided in the Investments section of these Highlights.

Accountants' Report

Accountants' report to the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited

Reporting on agreed upon procedures in respect of Steamship Mutual Combined Financial Statements

This report has been produced in accordance with the terms of our engagement letter dated 1 November 2021 ("the Engagement Letter") and in accordance with the International Standard on Related Services 4400 applicable to agreed-upon-procedures engagements as published by IAASB in connection with the combined financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited (SMUAB), Steamship Mutual Underwriting Association Limited (SMUA), Steamship Mutual Underwriting Association (Europe) Limited (SMUAE) and The Steamship Mutual Trust (the Trust), (together "the Entities").

Scope of our work and factual findings

We have performed the following work:

- We have agreed the figures used in the combined financial statements to the signed financial statements of the Entities as at 20 February 2022 respectively; and
- We have checked that the stated accounting policies for measurement in the combined financial statements are consistent with the accounting policies for measurement adopted by the Entities, as defined in their respective financial statements.

No exceptions were found.

We have not subjected the information contained in our report to checking or verification procedures except to the extent expressly stated above and this engagement does not constitute an audit or a review and, as such, no assurance is expressed. Had we performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.

You were responsible for determining whether the agreed upon procedures we performed were sufficient for your purposes and we cannot, and do not, make any representations regarding the sufficiency of these procedures for your purposes.

Audit work

Our audit work on the financial statements of SMUA, SMUAB and the Trust, was carried out in order to report to the Entities' Directors or Trustees respectively as a body and is subject to separate engagement letters. The audit work was undertaken to state to the Entities' Directors or Trustees respectively those matters required to be stated in an auditor's report and for no other purpose. The audits of the Entities' financial statements were not planned or conducted to address or reflect matters in which anyone other than such Directors or Trustees respectively as a body may be interested. In particular, the scope of the audit work was

set, and judgements made by reference to the assessment of materiality in the context of the audited financial statements taken as a whole, rather than in the context of the Report contemplated in this letter.

BDO LLP have not expressed an opinion or other form of assurance on individual account balances, financial amounts, financial information or the adequacy of financial, accounting or management systems. BDO LLP do not accept or assume responsibility to anyone other than the Entities' and the Entities Directors or Trustees respectively as a body, for their audit work, for their audit report or for the opinions they have formed. To the fullest extent permitted by law, BDO LLP do not accept or assume responsibility or liability to anyone by virtue of this engagement or our Report in relation to our audits of the Entities' financial statements.

The audit work on the financial statements of SMUAE was carried out by Moore Limassol. Their report was prepared for and only for members of SMUAE as a body in accordance with Article 10(1) of the EU Regulations 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. They do not in giving their opinion accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Use of Report

Our report is prepared solely for the confidential use of the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited. Our report must not be used for any purpose other than for which it was prepared or be reproduced or referred to in any other document or made available to any third party without the written permission of BDO LLP except a copy of our report may be provided, for information purposes only, to SMUA, SMUAE and the Trust to whom we have no liability and owe no duty of care.

We accept no liability to any other party who is shown or gains access to this report.

BDO LLP

London, UK
4 July 2022

BDO LLP is a Limited Liability Partnership registered in England and Wales (with registered number OC305127

Combined Income and Expenditure Account

For the year ended 20 February 2022

	Note	2022 \$m	2021 \$m
Technical Account			
Gross premium written	2	307.5	284.4
Outward reinsurance premium	3	(50.9)	(50.8)
Net earned premium		256.6	233.6
Allocated currency (losses)/gains	7	(3.2)	5.6
Claims paid			
Gross amount	4	225.3	191.3
Reinsurers' share	4	(7.9)	(15.8)
		217.4	175.5
Change in the provision for claims			
Gross amount	5	54.3	134.3
Reinsurers' share	5	(29.4)	(51.5)
		24.9	82.8
Net claims incurred		242.3	258.3
Operating expenses	6	43.7	40.3
Underwriting balance		(32.6)	(59.4)
Non-Technical Account			
Underwriting balance		(32.6)	(59.4)
Investment income	7	51.6	25.8
Unrealised (losses)/gains on investments	7	(56.4)	33.9
Currency losses/(gains) allocated to the Technical Account	7	3.2	(5.6)
Net investment return		(1.6)	54.1
Investment charges		(2.6)	(2.4)
Other income	8	–	3.4
Other charges	8	(0.7)	–
Taxation		–	–
Deficit for the financial year		(37.5)	(4.3)

Combined Balance Sheet

as at 20 February 2022

	Note	2022 \$m	2021 \$m
Assets			
Investments			
Land and buildings	8	22.5	23.3
Other financial investments	9	1,142.8	1,156.5
Reinsurers' share of technical provisions			
Claims outstanding	5	309.2	279.8
Debtors			
Debtors arising out of direct insurance operations		14.1	8.9
Debtors arising out of reinsurance operations		0.2	–
Other debtors		3.7	6.9
Other assets			
Cash at bank		27.6	26.1
Prepayments and accrued income			
Deferred acquisition costs		0.8	0.8
Other prepayments and accrued income		5.2	4.9
Total assets		1,526.1	1,507.2
Liabilities			
Capital and reserves			
Free reserves	10	473.6	511.1
Technical provisions			
Provision for unearned premium		4.6	3.6
Claims outstanding	5	1,009.8	955.5
Provisions for other risks and charges			
Provision for taxation		–	0.1
Creditors			
Creditors arising out of direct insurance operations		20.1	18.2
Creditors arising out of reinsurance operations	11	10.3	7.9
Other creditors		7.7	10.8
Total liabilities		1,526.1	1,507.2

Notes on the Combined Financial Statements

1. Extract of accounting policies

(a) Accounting convention

The financial statements have been prepared with regard to the measurement principles in the European Commission Insurance Accounts Directive (91 /674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and applicable United Kingdom Financial Reporting Standards ("FRS") 102 and 103.

(b) Basis of combination

The financial statements combine the accounts of SMUAB and its subsidiary undertaking, Steamship Mutual Property Holdings Limited ("SMPH") and its share of Hydra Insurance Company Limited ("Hydra") with those of SMUA and its subsidiary undertaking, Steamship (Germany) GmbH, SMUAE, and the Trust to 20 February 2022.

2. Gross premium written

Mutual and fixed premium

Movement in unearned premium

	2022 \$m	2021 \$m
	308.5	284.3
	(1.0)	0.1
	307.5	284.4

3. Outward reinsurance premium

Group Excess Loss

Other reinsurance premium

	2022 \$m	2021 \$m
	35.0	33.2
	15.9	17.6
	50.9	50.8

4. Claims paid

Claims and related expenses

Group Pool claims

Claims administration expenses

	2022 \$m	2021 \$m
	157.8	125.1
	42.3	41.9
	25.2	24.3
	225.3	191.3

Less reinsurers' share

Group Excess Loss

Group Pool

Other reinsurers

	1.6	1.4
	9.0	6.7
	(2.7)	7.7
	7.9	15.8

Net claims paid

	217.4	175.5
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Notes on the Combined Financial Statements

continued

	2022 \$m	2021 \$m
5. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	955.5	821.2
Claims paid in the year	(225.3)	(191.4)
Changes to reserves	279.6	325.7
Provision carried forward	1,009.8	955.5
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	233.9	169.1
Reinsurance recoveries made in the year	(10.6)	(8.2)
Changes to reserves	38.3	73.0
Provision carried forward	261.6	233.9
Other reinsurers' share of outstanding claims		
Provision brought forward	45.9	59.2
Reinsurance recoveries made in the year	2.7	(7.7)
Changes to reserves	(1.0)	(5.6)
Provision carried forward	47.6	45.9
Total net claims outstanding	700.6	675.7

A favourable movement in the prior year net claims provision of \$34.4m was experienced during the year (2021: \$1.9m).

	2022 \$m	2021 \$m
6. Operating expenses		
Brokerage	21.8	18.9
Underwriting administration	9.5	9.2
Other administration	11.1	10.9
Directors' remuneration	0.6	0.5
Auditor's remuneration	0.7	0.8
	43.7	40.3
Total expenses		
Operating expenses	43.7	40.3
Claims expenses (note 4 above)	25.2	24.3
Investment charges	2.6	2.4
	71.5	67.0

Notes on the Combined Financial Statements

continued

	2022 \$m	2021 \$m
7. Net investment return		
Dividends and interest	21.6	22.6
Realised gains/(losses)		
Investments	31.1	2.5
Foreign exchange	(1.1)	0.7
Investment income	51.6	25.8
Unrealised (losses)/gains		
Investments	(54.0)	29.0
Foreign exchange	(2.4)	4.9
Foreign exchange losses/(gains) allocated to Technical Account	3.2	(5.6)
Net investment return	(1.6)	54.1

The allocation to the Technical Account is comprised of all realised and unrealised foreign exchange differences arising on non-US dollar investments held to match technical provisions in the same currencies.

8. Land and buildings

SMPH owns a freehold property in London. It is occupied under licence, free of rent, by the Managers. The property was valued by CBRE Limited at £16.6m (\$23.3m) reflecting the market value at 20 February 2021. The other charges shown in the combined income and expenditure account largely reflects the movement in the US dollar equivalent of £16.6m (\$23.3m) as at 20 February 2021 to that of £16.6m (\$22.5m) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to US\$17.0m.

	2022 \$m	2021 \$m
9. Other financial investments		
Market value		
Bonds	804.4	807.3
Equities	87.2	101.4
Alternative investments	129.2	94.6
Money market instruments	100.3	111.7
Deposits with credit institutions	10.1	28.7
Cash accounts	11.3	12.7
Derivative financial instruments	0.3	0.1
	1,142.8	1,156.5
Cost		
Bonds	813.7	780.3
Equities	65.1	52.7
Alternative investments	103.6	75.2
Money market instruments	100.3	111.7
Deposits with credit institutions	10.1	28.7
Cash accounts	11.3	12.7
	1,104.1	1,061.3

Notes on the Combined Financial Statements

continued

10. Free reserves

Brought forward
Deficit for year

2022 \$m	2021 \$m
511.1	515.4
(37.5)	(4.3)
473.6	511.1

11. Creditors arising out of reinsurance operations

Group clubs and Excess Loss reinsurers
Other reinsurance creditors

2022 \$m	2021 \$m
2.7	0.5
7.6	7.4
10.3	7.9

12. Average expense ratio

In accordance with Schedule 3 of the International Group Agreement, Steamship is required to calculate and disclose its Combined Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income.

The operating expenses include all expenditure incurred in operating Steamship, excluding expenditure incurred in handling claims. Investment income includes all incomes and gains whether realised or unrealised, exchange gains and losses, and investment management costs.

The Combined Average Expense Ratio for the P&I business of Steamship for the five years ended 20 February 2022 is 12.4% (2021: 11.9%).

Notes on the Combined Financial Statements

continued

13. Risk management

Steamship monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment ("GSSA") report.

The GSSA documents Steamship's risk and capital management policies employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

The principal risks faced by Steamship are insurance risk, credit risk, market risk and operational risk.

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium written in the current policy year is insufficient to cover claims and other costs arising in that year. It thus relates to the future, whereas reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. Steamship is exposed to the uncertainty surrounding the timing, frequency and severity of claims made under its insurance contracts. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

Premium is set using assumptions which have regard to trends and the past experience of a specific Member. Premium risk is mitigated by diversification across a variety of ship types and geographical areas, and by careful selection and implementation of underwriting strategy guidelines including the screening of new Members.

Steamship transfers a substantial portion of its insurance risk to its reinsurers through the provisions of the reinsurance arrangements and its membership of the International Group ("Group").

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

Steamship aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome but this prudent basis is expected to result in releases of prior year claim reserves.

The sensitivity of the overall surplus to three factors, other assumptions being unchanged, is shown below.

		2022	2021
		\$m	\$m
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	(15.5)	(15.7)
	net of reinsurance	(13.6)	(12.8)
Single claim of US\$2bn in current policy year			
Overall surplus	gross of reinsurance	(2,000.0)	(2,000.0)
	net of reinsurance	(33.1)	(32.5)
Single claim for other member of IG of US\$2bn in current policy year			
Overall surplus	gross of reinsurance	(19.3)	(18.8)
	net of reinsurance	(19.3)	(18.8)

Notes on the Combined Financial Statements

continued

13. Risk management continued

The following tables show the development of claims over ten years on both a gross and net of reinsurance basis. The top half of each table shows how the estimates of total claims for each policy year have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet.

Insurance claims - gross

Policy year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	429.7	365.0	306.1	341.7	245.9	393.1	322.0	315.8	314.8	310.8
One year later	354.2	254.4	238.0	338.1	226.7	357.3	287.6	346.6	297.3	
Two years later	335.0	235.6	233.0	348.3	244.4	337.9	269.8	335.2		
Three years later	314.3	227.7	226.6	353.8	241.3	336.0	259.2			
Four years later	297.5	223.3	220.2	361.3	241.0	366.5				
Five years later	292.1	219.7	216.9	360.5	239.9					
Six years later	287.3	220.3	223.8	358.9						
Seven years later	282.6	218.3	222.8							
Eight years later	281.5	205.7								
Nine years later	279.7									
Current estimate of ultimate claims	279.7	205.7	222.8	358.9	239.9	366.5	259.2	335.2	297.3	310.8
Cumulative payments to date	279.4	206.1	203.5	335.9	213.6	245.0	157.4	176.2	99.1	47.3
Claims outstanding	0.3	(0.4)	19.3	23.0	26.3	121.5	98.8	159.0	198.2	263.5
Claims outstanding relating to last ten reporting years										909.5
Other claims liabilities										100.3
Total gross claims outstanding										1,009.8

Insurance claims - net

Policy year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	280.5	266.7	239.4	246.0	223.0	255.0	261.5	246.9	256.0	272.8
One year later	253.9	230.9	214.6	232.6	219.8	250.4	248.2	262.5	250.7	
Two years later	255.1	223.8	205.8	241.0	230.7	239.4	236.3	262.2		
Three years later	245.6	217.5	202.2	241.1	234.2	239.8	234.6			
Four years later	235.9	213.7	198.3	239.9	235.2	238.2				
Five years later	234.3	209.5	196.2	238.9	233.5					
Six years later	229.4	210.8	199.0	236.5						
Seven years later	225.4	209.8	197.0							
Eight years later	223.9	201.8								
Nine years later	222.7									
Current estimate of ultimate claims	222.7	201.8	197.0	236.5	233.5	238.2	234.6	262.2	250.7	272.8
Cumulative payments to date	223.7	197.6	183.9	221.6	208.6	194.3	157.4	163.7	98.9	47.3
Claims outstanding	(1.0)	4.2	13.1	14.9	24.9	43.9	77.2	98.3	151.8	225.5
Claims outstanding relating to last ten reporting years										652.8
Other claims liabilities										47.9
Total net claims outstanding										700.7

Notes on the Combined Financial Statements

continued

13. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to Steamship may default causing a debt to be written off. The reinsurance protection arranged by Steamship effectively transforms a proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. External reinsurers are generally only used if at the time of contracting with them their financial strength rating is at least A- from S&P Global, or an equivalent rating from another rating agency, except in the case of some members of the Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoverables and bonds in the investment portfolio.

The Boards' Investment Policy and specific guidelines in investment mandates control the amount of credit risk taken in pursuit of investment return and ensure that such credit risk is diversified thereby reducing concentration of exposure.

Credit risk in respect of amounts due from Members is spread across diverse industries and geographical areas. Cover can be cancelled and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice, therefore, Steamship experiences prompt payment of premium and bad debt experience is immaterial.

Credit risk also arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting exposure to each individual bank based on its credit rating and/or capital strength.

Receivables from Members, agents and intermediaries generally do not have a credit rating. Equities and alternative investments are included within Other assets. The following table shows the aggregated credit risk exposure for all assets.

As at 20 February 2022

	AAA \$m	AA \$m	A \$m	BBB \$m	BB and below \$m	Not rated \$m	Total \$m
Bonds and loans	100.3	256.0	259.5	166.8	21.8	–	804.4
Money market instruments	100.3	–	–	–	–	–	100.3
Deposits with credit institutions	–	9.0	1.1	–	–	–	10.1
Cash accounts	0.6	–	10.7	–	–	–	11.3
Derivative financial instruments	–	–	0.3	–	–	–	0.3
Cash at bank	–	18.8	5.4	–	–	3.4	27.6
Reinsurers' share of technical provisions	–	8.7	267.8	32.7	–	–	309.2
Debtors arising out of reinsurance operations	–	–	0.2	–	–	–	0.2
Accrued interest	0.1	1.0	1.8	1.4	0.1	–	4.4
Other assets	–	–	–	–	–	258.3	258.3
Total assets	201.3	293.5	546.8	200.9	21.9	261.7	1,526.1

Notes on the Combined Financial Statements

continued

13. Risk management continued

Credit risk continued

As at 20 February 2021

	AAA \$m	AA \$m	A \$m	BBB \$m	BB and below \$m	Not rated \$m	Total \$m
Bonds and loans	112.1	242.3	253.4	178.0	20.3	1.2	807.3
Money market instruments	111.7	–	–	–	–	–	111.7
Deposits with credit institutions	–	7.0	21.7	–	–	–	28.7
Cash accounts	–	6.8	5.9	–	–	–	12.7
Derivative financial instruments	–	–	0.1	–	–	–	0.1
Cash at bank	–	17.4	6.5	–	–	2.2	26.1
Reinsurers' share of technical provisions	–	11.1	245.8	22.8	–	0.1	279.8
Debtors arising out of reinsurance operations	–	–	–	–	–	–	–
Accrued interest	0.1	0.8	1.8	1.5	0.2	–	4.4
Other assets	–	–	–	–	–	236.4	236.4
Total assets	223.9	285.4	535.2	202.3	20.5	239.9	1,507.2

The following table shows the age analysis of debtors arising out of insurance operations and debtors arising out of reinsurance operations after deducting provisions for bad debt.

As at 20 February 2022

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	0.7	3.1	6.4	3.5	0.4	14.1
Debtors arising out of reinsurance operations	–	–	0.1	0.1	–	0.2
Total	0.7	3.1	6.5	3.6	0.4	14.3

As at 20 February 2021

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	0.8	4.1	1.4	1.4	1.2	8.9
Debtors arising out of reinsurance operations	–	–	–	–	–	–
Total	0.8	4.1	1.4	1.4	1.2	8.9

Notes on the Combined Financial Statements

continued

13. Risk management continued

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates and foreign exchange rates and other price changes.

Steamship's exposure to changes in interest rates and market prices is concentrated in the investment portfolio. The risk appetite, asset allocation and tolerance ranges are set by the Board of the Corporate Trustee of the Trust having consulted with the Boards of the reinsureds. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

Steamship receives the majority of its premium income in US dollars, a reasonable amount in euro and small amounts in UK sterling and Canadian dollars. Claim liabilities arise in a number of currencies but predominantly in US dollar, euro, UK sterling and Brazilian real. This currency exposure is mitigated by holding investments and derivatives in each of these currencies. To minimise currency translation costs some operational bank balances in euro and UK sterling are maintained to fund expected short term claim payments in those currencies.

The following tables show Steamship's assets and liabilities by currency. The exposure to Brazilian real through derivative positions was US\$4.4m at 20 February 2022 (2021: US\$4.6m).

As at 20 February 2022

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,353.2	39.9	110.3	8.6	–	14.1	1,526.1
Liabilities	(885.2)	(22.9)	(107.7)	(13.6)	(3.3)	(19.8)	(1,052.5)
	468.0	17.0	2.6	(5.0)	(3.3)	(5.7)	473.6

As at 20 February 2021

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,349.0	51.9	81.2	13.2	–	11.9	1,507.2
Liabilities	(852.9)	(21.5)	(80.5)	(17.7)	(4.0)	(19.5)	(996.1)
	496.1	30.4	0.7	(4.5)	(4.0)	(7.6)	511.1

IBNR and reinsurers' share of IBNR are reserved in US dollar.

Notes on the Combined Financial Statements

continued

13. Risk management continued

Market risk continued

The majority of the operating expenses of Steamship are the costs of Steamship Insurance Management Services Limited, the service company of Steamship P&I Management LLP. These expenses are payable in UK sterling giving rise to a foreign exchange risk when compared to Steamship's base currency of US dollar. Steamship has a hedging policy which requires a percentage of future costs to be held in UK sterling to manage this risk.

Steamship's interest rate risk is in relation to the fluctuation in the fair value of future cash flows of bonds due to changes in interest rates and spreads. The table below shows the change in fair value of the investments assuming a 200 basis points increase in spreads and/or increase in interest rates:

	Effect on investment valuation \$m
As at 20 February 2022	(35.2)
As at 20 February 2021	(39.9)

Steamship's equity price risk is in relation to the fluctuation in the fair value of equities due to changes in market conditions. The table below shows the change in fair value of the investments assuming a 35% decrease in equities:

	Effect on investment valuation \$m
As at 20 February 2022	(30.5)
As at 20 February 2021	(35.4)

The table below shows the change in fair value of the investments assuming a 15% decrease in alternative investment pricing:

	Effect on investment valuation \$m
As at 20 February 2022	(19.4)
As at 20 February 2021	(14.2)

The above sensitivities assume that all other key market variables are held constant and that the percentage rate change is instantaneous, which is rarely the case.

Liquidity risk

Liquidity risk is the risk that Steamship cannot meet its financial obligations as they fall due. Steamship maintains a highly liquid portfolio of cash, government and corporate bonds with an average maturity equivalent to the average expected settlement period of claim liabilities. Most of the remaining assets in the investment portfolio could be converted into cash in less than one month.

Notes on the Combined Financial Statements

continued

13. Risk management continued

Liquidity risk continued

The following table shows the expected maturity of Steamship's assets based on the undiscounted contractual maturities of the assets.

As at 20 February 2022

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	452.7	116.7	286.5	286.9	1,142.8
Reinsurers' share of technical provisions	32.9	103.6	126.6	46.1	309.2
Other assets	51.6	–	–	22.5	74.1
Total assets	537.2	220.3	413.1	355.5	1,526.1

As at 20 February 2021

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	465.0	80.7	344.6	266.2	1,156.5
Reinsurers' share of technical provisions	104.9	57.8	79.6	37.5	279.8
Other assets	47.6	–	–	23.3	70.9
Total assets	617.5	138.5	424.2	327.0	1,507.2

The following table shows the expected maturity profile of Steamship's undiscounted obligations with respect to its insurance contract liabilities and other liabilities.

As at 20 February 2022

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	387.5	229.5	279.5	113.3	1,009.8
Other liabilities	42.7	–	–	–	42.7
Total liabilities excluding capital and reserves	430.2	229.5	279.5	113.3	1,052.5

As at 20 February 2021

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	358.3	197.4	271.9	127.9	955.5
Other liabilities	40.6	–	–	–	40.6
Total liabilities excluding capital and reserves	398.9	197.4	271.9	127.9	996.1

Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. Steamship has identified its operational risks in a risk register and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. Appropriate controls are also in place to monitor the outsourcing of operations to the Managers and, through them, other service providers.

Combined Policy Year Statement

All Classes

	2021/22 \$m	2020/21 \$m	2019/20 \$m	Total \$m
Development of open policy years				
Gross premium	307.9	284.6	307.5	900.0
Reinsurance premium	(51.7)	(48.2)	(50.9)	(150.8)
Net earned premium	256.2	236.4	256.6	749.2
Allocated investment return from non-technical account	(1.8)	2.7	(0.5)	0.4
Net incurred claims				
Claims paid net of reinsurance recoveries	36.1	82.8	141.6	260.5
Claims administration expenses	11.1	16.2	22.2	49.5
Net claims outstanding	103.9	102.5	73.0	279.4
IBNR provision	110.1	46.8	24.2	181.1
Future claims administration expenses	11.5	2.5	1.1	15.1
	272.7	250.8	262.1	785.6
Operating expenses				
Brokerage	21.6	18.8	18.0	58.4
Other expenses	21.9	21.4	22.7	66.0
	43.5	40.2	40.7	124.4
Underwriting balance	(61.8)	(51.9)	(46.7)	(160.4)
Net investment income	(4.8)	55.1	64.1	114.4
(Deficit)/surplus on open policy years	(66.6)	3.2	17.4	(46.0)
Closed policy years				
Surplus in respect of 2017/18 and prior years at 20 February 2021				546.1
Balance on 2018/19 year as at 20 February 2021				(11.7)
Capital distribution				(38.2)
Movements on policy years prior to 2019/20				23.4
Surplus on all policy years				473.6

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2021/22 \$m	2020/21 \$m	2019/20 \$m
2. Net product of 10% supplementary call	23.1	20.3	20.7

- The policy year combined ratios as at 20 February 2022 are as follows:

	2021/22	2020/21	2019/20
	124.4%	121.9%	118.2%

Combined Policy Year Statement

All Classes

	2021/22 \$m	2020/21 \$m	2019/20 \$m	Closed years \$m	Total \$m
Balance available for outstanding claims by policy year					
Gross claims outstanding					
Own claims	196.3	150.7	134.3	336.8	818.1
Pool claims	55.7	45.1	23.6	49.3	173.7
Future claims administration expenses	11.5	2.5	1.1	2.9	18.0
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(43.9)	(43.9)
Group Pool	(36.0)	(35.2)	(60.6)	(85.9)	(217.7)
Other	(2.0)	(11.3)	-	(34.2)	(47.5)
Net provision for claims outstanding	225.5	151.8	98.4	225.0	700.7
Free reserves					
Surplus/(deficit) on policy years	(66.7)	3.3	17.4	283.9	237.9
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	158.8	155.1	115.8	744.6	1,174.3

Notes

1. Combined projected net outstanding claims at 20 February 2022, amounting to \$700.7million, includes IBNR provision totalling \$241.0m as follows:

	2021/22 \$m	2020/21 \$m	2019/20 \$m	Closed years \$m	Total \$m
	110.1	46.8	24.2	59.9	241

2. Combined free reserves at 20 February 2022, amounting to \$473.6m, are stated net of a provision for future expenses on outstanding claims amounting to \$18.0m.

Combined Policy Year Statement

P&I Class

	2021/22 \$m	2020/21 \$m	2019/20 \$m	Total \$m
Development of open policy years				
Gross premium	283.6	259.5	282.2	825.3
Reinsurance premium	(41.6)	(37.7)	(40.2)	(119.5)
Net earned premium	242.0	221.8	242.0	705.8
Allocated investment return from non-technical account	(1.5)	2.4	(0.4)	0.5
Net incurred claims				
Claims paid net of reinsurance recoveries	33.9	77.3	135.0	246.2
Claims administration expenses	10.4	15.1	21.1	46.6
Net claims outstanding	101.5	99.1	72.1	272.7
IBNR provision	103.5	43.8	19.6	166.9
Future claims administration expenses	10.9	2.3	1.1	14.3
	260.2	237.6	248.9	746.7
Operating expenses				
Brokerage	19.2	16.9	16.7	52.8
Acquisition and other expenses	20.2	19.4	20.8	60.4
	39.4	36.3	37.5	113.2
Underwriting balance	(59.1)	(49.7)	(44.8)	(153.6)
Allocated net investment income	(4.5)	49.8	58.8	104.1
(Deficit)/surplus on open policy years	(63.6)	0.1	14.0	(49.5)
Closed policy years				
Surplus in respect of 2017/18 and prior years at 20 February 2021				512.0
Balance on 2018/19 year as at 20 February 2021				(7.5)
Capital distribution				(38.2)
Movements on policy years prior to 2019/20				25.8
Surplus on all policy years				442.6

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2021/22 \$m	2020/21 \$m	2019/20 \$m
2. Net product of 10% supplementary call	23.1	20.3	20.7

- The policy year combined ratios are as follows:

	2021/22	2020/21	2019/20
	123.9%	123.5%	118.3%

Balance available for outstanding claims by policy year	2021/22 \$m	2020/21 \$m	2019/20 \$m	Closed years \$m	Total US\$m
Gross claims outstanding					
Own claims	187.0	133.2	128.7	323.9	772.8
Pool claims	55.7	45.1	23.5	49.3	173.6
Future claims administration expenses	10.9	2.3	1.1	2.8	17.1
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(43.9)	(43.9)
Group Pool	(36.0)	(35.1)	(60.6)	(86.0)	(217.7)
Other	(1.6)	(0.2)	-	(33.4)	(35.2)
Net provision for claims outstanding	216.0	145.3	92.7	212.7	666.7
Free reserves					
(Deficit)/surplus on policy years	(63.6)	0.1	14.0	256.5	207.0
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	152.4	145.4	106.7	704.9	1,109.4

Notes

1. Combined projected net outstanding claims at 20 February 2022, amounting to \$666.8m, includes IBNR provision totalling \$223.0m as follows:

2021/22 \$m	2020/21 \$m	2019/20 \$m	Closed years \$m	Total \$m
103.6	43.8	19.6	56.0	223.0