

# **The Charterers Mutual Assurance Association Ltd**

## **Report and Financial Statements 31 December 2017**

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## **Report and Financial Statements for the year ended 31 December 2017**

The Charterers Mutual Assurance Association Limited ("The Association") provides mutual insurance cover against the cost of the charterer of a ship being held liable for loss or damage to the vessel chartered, its cargo, or to third parties or their property. With effect from 1 January 1999, and in response to an increasing industry-wide demand from ship operators, cover was transferred to a new and enhanced Fixed Premium scheme, "The Charterers P&I Club", underwritten by Lloyd's underwriters and administered by Michael Else and Company Limited exactly as before, but under the terms of a binding authority. The Association consequently discontinued underwriting new risks on a mutual basis with effect from 31 December 1998 and has run off the majority of the remaining liabilities. Michael Else and Company Limited are currently in discussions to transfer fully the rights and obligation in connection with the remaining claims to a third party. This transfer is expected to be completed as soon as is practicable and the company will be wound up shortly after the transfer is completed.

The Association is registered in England and Wales and is authorised by the Prudential Regulation Authority and Financial Conduct Authority in accordance with the Financial Services and Markets Act 2000.

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## **Directors, Managers, Secretary and Registered Office**

### **Directors**

Chairman: M Else

C J Else

L K Wilson

### **Managers**

Michael Else and Company Limited

### **Secretary and Registered Office**

Michael Else and Company Limited  
65 Leadenhall Street, London, EC3A 2AD

Telephone: (020) 7702 3928

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**Registered number 1874472**

## Strategic Report

The directors have pleasure in presenting their report and the audited financial statements of The Charterers Mutual Assurance Association Limited ("the Association") for the year ended 31 December 2017.

### Constitution

The Association is a company limited by guarantee and does not have a share capital. The liability of each member under their guarantee is limited to US\$8.

The members are liable for their rateable proportion of any deficiency resulting from an excess of claims and expenses over contributions. Any surplus may be retained at the discretion of the directors and applied for the purposes of the Association, or be returned to the members.

### Principal activity and business review

The principal activity of the Association has been the provision of mutual insurance to ship charterers, in two classes:

Class I: Defence (legal costs and expenses)

Class II: Protection and indemnity

In response to an increasing industry-wide demand from ship operators for fixed premium P&I cover, a decision was taken in 1998 to "demutualise" the Association. The Managers proposed a scheme which would allow for the creation of a new fixed premium vehicle, "The Charterers P&I Club", with effect from 1 January 1999, combining the benefits of the service historically provided by Michael Else and Company Limited (MECO) as mutual managers with the security of conventional insurance capital provided by underwriters at Lloyd's. The Association therefore ceased underwriting new mutual risks on 31 December 1998, at which stage all existing mutual members were offered the opportunity to purchase cover from the new vehicle.

The following resolution was approved unanimously at an Extraordinary General Meeting of the Members on 15 December 1998:

"That the Association cease underwriting new business from 31 December 1998 and to entitle the Directors to utilise the reserves of the Association as at 31 December 1998 to effect insurance run-off cover and to arrange insurance cover for the benefit of members."

Three contracts have been negotiated between the Association, MECO and Lloyd's Underwriters. These contracts provide for:

- A Run-off reinsurance policy, designed to protect the Association and its Members against any possible future deterioration of the claims estimates as at 31 December 1998.
- Cover in respect of any future unforecast supplementary call liabilities of Members who have transferred, under two year policies, to the new fixed premium facility, "The Charterers P&I Club".
- A "Binder" contract, under which MECO have contracted with Lloyd's underwriters to manage the activities of the Charterers P&I Club in a role similar to that which they have historically performed as Managers to the Association.

## Strategic Report *continued*

After settlement of the 22.5% supplementary calls charged and / or approved in respect of the 1996, 1997 and 1998 policy years, members who have transferred to The Charterers P&I Club, and whose accounts are up to date, will have no further liability to supplementary calls under the mutual system, any further liabilities on these open years being covered by the run-off reinsurance and supplementary call cover provided by Lloyd's underwriters. The contracts provide for an additional 10% of the 1999 Charterers P&I Club premiums becoming payable by each assured should underwriters' losses under the run-off and unforecast supplementary call protection policy exceed \$4 million but the likelihood of such a loss arising is considered remote.

The premium charge for 2017, due from Lloyd's underwriters, in respect of the run-off and supplementary call cover is \$19,450 (2016 Credit: \$57,122). This is equivalent to the profit or loss for the financial year of the Association prior to accounting for the contract.

The run-off of the Association's liabilities and recovery of outstanding assets has proceeded well during the year, and is in line with forecast.

### Results

As explained above the free reserves of the Association at 31 December 1998, as adjusted for subsequent results have been used to purchase insurance run-off and supplementary call cover for the benefit of members. As such any movement in the operating results each year is offset by a corresponding movement in the premiums and recoveries due to/from reinsurers. The Association therefore made neither profit nor loss for the financial year, and carries forward a nil balance on reserves at 31 December 2017.

### Reinsurance

The reinsurance programmes for policy years up to and including 1998, all placed with Lloyd's, members of the Institute of London Underwriters, Munich Re will continue to provide the Association with cover throughout the run-off period.

### Supplementary calls

The supplementary calls of 22.5% on classes I and II for the 1996, 1997 and 1998 policy years were charged in December 1998, June 1999 and December 1999 respectively. All three years remain open but the directors are presently estimating a nil closing call for these years. Members who have transferred across to the new fixed premium facility and whose accounts are up to date also benefit from supplementary call cover in respect of their exposure to further calls on these years.



27/8/2018

Lee Wilson

For and behalf the board.

## **Directors' report and Statement of Directors' responsibilities**

### **Future developments**

It is now more than 17 years since the Association ceased trading and there is one open claims file. In the circumstances both the managers and directors are in agreement that steps should now be taken to close the remaining files in order to proceed to wind up the affairs of the Association as soon as practical.

The Association is in discussions with the PRA and FCA about agreeing a plan of action to bring finality to the current position. The next steps include:

- The Board will circulate potential interested parties to identify claims not previously reported, this is despite having received legal advice that no claims could arise for which the mutual is liable.
- It is the plan to transfer the remaining claim to QBE via a Novation agreement.
- On the assumption that no claims arise seek approval for de-registration from the PRA and FCA
- then it is proposed that a liquidator be appointed and the Association will enter a members voluntary liquidation,
- Dissolve the Association.

### **Directors**

A full list of the present directors of the Association is shown on page 2.

The directors are ex-officio members of the Association and are individually liable for their guarantee amounts of US\$8.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Association law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Association and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business. As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and these financial statements have not been prepared on that basis.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Managers**

The managers of the Association throughout the year were Michael Else and Company Limited.

### **Statement as to disclosure of information to auditors**

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the Association's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

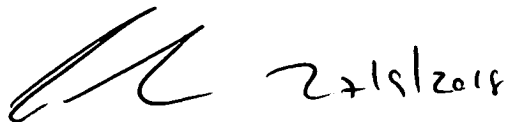
## **Directors' report and Statement of Directors' responsibilities *continued***

### **Events after the year end**

There were no significant events after the year end.

The Association is in discussions with the PRA and FCA about agreeing a plan of action to bring finality to the current position. The next steps include:

- The Board will circulate potential interested parties to identify claims not previously reported, this is despite having received legal advice that no claims could arise for which the mutual is liable.
- It is the plan to transfer the remaining claim to QBE via a Novation agreement.
- On the assumption that no claims arise seek approval for de-registration from the PRA and FCA
- then it is proposed that a liquidator be appointed and the Association will enter a members voluntary liquidation,
- Dissolve the Association.



By order of the board

For Michael Else & Company Ltd

# **Independent Auditors' Report**

## **Independent Auditor's Report to the Members of The Charterers Mutual Assurance Association Limited**

### **Opinion**

We have audited the financial statements of The Charterers Mutual Assurance Association Limited (the 'Association') for the year ended 31 December 2017 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and FRS 103 "Insurance Contracts" ('United Kingdom Generally Accepted Accounting Practice').

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 December 2017 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **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 financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our 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 audit opinion.

### **Emphasis of matter – Financial statements prepared on a basis other than going concern**

We draw attention to note 1 Accounting policies - going concern - to the financial statements which explains that the imminent transfer of the claims liabilities will allow the Association to be wound up in the near future and therefore it is not considered to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on the basis described in note 1. Our opinion is not modified in respect of this matter.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 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 this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.



## Independent Auditors' Report

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 5, the directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Association'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 Association or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

### Use of our report

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.



Rupert Livingstone, *Senior Statutory Auditor*  
For and on behalf of Moore Stephens LLP, Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

27 September 2018

|                                                                                                |
|------------------------------------------------------------------------------------------------|
| <b>Statement of Income and Retained Earnings</b><br><b>for the year ended 31 December 2017</b> |
|------------------------------------------------------------------------------------------------|

|                                                                                                   | Notes | 2017<br>US\$    | 2016<br>US\$    |
|---------------------------------------------------------------------------------------------------|-------|-----------------|-----------------|
| <b><i>Discontinued operations</i></b>                                                             |       |                 |                 |
| <b><u>TECHNICAL ACCOUNT - GENERAL BUSINESS</u></b>                                                |       |                 |                 |
| <b>Earned calls, net of reinsurance</b>                                                           |       |                 |                 |
| Gross calls written                                                                               | 2     | -               | -               |
| Outward reinsurance premiums credit                                                               |       | (1,730)         | -               |
| Outward run-off reinsurance premiums credit                                                       | 10    | (19,450)        | 57,122          |
| <b>Total written net calls, net of reinsurance</b>                                                |       | <b>(21,180)</b> | <b>57,122</b>   |
| <br>Investment income                                                                             | <br>4 | <br>4           | <br>30          |
| <b>TOTAL TECHNICAL INCOME</b>                                                                     |       | <b>(21,176)</b> | <b>57,152</b>   |
| <b>Claims incurred, net of reinsurance</b>                                                        |       |                 |                 |
| Claims paid - gross                                                                               |       | 18,183          | 2,586           |
| Claims paid - reinsurers' share                                                                   |       | (4,885)         | (1,829)         |
| <b>Claims paid - net of reinsurance</b>                                                           |       | <b>13,298</b>   | <b>757</b>      |
| <b>Provision for claims:</b>                                                                      |       |                 |                 |
| Change in provision - gross                                                                       | 3     | (42,258)        | (2,433)         |
| Change in provision - reinsurers' share                                                           | 3     | (2,715)         | 1,676           |
| <b>Net change in provision for claims</b>                                                         |       | <b>(44,973)</b> | <b>(757)</b>    |
| <br><b>Claims incurred net of reinsurance</b>                                                     |       | <br><b>-</b>    | <br><b>-</b>    |
| <br><b>Net operating expenses</b>                                                                 | <br>5 | <br>10,498      | <br>57,157      |
| <b>TOTAL TECHNICAL CHARGES</b>                                                                    |       | <b>21,177</b>   | <b>(57,157)</b> |
| <br><b>BALANCE ON THE GENERAL<br/>BUSINESS TECHNICAL ACCOUNT</b>                                  |       | <br><b>1</b>    | <br><b>(5)</b>  |
| <b><u>NON TECHNICAL ACCOUNT</u></b>                                                               |       |                 |                 |
| Balance on the general business technical account<br>and profit on ordinary activities before tax |       | 1               | (5)             |
| Tax on profit on ordinary activities                                                              | 6     | (1)             | 5               |
| <b>RESULT FOR THE FINANCIAL YEAR</b>                                                              |       | <b>-</b>        | <b>-</b>        |
| <b>RETAINED EARNINGS AT 1 JANUARY</b>                                                             |       | <b>-</b>        | <b>-</b>        |
| <b>RETAINED EARNINGS AT 31 DECEMBER</b>                                                           |       | <b>-</b>        | <b>-</b>        |

The Association has no other comprehensive income other than that included in the income statement above and therefore a statement of other comprehensive income has not been presented.


The accompanying Notes are an integral part of the annual accounts.

|                                                                         |
|-------------------------------------------------------------------------|
| <b>Statement of Financial Position</b><br><b>as at 31 December 2017</b> |
|-------------------------------------------------------------------------|

|                                                                         | Note | 2017<br>US\$   | 2016<br>US\$   |
|-------------------------------------------------------------------------|------|----------------|----------------|
| <b><u>ASSETS</u></b>                                                    |      |                |                |
| <b>Reinsurers' share of technical provisions</b>                        |      |                |                |
| Claims outstanding                                                      | 3    | 34,665         | 31,950         |
| <b>Debtors</b>                                                          |      |                |                |
| Debtors arising out of reinsurance operations:                          |      |                |                |
| Due from reinsurers                                                     |      | 4,885          | 17,529         |
| Other debtors                                                           |      | 14,791         | -              |
| <b>Total debtors</b>                                                    |      | <b>19,676</b>  | <b>17,529</b>  |
| <b>Other assets</b>                                                     |      |                |                |
| Cash at bank and in hand                                                | 11   | 92,233         | 118,967        |
| <b>TOTAL ASSETS</b>                                                     |      | <b>146,574</b> | <b>168,446</b> |
| <b>RESERVES</b>                                                         |      |                |                |
| Retained earnings                                                       | 8    | -              | -              |
| <b><u>LIABILITIES</u></b>                                               |      |                |                |
| <b>Technical provisions</b>                                             |      |                |                |
| Claims outstanding                                                      | 3    | 34,665         | 76,923         |
| <b>Creditors</b>                                                        |      |                |                |
| Creditors arising out of direct insurance operations: Due to reinsurers |      |                |                |
|                                                                         |      | 86,111         | 66,660         |
| Other creditors including taxation and social security                  |      | 11,593         | 15,035         |
| <b>Total creditors</b>                                                  |      | <b>97,704</b>  | <b>81,695</b>  |
| <b>Accruals and deferred income</b>                                     |      | <b>14,205</b>  | <b>9,827</b>   |
| <b>TOTAL LIABILITIES</b>                                                |      | <b>146,574</b> | <b>168,445</b> |

The accompanying Notes are an integral part of the annual accounts.

Approved at a meeting of the Board of Directors and signed on its behalf.

  
Lee Wilson, Director

Registered number: 1874472

|                                                                                                      |
|------------------------------------------------------------------------------------------------------|
| <p align="center"><b>Statement of Cash Flows</b><br/> <b>for the year ended 31 December 2017</b></p> |
|------------------------------------------------------------------------------------------------------|

|                                                                  | <b>Note</b> | <b>2017<br/>US\$</b> | <b>2016<br/>US\$</b> |
|------------------------------------------------------------------|-------------|----------------------|----------------------|
| <b>Net cash (outflow)/inflow from operating activities</b>       | <b>9</b>    | <b>(20,001)</b>      | <b>(77,332)</b>      |
| Tax Paid                                                         |             | (2)                  | 5                    |
| <b>Net Cash (outflows)/inflows from operating activities</b>     |             | <b>(20,003)</b>      | <b>(77,327)</b>      |
| <b>Cash flows from investing activities:</b>                     |             |                      |                      |
| Interest received                                                |             | 4                    | 30                   |
| <b>Net Cash (outflows)/inflows from investing activities</b>     |             | <b>(19,999)</b>      | <b>30</b>            |
| <b>Net (Decrease)/ Increase in cash and cash equivalents</b>     |             | <b>(19,999)</b>      | <b>(77,297)</b>      |
| Cash and cash equivalent at the beginning of the year            |             | 118,967              | 178,961              |
| Effect of exchange rate fluctuation on cash and cash equivalents |             | (6,735)              | 17,303               |
| <b>Cash and Cash equivalents at the end of the year</b>          |             | <b>92,233</b>        | <b>118,967</b>       |

The accompanying Notes are an integral part of the annual accounts.

## **Notes to the Financial Statements for the year ended 31 December 2017**

### **1 Accounting policies**

#### ***General Information***

The Association is a company limited by guarantee and does not have a share capital. The Association is incorporated in United Kingdom and has the registered address at 65 Leadenhall Street, London, EC3A 2AD. Registration number is 1874472. The Association discontinued underwriting new risks on a mutual basis with effect from 31 December 1998 and has run off the majority of the remaining liabilities.

#### ***Basis of preparation***

The financial statements are prepared in accordance with the Financial Reporting Standards 102 and 103 as issued by the Financial Reporting Council and provisions of Section 396 to the Companies Act 2006. The principal accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been applied consistently throughout the year and to the preceding year.

The Association has adopted the following new standards which became effective for financial year beginning on or after 1 January 2015:

- (i) FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".
- (ii) FRS 103 ""Insurance Contracts"

In accordance with FRS102 & FRS 103, the Association has applied existing accounting policies for insurance contracts. Opportunity has been taken to provide more relevant narrative information in the accounting policies and notes to support the financial statements. These clarifications have not resulted in either changes in accounting estimates or changes to any prior year numbers.

The annual basis of accounting has been applied to the financial statements, which are expressed in United States Dollars (US\$) which is the functional currency of the Association.

#### ***Going Concern***

The directors are of the view that the anticipated transfer of the Association's remaining claims liabilities allows the affairs of the Association to be wound up in the near future. Consequently, the Association is no longer considered to be a going concern.

These financial statements have been prepared on a break-up basis. Therefore at 31 December 2017 all the assets are stated at the lower of carrying amount and net recoverable value and all liabilities are stated at the settlement value.

#### ***Critical accounting policies and the use of estimates***

The preparation of financial statements requires the Association to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the general business technical account of later years.

|                                                                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;"><b>Notes to the Financial Statements</b><br/><b>for the year ended 31 December 2017 <i>continued</i></b></p> |
|---------------------------------------------------------------------------------------------------------------------------------------------|

***Critical accounting policies and the use of estimates (continued)***

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

***Claims***

The charge in the profit and loss account comprises claims paid during the year, together with provisions for claims notified but not agreed and claims incurred but not reported. The provision for claims outstanding includes an allowance for future claims handling costs.

***Reinsurance***

Excess of loss and stop loss reinsurance premiums and recoveries represent amounts payable to and recoverable from reinsuring underwriters for calls and claims reported in the profit and loss account.

***Run-off reinsurance***

Run-off reinsurance represents the premiums payable or receivable in respect of the run-off reinsurance and supplementary call cover entered into by the Association with Lloyd's underwriters.

***Interest***

Interest is accounted for on the accruals basis. It is attributed directly to the technical account, since the Association's entire assets are available for the settlement of future claims.

***Operating expenses***

Operating expenses comprise all expenses paid and accrued for the year.

***Unearned calls***

Unearned calls represent written calls relating to future accounting periods.

***Deferred acquisition costs***

Deferred acquisition costs represent incurred brokerage and managers' remuneration relating to future accounting periods.

***Rates of exchange***

Assets and liabilities are translated into United States Dollars at the rates of exchange ruling at the balance sheet date. Revenue transactions are converted at average monthly rates during the year and any exchange gain or losses are dealt with in the profit and loss account.

***Deferred taxation***

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets that will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

|                                                                                                         |
|---------------------------------------------------------------------------------------------------------|
| <b>Notes to the Financial Statements</b><br><b>for the year ended 31 December 2017 <i>continued</i></b> |
|---------------------------------------------------------------------------------------------------------|

***Recognition and derecognition of financial assets and financial liabilities***

Financial assets and financial liabilities are recognised when the Association becomes party to the contractual provisions of a contract.

A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

***Cash and cash equivalents***

Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

***Debtors***

Debtors are recognised initially at their fair value and are subsequently assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised through the profit and loss account.

***Creditors and other financial liabilities***

Creditors and other financial liabilities are recognised at their fair value.

**2 Gross calls written**

Gross calls represent ongoing adjustments to advance, supplementary and release calls raised in previous years (1998 - advance call for the 1998 policy year, the additional supplementary calls on the 1996 and 1997 policy years over and above the figures previously estimated and the 22.5% supplementary call on the 1998 policy year).

**3 Provision for claims outstanding**

|                                                  | <b>2017</b>     | <b>2016</b>    |
|--------------------------------------------------|-----------------|----------------|
|                                                  | <b>US\$</b>     | <b>US\$</b>    |
| Claims outstanding - gross amount:               |                 |                |
| Amount carried forward                           | 34,665          | 76,923         |
| Amount brought forward                           | 76,923          | 79,356         |
|                                                  | <hr/>           | <hr/>          |
| <b>Net (credit) to Profit &amp; Loss</b>         | <b>(42,258)</b> | <b>(2,433)</b> |
| Claims outstanding - reinsurers' share:          |                 |                |
| Amount carried forward                           | 34,665          | 31,950         |
| Amount brought forward                           | 31,950          | 33,626         |
|                                                  | <hr/>           | <hr/>          |
| <b>Net (credit)/ charge to Profit &amp; Loss</b> | <b>(2,715)</b>  | <b>1,676</b>   |
|                                                  | <hr/>           | <hr/>          |
| <b>Net (credit) to Profit &amp; Loss</b>         | <b>(44,973)</b> | <b>(757)</b>   |
|                                                  | <hr/>           | <hr/>          |

|                                                                                                         |
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| <b>Notes to the Financial Statements</b><br><b>for the year ended 31 December 2017 <i>continued</i></b> |
|---------------------------------------------------------------------------------------------------------|

**3 Provision for claims outstanding (continued)**

The provision for claims outstanding is available to meet claims reported but not agreed and claims incurred but not yet reported. Because claims can be subject to prolonged delays as to notification and settlement, it is not always possible to quantify with any certainty the value of claims outstanding at the balance sheet date. No claims development tables have been included as the Association ceased to underwriting new business in 1998 and the Association is 100% reinsured with nil net liabilities after reinsurance. The directors and managers have nevertheless estimated the provisions using the latest possible information and after taking account of historical trends.

**4 Investment income**

|                                      | 2017<br>US\$ | 2016<br>US\$ |
|--------------------------------------|--------------|--------------|
| Income from other investments:       |              |              |
| Bank and deposit interest receivable | 4            | 30           |

**5 Net operating expenses**

Net operating expenses comprise the direct costs of running the Association, as follows:

|                         | 2017<br>US\$ | 2016<br>US\$ |
|-------------------------|--------------|--------------|
| Administrative expenses | 10,498       | 57,158       |

Michael Else and Company Limited, as Manager, is a related party of the Association. There were no related party transactions.

The current directors are also same for Michael Else and Company Ltd, but no related party transactions took place.

Administrative expenses include:

|                                         | 2017<br>US\$ | 2016<br>US\$ |
|-----------------------------------------|--------------|--------------|
| Directors' emoluments                   | -            | -            |
| Auditors' remuneration - audit services | 13,471       | 20,316       |

**6 Taxation**

The tax charge/ (credit) for the current year at 19.25% (2016 – 20%) is USD 1 (2016: USD (5))

**7 Creditors**

All creditors are payable within one year.

**8 Movements in members' funds: Profit and Loss account**

There was no movement in the members Retained Earnings during the year (2016: Nil).



|                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------|
| <p align="center"><b>Notes to the Financial Statements</b><br/> <b>for the year ended 31 December 2017 <i>continued</i></b></p> |
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**9 Statement of Cash Flows**

|                                                                     | 2017<br>US\$    | 2016<br>US\$    |
|---------------------------------------------------------------------|-----------------|-----------------|
| <b><u>Reconciliation of operating profit to net cash inflow</u></b> |                 |                 |
| <b>Operating activities:</b>                                        |                 |                 |
| Profit/(loss) on ordinary activities before tax                     | 1               | (5)             |
| Adjusted for non-cash movements:                                    |                 |                 |
| Effect of foreign exchange rate changes                             | 6,735           | (17,303)        |
| (Increase)/decrease in reinsurers' share of technical provisions    | (2,715)         | 1,677           |
| Decrease/(increase) in insurance and reinsurance debtors            | 12,644          | (1,830)         |
| Increase/(decrease) in other debtors and prepayments                | (14,791)        | 2,129           |
| (Decrease) in technical provisions                                  | (42,259)        | (2,432)         |
| (Decrease) in insurance and reinsurance creditors                   | 19,451          | (57,122)        |
| (Decrease)/increase in other creditors                              | (3,442)         | 6,183           |
| (Decrease)/increase in accruals and other creditors                 | 4,379           | (8,599)         |
| Investment income                                                   | (4)             | (30)            |
| <b>Net cash (outflow)/inflow from operating activities</b>          | <b>(20,001)</b> | <b>(77,332)</b> |

**10 Run-off reinsurance**

The 2017 premium charge of \$19,450 (2016 Credit: \$57,122) is in respect of the run-off reinsurance and supplementary call cover arranged through Lloyd's underwriters. The credit is equivalent to the profit for the financial year prior to accounting for this contract.

**11 Cash at Bank and in hand:**

The cash and bank balance of \$92,233 (2016: \$118,967) represents funds due to the reinsurer (QBE) which were granted to the association as a float under the terms of the run off agreement.

|                                                                                                                                             |
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| <p style="text-align: center;"><b>Notes to the Financial Statements</b><br/><b>for the year ended 31 December 2017 <i>continued</i></b></p> |
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**12 Risk management**

A related company, Michael Else and Company Limited, has implemented a Risk Management set of procedures for the Association which is in Run-off.

A collection of processes and tools that have been put in place to ensure that the risks to which the Association is exposed are identified, measured, managed, monitored and reported on a continuous basis.

The Association sets limits to manage material risks to ensure the risks stay within acceptable levels for the nature and size of the entity. Where risks are outside of acceptable level, actions are agreed to mitigate the exposure.

In addition to monitoring regulatory Solvency under applicable UK Prudential Regulatory Authority (PRA) regulations, the PRA also requires the Association to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. The main risks being faced by the Association are as follows:

*Insurance Risk*

The Association is in run-off and considers insurance risk within its general insurance activity to be the management of claims and the adequacy of reserving. The risk relates to the inherent uncertainty around the level of reserves held. All business is reinsured which provides 100% protection in relation to claims and associated expenses.

*Credit Risk*

Credit Risk is the risk of loss in the financial assets due to counterparties failing to meet all or part of their obligations.

*Market Risk*

Market Risk is the risk of adverse financial impact due to changes in future cash flows of financial instruments due to fluctuations in interest rates and market prices. The Association has no off-balance sheet transactions and has no investments.

*Operational Risk*

Operational Risk is the risk of adverse financial impact due to being in business and can arise from the operation's people, processes, and systems. These risks are managed through controls that are aligned with the Association's risk appetite and monitored in a warning indicator system based on key risk indicators. Key Risks, Controls and Indicators are reviewed periodically.