

# The Steamship Mutual Trust

## Annual Report and Accounts 2020

# Contents

01	Directors of the Corporate Trustee
02	Report of the Corporate Trustee
04	Income and Expenditure Account
05	Balance Sheet
06	Cash Flow Statement
07	Notes on the Accounts
18	Independent Auditor's Report

# The Steamship Mutual Trust

## Directors of the Corporate Trustee

### **The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited**

A L Marchisotto, Moran Holdings Inc (Chairman)  
J G Conyers  
S Mehta  
R Thompson  
A Pohan, NY Waterway  
S-M Edey, Sloman Neptun, Schiffahrts, AG

### **Secretary of the Corporate Trustee**

K L McCullough, Conyers Corporate Services (Bermuda) Limited

### **Manager of the Corporate Trustee**

Hamilton Investment Management Limited

### **Registered office of the Corporate Trustee**

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# Report of the Corporate Trustee

## Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited ("Corporate Trustee") has pleasure in presenting its Report and Audited Accounts of The Steamship Mutual Trust ("Trust") for the year ended 20 February 2020.

### Principal activities

The Trust's principal activity during the year was the reinsurance of Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") risks. At the beginning of the financial year, the Corporate Trustee extended its current year reinsurance contract, entered into on behalf of the Trust, with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), to cover the period from 20 February 2019 to 20 February 2020. Total premium receivable by the Trust in respect of all its reinsurance contracts during the financial year amounted to US\$146.9 million.

### Accounts

Free reserves as at 20 February 2020 increased by US\$55.3million to US\$314.3million. Total investments of the Trust at the balance sheet date amounted to US\$871.3 million, an increase of US\$14.7 million on the previous year.

The financial year end coincided with the rapid escalation of the COVID-19 outbreak. All industries and parts of society have been affected. This has introduced uncertainty and volatility across all aspects of the business. The Trustees and Managers have been focused on ensuring operational continuity in these unprecedented times. The financial strength and operational resilience of the Trust is there for such events.

### Investment performance

All asset classes performed well during the year. Equity returns kept pace with global markets, and fixed income benefited from reducing US interest rates. The Trust recorded an investment gain of 6.9% (6.8% net of fees). This excludes a currency loss of US\$2.5 million that has been allocated to the Technical Account.

### Risk management and asset allocation

The investment strategy aims to deliver appropriate risk-adjusted returns within the risk appetite set.

The asset allocation within the investment portfolio has remained largely consistent throughout the year with the majority of assets invested in high quality diversified fixed income, and a conservative allocation to global equities and hedge funds. A new allocation to Private Debt was introduced through the year. Consideration is given to the amount of claims liabilities to ensure these are suitably matched with highly rated government and corporate bonds. These matching assets are also used to provide collateral for the reinsurance obligations of the Trust to Steamship Mutual Underwriting Association Limited ("SMUA").

The Corporate Trustee has continued to consult regularly with the Board of SMUAB, whose Members are the ultimate reinsured and beneficiaries of the Trust. The SMUAB Board receives regular updates on the utilisation of the agreed risk budget, investment performance and asset allocation.

### Claims

During the year the Corporate Trustee reviewed with the ultimate reinsured the development of prior year claims and the terms of its inward reinsurance contract.

# Report of the Corporate Trustee

continued

## Trustee's responsibilities statement

The Corporate Trustee has prepared financial statements in accordance with 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 United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Corporate Trustee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in business.

The Corporate Trustee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust.

It is responsible for the system of internal control, for safeguarding the assets of the Trust and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

J G Conyers

Director

The Steamship Mutual Underwriting Association Trustees  
(Bermuda) Limited

1 June 2020

## Income and Expenditure Account

for the year ended 20 February 2020

	Note	2020 US\$000	2019 US\$000
<b>Technical Account</b>			
Earned premium, net of reinsurance			
Gross premium written	3	<b>146,908</b>	141,071
Allocated investment return transferred from the non-technical account		<b>(2,469)</b>	(3,936)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		<b>178,374</b>	174,509
Change in the provision for claims			
Gross amount	4	<b>(29,396)</b>	5,677
Claims incurred, net of reinsurance		<b>148,978</b>	180,186
Net operating expenses	5	<b>85</b>	83
<b>Balance on the technical account for general business</b>		<b>(4,624)</b>	(43,134)
<b>Non-Technical Account</b>			
Balance on the technical account for general business		<b>(4,624)</b>	(43,134)
Investment income	6	<b>17,690</b>	17,843
Unrealised gains/(losses) on investments	7	<b>42,071</b>	(6,281)
Allocated investment return transferred to the technical account		<b>2,469</b>	3,936
Investment management expenses		<b>(2,267)</b>	(2,712)
Surplus/(deficit) for the financial year		<b>55,339</b>	(30,348)
Free reserves brought forward		<b>258,912</b>	289,260
<b>Free reserves</b>		<b>314,251</b>	258,912

The results for both years are in respect of continuing operations.

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

## Balance Sheet

as at 20 February 2020

	Note	2020 US\$000	2019 US\$000
<b>Assets</b>			
Investments			
Other financial investments	8	871,299	856,610
Debtors			
Other debtors		146	108
Prepayments and accrued income			
Accrued interest		4,370	3,688
<b>Total assets</b>		<b>875,815</b>	860,406
<b>Liabilities</b>			
Capital and reserves			
Free reserves		314,251	258,912
Technical provisions			
Claims outstanding	4	468,934	498,330
Creditors			
Creditors arising out of reinsurance operations	9	92,158	102,630
Other creditors		472	534
<b>Total liabilities</b>		<b>875,815</b>	860,406

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Corporate Trustee on 1 June 2020.

The Steamship Mutual Underwriting Association  
Trustees (Bermuda) Limited



## Cash Flow Statement

for the year ended 20 February 2020

	As restated	
	2020 US\$000	2019 US\$000
<b>Cash flows from operating activities</b>		
Operating surplus/(deficit) before taxation after interest	<b>55,339</b>	(30,348)
(Decrease)/increase in general insurance technical provisions	<b>(29,396)</b>	5,677
Unrealised (gains)/losses on investments	<b>(42,071)</b>	6,281
(Increase)/decrease in debtors	<b>(720)</b>	816
(Decrease)/increase in creditors	<b>(10,534)</b>	14,614
	<b>(82,721)</b>	27,388
Net cash outflow from operating activities	<b>(27,382)</b>	(2,960)
<b>Cash flows from investment activities</b>		
Net portfolio investment		
Net (purchase)/sale of bonds and loans	<b>(51,723)</b>	83,599
Net (purchase)/sale of equities	<b>(253)</b>	18,241
Net purchase of alternative investments	<b>(9,475)</b>	(11,747)
Decrease/(increase) in money market instruments	<b>88,833</b>	(87,133)
<b>Cash generated by investing activities</b>	<b>27,382</b>	2,960
Movement in opening and closing cash and cash equivalents		
Net cash inflow for the period	-	-
Cash and cash equivalents at 20 February 2019	-	-
<b>Cash and cash equivalents at 20 February 2020</b>	<b>-</b>	<b>-</b>

## Notes on the Accounts

### 1. Constitution

The Trust was created by a settlement under Bermudian law. The Corporate Trustee is The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited, a company incorporated under the laws of Bermuda and registered as an insurer under the Bermuda Insurance Act 1978, so enabling the Trust to undertake reinsurance business.

### 2. Accounting policies

#### (a) Accounting convention

The accounts have been prepared in accordance with 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.

The 2019 comparatives in the cash flow statement have been restated due to a classification and presentational error following the incorrect application of FRS 102 and the recognition of cash and cash equivalents. The restatement has corrected the presentation of operating and investment activities and replaced Portfolio Investments with just Cash and Cash Equivalents.

The adjustments to the Cash Flow Statement are presentational and the amount of cash reconciles to the cash in the Balance Sheet. No correction is needed at the beginning of the earliest prior period presented, as there has been no change to the free reserves following this change.

After making enquiries, the Trustees have a reasonable expectation that the Trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### (b) Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key accounting estimate is the calculation of claims outstanding which is described in further detail under note 13.

#### (c) Premium written

Premium comprises the total premium receivable for the whole period of cover provided by contracts incepting during the financial year.

#### (d) Claims and related expenses

Full provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

#### (e) Foreign currencies

The functional currency is US dollars. Assets and liabilities including investments and bank balances have been converted to US dollars at the exchange rate at the balance sheet date. Income and expenditure items including foreign exchange transactions are converted to US dollars at the exchange rate at the date of the transaction. All exchange differences are included in the income and expenditure account.

The exchange rates on the balance sheet date and used for the purpose of preparing the accounts were as follows:

		2020	2019
Euro	€	<b>0.927</b>	0.807
UK sterling	£	<b>0.772</b>	0.715
Brazilian real	R\$	<b>4.374</b>	3.233

## Notes on the Accounts

continued

### 2. Accounting policies continued

#### (f) Other financial investments

Investments and cash balances have been valued at their market value as at the close of business on 19 February 2020. Investment income consists of interest, dividends and realised gains and losses on fair value assets. Unrealised gains and losses reflect the movement in the fair value of investments compared to their cost.

The allocated investment return transferred from the non-technical account to the technical account is comprised of all realised and unrealised exchange differences arising on foreign currency investments held to hedge technical provisions in the same currencies.

### 3. Reinsurance contracts

Under a contract dated 27 January 2015, the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUAB under which, in return for a percentage of written premium, SMUAB is indemnified for 100% of its net underlying liabilities for the 2015/16 and subsequent policy years.

At 20 February 2015 the Corporate Trustee, on behalf of the Trust, entered into a reinsurance contract with SMUA which covers 100% of SMUA's net retained liabilities up to and including the 2014/15 policy year.

### 4. Change in the net provision for claims

#### Gross outstanding claims

Provision brought forward

Provision carried forward

#### Change in the net provision for claims

<b>2020</b>	2019
<b>US\$000</b>	US\$000
<b>(498,330)</b>	(492,653)
<b>468,934</b>	498,330
<b>(29,396)</b>	5,677

A favourable movement in the prior year net claims provision of US\$22.4 million was experienced during the year (2019: favourable US\$8.2 million).

The estimates for known outstanding claims are based on the estimates and judgement of the Managers of SMUA of the final cost of individual cases based on current information. Provision is also made for claims incurred but not reported ("IBNR") at the balance sheet date using detailed statistical analysis having regard to past experience as to the frequency and average cost of claims reported after previous balance sheet dates.

### 5. Net operating expenses

#### Administrative expenses

Non-investment management expenses payable to Corporate Trustee

Auditor's remuneration

<b>2020</b>	2019
<b>US\$000</b>	US\$000
<b>5</b>	5
<b>80</b>	78
<b>85</b>	83

### 6. Investment income

Dividends and interest

#### Realised (losses)/gains

Investments

Exchange

<b>2020</b>	2019
<b>US\$000</b>	US\$000
<b>23,500</b>	19,674
<b>(4,623)</b>	1,585
<b>(1,187)</b>	(3,416)
<b>(5,810)</b>	(1,831)
<b>17,690</b>	17,843

## Notes on the Accounts

continued

	2020 US\$000	2019 US\$000
<b>7. Unrealised gains/(losses) on investments</b>		
Investments	43,352	(5,761)
Foreign exchange	(1,281)	(520)
	<b>42,071</b>	<b>(6,281)</b>
<b>8. Other financial investments</b>		
<b>Fair value</b>		
Equities	87,054	72,894
Alternative investments	95,626	80,292
Bonds and loans	679,696	604,932
Money market instruments	4,539	88,557
Cash accounts	5,053	9,868
Derivative financial instruments	(669)	67
	<b>871,299</b>	<b>856,610</b>
<b>Cost</b>		
Equities	49,580	49,327
Alternative investments	82,292	72,817
Bonds and loans	669,379	617,656
Money market instruments	4,539	88,557
Cash accounts	5,053	9,868
	<b>810,843</b>	<b>838,225</b>

**Fair value determination**

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 The unadjusted quoted price for an identical asset in an active market at the reporting date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Market data is unavailable for the asset.

The Trust's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

**As at 20 February 2020**

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Equities	87,054	–	–	87,054
Alternative investments	–	86,142	9,484	95,626
Bonds and loans	679,696	–	–	679,696
Money market instruments	4,539	–	–	4,539
Cash accounts	5,053	–	–	5,053
Derivative financial instruments	–	(669)	–	(669)
	<b>776,342</b>	<b>85,473</b>	<b>9,484</b>	<b>871,299</b>

## Notes on the Accounts

continued

### 8. Other financial investments continued

As at 20 February 2019

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Equities	72,894	–	–	72,894
Alternative investments	–	80,292	–	80,292
Bonds and loans	604,932	–	–	604,932
Money market instruments	88,557	–	–	88,557
Cash accounts	9,868	–	–	9,868
Derivative financial instruments	–	67	–	67
	<b>776,251</b>	<b>80,359</b>	<b>–</b>	<b>856,610</b>

### 9. Creditors arising out of reinsurance operations

	2020 US\$000	2019 US\$000
SMUA	<b>59,056</b>	35,751
SMUAB	<b>33,102</b>	66,879
	<b>92,158</b>	102,630

### 10. Taxation

The Trust has received an undertaking from the Bermuda government exempting it from tax on income, profit, capital or capital gains until 31 March 2035, should it be enacted. Accordingly, no provision for such taxes has been recorded by the Trust.

### 11. Transactions with related parties

The Corporate Trustee receives a fee for investment management costs and related expenses. For the financial year to 20 February 2020 this fee amounted to US\$2.3 million (2019: US\$2.8 million) of which US\$0.4 million (2019: US\$0.5 million) was outstanding at the balance sheet date.

### 12. Capital management

The Trust aims to maintain capital resources at a level which provides a comfortable margin above the requirement of the Bermuda Monetary Authority (BMA). Capital resources for regulatory purposes consist of free reserves on a regulatory economic basis.

The BMA categorised the Corporate Trustee as a Class 3A insurer and the designated insurer of the Steamship group for regulatory purposes effective from 1 January 2016.

The Trust was in compliance with the applicable regulatory capital requirements throughout the financial year.

## Notes on the Accounts

continued

### 13. Risk management

The Trust monitors and manages the risks relating to its operations through a risk management programme comprising a series of policies, risk tolerances and regular stress and scenario testing. The Corporate Trustee regularly consults with the Board of the reinsured on the performance and risks inherent in the insurance business and on the appropriate level of risk to be taken in the investment portfolio.

The principal risks faced by the Trust are insurance risk, market risk, credit 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 received from SMUA via SMUAB in the current policy year is insufficient to cover claims and other costs arising in that year. The Trust's premium risk is calculated on net premiums written and is in relation to its exposure to SMUA and SMUAB claims, as described under note 3 on the accounts.

Reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. The Trust is exposed to the uncertainty surrounding the timing, frequency and severity of claims under the reinsurance contract with SMUAB, and those held in relation to the 2014/15 policy year and prior with SMUA. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA which are then combined taking account of diversification effects.

The Trust ultimately relies on SMUA which projects claims liabilities using the Bornhuetter-Ferguson method 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 of SMUA compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

SMUA 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 there being releases of prior year claim reserves in most years.

The sensitivity of the Trust's overall surplus to two factors, other assumptions being unchanged, is shown below.

	<b>2020</b>	2019
	<b>US\$000</b>	US\$000
<b>5% increase in claims incurred on current policy year</b>		
Effect on Trust free reserves	<b>(8,632)</b>	(9,689)
<b>Single claim in SMUA of US\$2 billion in current policy year</b>		
Effect on Trust free reserves	<b>(12,130)</b>	(13,956)

## Notes on the Accounts

continued

### 13. Risk management continued

#### Insurance risk continued

The following tables show the development of claims over nine 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 develop over time. The lower half of each table reconciles the cumulative claims to the amount appearing in the balance sheet.

#### Insurance claims - gross

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
End of reporting year	227,979	224,996	198,320	172,086	191,315	165,765	194,128	197,649	182,273
One year later	230,003	211,455	172,634	151,737	173,739	164,518	188,199	182,148	
Two years later	213,473	208,812	166,309	153,976	176,902	173,629	177,939		
Three years later	211,876	200,590	164,844	149,281	176,267	175,845			
Four years later	206,522	192,482	157,984	145,871	174,660				
Five years later	202,079	192,499	155,166	144,181					
Six years later	200,031	187,437	156,089						
Seven years later	198,017	184,552							
Eight years later	196,868								
Current estimate of ultimate claims	196,868	184,552	156,089	144,181	174,660	175,845	177,939	182,148	182,273
Cumulative payments to date	193,569	179,017	142,063	130,807	151,720	133,577	123,588	72,698	38,467
Claims outstanding	3,299	5,535	14,026	13,374	22,940	42,268	54,351	109,450	143,806
Claims outstanding relating to last nine reporting years									409,049
Other claims liabilities									59,885
Total gross claims outstanding									468,934

#### Insurance claims - net

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
End of reporting year	212,081	221,771	198,320	172,086	191,315	165,765	194,128	197,649	182,273
One year later	209,673	203,542	172,634	151,737	173,739	164,518	188,199	182,148	
Two years later	202,063	208,812	166,309	153,976	176,902	173,629	177,939		
Three years later	205,769	200,590	164,844	149,281	176,267	175,845			
Four years later	200,415	192,482	157,984	145,871	174,660				
Five years later	195,971	192,499	155,166	144,181					
Six years later	193,923	187,437	156,089						
Seven years later	191,909	184,552							
Eight years later	190,760								
Current estimate of ultimate claims	190,760	184,552	156,089	144,181	174,660	175,845	177,939	182,148	182,273
Cumulative payments to date	187,461	179,017	142,063	130,807	151,720	133,577	123,588	72,698	38,467
Claims outstanding	3,299	5,535	14,026	13,374	22,940	42,268	54,351	109,450	143,806
Claims outstanding relating to last nine reporting years									409,049
Other claims liabilities									59,885
Total net claims outstanding									468,934

## Notes on the Accounts

continued

### 13. Risk management continued

The Trust has elected to disclose only nine years of its experience in its claims development tables as permitted under the transitional provisions of FRS 102 and 103. One year will be added in each subsequent financial year until the disclosure covers ten years.

#### Credit risk

Credit risk is the risk that a counterparty owing money to The Trust may default causing a debt to be written off. The key area of exposure to credit risk for The Trust is in relation to its investment portfolio. The Board's 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 any concentration of exposure.

Credit risk also arises on deposits held with banks. This is controlled by using a variety of banks and aiming to limit individual exposures to US\$15 million for banks rated AA by S&P, or an equivalent rating from another agency, and no more than US\$10 million for banks rated A by S&P, or an equivalent rating from another agency.

Equities and alternative investments have been included within Other assets with no credit rating.

The following table shows the aggregated credit risk exposure for those assets with external credit ratings.

As at 20 February 2020

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	BB and below US\$000	Not rated US\$000	Total US\$000
Bonds and loans	109,442	124,937	265,260	164,991	15,066	–	679,696
Money market instruments	4,539	–	–	–	–	–	4,539
Cash accounts	–	–	5,053	–	–	–	5,053
Derivative financial instruments	–	–	(669)	–	–	–	(669)
Accrued interest	233	594	1,976	1,394	173	–	4,370
Unsettled investment transactions	–	–	146	–	–	–	146
<b>Total assets with credit ratings</b>	<b>114,214</b>	<b>125,531</b>	<b>271,766</b>	<b>166,385</b>	<b>15,239</b>	<b>–</b>	<b>693,135</b>
Other assets	–	–	–	–	–	182,680	182,680
<b>Total assets</b>	<b>114,214</b>	<b>125,531</b>	<b>271,766</b>	<b>166,385</b>	<b>15,239</b>	<b>182,680</b>	<b>875,815</b>



## Notes on the Accounts

continued

### 13. Risk management continued

#### Credit risk continued

As at 20 February 2019

	AAA US\$000	AA US\$000	A US\$000	BBB US\$000	BB and below US\$000	Not rated US\$000	Total US\$000
Bonds and loans	10,318	257,938	188,477	137,266	10,933	–	604,932
Money market instruments	88,557	–	–	–	–	–	88,557
Cash accounts	2,292	–	7,576	–	–	–	9,868
Derivative financial instruments	–	–	67	–	–	–	67
Accrued interest	216	382	1,739	1,255	96	–	3,688
Unsettled investment transactions	–	–	108	–	–	–	108
<b>Total assets with credit ratings</b>	<b>101,383</b>	<b>258,320</b>	<b>197,967</b>	<b>138,521</b>	<b>11,029</b>	<b>–</b>	<b>707,220</b>
Other assets	–	–	–	–	–	153,186	153,186
<b>Total assets</b>	<b>101,383</b>	<b>258,320</b>	<b>200,533</b>	<b>138,430</b>	<b>8,554</b>	<b>153,186</b>	<b>860,406</b>

#### Market risk

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

The Trust'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 having consulted with the Boards of the reinsured. Compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

The Trust is exposed to currency risk in relation to claim liabilities in a number of non-US dollar currencies, predominantly UK sterling, euro and Brazilian real. This exposure is managed by holding investments and derivative positions in each of these currencies.

The following tables show the Trust's assets and liabilities by currency. The exposure to euro and Brazilian real through derivative positions was US\$4.9 million and US\$6.8 million respectively at 20 February 2020 (US\$nil and US\$12.1 million respectively at 20 February 2019).

As at 20 February 2020

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Other US\$000	Total US\$000
Assets	837,748	12,686	25,381	–	–	875,815
Liabilities	(489,805)	(19,941)	(31,956)	(7,083)	(12,779)	(561,564)
	347,943	(7,255)	(6,575)	(7,083)	(12,779)	314,251
Of which held in derivatives			4,865	6,849		

## Notes on the Accounts

continued

### 13. Risk management continued

Market risk continued

As at 20 February 2019

	US dollar US\$000	UK sterling US\$000	Euro US\$000	Brazilian real US\$000	Other US\$000	Total US\$000
Assets	860,406	–	–	–	–	860,406
Liabilities	(523,119)	(25,661)	(27,949)	(9,395)	(15,370)	(601,494)
	337,287	(25,661)	(27,949)	(9,395)	(15,370)	258,912

Of which held in derivatives 12,094

IBNR is classified as US dollar.

The Trust'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 US\$000
As at 20 February 2020	(44,819)
As at 20 February 2019	(26,290)

The Trust'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 US\$000
As at 20 February 2020	(30,469)
As at 20 February 2019	(25,513)

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

	Effect on investment valuation US\$000
As at 20 February 2020	(14,344)
As at 20 February 2019	(12,044)

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.

## Notes on the Accounts

continued

### 13. Risk management continued

#### Liquidity risk

Liquidity risk is the risk that the Trust cannot meet its financial obligations as they fall due. The Trust maintains a high quality portfolio of cash, government and corporate bonds with an average maturity equivalent to the expected settlement period of claim liabilities, albeit with some differences on some years. The Trust therefore has sufficient access to funds to cover reinsurance claims from SMUAB and SMUA. In the absence of a material market event, investment grade assets and equities can be converted into cash in less than one month.

The following table shows the expected maturity of the Trust's assets, based on the undiscounted contractual maturities of the assets, except where the Corporate Trustee anticipates that the cash flow will occur in a different period.

#### As at 20 February 2020

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Investments	282,517	73,210	261,096	254,476	871,299
Other assets	4,516	–	–	–	4,516
<b>Total assets</b>	<b>287,033</b>	<b>73,210</b>	<b>261,096</b>	<b>254,476</b>	<b>875,815</b>

#### As at 20 February 2019

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Investments	502,423	92,313	125,210	136,664	856,610
Other assets	3,796	–	–	–	3,796
<b>Total assets</b>	<b>506,219</b>	<b>92,313</b>	<b>125,210</b>	<b>136,664</b>	<b>860,406</b>

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

#### As at 20 February 2020

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Claims outstanding	169,887	97,572	133,643	67,832	468,934
Creditors arising out of reinsurance operations	92,158	–	–	–	92,158
Other liabilities	472	–	–	–	472
<b>Total liabilities</b>	<b>262,517</b>	<b>97,572</b>	<b>133,643</b>	<b>67,832</b>	<b>561,564</b>

#### As at 20 February 2019

	0-1 years US\$000	1-2 years US\$000	2-5 years US\$000	Over 5 years US\$000	Total US\$000
Claims outstanding	176,875	108,102	138,269	75,084	498,330
Creditors arising out of reinsurance operations	102,630	–	–	–	102,630
Other liabilities	532	–	–	–	532
<b>Total liabilities</b>	<b>280,039</b>	<b>108,102</b>	<b>138,269</b>	<b>75,084</b>	<b>601,494</b>

## Notes on the Accounts

continued

### 13. Risk management continued

#### Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. The Corporate Trustee 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.

### 14. Post balance sheet events

The financial year end coincided with the rapid escalation of the COVID-19 outbreak, which at the balance sheet date was affecting some operating locations more than others. All industries and parts of society have now been affected. This has introduced uncertainty and volatility across all aspects of the business. The resulting downturn in financial markets has had an adverse impact on the investment portfolio of the Trust. The conservative investment strategy exercised by the Trustees has kept these losses to an acceptable level, and within risk appetite; these losses have moderated significantly since the end of March, but uncertainty still remains.

# Independent Auditor's Report

## To the Corporate Trustee of The Steamship Mutual Trust

### Report on the audit of the non-statutory financial statements

#### Opinion

In our opinion the non-statutory financial statements of The Steamship Mutual Trust (the 'company'):

- give a true and fair view of the state of the company's affairs as at 20th February 2020 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

We have audited the non-statutory financial statements of the company which comprise:

- the income and expenditure account;
- the balance sheet;
- the cash flow statement; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the non-statutory financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the non-statutory financial statements is not appropriate; or
- the directors have not disclosed in the non-statutory financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the audited accounts, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

# Independent Auditor's Report

continued

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the non-statutory financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### Use of our report

This report is made solely for the exclusive use of the directors and solely for the purpose of providing the Directors with an audit opinion on the financial statements of the company that will be used as the basis of the financial statements for the company. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

The engagement partner on the audit resulting in this independent auditor's report is Adam Addis.

Deloitte LLP  
London, United Kingdom  
1 June 2020