



— With you at all times —

# Annual Report 2016

for the year ended 31 December



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## Annual Report 2016



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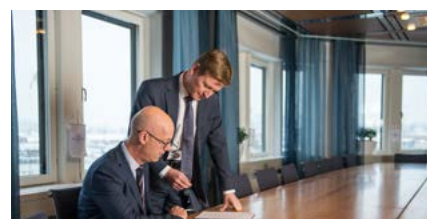
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# The year in brief


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 7.5 % year on year growth in P&I business  
well ahead of growth in the world fleet

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 Combined ratio of 98 %


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 Continued balanced underwriting performance

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 Stable business in the Marine sector

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 Continued to strengthen market position

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 Intensified Emergency Response Training

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# Financial highlights

The financial year January through December:

USD thousands	2016	2015	2014	Average
Calls and premiums	167,265	180,402	180,719	176,129
Reinsurance premiums	-36,734	-37,453	-41,272	-38,486
Net claims incurred	-102,961	-115,187	-93,151	-69,480
Financial result	9,707	-5,080	-304	1,441
Operating result	11,838	-3,069	18,389	9,053
Loss ratio	79 %	81 %	67 %	76 %
Expense ratio	19 %	18 %	20 %	19 %
Combined ratio	98 %	99 %	87 %	95 %
Free reserves at year end	194,880	183,074	186,342	188,099







# Meet Our Crew

The Swedish Club has been run by shipowners for shipowners since 1872. This requires both in-house expertise and excellence. As a result our staff have a diverse range of backgrounds and skills. Master Mariners, naval architects, lawyers, marine engineers and adjusters - each has specialist expertise in their individual field and all are united by a deep understanding of the needs of our members.

**The Swedish Club – with you at all times**

A close-up, profile view of Lennart Simonsson, an older man with short, light-colored hair. He is wearing a dark blue suit jacket over a blue and white striped shirt and a red patterned tie. He is looking towards the right of the frame. The background is a blurred office setting with windows and indoor plants.

# Lennart Simonsson

Chairman

*“Our drive for safe  
and controlled  
shipping is  
paying off for our  
members as well  
as for the Club”*



# Lars Rhodin

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Managing Director

*“The mutual model  
is still proving  
the most efficient”*



# Interview: Chairman

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*We ask **Lennart Simonsson** Chairman of The Swedish Club for his views on the state of the market, new opportunities and how the Club's members are facing these challenging times.*

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## *“Long term, it is all about relationships”*

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**T**he highs and lows of the shipping cycle are nothing new, according to Lennart Simonsson, Chairman of The Swedish Club; and of course, some cycles are more traumatic than others. But today's shipping industry continues to face extreme stresses, with limited prospect of a dramatic bounce-back in the near future.

“In 2008, quite a number of us were wondering how long this downturn would continue – but the way we see it today, nine years later, the world is still in recovery mode,” says Simonsson. “For shipping, this is a real challenge. It leaves us all in an environment of very high uncertainty.”

### **Relationships still matter**

However, he says, the fundamentals of running a strong shipping business have not changed – shipping is all about relationships and taking the long-term view. “If it was only about the short-term money, it would not be a real business,” he says.

“Long term, it is all about relationships, and the enduring companies are those which have worked to build strong long term relationships. A good number of our members have been around for many years, through many shipping cycles. And despite the very tough market conditions in 2016, we saw our members overall in pretty good shape, with the majority positioning themselves in the market, keeping their balance sheets in good order, and in a great deal of cases ordering newbuildings.”

### **Challenging times**

The stresses of the market vary, of course. In the dry bulk sector, 2016 has been described as the worst year on record, and while tankers started out in reasonable shape they weakened considerably towards the end of the year. In both cases, oversupply of capacity was a huge issue. These are tough times for containers and LPG too, while the offshore market was under extreme stress for the whole year.

“People would say this was the most difficult environment since the 1980s for the offshore market,” says Simonsson. “However on the positive side, ro-ro stayed pretty firm and the one sector which had a good year was cruise, with continued robust investment and optimism.”

### **Opportunities in the future**

The unknown factor across the sectors, of course, is the impact of political change during 2016, key elections ahead in 2017, and exactly where these developments will take the global economy.

However, Simonsson sees the opportunities ahead as well as the challenges. “Shipping has been shaped by entrepreneurs over its entire history and in the new political environment we have now, the world is opening up for more entrepreneurs. For some people it will be a very interesting time for shipping – any changes in world trading patterns could open up new opportunities for those that see them. With the global changes we have now, it will not only be the big players but there could also be new shipping companies that take advantage of the new situations that arise.”

### **A quality approach**

The Swedish Club continues to deliver service and support to its members – and at the same time it draws its strength from the high quality of its membership, says Simonsson.

“We are pleased to see that our drive for safe and controlled shipping is paying off for members as well as for The Swedish Club,” he says. “Fewer accidents mean more available trading days and, as a Board, we are very pleased to see that this view is shared by our members.”

“Once again, we have delivered a zero percent general increase and this demonstrates that we have, with our members, been able to reduce the level and cost of accidents. At the same time, the Club runs with a very cost-efficient set-up, offering service when service is really needed.”

“Insurance isn't something you simply pay for off the shelf and say 'now I am protected'. It is about what happens if something does go wrong. The Swedish Club has built up the knowledge and expertise to respond quickly, proactively and efficiently in the event of an accident. Owners know that if there is an accident, they will have the support they need. The Swedish Club is the best partner for a safe ride.”

# Interview: Managing Director

*On the 145<sup>th</sup> anniversary of The Swedish Club, **Lars Rhodin**, Managing Director, gives an insight into the Club's performance in 2016.*

**A** members' satisfaction survey carried out in 2016 revealed that 94 % of respondents viewed the Club's overall performance as 'good to excellent'. "As a Club we should all be proud of that," says Lars Rhodin. "We stand behind our members and we deliver on our promises. We had a number of significant achievements in 2016, from good growth in P&I, acclaimed casualty response in a major case, a successful AGM and member support events, to our 98 % combined ratio result.

"But we must always remember; what makes this happen is actually the daily work and focus on improvements – no more, no less. And there is no finish line in the endeavour to do things better."

## Continuing to support our members

How does The Swedish Club support its members in challenging conditions?

The Swedish Club and its members benefit from the diversity of the Club's product mix, which generates balance and synergies, says Rhodin.

Experience and team work are vital ingredients. "We are a true 'all-in-one' club. We have people here with both P&I and H&M experience so we can offer an integrated, seamless approach. At The Swedish Club, if we are handling a casualty, we set up a cross-functional team to respond as one body."

Setting a zero percent general increase for P&I is an obvious place to start when talking about supporting members, says Rhodin. "Value is important," he says. "We must respect our shipowners and the challenges they face. As well as setting the increase at zero for the second year, our rates compare very favourably with the International Group average.

"But it is more than that. We work closely with and support our members, doing our utmost to reduce non-work days for ships. We are quick to respond to whatever need there is. We give advice. In other words, it is all about service.

"We are convinced that our integrated approach to claims handling is a very efficient system and a key part of our offering of a flexible and balanced approach and solutions."

## A creditable performance

The Club increased P&I volume by 7.5 % in 2016. This increase, from existing as well as new members, was ahead of the growth rate of the world fleet. At the same time, the Club saw high retention rates from members. In all, owners' entries passed 47 million GT, 65 million combined.

The Club has seen P&I claims frequencies rise in 2014/2015, now just below 0.6 claims per vessel/year in 2016 – most of this increase being triggered by cargo claims.

**Continued overleaf**



*“We work closely  
with and support  
our members,  
doing our utmost  
to reduce non-work  
days for ships”*

## From previous page

With regard to the severity of claims, 2016 was a rather benign year. In addition, the International Group claims were relatively low.

In Marine, volumes remained stable in a challenging market which has been flooded with capacity. However, the Club has seen ongoing success in its strategy to convert from follow lines to lead position, and continues to pursue opportunities as they arise.

Marine claims frequency remained stable at 0.2 claims per vessel/year, with a lower severity overall. "Part of that is explained by attractive repair

factors operating in the market," says Rhodin.

While the Club continued to demonstrate a consistent underwriting performance, it was responding to a great deal of volatility on the investment side.

"We saw a turbulent period at the start of the year with a severe drop in equity markets, and 2016 ended with higher interest rates," says Rhodin. "The final result for The Swedish Club was a creditable 2.7 % return on investment."

From a regulatory perspective, Solvency II came into force in January

2016 – a regime that requires insurance providers to take a risk-based approach to every aspect of their business, with significant reporting requirements.

"We have demonstrated that the transparent and disciplined approach of The Swedish Club is more than compliant with the reporting standards and quality," says Rhodin. "A.M. Best has once again affirmed our rating of A - (Excellent) with an issuer credit rating of 'a-', and alongside this, we have achieved recognition by auditors for our enhanced Enterprise Risk Management (ERP)."

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*"We have people here with both P&I and H&M experience so we can offer an integrated, seamless approach"*

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## Delivering value

The Swedish Club prides itself on its proactive, member-focused loss prevention programme. The past year has seen the further development of the Club's unique Emergency Response Training initiative, which brings together members, representatives of the key emergency services, authorities, salvors, class and others to work through a realistic casualty scenario together.

The Club's P&I Claims Analysis, published early in 2016, provided a unique insight into the causes of the most frequent types of P&I incidents. "This has proven to be a useful addition to our loss prevention portfolio," says Rhodin.

The International Group structure continues to deliver value for money, through the pool system and through its reinsurance, believes Lars Rhodin, and an important achievement in the past year has been the Group's negotiation of a reduction in reinsurance costs for the second year running.

## An uncertain world

Looking ahead, Rhodin highlights two trends: "Society has no tolerance with a casualty. We know that, and many times a claim in the environmental field moves from compensation to punishment. We see fines levied on shipping starting to become unreasonable and disproportionate to the casualty or 'wrongdoing'."

He also mentions the move towards protectionism that is being seen around the world: "There is a tendency among countries to look at their own interests more, even though they are party to international Conventions. It may well be that countries will be looking to regulate their own interests as opposed to being part of the international legal community.

"That is not good for shipping, because we need a defined and whole system of certification, liabilities and predictability."



# Club Briefing: Management Team





# A Firm Footing

*What is the recipe for delivering financial strength in the complex Marine insurance sector? **Mikael Kromli** (right), the Club's Director, Finance, Risk Management & IT, and **Tord Nilsson** (left), Director, Underwriting, Reinsurance & Risk Control, give their views:*



It is very straightforward, says Mikael Kromli: "Achieving a balance and constantly fine-tuning that balance: we apply clear, critical thinking to every area of our business, including financial planning, investment strategies, business growth, underwriting performance, cost-efficiency and our approach to risk."

## Attractive return on investments

In 2016, The Swedish Club's total investment portfolio delivered a return on investments of 2.7 %, with similar levels of return on both equity and bond holdings. This was the highest return of the past three years and a welcome turnaround on the difficult investment conditions of 2015.

"We look to achieve an optimal yield on our investments, given our risk appetite and that we seek a natural hedge to future claims payments in

terms of currency exposure and timing," says Kromli.

Retaining, and demonstrating, financial strength is key. "It is essential that our present and potential members can fully trust that we have the financial muscle to reimburse them in the event of a claim and get their businesses operationally up and running with minimal disruption. The key metrics of the recently introduced Solvency II regulation demonstrate

the excellent financial strength of the Club. Basic Own Funds in relation to the Solvency Capital Requirement was 182 % at year-end 2016. Including ancillary own funds, the measure is well over 200 %.

"It is a balancing act – we must be prudent in determining the optimum amount of our members' funds that sit with the Club to provide that strength. Naturally, if and when it becomes appropriate, we will reduce members' premiums."

Tord Nilsson adds: "At the same time, when you grow the fleet you must grow your contingency capital in line with the increased potential liability. Steady, measured growth remains the key."

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*"We have the financial muscle to reimburse our members in the event of a claim and get their business operationally up and running with minimal disruption"*

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## Claims predictions accurate

The costs of claims were largely in line with the Club's estimates and predictions going into the year, while International Group pool claims were at a lower level compared to 2015. "Claims frequencies have generally decreased in the last year. Of course, on the back of that, pricing needs to be closely monitored in order not to become unsustainable," states Kromli.

## Delivering a zero percent general increase

"Given the current market conditions for shipowners, we strive to keep insurance premiums to a minimum," agrees Tord Nilsson. "The fact that there is a lot of capacity in the Marine markets, with many new insurance companies that have set up in the last 10 years, adds to that pressure. With claims trending downwards – obviously a welcome trend – the market becomes even softer.

"With premiums reducing and margins shrinking, a combined ratio under 100 % is a challenge – which makes our own outcome of 98 % all the more satisfactory. We are happy to see claims coming down in a similar manner to the premium side – something that reflects that we have a good quality membership," says Nilsson.

"Having said this, in the Marine market we are actually seeing the first signs of a possible change with some syndicates and companies reducing their underwriting capacity or closing down their Marine book, as losses are starting to accumulate. The reinsurance market, always a leading indicator, is becoming a bit firmer and less interested in renewing accounts. If reinsurance is reducing Marine capacity it will have a direct impact on premiums.

"However, The P&I market is in general showing good results for the P&I clubs due to fewer and less expensive claims. Our recent decision to set a zero general increase for the second year in a row sends an important message of support to members - underpinning our true stance of mutuality - by providing them with some help during difficult times."

*“This is a people business  
and our members always  
come first”*



# Building the Business

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*So, just what business strategy has the Club been following?*

**Tord Nilsson**, *The Swedish Club's Director, Underwriting, Reinsurance & Risk Control, provides an insight.*

**"I**t's all about quality, not quantity. It would be the easiest thing to double the portfolio but the result would not be a sound business," says Tord Nilsson. "Of course we want to grow and the fact that we insure so many more ships than we did five years ago gives us a great opportunity going forward. But we want to grow during the right market conditions and with the right members. The Swedish Club's core business is in bulkers, tankers and container ships", he says, and there the focus will remain. "It's a case of appreciate what we know, and learn to understand what we don't know."

## Success in 2016

This approach has proved to be successful for the Club, with 2016 being a year when it grew most lines of business, continued to diversify and add services, and delivered an underwriting profit in combination with positive investment income, Nilsson points out.

"In 2015 we had a record number of total losses at seven; 2016 was a rather benign year in which we had one total loss. It shows the volatility of the business that we are in. One loss, was large – but, despite that, we still delivered good results on the P&I side of the business."

There were also solid results in H&M, despite overcapacity in the Marine market. For the Club, a key goal over the past five years has been to increase its tanker business and, after a 10 % increase in tanker entries during 2016, the Club is now taking a notably larger market share in this sector.

## Quality focussed members

"Number one, it is about insuring the right shipowners who are quality-orientated," says Nilsson. "We are looking for members with a 'mutual mindset', who appreciate our hands-on

claims handling. The future is also about prudent underwriting when it comes to setting premiums and ensuring the reinsurance programme is in place to cover you for the volatility that is an inherent part of this business."

## A balanced portfolio

An important change in 2016 was taking the Club's Energy policies out of the main reinsurance programme, instead reinsuring this risk under a quota share arrangement, to lessen volatility.

The Swedish Club now offers more than 20 different insurance products, ensuring a balanced portfolio he says. And relationships continue to be at the centre of it all. "We always have to show our shipowners that we add something extra. We do that by providing a very personal service and caring for our members. This is a people business and our members always come first."

# Working with Regulations

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*Regulations – a burden or an opportunity to improve? Whether it's Solvency II or the latest amendments to the Maritime Labour Convention, the Club's approach to new and ongoing regulations is pragmatic, says **Anders Leissner**, The Swedish Club's Director, Corporate, Legal & FD&D.*

**“W**e have earned a reputation with the authorities for being well organised, if they know that we are transparent, honest and open, that generates trust in the long run and we and our members will benefit.

“First and foremost, my responsibility is to protect our licence to conduct business, and a direct way to achieve that is to work in partnership with the regulators. There are always some firm rules you need to adhere to and there are some set goals, then it is up to the undertaking to choose how to achieve these, given the particular circumstances and nature of that undertaking.”

While some things are clearly not negotiable, authorities generally take a ‘comply or explain’ approach, says Leissner. “It is important to establish the purpose of a piece of regulation. If the authority calls, can we tell them what we have in place, are we comfortable with this, have we captured the essence and purpose of it? Indeed the process is reciprocal - we will often call them and discuss how best to respond to a requirement.

“We choose to embrace regulations – they are not just a tick box. We need to recognise how they can help us to achieve our goals.”

## Working with Solvency II

Nowhere is that more true than in the implementation of the Solvency II regime, a process which continued through 2016. Leissner says: “The essence of the regime is that we need to know what we are doing, be aware of our risks and be able to deal with those risks in a proper manner – and of course that is the case. It is very much common sense.

“The Solvency II way of calculating risks has not revealed any material difference compared to the calculations and assessments we already carry out within the framework of the ORSA (Own Risk and Solvency Assessment). These underscore that The Swedish Club is financially strong and resilient.”

Self-management is one of The Swedish Club's key strengths, Leissner emphasises. “Our arena is big because it also encompasses Marine and Energy, and we don't have a Lloyd's syndicate doing that for us – we do it ourselves. The fact that we are self-managed makes a big difference culturally and in the way that we operate, with short decision chains.”

## MLC amendments

Alongside Solvency II, the focus has been on the new MLC amendments, in particular the involvement of P&I clubs in covering outstanding wages and repatriation costs in cases of abandonment. The International Group has been very much involved in the debate at IMO and ILO level, with the result that clubs can issue shipowners with the financial security certificates they are required to hold.

Discussions continue as to how far the International Group's clubs' responsibilities stretch in this regard.

*“The focus is on transparency, clarity and an ongoing dialogue with the authorities”*



# Building for the Future

*How does **Lars A. Malm**, The Swedish Club's Director, Strategic Business Development & Client Relations, add value to the Club's members and business partners?*

**W**hatever we do, we are always trying to add value," says Lars Malm. And that focus continued in 2016, with the Club's continued emphasis on loss prevention; the unique Maritime Resource Management (MRM) programme offered through The Swedish Club Academy; and the successful development of the Club's Emergency Response Training initiative. This encourages members to examine their own response structure and understand how all parties can cooperate in the different stages of a casualty.

## **Satisfying the most demanding operators**

This approach has contributed to the Club's objective of expanding its

presence in the crude tanker sector. Malm says: "We have been successful in marketing the Club's ability to provide the service that is required by high-quality operators, especially in the tanker business. If there is a casualty not only is an immediate and professional response paramount – but also, during the operation of a casualty, owners are very dependent on our assistance in complying with regulations and answering questions from the authorities. This is a service-intensive business."

## **New products in 2016**

Among the Club's initiatives, he highlights two notable new products developed in 2016:

First was the work carried out on The Swedish Club's new stand-alone Rules for Charterers' Insurance, aimed at making

it easier for brokers and charterers to see at a glance the specific rules that apply to an individual situation. "This is strategically important for the Club as part of our market diversification," says Malm. "As trade becomes increasingly complex, we need to provide insurance solutions flexible enough to cater for that complexity, which is a daily reality for traders and owners."

Second, the Club has designed a new Collision Recovery Insurance (CRI). This, says Malm, is another way for the Club to add value in a market where owners are facing difficult times and cash flow is always high on the agenda.

"In the event of a collision, an owner with CRI can activate the cover and we will pay upfront what he expects to recover from the opponent in the collision, as far as loss of earnings and deductibles are concerned," he says. "We will pay that immediately, instead of him



having to wait perhaps two or three years until an action is resolved thus protecting his cash flow.”

## Developing relationships

The Club will establish a Loss Prevention Panel, which will bring together external experts as well as in-house specialists, covering all aspects of loss prevention including legal, salvage, pollution, cargo damage and mechanical failure.

“This will give us a more systematic approach to developing our business. The Panel can highlight important areas for improvement and enable the Club to develop relevant publications and projects based on lessons learned as a result of both external and internal triggers. We believe that connecting with outside experts closer to the Club, and using the mix with our own in-house

people, will be constructive and fruitful, and clearly deliver more added value for our membership.”

## Emergency Response Training

Meanwhile, the Club’s Emergency Response Training is continuing its successful rollout. “These exercises make members better prepared for accidents we all hope will not come,” says Malm. “They gain a better understanding and overall capability to handle a complicated situation better.”

## Continued commitment to MRM

Regular take up of MRM training continues and the Club sees this as also

very relevant for members. “We continue to offer members a discount on MRM training because it has a significant effect,” says Malm. “You have to make the effort as an operator to implement it properly, and that is an undertaking, but it works. Owners who make the investment understand that if they can avoid one casualty as a result, that will save them more money than MRM will cost them during their lifetime. There is a clear correlation between MRM and the number of claims.”

Regarding The Swedish Club’s ability to deliver value, Malm believes: “We have a wide range of expertise across all classes of insurance, and we channel that experience back to our members in the form of top class loss prevention initiatives and new product and service offerings.”

# Meet Our Crew

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*The Swedish Club has a unique way of working. **Helena Wallerius Dahlsten**, the Club's Director, Human Resources, explains why.*

**“T**o work for our Club, you need to be a person who likes to cooperate with others and to create relationships with other people,” says Helena Wallerius Dahlsten. “You need to be very dedicated and prepared to do a job even if it isn't precisely within your work description. We need people who will go the extra mile and take responsibility - we are flexible enough for our staff to meet with all brokers and members, and so this 'can do' attitude is essential.”

## Recruiting the right people

The importance of finding, recruiting, retaining and supporting the right people cannot be overstated, says Wallerius Dahlsten. The Swedish Club looks for 'experience, knowledge and curiosity' when recruiting, she says. “But while in some positions we need specific knowledge, education, competence and experience, in others, where we are employing someone young, it is more about attitude.

“We get many applications for each traineeship – mostly young graduates. We like to say that we recruit for attitude and train for competence.”

For the specialist roles, the background is vital. The teams dealing with claims and risk assessment need the competence that comes from shipping lawyers and those with a background in insurance. There is also a demand for people with experience from roles such as; Master, chief officer, superintendent, chief engineer or shipbuilding engineer.

## A culture of encouragement

The Swedish Club is proud of its culture of encouragement and is determined to protect it. Looking after employees delivers better performance and more efficiency, says Wallerius. “Without doubt there is a connection between the employees' environment and productivity.”

In 2016, new legislation came into force in Sweden which deals with the social environment. “This new legislation focuses on the responsibilities of the manager – for example, how to deal with his or her department and ensure that the social environment is positive.”

The Swedish Club has welcomed this refreshed legislation, and incorporated its measures in ongoing leadership training for its managers. “We see these regulations as something that can improve our efficiency and operation, as a tool for doing good,” says Wallerius Dahlsten.

## Setting a good example

Creating and nurturing a positive, quality-focused culture depends on communication, sharing and spreading best practice, giving praise where praise is due, discussing individual performance and proactively following up areas that need improvement – and it also depends on the good old fashioned idea of setting an example.

“From the management point of view you can really influence the way things are done,” she says. “That starts and finishes with the Management Team – setting an example as to how to behave, how to treat members and business partners and how we actually work within our culture.”





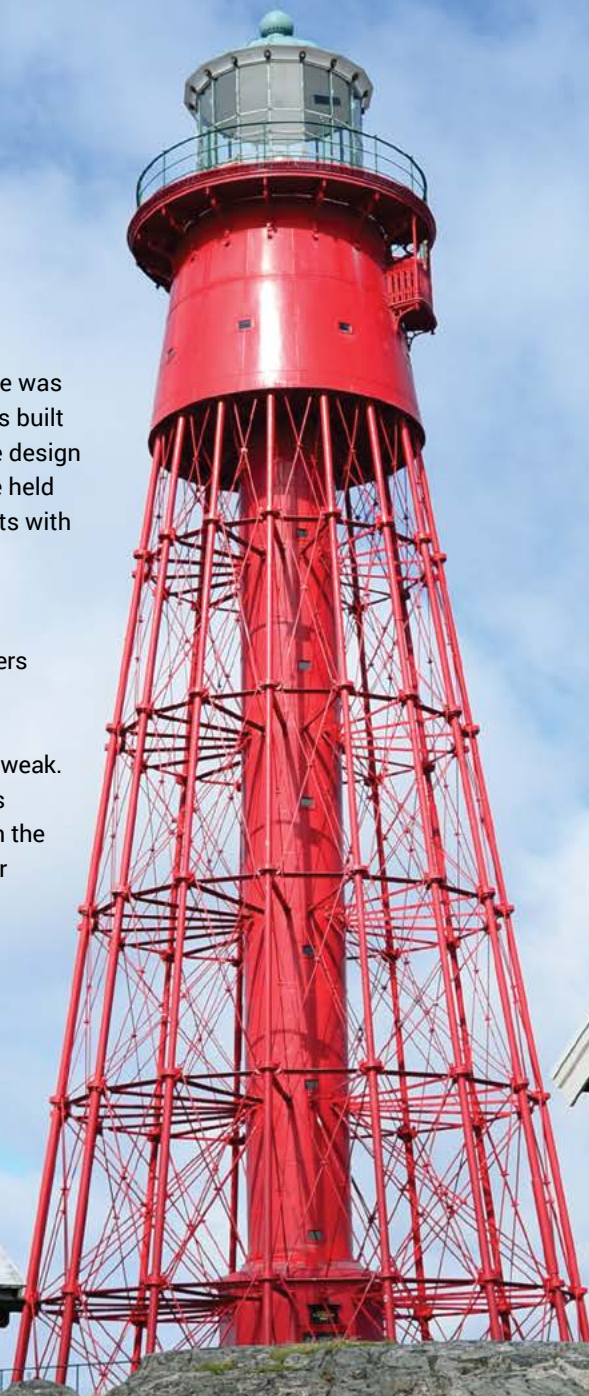
*“We need people who will go the extra mile and take responsibility”*

# Pater Noster

The distinctive iron structure of the Pater Noster lighthouse was built in 1868 by engineer Nils Gustaf von Heidenstam. It is built entirely of iron and rises 35.6 metres above sea level. The design consists of a central pillar supported by thick iron bars that are held together by a system of vertical and horizontal beams and joints with diagonal ladder supports.

The Pater Noster lighthouse is situated on the tiny island of Hamneskär, in dangerous waters just off Marstrand. The name 'Paternoster', which means 'our father' may originate in the prayers which mariners sent up to the heavens to pray for safe passage.

In 1977 the lighthouse was deactivated and began to fall into disrepair as the salt water made the iron construction rusty and weak. In 2002 a large restoration project began and the lighthouse was transported to the town of Uddevalla, and later to Gothenburg. In the summer of 2007 the lighthouse was shipped back to Hamneskär and reactivated.



# Insurance facts and call history

Insurance facts	2017	2016	2015	2014	2013
<b>P&amp;I insurance, 20 February</b>					
Number of vessels	1,155	1,117	1,076	1,040	1,013
Gross tonnage (Million)	46,8	43,6	41,5	37,1	34,8
<b>FD&amp;D insurance, 20 February</b>					
Number of vessels	841	895	868	724	710
Gross tonnage (Million)	32,7	35,5	36,5	29,6	28,5
<b>Marine H&amp;M insurance incl. OSV's, 1 January</b>					
Number of vessels	2,996	3,034	2,653	2,061	1,501
Gross tonnage (Million)	119,3	113,2	92,6	71,7	60,0
Insurance value (USD Million)	92,960	97,575	82,183	66,306	51,025
of which the Club has insured (USD Million)	10,495	11,094	10,350	10,512	10,696

Call history, policy year	2017/18	2016/17	2015/16	2014/15	2013/14
<b>P&amp;I insurance</b>					
General increase	0%	0%	2.5 %	7.5 %	7.5%
Additional call/Estimated additional call	0%	0%	0%	0%	0%
Open/Closed	Open	Open	Open	Closed	Closed
<b>FD&amp;D insurance</b>					
General increase	0%	0%	5%	5%	5%
Additional call/Estimated additional call	0%	0%	0%	0%	0%
Open/Closed	Open	Open	Open	Closed	Closed

# Financial Statements

These financial statements, based on the Swedish statutory financial statements with few editorial changes, have been translated from Swedish into English by professional translators and from SEK into USD in accordance with the principles laid out in Note 1 to these statements.

The auditor's report presented on page 63 refers to the audit of the statutory accounts.



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# Board of Directors' report



The Board and the Managing Director of The Swedish Club (Sveriges Ångfartygs Assurans Förening) hereby present their annual report for the year 2016, its 144<sup>th</sup> year of operation.

## Principal activities and structure

The Swedish Club (also referred to in this report as “the Club”) is a marine mutual insurer, headquartered in Gothenburg, Sweden, with service offices in Piraeus and London, and branch offices in Oslo and Hong Kong. The Club also has a subsidiary in Hong Kong. The Swedish Club is both owned and directly controlled by its members.

The Club’s activities concern marine insurance, in the following classes of non-life insurance: Ship (Marine & Energy), Ship liability (Protection and Indemnity, P&I) and Defence (Freight Demurrage & Defence, FD&D). Reinsurance acceptances are in run-off, with a remaining provision for outstanding claims of USD 0.8 million.

In accordance with the Swedish Annual Accounts Act, the Club’s subsidiary in Hong Kong has not been consolidated as it is of lesser importance with regard to true and fair view requirements.

## Significant events during the year

Since 2002 The Swedish Club has obtained credit ratings from Standard & Poor’s and the current ratings are BBB+. Since fall 2014, the Club has also engaged A.M. Best for credit ratings. On 26 January 2017, A.M. Best gave The Swedish Club credit ratings of A-, which was the same ratings as the year before. A.M. Best is the market-leading credit ratings company for insurance companies. The Club views its credit ratings of A- from A.M. Best as an important stamp of quality.

## Financial overview

The following is a brief commentary on the income statement and balance sheet. For more detailed information, please see “Performance analysis per insurance class” and the Notes.

## Result for the period

For 2016, the result before appropriations and tax was a profit of USD 11.8 (-3.1) million. The Club's assets are larger than its liabilities in foreign currency resulting in exchange losses of USD -0.7 (-2.2) million.

The relationship between the result expressed in USD and SEK is shown in the table below as a change in free reserves:

Free reserves	USD m	USD/ SEK	SEK m
31 December 2015	183.1	8.3524	1,529.1
31 December 2016	194.9	9.0971	1,772.8
Other taxes	0.0		0.3
<b>Result 2016</b>	<b>11.8</b>		<b>244.1</b>

## Insurance activities

Gross premiums written in 2016 amounted to USD 163 (178) million. Following the deduction of outward reinsurance premiums totalling USD 36 (38) million, premiums written amounted to USD 127 (140) million. Earned premiums, net of reinsurance, amounted to USD 131 (143) million.

Part of investment income is reallocated to insurance activities. The amount is based on the expected return on the investment portfolio and the current year's average technical provisions for own account. The amount of transferred investment income was USD 4.7 (4.8) million.

Claims incurred, net of reinsurance, amounted to USD 100 (117) million. In relation to earned premiums, net of reinsurance, this corresponds to 76 (82) %.

Change in other technical provisions amounted to USD -3 (2) million.

As compared to 2015, 18 (27) claims were reported in excess of USD 0.5 million in 2016. For 2 (6) of the claims, the cost before reinsurers' share amounted to more than USD 2 million.

Net operating expenses for insurance activities amounted to USD 25 (26) million which in relation to earned premiums, net of reinsurance, corresponds to 19 (18) %.

The balance on the technical account totalled USD 7 (7) million.

## Result by class of insurance

The combined ratio for P&I was 99 (88) %. Earned premiums, net of reinsurance, amounted to USD 79 (83) million. The claims cost for other IG P&I clubs' pool claims increased compared to the prior insurance year, from USD 14 million in 2015 to USD 16 million in 2016. Claims incurred, net of reinsurance, amounted to USD 64 (59) million. The loss ratio for the year was 81 (71) %.

As of 31 December 2016, the P&I portfolio, including charterer's liability, consisted of 1,661 (1,589) vessels with gross tonnage of 71 (67) million.

The combined ratio for FD&D was 55 (100) %. As of 31 December 2016, the FD&D portfolio consisted of 901 (911) vessels with gross tonnage of 34 (40) million. Earned premiums, net of reinsurance, amounted to USD 6 (6) million. Claims incurred, net of reinsurance, declined from USD 6 million in 2015 to USD 3 million in 2016. The loss ratio for the year was 45 (89) %.

The combined ratio for Marine & Energy was 102 (111) %. In 2016, H&M, which is the largest subclass, developed favourably, reporting a surplus (as compared to the deficit that was reported last year). The subclass, Energy, reported a profit in 2016. Earned premiums for Marine & Energy, net of reinsurance, amounted to USD 45 (53) million. Claims incurred, net of reinsurance, declined from USD 49 million in 2015 to USD 36 million in 2016. The loss ratio for the year was 80 (91) %.

At the end 2016 the Marine & Energy portfolio consisted of 3,165 (3,144) vessels, with gross tonnage of 125.6 (117) million and covered insured value of USD 12.1 (13.1) billion. The number of vessels insured for Loss of Hire was 1,395 (1,175) with a gross tonnage of 43.8 (35.7) million.

The claims cost for reinsurance acceptances, which are in run-off, declined in 2016 to USD 0 (2.1) million. No additional allocation was made to the technical provisions in 2016.

## Investments

The financial result, including exchange rate differences amounted to USD 9.7 (-5.1) million. The result from interest-bearing securities was USD 8.2 (-4.0) million. The result for quoted shares amounted to USD 2.7 (1.7) million and the result for other financial income and expenses amounted to USD -0.5 (-0.6) million.

The conversion of investment assets into USD resulted in exchange losses of USD -0.6 (-2.4) million. Other exchange differences amounted to USD -0.1 (0.2) million. At the end of 2016, the value of the Club's investments amounted to USD 352 (349) million, of which 78 (77) % consists of interest-bearing securities and 22 (23) % is equity related.

## Balance sheet

For 2016, the provision for claims outstanding was USD 260 (238) million.

The value of the Club's investments increased to USD 352 (349) million.

At year-end, Hydra receivables had an estimated value equivalent to USD 7 million (see Note 2, in the section on counterparty risks). These are reported in the balance sheet under the heading "Other assets".

## Environment

The Swedish Club has an ongoing commitment to reducing its environmental impact. The Club has a paperless electronic claims handling and archiving system and it is also trying to lower its production of documents in other ways, wherever possible. For example, the Club no longer uses pre-printed stationery and documents are more frequently distributed electronically.

*Note: Numbers in brackets refer to 2015 figures*

Publications for members and other parties are now, as far as possible, distributed as web versions or are available at [www.swedishclub.com](http://www.swedishclub.com).

The Club's Loss Prevention Department is also responsible for providing guidance to members on environmentally friendly solutions.

### Significant events after the balance sheet date

Since the balance sheet date, the business has developed in line with the established goals and expectations. The Club does not have any significant events after the balance sheet date to report.

### Employees

The Swedish Club is a knowledge-intensive organisation. The commitment, competence and performance of employees are decisive factors for the organisation's success and competitiveness. The Swedish Club intends to remain an attractive employer by having a progressive human resources policy, a healthy organisational culture and well-established core values.

The Swedish Club's core values are as follows:

#### Proactive

- We are proactive in our approach
- We respond in a forward-thinking and proactive manner and focus on cost-efficient solutions

#### Reliable

- We are reliable in our values and we stand behind them
- Through honesty and fair treatment, we are able to gain confidence and ensure continuity

#### Committed

- We are committed in everything we do
- We build and develop relationships of mutual benefit
- Our service is based on respect and professionalism

The average number of employees during the year was 109 (see Note 28 for more information). A bonus program for employees was introduced in 2011. The maximum total cost of the bonus program has been set at 10 % of the Club's salary costs including social security expenses. No bonuses were achieved in 2016. Note 28 also contains information on the principles for establishing salaries and benefits for senior management.

### Risks and uncertainties

The Swedish Club's operations give rise to various types of risks that could have an effect on its result and financial position.

There are four main categories of risk:

- Insurance risk
- Counterparty risk
- Financial risk
- Operational risk

During 2012, an internal capital model (ICM) designed as a control mechanism for the Club's management process was implemented. The model is an important tool for calibrating capital needs, as well as a dynamic tool that is helpful in the decision-making process.

Additionally, ICM is an essential component of The Swedish Club's preparations for meeting the requirements of the EU Solvency II Directive, which came into force during 2016. Note 2 contains an overview of how these risks affect operations and how the Club manages them.

### Credit ratings

The Swedish Club's credit valuation, which is carried out by Standard & Poor's, remained at the level of BBB+. The credit ratings from A.M. Best A- was confirmed in January 2017.

### Prospects for 2017

In 2017, we expect the premium volumes for all of our insurance areas to remain at approximately the same levels as in 2016. We further anticipate that claims incurred in 2016, given the underlying stable claims frequency, are at the level expected to occur in 2017 as well.

In the finance market, we expect interest rates to remain low, increasing only very slightly in 2017. We also anticipate volatility in the equity market due to political and economic uncertainty.

### Financial strength

The losses carried forward below need to be understood in the perspective of Swedish regulations allowing the Club to build an untaxed Safety Reserve by appropriation of income. Since inception, the Club has grown its untaxed reserves to USD 203.6 million. The "Free Reserves" of the Club – i.e. results carried forward plus untaxed reserves and deferred taxes – amounted to a strong USD 194.9 million at year end 2016. According to the methodology of Solvency II regulations, the Club's Basic Own Funds amount to USD 215.6 million. This amount is 182 % of the Solvency Capital Requirement of the Club, which shows that the Club's capitalisation is very sound.

### Appropriation of earnings

The following earnings are at the disposal of the AGM:

Accumulated loss	-13,060
Profit for the year	2,750
Translation difference capital	751
<b>Total</b>	<b>-9,558</b>

The Board and the Managing Director propose that the loss be distributed as follows:

<b>Carried forward</b>	<b>-9,558</b>
------------------------	---------------



# Five-year summary

Amounts in USD million.	2016	2015	2014	2013	2012
<b>Income statement</b>					
Earned premiums, gross	167.3	180.4	180.7	172.3	170.3
Earned premiums, f.o.a.	130.5	142.9	139.4	125.8	129.7
Investment income, allocated from non-technical account	4.7	4.8	3.8	3.7	3.8
Claims, f.o.a.	-103.0	-115.2	-93.2	-90.4	-116.8
Net operating expenses	-25.4	-25.8	-27.6	-27.3	-26.3
Balance on technical account	6.8	6.8	22.5	11.8	-9.6
Balance on non-technical account	5.0	-9.9	-4.1	5.2	18.6
Result before appropriations and tax	11.8	-3.1	18.4	17.0	9.1
<b>Financial position</b>					
Investment assets at fair value	351.5	349.4	353.4	285.0	325.0
Technical provisions, f.o.a.	220.1	227.8	219.7	166.7	210.7
Free reserves	194.9	183.1	186.3	168.0	151.0
Deferred tax liability included in free reserves	45.6	43.0	43.5	39.9	36.2
Basic Own Funds	215.6	-	-	-	-
Ancillary Own Funds <sup>1)</sup>	59.3	-	-	-	-
Eligible Own Funds, in accordance with Solvency 2 <sup>1)</sup>	274.9	-	-	-	-
Minimum Capital Requirement (MCR)	35.4	-	-	-	-
Solvency Capital Requirement (SCR)	118.5	-	-	-	-
Basic Own Funds / SCR	182 %	-	-	-	-
Eligible Own Funds <sup>1)</sup> / SCR	232 %	-	-	-	-
<sup>1)</sup> proforma as regulatory approval was received in March 2017					
<b>Key data insurance business</b>					
Loss ratio	79 %	81 %	67 %	72 %	90 %
Expense ratio	19 %	18 %	20 %	22 %	20 %
Combined ratio	98 %	99 %	87 %	94 %	110 %
Average Expense Ratio (AER)	13.3 %	13.3 %	13.0 %	12.1 %	13.3 %
<b>Key data asset management</b>					
Total return	2.8 %	-0.6 %	3.2 %	2.9 %	7.0 %
<b>Other key figures</b>					
Free reserves ratio, claims	104 %	95 %	103 %	123 %	83 %
Average number of employees	109	109	109	103	96

Definitions are provided on pages 72-74.

# Income statement

For the financial year January through December 2016.  
Amounts in USD thousands.

	Note	2016	2015
<b>Technical account</b>			
<b>Earned premiums, net of reinsurance</b>			
Premiums written, gross	3	163,181	177,667
Outward reinsurance premiums		-36,401	-37,891
Change in provision for unearned premiums		4,084	2,735
Reinsurers' share of change in provision for unearned premiums		-333	439
		<b>130,530</b>	<b>142,950</b>
<b>Investment income transferred from the non-technical account</b>	4	<b>4,700</b>	<b>4,800</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid	5		
Before outgoing reinsurance		-154,794	-169,946
Reinsurers' share		51,273	64,277
		-103,522	-105,668
Change in provision for claims outstanding			
Before outgoing reinsurance		-21,882	35,022
Reinsurers' share		25,820	-46,368
		3,938	-11,346
		<b>-99,584</b>	<b>-117,014</b>
<b>Change in other technical provisions</b>	6	<b>-3,377</b>	<b>1,827</b>
<b>Net operating expenses</b>	7, 28	<b>-25,439</b>	<b>-25,752</b>
<b>Balance on technical account</b>		<b>6,830</b>	<b>6,811</b>
<b>Non-technical account</b>			
<b>Balance on the technical account</b>		<b>6,830</b>	<b>6,811</b>
<b>Financial result</b>			
Financial income	8	7,372	7,959
Unrealised gains on investments	9	3,532	-
Financial costs	10	-1,197	-2,953
Unrealised losses on investments	11	-	-10,086
		<b>9,707</b>	<b>-5,080</b>
<b>Allocated investment income transferred to the technical account</b>	4	<b>-4,700</b>	<b>-4,800</b>
<b>Result before appropriations and tax</b>		<b>11,838</b>	<b>-3,069</b>
Appropriations: change in safety reserve		-8,291	-7,684
<b>Result before tax</b>		<b>3,547</b>	<b>-10,753</b>
Tax on result for the year	21	-797	2,009
<b>Profit/loss for the financial year</b>		<b>2,750</b>	<b>-8,744</b>

# Balance sheet

Assets

As of 31 December. Amounts in USD thousands.

Note 2016 2015

	Note	2016	2015
<b>Intangible assets</b>			
Intangible assets	12	123	174
		<b>123</b>	<b>174</b>
<b>Investment assets</b>			
Investments in group and associated companies			
Shares in group and associated companies	13	11	11
Other financial investment assets			
Quoted shares	14	77,798	78,807
Bonds and other interest-bearing securities	15	273,698	270,553
		<b>351,506</b>	<b>349,372</b>
<b>Reinsurers' share of technical provisions</b>			
Provisions for unearned premiums	16	4,024	4,357
Provision for claims outstanding	16	71,575	45,755
		<b>75,600</b>	<b>50,113</b>
<b>Receivables</b>			
Receivables related to direct insurance operations	17	42,859	41,630
Receivables related to reinsurance operations		2,478	8,273
Other receivables		806	1,028
		<b>46,143</b>	<b>50,931</b>
<b>Other assets</b>			
Tangible assets	18	547	629
Cash and bank balances		31,580	44,146
Other assets	19	7,156	10,589
		<b>39,283</b>	<b>55,364</b>
<b>Prepaid expenses and accrued income</b>			
Prepaid acquisition costs		3,400	3,906
Other prepaid expenses and accrued income		655	885
		<b>4,056</b>	<b>4,791</b>
<b>Total assets</b>		<b>516,710</b>	<b>510,744</b>

## Equity, provisions and liabilities

As of 31 December. Amounts in USD thousands.	Note	2016	2015
<b>Equity</b>			
Statutory reserve		55	60
Accumulated loss		-13,060	-4,316
Profit/Loss for the financial year		2,750	-8,744
Translation difference capital		751	641
	A	<b>-9,503</b>	<b>-12,359</b>
<b>Untaxed reserves</b>			
Safety reserve		202,435	194,145
Equalisation reserve		1,183	1,288
	B	<b>203,618</b>	<b>195,433</b>
<b>Technical provisions before reinsurers' share</b>			
Provision for unearned premiums	16	35,929	40,013
Provision for claims outstanding	16	259,819	237,936
		<b>295,748</b>	<b>277,950</b>
<b>Provision for other risks and charges</b>			
Pensions and similar obligations	20	1,045	1,498
Deferred tax	C 21	765	-
		<b>1,810</b>	<b>1,498</b>
<b>Liabilities</b>			
Liabilities related to direct insurance operations	22	8,624	7,724
Liabilities related to reinsurance operations		5,200	8,868
Other liabilities	23	9,683	29,965
		<b>23,507</b>	<b>46,556</b>
<b>Accrued expenses and deferred income</b>			
Accrued expenses		1,529	1,667
		<b>1,529</b>	<b>1,667</b>
<b>Total equity, provisions and liabilities</b>		<b>516,710</b>	<b>510,744</b>
<b>Free reserves (A+B+C)</b>		<b>194,880</b>	<b>183,074</b>

## Change in equity

Amounts in USD thousands.	Statutory reserve	Accumulated profit or loss	Translation difference capital	Profit/loss for the financial year	Total equity
Balance brought forward 2015-01-01	64	-2,360	547	-1,956	-3,704
Carried forward		-1,956		1,956	
Profit for the year				-8,744	-8,744
Change in translation difference capital	-4		94		90
<b>Balance carried forward 2015-12-31</b>	<b>60</b>	<b>-4,316</b>	<b>641</b>	<b>-8,744</b>	<b>-12,358</b>
Balance brought forward 2016-01-01	60	-4,316	641	-8,744	-12,358
Carried forward		-8,744		8,744	
Profit for the year				2,750	2,750
Change in translation difference capital	-5		110	-	105
<b>Balance carried forward 2016-12-31</b>	<b>55</b>	<b>-13,060</b>	<b>751</b>	<b>2,750</b>	<b>-9,503</b>

Profit/loss for the year includes unrealised gains/losses on investments. Deferred tax has been calculated on that portion. See Note 21.

## Cash flow statement

As of 31 December. Amounts in USD thousands.	2016	2015
Paid premiums	162,853	174,776
Paid reinsurance premiums	-34,274	-32,414
Claims paid	-154,794	-169,946
Claims paid, reinsurers' share	51,273	64,277
<b>Cash flow from insurance operations</b>	<b>25,058</b>	<b>36,693</b>
Other expenses	-45,463	-7,089
Paid interest	-8	-4
Interest received	4,052	2,454
Dividends received	352	1,658
<b>Cash flow from other operations</b>	<b>-16,008</b>	<b>33,712</b>
Acquisitions of tangible assets	-7	-75
Sales of tangible assets	-	-
Net investments in nontangible assets	-	-161
Investments in financial investment assets	-25,552	-331,148
Sale of financial investment assets	31,775	321,137
<b>Cash flow from investments operations</b>	<b>6,216</b>	<b>-10,247</b>
<b>Cash flow for the year</b>	<b>-9,792</b>	<b>23,465</b>
<b>Cash and bank balances</b>		
Cash and bank balances at the beginning of the year	44,146	21,808
Cash flow for the year	-9,792	23,465
Exchange rate difference on cash and bank balances	-2,774	-1,127
<b>Cash and bank balances at year-end</b>	<b>31,580</b>	<b>44,146</b>

# Performance analysis per class of insurance

According to Swedish regulations, there is only one class of insurance. However, the Club voluntarily reports on other subclasses. Please see pages 72-74 for an explanation of the classes of insurance.

## For the financial year January through December 2016. Amounts in USD thousands.

	Total	P&I	FD&D	Marine & Energy	
<b>Technical account</b>					
<b>Earned premiums, net of reinsurance</b>					
Premiums written, gross	163,181	103,921	5,921	53,339	
Outward reinsurance premiums	-36,401	-25,103	-12	-11,286	
Change in provision for unearned premiums	4,084	736	105	3,243	
Reinsurers' share of change in provision for unearned premiums	-333	-114	12	-231	
<b>A</b>	<b>130,530</b>	<b>79,440</b>	<b>6,026</b>	<b>45,065</b>	
<b>Investment income transferred from the non-technical account</b>	<b>B</b>	<b>4,700</b>	<b>3,700</b>	<b>200</b>	<b>800</b>
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Before outgoing reinsurance	-154,263	-110,927	-2,691	-40,645	
Reinsurers' share	51,273	44,232	-	7,041	
Change in provision for claims outstanding					
Before outgoing reinsurance	-22,414	-16,559	-16	-5,839	
Reinsurers' share	25,820	22,528	-	3,292	
<b>C</b>	<b>-99,584</b>	<b>-60,726</b>	<b>-2,707</b>	<b>-36,151</b>	
<b>Change in other technical provisions</b>	<b>C</b>	<b>-3,377</b>	<b>-3,377</b>	<b>-</b>	<b>-</b>
<b>Net operating expenses</b>					
External acquisition costs	-13,285	-7,032	-432	-5,821	
Operating expenses for renewal of insurance contracts	-5,812	-3,586	-85	-2,141	
Administrative expenses	-6,341	-4,271	-113	-1,957	
<b>D</b>	<b>-25,439</b>	<b>-14,889</b>	<b>-631</b>	<b>-9,919</b>	
<b>Balance on technical account</b>	<b>A+B+C+D</b>	<b>6,830</b>	<b>4,148</b>	<b>2,888</b>	<b>-205</b>
Run-off result (according 5 Chapter 4§ 6 ÅFRL)	5,126	2,871	2,387	-132	
Result outward reinsurance	40,358	41,543	-	-1,185	
Result accepted reinsurance	0				
<b>Key figures</b>					
Loss ratio [C/A]	79 %	81 %	45 %	80 %	
Expense ratio [D/A]	19 %	19 %	10 %	22 %	
Combined ratio [(C+D)/A]	98 %	99 %	55 %	102 %	
Three-year average combined ratio	94 %	94 %	76 %	96 %	
<b>Insurance portfolio<sup>1)</sup></b>					
Number of insured vessels	-	1,661	901	3,165	
Gross tonnage (millions)	-	71	34	126	
Average share covered (per cent of gross tonnage)	-	100 %	100 %	12 %	
Average age (years)	-	9	8	12	

<sup>1)</sup> Marine & Energy including H&M and Energy only.

**As of 31 December 2016.**  
**Amounts in USD thousands.**

	<b>Total</b>	<b>P&amp;I</b>	<b>FD&amp;D</b>	<b>Marine &amp; Energy</b>
<b>Technical provisions</b>				
<b>Before reinsurers' share</b>				
Provision for unearned premiums	35,929	14,119	732	21,078
Provision for claims outstanding <sup>1)</sup>	259,050	206,138	8,713	44,199
	<b>294,979</b>	<b>220,257</b>	<b>9,445</b>	<b>65,277</b>
<b>Reinsurers' share</b>				
Provision for unearned premiums	4,024	3,593	12	419
Provision for claims outstanding <sup>1)</sup>	71,575	60,446	-	11,130
	<b>75,600</b>	<b>64,039</b>	<b>12</b>	<b>11,548</b>
<b>For own account</b>				
Provision for unearned premiums	31,905	10,526	720	20,659
Provision for claims outstanding <sup>1)</sup>	187,475	145,692	8,713	33,070
	<b>219,380</b>	<b>156,217</b>	<b>9,433</b>	<b>53,729</b>

<sup>1)</sup> The provision is reported excluding accepted reinsurance USD 769 thousands (see Note 16).

# Notes

## Note 1. Accounting principles

### Statement of compliance with regulations applied

The annual report has been prepared in accordance with the Law of Annual Reports in Insurance Companies (ÅRFL) and The Swedish Financial Supervisory Authority's rules, and regulations regarding annual reports for insurance companies (FFFS 2008:26) and the Swedish Financial Reporting Board's recommendation RFR 2. Law-limited IFRS have been applied, which are international accounting standards that have been adopted for use with the limitations that follow from RFR 2 and FFFS 2008:26. This means that all of the EU approved IFRS and statements have been applied, to the extent possible given Swedish law and the relationship between accounting and taxation.

Unless otherwise stated, all amounts in the financial statements are in USD thousands.

The Club has a subsidiary in Hong Kong which, in accordance with the Swedish Annual Accounts Act, ÅRL, has not been consolidated since the company is of lesser importance with regard to true and fair view requirements.

The Club also has holdings in the associated company, The Swedish Club Academy.

### Assumptions when preparing the insurance company's financial statements

USD is the Club's functional currency, since most of the Club's income and costs are in USD. It is also the most significant currency used when making technical provisions and therefore the primary environment in which the Club runs the business.

The Club converts transactions in foreign currency to the currency rate applicable on the transaction day, both to SEK and to USD. This financial statement

is reported in USD while SEK is used in the official Swedish regulatory reporting in accordance with law-limited IFRS. All amounts, unless stated otherwise, have been rounded off to the nearest thousand.

Assets and liabilities are reported at cost, except for certain financial assets and liabilities that are measured at fair value. Financial assets and liabilities that are measured at fair value consist of any forward exchange contracts and financial assets classified as financial assets measured at fair value through profit or loss.

### Assessments and estimates made when preparing the financial statements

In order to prepare the financial statements in accordance with law-limited IFRS, senior management must make assessments, estimates and assumptions that affect the application of accounting principles and the carrying amounts of assets, liabilities, income and costs.

Estimates and assumptions are based on past experience and a number of other factors that under current circumstances seem to be feasible. The result of these estimates and assumptions are then used when assessing the carrying amounts of assets and liabilities for which the values are not clearly evident from other sources. Actual outcomes can differ from these estimates and assessments. Estimates and assumptions are regularly reviewed. Changes in estimates are reported in the same period that the change occurred, provided that the change only has an effect on that period. Otherwise, changes are reported in the same period that the change occurred and future periods, if the change affects both current and future periods.

Important estimates and assessments regarding technical provisions are

based on assumptions about future claims payments, which means that the estimates are always associated with uncertainty. Estimates are based on the Club's own historical statistics on prior claims losses available on the reporting date. The following are examples of items considered when estimating technical provisions: unpaid claims, claims development, changes in legislation, judicial decisions and general economic development. See also Note 2 (Risk management and risk analysis).

The accounting principles stated below have been applied consistently to all periods presented in the financial statements.

### Principles applied

#### New and revised standards applied by the company

None of the standards that have come into force, or that must be applied for the first time for the financial year starting on 1 January 2016, have had a significant impact on the accounting principles or disclosures for the current financial year or the prior financial year, nor are they expected to have a significant impact on future periods.

#### New standards, amendments and interpretations to existing standards that have not yet entered into force and have not been early adopted

A number of new standards and interpretations will come into effect for financial years that start after 1 January 2017 and they have not been applied in preparing these financial statements. None of these are expected to have a significant impact on the consolidated financial statements with the exception of the following:

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and liabilities. The



full version of IFRS 9 was issued in July 2014 and has been adopted by the EU. It replaces the parts of IAS 39 covering the classification and measurement of financial instruments. IFRS 9 retains a mixed-measurement approach, but simplifies this approach in some respects. There will be three measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument will be classified depends on the company's business model and the instrument's characteristics. Investments in equity instruments are recognized at fair value through profit or loss, but at initial recognition, there is also the possibility of reporting the instrument at fair value through other comprehensive income. No reclassification to profit or loss is then required upon disposal of the instrument. IFRS 9 also introduces a new impairment model based on expected credit losses. For financial liabilities, neither classification nor measurement changes, except when a liability is recognized at fair value through profit or loss based on the fair value alternative.

The standard must be applied for financial years starting on 1 January 2018. Early adoption is allowed. Insurance companies have the option of deferring application of the standard until the time when IFRS 17, Insurance Contracts comes into force, however, not later than 2021. We have not yet evaluated the point in time when the standard will be applied. Evaluation of the effects is ongoing and the initial assessment is that implementation will not have any significant effect on valuation or profit and loss accounting.

IFRS 15 Revenue from Contracts with Customers regulates how revenue recognition, from contracts other than insurance contracts, is to be done. The principles upon which IFRS 15 are based are meant to provide users of financial statements with more useful information about the company's revenue. The expanded requirements require disclosure of information

about the type of revenue, the date of settlement, uncertainties related to revenue recognition and cash flow attributable to the company's customer contracts. In accordance with IFRS 15, revenue is recognized when the customer obtains control over the sold goods or services and is able to use and receive the benefits of the product or service. IFRS 15 supersedes IAS 18 Revenue and IAS 11 Construction Contracts, along with the associated SIC and IFRIC interpretations. IFRS 15 enters into force on 1 January 2018 and it has been adopted by the EU. Early adoption is allowed. At present, we are unable to assess the quantitative impact of the new rules on the financial statements. However, we will be making a detailed evaluation over the coming year.

IFRS 16 Leases was published in January 2016 and it replaces IAS 17 Leases, along with the associated interpretations. The biggest impact is the requirement for a lessee to recognize a leasing asset (the right to use an asset), along with a financial liability in the balance sheet. In the income statement, the linear operating lease cost is replaced by the cost for depreciation of the leased asset, along with an interest expense on the financial liability. At present, a lessee does not report an operating lease in the balance sheet. Our assessment is that the standard will not have any significant impact on the company's financial statements. The standard comes into force on 1 January 2019 and it has not been adopted by the EU.

None of the other IFRS or IFRIC interpretations yet to come into force are expected to have a significant impact.

#### **Insurance contracts**

All of the Club's insurance contracts are defined as insurance contracts in accordance with IFRS 4. Insurance contracts are reported and measured in the income statement and balance sheet in accordance with their financial substance rather than their legal form whenever there is a difference between the two. Items reported as insurance contracts must transfer substantial

insurance risk from the policyholder to the Club. They must also obligate the Club to compensate the policyholder, or another beneficiary, if a predetermined insured event were to occur.

#### **Income tax**

Income taxes are comprised of current tax and deferred tax and are reported in the income statement. Current tax is tax that is payable or refunded for the current year, applying tax rates that have been decided or effectively adopted as of the reporting date. This also includes adjustments of current tax related to prior periods.

Deferred tax is measured according to the balance sheet method. The starting point is thus temporary differences between the carrying amount of an asset or liability and its tax base. The valuation of deferred tax is based on the extent to which the underlying assets and liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been decided or effectively adopted as of the reporting date. Untaxed reserves are reported including deferred tax liability.

#### **Premiums written, gross f.o.a.**

Gross premium written is normally reported according to the maturity principle. This means that the gross premium written is reported in the income statement when the annual premium or – in cases where the contractual insurance period's premiums have been divided into several partial premiums – when the first partial premium are due for payment. Furthermore, in order for the gross premium written to be included, the term of the underlying insurance contract must start during the current accounting period. The method described above is also used for premium written, reinsurers' share.

#### **Premiums earned f.o.a.**

Premiums earned reflect the proportion of the gross premium written that is attributable to the accounting period. The share of the premium income from insurance

contracts pertaining to periods after the closing date is allocated to the premium reserve in the balance sheet. Calculation of the provision to the premium reserve is done by allocating the premium income to the proper period based on the underlying term of the insurance contract.

The method described above is used also for earned premiums, reinsurers' share.

### Investment income transferred from the non-technical account

Investment income is reported in the non-technical result. The Club uses a model for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate that was used corresponds to the expected return on investments for the current year.

### Net claims incurred

The total net claims incurred for the accounting period includes claims paid during the period and changes in the provision for claims outstanding. Besides claims, net claims incurred also includes claims handling costs. The provision for claims outstanding is calculated using expected nominal cash flows.

The provision for claims outstanding net of reinsurance is revalued using the closing day rate of exchange. Historical data on claims payments provides the basis for allocation of the provision to each relevant currency. Based on these statistics, the Club has chosen to make the assessment that the reserves are fully comprised of USD.

### Net operating expenses

The proportion of the total operating expenses related to claims handling is reported under the heading "Net claims incurred". A portion of net operating expenses is also related to investment administration and this portion is reported as "Internal management expenses". These costs include both

direct costs and indirect allocated costs. Operating expenses in the insurance business include, besides administrative costs, also acquisition costs. Internal acquisition costs and internal investment administration costs are allocated in accordance with a model (see Note 7 and Note 10).

### Investment income - realised and unrealised profit on investments

Realised profit/loss on sale of investments is equivalent to the difference between the sales price and acquisition cost. The Club's investments are reported at fair value. Unrealised changes in values are reported in the income statement and can be defined as the annual change in the difference between fair value and acquisition cost.

### Financial instruments

Financial instruments reported in the balance sheet as assets:

- Accounts receivable (reported under the heading receivables)
- Quoted shares
- Unquoted shares
- Bonds and other interest-bearing securities

Items reported as liabilities or equity include:

- Trade creditors (reported under the heading liabilities)

Acquisition and disposal of financial assets are reported on the trading day, which is the day the Club is obliged to acquire or dispose of the asset.

Financial instruments that are not derivatives are initially reported at cost, which is equal to the instrument's fair value plus transaction costs. This applies to all financial instruments, except those that belong to the category "Financial assets measured at fair value through profit or loss". Those are reported at fair value excluding transaction costs.

Initial recognition of a financial instrument is based on the purpose for which the instrument was acquired. The initial classification also determines how the financial instrument shall be measured going forward, as described below. Derivative instruments are

reported both initially and afterwards at fair value. Derivatives are held throughout the reporting year. There were no holdings at the end of the reporting year.

The Club does not apply hedge accounting. The Club has classified financial instruments in the following categories, in accordance with IAS 39:

The category "Financial assets measured at fair value through profit or loss" consists of two subcategories:

- Financial assets that are held for trading
- Other financial assets that the Club initially chose to recognize in this category (according to the fair value option)

Financial instruments in this category are valued at fair value with changes in value reported in the income statement under the heading "Unrealised gains on investments" or "Unrealised losses on investments".

Derivatives with a positive fair value are included in the first subcategory. Derivatives consist of forward exchange contracts that hedge against currency risk exposure.

The other subcategory contains the Club's investment assets (except for derivatives and loan receivables). The Club has chosen to apply the fair value option on assets, since key personnel in the Club evaluate all investment assets on the basis of fair value in accordance with documented risk and investment strategies.

The Club classifies such investment assets (i.e. assets that are financial instruments and not shares in subsidiaries) as "Financial assets measured at fair value through profit or loss". This is due to the fact that the Club evaluates its asset management activities on the basis of fair values.

The category loan receivables and accounts receivable are financial assets that are not derivatives, that have determined or determinable payments and that are not listed on an active market. These are valued at amortised cost.

Amortised cost is determined based on the effective rate of interest calculated at the time of the acquisition.

Accounts receivable and loan receivables are reported at net realisable value, i.e. after the deduction for doubtful debts.

Borrowings and other financial liabilities, such as trade creditors, are included in the category "Other financial liabilities". These are valued at amortised cost.

### Description of fair value

For a description of the methods and assumptions used by the Club to establish the fair value of financial instruments, please see Note 2.

At each reporting occasion, the Club assesses whether there is any objective evidence that a financial asset or group of assets has become impaired as the result of the occurrence of one or more events (loss events) having taken place after the asset was reported for the first time. Furthermore the loss event(s) must have an impact on the forecasted cash flows for the asset or group of assets.

### Intangible assets

Intangible assets are capitalised expenses for the development of computer systems. They are valued at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over a useful life of five years starting from the time when the system is put into operation.

### Property, plant and equipment

Machinery and equipment are reported at cost less accumulated depreciation according to plan, which is based on the useful life of the assets plus any write-downs. Depreciation is calculated on a linear basis over a useful life of three or five years. For improvements made on property owned by others, depreciation is calculated on a linear basis over a twenty-year period.

### Subsidiaries and associated companies

A subsidiary is a company that is subject to a controlling influence by the parent company. Controlling influence is the right to, directly or indirectly, formulate a company's financial or operating strategies in order to obtain economic benefits.

Associates are companies in which the company has a significant (but not controlling) influence over the operating and financial management, usually through holdings corresponding to 20-50 % of the votes. Shares in subsidiaries and participations in associated companies are reported in accordance with the cost method. Any dividends received are reported as income.

### Cash and bank balances

Cash and bank (with the exception of minor cash amounts) consists of bank accounts and funds that have been transferred to asset management and will not be invested in assets.

### Prepaid acquisition costs

The item includes allocated commissions associated with the signing of insurance contracts. These costs are allocated in the same way as the allocation of unearned premiums.

### Provision for unearned premiums

The provision for unearned premiums is calculated strictly pro rata (pro rata temporis). In accordance with technical guidelines pertaining to insurance, testing is performed on a regular basis to determine whether a provision needs to be made for remaining risks.

### Provision for claims outstanding

The provision for incurred and reported claims is based on individual, realistic assessments of individual claims using information that is available on the reporting date. Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years. The provision for outstanding claims also includes a reserve for operating costs associated with settling outstanding claims. The provision for outstanding claims has been reported using undiscounted values.

### Pensions costs and pensions commitments

The pension obligations are comprised of pension plans that are regulated

through collective agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans.

### Retirement through insurance

The Club's pension plans for collective pension agreements are secured through insurance agreements with SPP. The pension plan for the Club's employees has been assessed as a defined benefit plan covering multiple employers. However, the Club has assessed that UFR 10, Reporting of Pension Plans in ITP 2 that are financed through insurance with Alecta, is also appropriate for the Club. The Club lacks sufficient information for reporting in accordance with IAS 19. Therefore, in accordance with UFR 10, it reports these pension plans as defined contribution plans. The Club's obligations concerning contributions to defined contribution plans have been reported as a cost in the income statement at the rate they are earned by employees performing services during the period.

### Retirement through own management

Besides the collective pension agreements guaranteed through insurance agreements, the Club also has special agreements with certain employees allowing them to retire earlier than 65 years' of age and obtain further compensation in addition to the collective pensions benefits. The majority of the provision originates from the 2006 change of terms in the collective agreement for the insurance sector, which gives employees born before 1956 the right to early retirement from the age of 62. The calculated provision is based on anticipated future pension payments and it includes assumptions regarding mortality, employee turnover, salary growth and price inflation.

### Leasing contracts

The Club has signed contracts in which assets such as cars and office equipment are leased for a contracted period of time. The cost of lease is expensed over the contracted period of time based on utilization.

### Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are translated to USD at the closing day rates of exchange. However, shares in subsidiaries are valued using the rate of exchange prevailing on the acquisition date. For translation from a foreign currency to USD, the difference is reported in the income statement under the heading "Investment income" or "Investment costs".

For the Club's most important currencies, the following rates (prevailing on 31 December) have been used:

Currency (equals 1 USD)	2016	2015
Swedish kronor (SEK)	9.0971	8.3524
British pound (GBP)	0.8138	0.6748
Euro (EUR)	0.9509	0.9143
Hong Kong dollar (HKD)	7.7548	7.7502
Norwegian kroner (NOK)	8.6310	8.7405

## Note 2. Risk management and risk analysis

### Risk management

The Swedish Club's risk management is carried out with the help of the company's risk management system, which is an integral part operations. Its goal is to create and maintain a good ability to identify, measure, manage, control, monitor and report all risks that the Club is, or could become, exposed to. The risk management system is in line with the risk management directive adopted by the Board.

The Swedish Club has developed an Internal Capital Model (ICM) in order to quantifying its risks. The model is used as a control mechanism for the management process, the ORSA process and in conjunction with efforts to evaluate and optimize the Club's reinsurance programme. It is also used in the creation of new products.

The Club believes that a strong enterprise risk management process offers the company a potential competitive advantage. ICM is a crucial component of that since it enables calculation of the risk-adjusted returns for alternative decisions which, over time, leads to higher earnings. Successful risk management lowers the likelihood of undesirable operational and financial results. As such, it is a critical component of the Club's ability to achieve its business goals.

### Risk culture

The Club has an open risk culture that strives to create risk awareness and encourage all levels of the organization to participate in discussions about risk as a natural part of their daily work. All employees participate in and contribute to identifying and quantifying both current and future operational risks, as well as propose suggestions on how to eliminate or manage them.

### Solvency II

Solvency II is the new directive under EU law that applies to insurance companies. It entered into force on 1 January 2016. The central purpose of these regulatory requirements is to provide policyholders with better protection.

The basis for supervision are three pillars:

1. Quantitative requirements for calculating solvency capital
2. Qualitative requirements pertaining to risk management and internal control
3. Reporting to supervising authorities and external disclosure requirements

The Swedish Club applies the directive's standard model for calculating the regulatory capital requirement in accordance with Pillar 1. The Club then uses an Internal Capital Model (ICM) for its Own Risk and Solvency Assessment (ORSA), which is part of Pillar 2. Pillar 3

reporting is based on the quantitative reporting templates that have been adopted by the EU supervisory authority, EIOPA.

The calculation of capital requirement in accordance with the standard model and ORSA is supplemented with Standard & Poor's and A.M. Best's ratings models. Analytical stress tests and sensitivity analyses are also performed and disclosed in the ORSA report.

In May 2017, a Solvency and Financial Condition Report (SFCR) will be made available on the Club's website. It will describe the regulatory solvency and capital requirements under the new directive.

### Authority levels and Committees

#### The Annual General Meeting (AGM)

The AGM is the highest authority and consists of all the Club's members. It elects the members of the Board and members of the Club's election committee, approves the annual accounts, appoints external auditors and deals with any other business duly referred to it.

#### The Board of Directors

The Board of Directors has the ultimate responsibility for that the Club's business operates in accordance with applicable laws and regulations. The Board decides on the Club's strategic

direction and establishes directives and instructions, as well as ensures that appropriate internal instructions for risk management and risk control exist.

The Board continuously monitors the company's operations, financial performance and asset management. The Board shall have regular interaction with any committee it establishes as well as with the management team and other key functions. The Board shall request information proactively and challenge it when necessary. The duties and responsibilities of the Board are set out in its working procedures. The Board consists of 24 members, including the Managing Director and two staff representatives.

**The Election Committee**

The Club's election committee proposes new board members and members to the election committee to the AGM for election of board members. The committee also propose remuneration to board members. The committee consists of three members including one board member.

**The Finance & Audit Committee**

The Finance & Audit Committee is a subgroup of the Board of Directors. Its task is to serve as a link between the Board, management and the auditors regarding financial matters and prepares matters in order to enable the Board to make well-informed decisions. It shall review recommendations and provide feedback to management on key areas, such as changes in investment allocation, audit, compliance and premium collection. It shall supervise the performance of the investment operations and decide on investment allocations within limits stated in the Club's investment directive. The Finance & Audit Committee consists of seven members including the managing director and director of finance, risk management and IT.

**Managing Director**

The managing director is appointed by the Board and responsible for the day to day management and organisation of the Club.

**The Club's Organisation & Internal Control**

The Club's organisation consists of the managing director, a management team of six directors and four geographical teams. The geographical teams are essentially self-supporting in the day-to-day operation but several functions are centralised, as illustrated in the figure below.



The managing director shall ensure that an effective internal control system is in place.

The duties and responsibilities within the organisational structure shall be clearly defined, allocated and coordinated. Relevant processes are described and documented in the Club's management system. The management system shall cover all important duties and shall enable effective cooperation between staff and the offices.

**Internal control**

Internal control within the organisation is secured through three levels. The first level of internal control is carried out by the operational functions, illustrated in the figure on the previous page. The second and third levels are independent of the operational functions. The second level consists of risk management, actuary and compliance. The third level, which is fully independent from all other functions, is the internal auditor, which is appointed by the Board.

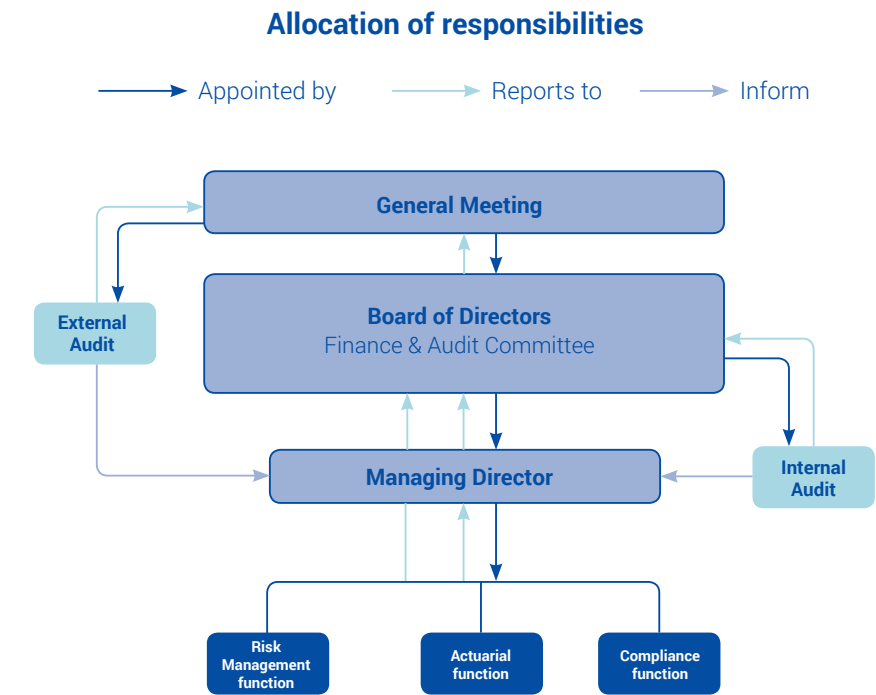
**Operational functions**

Managers of an operational function or a geographical team are responsible for internal control and compliance within their area of responsibility. They shall ensure that the employees in the department are familiar with guidelines and instructions in the management system and all applicable rules and regulations. Managers shall control and follow up compliance within their area of responsibility and take corrective action in case of non-compliance. The function and team managers are also responsible to inform the risk management, the actuarial, the compliance and the internal audit function of any circumstance that may be relevant for the performance of their respective duties.

**Risk management function**

The risk management function, which is a component of corporate governance, is an operationally independent central function responsible for ensuring that risks are identified, measured, managed, controlled, monitored and reported. The risk management function has overall responsibility for quantifying and modelling risks, along with developing and maintaining the Club's Internal Capital Model (ICM). The risk management function uses adequate methods and techniques for that purpose, including stochastic models, sensitivity analysis and scenario tests.

The risk management function has overall responsibility for implementing an effectively functioning risk management system. The function



The figure above illustrates important information flows and allocation of responsibilities.

shall be independent of the operational activities. The risk management function is responsible for compliance with the Board's directive on risk tolerance and solvency. It also coordinates, and is responsible for the Club's Own Risk and Solvency Assessment (ORSA). Twice per year, the function shall prepare and submit a risk control report to the Board.

**Actuarial function**

The actuarial function is responsible for coordinating the calculations of technical provisions, participating in implementation of the ORSA process and strengthening the Club's risk management system. The function is required to state an opinion on the overall underwriting policy and suitability of the reinsurance programme. Once per year, it shall also prepare and submit a report to the Board on the work it has done, noting any deficiencies in compliance and providing recommendations on corrective measures.

**Compliance function**

The compliance function consists of a compliance manager, a compliance control officer and compliance

coordinators. The role of the compliance manager is to identify, estimate and reduce the risks related to non-compliance; monitor relevant legislation and changes in existing rules and regulations; provide support and advice to the organisation in respect of compliance matters; provide information and education in respect of rules and regulations when necessary; obtain compliance confirmation from responsible managers; support the business when new policies, routines and instructions are to be issued.

The role of the compliance control officer is to create methods and routines for auditing compliance and to identify essential risks in the business related to non-compliance. The risk analysis will be continually updated and monitoring activities will be conducted in accordance with the prescribed audit plan agreed with the Board. Control operations that have been carried out shall be reported to the Board, or if the Board so decides to the Finance & Audit Committee. The role of the compliance coordinators is to assist in the compliance work in the operational functions.

### Internal audit function

The internal audit function is fully independent and outsourced to an external party (KPMG). The function shall evaluate the system for internal control, any other parts of the system of governance, the independence of the actuarial function, the employee's remuneration policy, and report its findings to the Board, or if the Board so decides, to the Finance & Audit Committee. The internal audit function is subordinate to the Board.

The internal audits shall be conducted in accordance with the prescribed audit plan approved by the Board.

### Risk culture

The Club's risk exposure is primarily associated with variations in the outcome of claims for the Marine and P&I insurance classes, as well as variations in the level of investment returns. However, the Club is also exposed to a number of other risks.

The components of *insurance, counterparty, operational and financial risks* are presented below:

### Insurance risks

Insurance risks consist of underwriting risks and reserving risks. Effective management of underwriting risks is fundamental to the Club's operations. Potential member's vessels and management team are thoroughly reviewed prior to acceptance. Rating systems and premium models are used to ensure that correct premium levels have been selected. The Club's comprehensive reinsurance arrangements level out fluctuations in claims results. This helps protect the Club from incurring losses that are associated with very large claims, including the aggregation of losses from multiple insured interests.

The accuracy of current claims models is monitored on a monthly basis, by comparing the actual outcome per insurance class to the expected result that was generated by the models.

The claims model is also used to simulate claims costs in the Club's ICM, which enables a consistent treatment

of underwriting risk based on the capital requirements at all levels, i.e. from the company level down to the underwriting of an individual risk.

### Concentration of insurance risk

Insurance risk is concentrated to the shipping industry. The table below shows concentration measures for the two largest individual classes of insurance as of December 2016. The weighted average payment period for outstanding claims is approximately 2.8 years.

	Number of vessels	Average age	Gross tonnage (millions)	Average claim duration
P&I <sup>1)</sup>	1,141	9.9	47	3
H&M <sup>2)</sup>	3,165	9.3	126	2

<sup>1)</sup>P&I Owners <sup>2)</sup>100 % basis including Energy risks

It is not uncommon for a vessel to be insured in more than one of the Club's business areas. In these cases, the same incident can lead to claims in more than one business area (Clash). Based on how the different reinsurance protections have been set up, this could affect the allocation of claims costs between reinsurers and the Club. Clash primarily concerns the insurance classes shown in the table below.

Exposure	Vessels	H&M <sup>1)</sup>	P&I <sup>2)</sup>	Loss of Hire <sup>1)</sup>	Hull Interest <sup>1)</sup>
<b>Four classes</b>	131	X	X	X	X
<b>Three classes</b>	16	X	X	X	
	324	X	X		X
	710	X		X	X
	10		X	X	X
<b>Two classes</b>	116	X	X		
	105	X		X	
	1,195	X			X
	32		X	X	
	4		X		X
	38			X	X
<b>Vessels by class of insurance</b>		<b>3,165</b>	<b>1,141</b>	<b>1,395</b>	<b>2,429</b>
<b>Total number of vessels</b>			<b>4,125</b>		

<sup>1)</sup>Including Energy risks <sup>2)</sup>P&I Owners

The table shows the concentration of insurance classes per vessel as of 31 December 2016: 3 % of vessels were exposed to four insurance classes, 26 % to three classes and 36 % to two classes.

### Reserving risk

Reserving risk is associated with the provision for claims outstanding and the provision for unearned premiums. When calculating the provision for unearned premiums, consideration must be given to differences in risk exposure during the policy period. For example, there are seasonal variations in the frequency and severity of claims between quarters or other periods of time that must be considered.

The provision for incurred and reported claims is based on individual assessments of claims using the latest information available. Claims reserves shall reflect the total liability, which includes claims handling costs,

expected claims inflation and currency considerations.

Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years.

### Sensitivity of provisions made

The table, Insurance Year, shows the development of claims, net, i.e. how the originally determined claim amount at the end of each insurance year has developed over time (from the end of each respective accounting year through 31 December 2016). Variations in the provisions that were made have had a positive impact on

the provision currency (USD) over the past five years.

The table, Insurance Year, shows the development of claims in USD thousands. Since the end of the 2014 financial year, the composition of the technical provision has been 100 % USD. Prior to that, it had been assessed that a certain percentage of it was EUR. Accordingly, when comparing figures in the table, it is important to keep in mind that there is a currency effect associated with these currencies. However, this effect is compensated by an opposite trend in exchange rates for investments. See the section on currency exposure for more information, page 51.

Insurance Year	2011	2012	2013	2014	2015	2016
<b>Estimated final claims cost (net) at the end of:</b>						
claim year	109,095	103,837	81,932	103,649	130,969	<b>108,087</b>
one year later	98,453	94,945	89,301	101,862	<b>139,055</b>	
two years later	94,713	88,887	89,414	<b>97,360</b>		
three years later	87,899	83,973	<b>84,376</b>			
four years later	85,424	<b>82,007</b>				
five years later	<b>83,750</b>					

### Counterparty risk (reinsurance)

Reinsurance protection is essential for the successful operation of the Club. Risks can arise due to insufficient or incorrect reinsurance protection. Reinsurance purchasing activities are centralised and they are the responsibility of the reinsurance department. Documented routines are followed in order to ensure correct wording and consistency of reinsurance contracts. The department prepares an annual "Reinsurance Risk Assessment Report". This provides the basis for ensuring that reinsurance protection is set at an appropriate level. Thorough knowledge of probabilities and expected outcomes of claims are important components in assessing the risks associated with reinsurance.

The Club has had a consistent reinsurance strategy for many years. For Marine & Energy, the Club purchases its own protection. This is based on a long relationship with some of the world's leading reinsurance companies — a collaboration that has been productive for all parties involved. For P&I, the reinsurance is based on the cooperation within the International Group of P&I Clubs, where claim costs between USD 10 million and USD 80 million are pooled (the Pooling Agreement). To supplement this, the Group purchases reinsurance protection up to USD 3,100 million (Excess reinsurance programme). The

International Group's joint reinsurance company is Hydra Insurance Group Ltd (Bermuda). It reinsures the Group's P&I pool claims for USD 50 million in excess of USD 30 million and also part of the layer USD 1,000 million in excess of USD 80 million.

Parts of the pool, as well as parts of the reinsurance protection are covered by the captive company, Hydra Insurance Company Limited (Bermuda), which is owned by the Group's 13 members. Hydra is a protected cell company, which means that the assets and liabilities in each cell are legally separate from the other cells. Each of the 13 clubs owns one of the protected cells and from it, claims are paid and premiums received.

Hydra writes three reinsurance contracts for the clubs:

- 100 % of the coverage between USD 30 and 80 million
- 100 % of the coverage between USD 80 and 100 million
- 30 % of the coverage between USD 100 and 600 million

Our share of the business in Hydra is approximately 5 %. For more information on International Group see [www.igpandi.org/](http://www.igpandi.org/).

Since 2010, The Swedish Club has had a reinsurance solution for the level USD 8 million in excess of USD 2 million, which covers the insurance classes, Marine and P&I. The thought behind this structure is to combine the protection for the different



classes and only retain the first USD 2 million per combined claim. With this structure, the Club retains all claims in the layer USD 8 million in excess of USD 2 million during a normal claims year by means of an annual aggregated deductible of USD 30 million. The reinsurance is only settled in a poor claims year, when the claims in this layer exceed the annual aggregated deductible.

### Operational risks

The Club is exposed to many types of operational risk. Different parts of the organization participate in self-assessment activities to identify and analyse operational risks. They also provide the input that makes modelling possible.

Operational risks might arise as a result of inadequate processes, human factors or ambiguous management practices. The Club has a history of adequate documentation of critical activities via its quality systems. This

helps ensure that many undesired operational events are avoided.

Important operational risks also include risks that can arise in conjunction with a catastrophe scenario such as an office fire, IT systems breakdown, a lengthy power failure, and so on. The Club has an established contingency plan for such situations, which is evaluated annually.

### Financial risks

Market, credit and liquidity risks are classified as financial risks. Here, the Club's primary objective is to identify an acceptable risk level from which it can maximize long-term investment returns. The investment portfolio's currency mix also play an important role when matching the Club's assets and liabilities. The investment philosophy is based on risk diversification and investing primarily in assets with a high level of creditworthiness. In order to

minimise and control risks, the Board of Directors establishes an investment policy (Investment Directive), which governs the composition, control and authority over asset management. A model has been developed in order to stress the investments and measure the total value-at-risk. It is based on the same principles that are suggested in Solvency II and it measures the exposure of shares, currencies, interest rates and maturities. According to the model, risk exposure has slightly decreased from USD 26 million at the beginning of the year to approximately USD 25 million at the end of 2016.

Performance and other factors are measured and reported to the Managing Director on a monthly basis. Monitoring of the priority register, outcomes and risks is handled by the Finance & Audit Committee. Follow-up, which includes sensitivity analysis, is performed and reported on a quarterly basis to the Board.

2016	Financial assets at fair value through the income statement	Loans receivables	Total carrying amount	Fair value
Assets chosen to be recognised in category				
<b>Financial assets</b>				
Shares	77,798	-	77,798	77,798
Bonds and other interest-bearing securities	273,698	-	273,698	273,698
Receivables	-	46,143	46,143	- <sup>1)</sup>
Cash and bank balances	-	31,580	31,580	- <sup>1)</sup>
<b>Total Financial assets</b>	<b>351,496</b>	<b>77,723</b>	<b>429,218</b>	<b>351,496</b>

2016	Other financial liabilities	Total carrying amount	Fair value
<b>Financial liabilities</b>			
Other liabilities	11,212	11,212	- <sup>1)</sup>
<b>Total Financial liabilities</b>	<b>11,212</b>	<b>11,212</b>	<b>-</b>

<sup>1)</sup> Disclosure on fair value has not been provided because the carrying amount is deemed as being a reasonable approximation of fair value.

2015	Financial assets at fair value through the income statement	Loans receivables	Total carrying amount	Fair value
Assets chosen to be recognised in category				
<b>Financial assets</b>				
Shares	78,807	-	78,807	78,807
Bonds and other interest-bearing securities	270,553	-	270,553	270,553
Receivables	-	50,931	50,931	- <sup>1)</sup>
Cash and bank balances	-	44,146	44,146	- <sup>1)</sup>
<b>Total Financial assets</b>	<b>349,361</b>	<b>95,077</b>	<b>444,437</b>	<b>349,361</b>

2015		Other financial liabilities	Total carrying amount	Fair value
<b>Financial liabilities</b>				
Other liabilities		31,237	31,237	- <sup>1)</sup>
<b>Total Financial liabilities</b>		<b>31,237</b>	<b>31,237</b>	<b>-</b>

<sup>1)</sup> Disclosure on fair value has not been provided because the carrying amount is deemed as being a reasonable approximation of fair value.

## Calculation of fair value

The following is a summary of the primary methods and assumptions that have been used to determine the fair value of financial instruments, which are reported at fair value in the balance sheet:

### Level 1

For financial instruments listed on an active market (investment assets) the fair value is determined on the basis of the asset's listed buying rate on the reporting date, not including transaction costs (e.g. brokerage fees) at the time of acquisition. Any future transaction costs related to disposal are not taken into account.

### Level 2

In those few instances where prices are not available in an active market, valuation has been made by an independent nominee who, by own account, has used price components that can be observed on the market and which therefore are included in level 2.

In the table below, data is provided on how fair value is decided based on the description of the levels provided above for the financial instruments that are measured at fair value in the balance sheet.

2016	Level 1	Level 2	Total
Shares	69,915	7,883	77,798
Bonds and other interest-bearing securities	258,533	15,164	273,698
<b>Total</b>	<b>328,448</b>	<b>23,048</b>	<b>351,496</b>

### Market risks

Market risks include fluctuations in interest rate, exchange rates and share prices. The Club operates in an international environment, with revenue, expenditures and investments in various currencies.

As of 31 December 2016 the duration of fixed income securities was 4.3 (4.0) years. A change in interest rates of 1 % would result in a change in the value of the bond portfolio of approximately USD 11 (11) million.

Currency exposure for the Club's most important currencies (see the table Currency exposure) was, as of 31 December 2016 USD 28 (35) million. As all decisions regarding currency positions are based on a US dollar perspective, the Club has chosen to regard free reserves as consisting entirely of US dollars. However, operating costs arise in a variety of currencies.

Currency exposure	EUR	GBP	SEK
Investment assets	24,046	0	10
Receivables	4,349	1,790	1,030
Other assets	6,975	1,686	2,008
<b>Total assets</b>	<b>35,371</b>	<b>3,476</b>	<b>3,048</b>
Equity and untaxed reserves	-	-	-
Technical provisions, net	-3,675	-7	-145
Other liabilities and provisions	-6,313	-389	-3,121
<b>Total liabilities and provisions</b>	<b>-9,988</b>	<b>-396</b>	<b>-3,266</b>
<b>Net exposure</b>	<b>25,383</b>	<b>3,080</b>	<b>-218</b>

Approximately 22 % of the Club's investments are shares. All equity exposure is in well-diversified funds or in indexed-linked securities with a high rating. Decisions concerning investments and reallocations of equity investments are the responsibility of the Board of Directors through the Finance & Audit Committee.

The Club's main *credit risks* primarily consists of the risk of bond failures, reinsurance compensations, receivables from members and guarantees from counterparts.

The likelihood that the Club's result would be significantly impacted by fixed income portfolio defaults has been assessed as quite small. At year-end, the Club had USD 274 (271) million invested in fixed income products.

### Creditworthiness for classes of financial assets at fair value<sup>1)</sup>

	AAA	AA	A	BBB	Other
<b>Bonds and other interest-bearing securities</b>					
Foreign governments	127,558	4,859	459	6,608	1,395
Other foreign issuers	1,612	13,905	42,883	42,939	26,132
	<b>129,170</b>	<b>18,764</b>	<b>43,342</b>	<b>49,547</b>	<b>27,526</b>

<sup>1)</sup> Ratings by Standard & Poor's and Moody's

Reinsurance purchasing has been centralised to one department in order to minimise counterparty risk for losses relating to payments from reinsurers. Furthermore, in accordance with documented procedures, minimum ratings limits apply to the participating reinsurers, which means that no reinsurer may have ratings lower than BBB (Standard & Poor's) or Baa2 (Moody's). However, 90 % of the reinsurers have ratings of at least A- (Standard & Poor's) or A3 (Moody's).

During 2016, no participating reinsurer was rated below A by Standard & Poor's.

In connection with claims handling, the Club occasionally accepts guarantees from counterparts. In general, the Club only accepts guarantees issued by other P&I Clubs, major insurance companies, banks or cash deposits. The number of guarantees is limited and the associated risks are relatively small. In

December 2016, premiums more than six months overdue were 0.5 (0.9) % of the 2016 gross premium.

The risk of the Club becoming short of cash funds, liquidity risk, in the short term is low since the majority of the investment portfolio can be converted to cash within a few days. In addition, the Club is not dependent on financing from capital markets.

### Capital requirements

The Swedish Financial Supervisory Authority's oversight of insurance companies includes a quarterly reporting requirement on solvency capital requirement and eligible own funds. At the end of 2016, the solvency capital requirement was USD 118 million and eligible own funds were USD 216 million.

<b>Note 3. Premiums written, gross by geographical area (Direct insurance)</b>	<b>2016</b>	<b>2015</b>
Greece	30,514	35,061
China	30,086	31,395
Germany	28,611	35,333
Singapore	11,239	9,966
Norway	10,374	10,722
Sweden	9,621	10,598
Other countries	42,736	44,592
	<b>163,181</b>	<b>177,667</b>

<b>Note 4. Investment income transferred from the non-technical account</b>	<b>2016</b>	<b>2015</b>
<b>Allocated investment income transferred to the technical account</b>	<b>4,700</b>	<b>4,800</b>

Investment income is reported in the non-technical result. From 2006, a model is used for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate used corresponds to the expected yield on the investment portfolio. For 2016 the expected yield was 2.5 % (the actual yield was 2.7 %).

	<b>2016</b>	<b>2015</b>
Average interest rate	2.5 %	2.6 %

<b>Note 5. Claims paid</b>	<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Reinsurers' share</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurers' share</b>	<b>Net</b>
<b>Current year:</b>						
Claims paid	-45,687	11,480	-34,207	-56,970	9,261	-47,709
Claims handling costs	-9,589		-9,589	-9,776		-9,776
<b>Previous years:</b>						
Claims paid	-99,518	39,793	-59,726	-103,199	55,016	-48,183
	<b>-154,794</b>	<b>51,273</b>	<b>-103,522</b>	<b>-169,945</b>	<b>64,277</b>	<b>-105,667</b>

<b>Note 6. Change in other technical provisions</b>	<b>2016</b>	<b>2015</b>
Value change, Hydra	-3,337	1,827
	<b>-3,337</b>	<b>1,827</b>

This income item reflects the change in value of receivables on Hydra. See Note 19.

**Note 7. Net operating expenses****2016****2015****Specification of net operating expenses reported in the income statement**

Acquisition costs	-12,780	-13,692
Change in prepaid acquisition costs	-506	-220
Internal operating expenses for acquisition of insurance contracts	-5,812	-5,748
<b>Acquisition costs</b>	<b>-19,098</b>	<b>-19,660</b>
Administrative expenses	-6,341	-6,092
<b>Net operating expenses</b>	<b>-25,439</b>	<b>-25,752</b>

**Allocation of other operating expenses in the income statement:**

Claims handling expenses reported as claims paid	-9,589	-9,777
Finance administrative expenses reported as Financial costs, Note 10	-452	-561
	-35,480	-36,089

**Total operating expenses analysed under the following categories:**

Advertising and selling expenses	-854	-983
Personnel costs	-13,589	-14,542
Travel expenses	-830	-783
Cost of premises	-1,370	-1,338
Office expenses	-1,577	-1,506
External services and fees <sup>1)</sup>	-3,285	-3,363
Depreciation	-200	-280
Charged claims handling cost	2,404	3,321
Other revenue	82	140
External acquisition costs	-13,285	-13,912
Costs for The Swedish Club Hong Kong Limited	-2,976	-2,843
	-35,480	-36,089

**Total operating expenses analysed under the following categories, including The Swedish Club Hong Kong Limited:**

Advertising and selling expenses	-1,023	-1,132
Personnel costs	-15,510	-16,348
Travel expenses	-967	-912
Cost of premises	-1,845	-1,812
Office expenses	-1,679	-1,626
External services and fees	-3,457	-3,528
Depreciation	-200	-280
Charged claims handling cost	2,404	3,321
Other revenue	82	140
External acquisition costs	-13,285	-13,912
	-35,480	-36,089

<sup>1)</sup> Operating expenses includes remuneration for audit engagements to PWC for USD -64 (KPMG: -77) thousands, audit consulting USD 0 (KPMG: -12) thousands, tax consulting USD -3 (KPMG: -13) thousands and other assignments USD -4 (KPMG: -4) thousands.

**Note:** Numbers in brackets refer to 2015 figures

<b>Note 8. Financial income</b>	<b>2016</b>	<b>2015</b>
Dividends on quoted shares	352	1,658
Interest income		
Bonds and other interest-bearing securities	4,036	2,319
Other interest income	6	139
	4,042	2,458
Gains on the realisation of investments, net:		
Quoted shares	417	1,443
Bonds and other interest-bearing securities	2,561	2,400
	2,978	3,843
	<b>7,372</b>	<b>7,959</b>

<b>Note 9. Unrealised gains on investments</b>	<b>2016</b>	<b>2015</b>
Quoted shares	1,924	-
Bonds and other interest-bearing securities	1,608	-
	<b>3,532</b>	<b>-</b>

<b>Note 10. Financial costs</b>	<b>2016</b>	<b>2015</b>
Internal management expenses	-452	-561
External management expenses	-54	-222
Interest costs	3	-4
Losses on foreign exchange, net	-693	-2,166
	<b>-1,197</b>	<b>-2,953</b>

<b>Note 11. Unrealised losses on investments</b>	<b>2016</b>	<b>2015</b>
Quoted shares	-	-1,400
Bonds and other interest-bearing securities	-	-8,686
	<b>-</b>	<b>-10,086</b>

<b>Note 12. Intangible assets</b>	<b>2016</b>	<b>2015</b>
<b>Capitalised expenditure on computer software system</b>		
Opening accumulated costs	5,252	5,447
Acquisitions	-	161
Revaluation of accumulated acquisition costs	-430	-356
<b>Closing accumulated costs</b>	<b>4,822</b>	<b>5,252</b>
Opening accumulated depreciation	-5,078	-5,323
Depreciation for the year	-40	-100
Revaluation of depreciation	418	345
<b>Closing accumulated depreciation</b>	<b>-4,700</b>	<b>-5,078</b>
	<b>123</b>	<b>174</b>

*Depreciation is accounted for in the income statement under 'Net operating expenses'.*

<b>Note 13. Shares in group and associated companies</b>	<b>2016</b>	<b>2015</b>
<b>Non-quoted shares in subsidiaries:</b>		
The Swedish Club Hong Kong Limited 1 share nominal value HKD 1	0	0
<b>Non-quoted shares in associated companies:</b>		
The Swedish Club Academy 750 shares nominal value SEK 100	11	11
	<b>11</b>	<b>11</b>

*The Club has a subsidiary company which, in accordance with the Swedish Annual Accounts Act, has not been consolidated since the subsidiary company is of lesser importance with regard to true and fair view requirements.*

*The Club's ownership share of The Swedish Club Hong Kong Limited and The Swedish Club Academy is 50 %.*

Information about The Swedish Club Academy AB:  
CIN: 556798-1435  
Registered office: Göteborg  
Country: Sweden

Information about The Swedish Club Hong Kong Limited:  
CIN: F21394  
Registered office: Hong Kong  
Country: China

**Note 14. Quoted shares****2016****2015**

Quoted shares at fair value	77,798	78,807
	<b>77,798</b>	<b>78,807</b>

Costs of quoted shares USD -72,945 (2015: -75,878) thousands.

Quoted shares are specified in the table below:

Name	Number	Cost	Fair value
CFS-DBXT MSCI WLD ETF	791,180	35,430	38,247
Carnegie Worldwide Fund	165,170	14,392	16,434
Vontobel Emerging Market Equity Fund	34,765	5,534	5,396
Handelsbanken Europa Index Fond	891,687	10,591	9,837
Ress Life Investments	5,102	6,998	7,883
		72,945	77,798

**Note 15. Bonds and other interest-bearing securities**

2016	Nominal value	Cost	Fair value	Carrying amount
Foreign governments	-	-	-	-
Other foreign issuers	10,000	10,000	9,815	9,815
<b>Total quoted securities</b>	<b>10,000</b>	<b>10,000</b>	<b>9,815</b>	<b>9,815</b>
Bond funds		265,074	263,882	263,882
		<b>275,074</b>	<b>273,698</b>	<b>273,698</b>

2015	Nominal value	Cost	Fair value	Carrying amount
Foreign governments	-	-	-	-
Other foreign issuers	10,000	10,000	9,950	9,950
<b>Total quoted securities</b>	<b>10,000</b>	<b>10,000</b>	<b>9,950</b>	<b>9,950</b>
Bond funds		263,538	260,604	260,604
		<b>273,538</b>	<b>270,553</b>	<b>270,553</b>





<b>Note 18. Tangible assets</b>	<b>2016</b>	<b>2015</b>
<b>Machinery and equipment</b>		
Opening accumulated cost	2,618	2,806
Acquisitions	8	75
Sales and disposals	123	-82
Revaluation of accumulated purchase prices	-223	-181
<b>Closing accumulated cost</b>	<b>2,525</b>	<b>2,618</b>
Opening accumulated depreciation	-1,989	-2,000
Reversed depreciation on tangible assets sold	0	63
Depreciation for the year	-160	-180
Revaluation of depreciation	170	128
<b>Closing accumulated depreciation</b>	<b>-1,979</b>	<b>-1,989</b>
	<b>547</b>	<b>629</b>

Depreciations are accounted for in the income statement under 'Net operating expenses'.

<b>Note 19. Other assets</b>	<b>2016</b>	<b>2015</b>
Receivables, Hydra	6,514	9,891
Other assets	642	698
	<b>7,156</b>	<b>10,589</b>

<b>Note 20. Pensions and similar obligations</b>	<b>2016</b>	<b>2015</b>
Provision pensions	331	365
Provisions for deferred non-vested pension	714	1,133
	<b>1,045</b>	<b>1,498</b>

The pension obligations are comprised of pension plans that are regulated through collective agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans. For defined contribution plans, pension costs consist of the premium paid for securing the pension obligations in life insurance companies. The total premium paid during the year amounted to USD 2,184 thousands.

The Club's pension plans for collective pension agreements are guaranteed through insurance agreements. The pension plan for the Club's employees has been assessed as a defined benefit plan covering multiple employers. However, the Club has determined UFR10 Accounting for pension plans in ITP 2, which is financed through insurance with Alecta, is also applicable to the Club. The Club lacks sufficient information for reporting in accordance with IAS 19. Therefore, in accordance with UFR 10, it reports these pension plans as defined contribution plans. The Club's obligations concerning contributions to defined contribution plans have been reported as a cost in the income statement at the rate they are earned by employees performing services during the period. Premiums paid to SPP Liv and SKANDIKON amounted to USD 1,006 thousands.

As per the collective agreement, employees born before 1956 are entitled to retire at the age of 62. The provision is based on anticipated future pension payments and it includes assumptions regarding mortality, employee turnover, salary growth and price inflation. Pension payments for the year amounted to USD 283 thousands.

<b>Note 21. Taxes</b>	<b>2016</b>	<b>2015</b>
<b>Tax on result for the year</b>		
Deferred tax <sup>1)</sup>	-765	2,207
Other taxes	-32	-198
	<b>-797</b>	<b>2,009</b>

<sup>1)</sup>Tax rate 22 %. Current years deferred tax is assignable to unrealised value changes in investment assets.

<b>Change in provision for deferred tax</b>		
Opening balance	-	2,207
Change recognised in income statement	765	-2,207
<b>Closing balance</b>	<b>765</b>	<b>-</b>

<b>Change in provision for deferred tax reported in untaxed reserves</b>		
Opening balance	42,996	41,325
Change reported in untaxed reserves	1,801	1,671
<b>Closing balance</b>	<b>44,797</b>	<b>42,996</b>

<b>Note 22. Liabilities related to direct insurance operations</b>	<b>2016</b>	<b>2015</b>
Policyholders (members)	3,214	2,861
Insurance brokers	4,334	4,081
Insurance companies	1,076	782
	<b>8,624</b>	<b>7,724</b>

<b>Note 23. Other liabilities</b>	<b>2016</b>	<b>2015</b>
Trade creditors	868	1,091
Other creditors	8,815	28,874
	<b>9,683</b>	<b>29,965</b>

#### **Note 24. Expected settlement of assets and liabilities**

Approximately 40 % of the provision for claims outstanding is expected to be paid more than 12 months in the future. Reinsurers' share of the provision for claims outstanding typically takes somewhat more time. For other balance sheet items that are expected to be settled more than 12 months in the future, 50 % of the receivables and liabilities are associated with other insurance companies. There is little risk in the short term of the Club becoming short of cash funds since most of the investment portfolio can be converted to cash within a few days. For more information on liquidity risk, please see Note 2 and the cash flow statement.

**Note 25. Memorandum items****2016****2015**

The listed assets below, are held in the priority register for coverage of technical provisions. In case of insolvency the members have a priority right to the registered assets. The company has the right that in going concern add or delete assets in the priority register as long as the requirements are met in accordance with Swedish Insurance Act.

Government/municipal bonds, etc.	137,788	129,242
Bonds other	130,561	141,321
Quoted shares	77,797	78,809
Investment fund	5,349	-
Cash and bank balances	23,438	16,643
Receivables related to direct insurance operations	23,588	27,182
	<b>398,521</b>	<b>393,197</b>
Technical provisions, net	220,148	227,837
Surplus of registered assets	178,373	165,360
	<b>398,521</b>	<b>393,197</b>

**Bank guarantees**

*In connection with commitments to other members of the International Group and to members of The Swedish Club, the Association has provided bank guarantees of USD 5.6 (2015: 9.4) million.*

**Note 26. Related party transactions**

With the exception of what is required by insurance contracts, there are no related party transactions with Board members. Neither are there any related party transactions with senior executives of the Club. During the year, the Club reimbursed the equivalent of USD 2.9 million to its subsidiary in Hong Kong. This was for operating costs in 2016. In addition, a receivable is reported in the balance sheet for USD 0.2 million.

**Note 27. Significant events after the balance sheet date**

Subsequent to the balance sheet date, the business has developed in line with the established goals and expectations. The Club does not have any significant events to report that occurred after the balance sheet date.

**Note 28. Personnel**

	<b>2016</b>	<b>2015</b>
<b>Average number of employees:</b>		
Sweden	74	75
Greece	15	16
Norway	6	5
Hong Kong	13	13
	<b>109</b>	<b>109</b>
Of which women	51	51
Women in management team	(17 %)	(15 %)
<b>Salaries and remuneration</b>		
in Sweden		
Chairman of the Board	19	19
of which variable portion	(7)	(7)
Other Board members (20 persons)	151	169
of which variable portion	(107)	(123)
Managing Director	331	323
of which variable portion	-	-
Management team excluding the Managing Director (5 persons)	816	915
of which variable portion	-	-
Other employees	3,779	3,838
in Greece	1,345	1,740
in Norway	667	580
	<b>7,108</b>	<b>7,584</b>
<b>Social security costs:</b>		
in Sweden	4,473	4,547
in Greece	273	371
in Norway	207	155
	<b>4,953</b>	<b>5,073</b>
<b>of which pension costs</b>	3,027	2,802
Management team including MD (6)	(416)	(521)

The Managing Director's employment contract states that the Club is required to give notice of termination two years in advance. Included under the heading Provision pensions in Note 20 is the capital value of pension obligations for prior senior executives, which amounts to USD 240 (2015: 247) thousands.

Fees have been paid to Board members during the year in accordance with the AGM decision. The AGM decides on how remuneration to the Board shall be allocated between the Chairman of the Board and the other members. The variable portion is based on the number of meetings attended. Remuneration to the Managing Director is decided by the Chairman of the Board. Remuneration to other senior executives is decided by the Managing Director. Remuneration to the Managing Director and other senior executives is comprised of basic salary, other benefits and pension. Other senior executives are individuals who, together with the Managing Director, form the management team. Please see Note 20 for information about pensions. No fees are paid to Board members who are also employees of the Club.

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**Note 29. Proposed appropriation of earnings**

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The following earnings is at the disposal of the AGM:

Accumulated loss	-13,060
Profit for the year	2,750
Translation difference capital	751
<b>Total</b>	<b>-9,558</b>

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*The Board and the Managing Director propose that the loss be distributed as follows:*

Carried forward	-9,558
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# Auditor's report

This auditor's report relates to the audit of the Swedish statutory financial statements, which have been produced in SEK and filed with Swedish authorities. These statements can be retrieved at the home page of the Swedish Club, [www.swedishclub.com](http://www.swedishclub.com). The auditor's report has been translated from its original Swedish into English by professional translators.



## **Auditor**

Öhrlings PricewaterhouseCoopers AB -  
Authorised Public Accountant  
Morgan Sandström, Stockholm

## **Actuary**

The Swedish Club - Authorised Actuary  
Peter Niman, Gothenburg

To the general meeting of Sveriges Ångfartygs Assurans Förening, corporate identity number 557206-5265.

## Report on the annual accounts

### Opinions

We have audited the annual accounts of Sveriges Ångfartygs Assurans Förening for the year 2016.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act in insurance companies and present fairly, in all material respects, the financial position of Sveriges Ångfartygs Assurans Förening as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act in insurance companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting adopts the income statement and balance sheet.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Sveriges Ångfartygs Assurans Förening in accordance with professional ethics for accountants in Sweden and have otherwise 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 opinions.

### Additional information

The audit of the annual accounts for the financial year 2015 has been performed by another auditor who provided an audit report dated May 30, 2016 with unmodified statements in the Report on the annual accounts.

### Other Information than the annual accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises a document in English prepared in US Dollar named Annual Report 2016.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, 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.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act in insurance companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis



of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sveriges Ångfartygs Assurans Förening for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Sveriges Ångfartygs Assurans Förening in accordance with professional ethics for accountants in Sweden and have otherwise 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 opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment

of the company's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Insurance Business Act, the Annual Accounts Act in insurance companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Insurance Business Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Insurance Business Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Insurance Business Act.

**Stockholm 2017**  
**Öhrlings PricewaterhouseCoopers AB**

**Morgan Sandström**  
Authorized Public Accountant

# P&I Income Statements

The financial year of The Swedish Club runs from January through December. However, as the policy year for P&I ends 20 February, we present here the P&I statements reflecting this period.

## P&I financial year statement

The P&I financial year statement shows the estimated result for each respective twelve-month period ending 20 February regardless of policy year. This statement shows revenues and expenses matched to the financial year in which these have been accounted for.

<b>For the year ended 20 February. Amounts in thousand USD</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>
Calls and premiums	104,133	109,958	106,006
Reinsurance premiums	-25,096	-26,755	-27,139
Claims paid	-95,902	-103,369	-155,230
to Pool	-15,268	-16,719	-22,752
on own business	-80,634	-86,649	-132,478
Change in provision claims	-23,350	33,196	22,267
to Pool	56	6,509	-10,078
on own business	-23,406	26,687	32,345
Reinsurance recoveries	40,857	56,495	131,534
from Pool	11,200	21,260	16,645
from Group	9,253	23,246	94,171
from other reinsurers	20,404	11,989	20,718
Change in provision claims	25,903	-40,653	-52,810
from Pool	15,511	-15,398	-8,553
from Group	14,416	-24,246	-30,280
from other reinsurers	-4,024	-1,009	-13,977
Claims handling costs	-8,234	-6,151	-5,451
<b>Technical result</b>	<b>18,311</b>	<b>22,722</b>	<b>19,177</b>
Investment income <sup>1)</sup>	7,514	-3,848	-242
Administrative expenses	-14,854	-14,523	-15,209
<b>Result</b>	<b>10,971</b>	<b>4,350</b>	<b>3,726</b>

<sup>1)</sup>Investment income has been allocated to the different classes of business in accordance with a formula that has been consistently applied from year to year.

## P&I policy year statement

The P&I policy year statement shows the development of the individual open policy years at 20 February 2017. This statement matches revenues and expenses related to policies belonging to a specific policy year.

At 20 February, 2017. Amounts in USD thousands		2016/17	2015/16	2014/15
Calls and premiums accounting year		104,133	109,958	106,006
Reinsurance premiums		-25,096	-26,755	-27,139
Investment income transferred from non-technical account		3,700	3,800	3,100
Claims paid accounting year 2014				-9,668
Claims paid accounting year 2015			-26,736	-13,919
Claims paid accounting year 2016		-26,424	-36,565	-7,893
Claims handling costs		-8,234	-6,151	-5,451
Reinsurers share paid accounting year 2014				81
Reinsurers share paid accounting year 2015			6,483	2,434
Reinsurers share paid accounting year 2016		8,245	18,583	929
Administrative expenses		-14,854	-14,523	-15,209
Technical balance available to meet claims	A	41,470	28,094	33,271
Net outstanding claims <sup>1)</sup>				
Pool		725	11,112	4,977
Members' claims		35,836	26,946	21,096
	B	36,561	38,058	26,073
<b>Technical result insurance year</b>	<b>A-B</b>	<b>4,909</b>	<b>-9,964</b>	<b>7,198</b>
Total investment income P&I <sup>2)</sup>		7,514	-3,848	-242
Investment income transferred to technical account		-3,700	-3,800	-3,100
	C	3,814	-7,648	-3,342
<b>Balance available to meet outstanding claims</b>	<b>A-B+C</b>	<b>8,723</b>	<b>-17,612</b>	<b>3,856</b>

<sup>1)</sup>All reserves for outstanding claims are uplifted to include IBNR.

<sup>2)</sup>P&I business part of investment income is accounted for in the policy year in which it arises. All figures are shown net of taxation.

# Board of Directors

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**Lennart Simonsson**  
*Chairman*  
Gothenburg, Sweden



**Lars Rhodin**  
*Managing Director*  
Gothenburg, Sweden



**John Coustas**  
*Deputy Chairman*  
Danaos Shipping Co. Ltd.  
Piraeus, Greece



**Khalid Hashim**  
*Deputy Chairman*  
Precious Shipping Public Co. Ltd.  
Bangkok, Thailand



**Idil Baran Sualp**  
CerBa Group of Companies  
Istanbul, Turkey



**Michael Bodouoglou**  
Allseas Marine S.A.  
Voula, Greece



**Anders Boman**  
Wallenius Lines  
Stockholm, Sweden



**Chen Xiang**  
COSCO Container Lines Co Ltd.  
Shanghai, The People's Republic  
of China



**Fred Cheng**  
Shinyo International Group Ltd.  
Tokyo, Japan



**Peter Claesson**  
Stena AB  
Gothenburg, Sweden



**Demetri Dragazis**  
Latsco (London) Ltd.  
London, United Kingdom



**Rob Groot**  
Vroon B.V.  
Breskens, The Netherlands



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**Gustaf Grönberg**

Star Cruises Management Ltd.  
Kuala Lumpur, Malaysia



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**Lars Höglund**

Furetank Rederi AB  
Donsö, Sweden



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**Anders Källsson**

Erik Thun AB  
Lidköping, Sweden



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**Andonis Lemos**

Enesel S.A.  
Athens, Greece



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**Li Zhen**

Sinotrans Shipping Ltd.  
Beijing, The People's Republic of China



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**Lim Sim Keat**

IMC Industrial Group  
Singapore



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**Diamantis Manos**

Costamare Shipping Co. S.A.  
Athens, Greece



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**Sumate Tanthuanit**

Regional Container Lines Co. Ltd.  
Bangkok, Thailand



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**Michael Vinnen**

F.A Vinnen & Co.  
Bremen, Germany



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**Weng Yi**

China Shipping Company  
Shanghai, The People's Republic  
of China



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**Jakob Osvald**

*Elected by the employees*



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**Elisabeth Rydén**

*Elected by the employees*

# Management Group



## Mikael Kromli

Director, Finance, Risk Management & IT

**Born: 1962**

**In management group since 2015**

Bachelor of Science from the School of Business and Accountancy at Wake Forest University in Winston-Salem, North Carolina. Before joining The Swedish Club in his current position, Mikael was CFO of TitanX following a long career within the Volvo Group where he held numerous executive positions, including CFO of Volvo Powertrain and CFO of Volvo Parts. He has also served as CFO of Nobel Biocare, at the time listed on the Stockholm Stock Exchange.



## Anders Leissner

Director, Corporate Legal & FD&D

**Born: 1969**

**In management group since 2011**

Master of Law from University of Lund. Traineeships at the United Nations in New York and a law firm in Washington DC. Joined The Swedish Club in 1998 as a P&I and FD&D claims handler and worked at the London office from 2001–2003. Appointed FD&D Manager in 2003 and Director, Corporate Legal & FD&D in 2011. Serves on various International Group Committees and the BIMCO Documentary Committee.



## Lars A. Malm

Director, Strategic Business Development & Client Relations

**Born: 1969**

**In management group since 2007**

Master of Law from University of Gothenburg and Oslo. Joined The Swedish Club in 2000 from the Swedish insurance company Skandia, as a Hull Claims Adjuster. Appointed Area Manager in 2003. Became Director of Risk & Operations in 2008 and Director of Strategic Business Development & Client Relations in 2014.



**Tord Nilsson**

Director, Underwriting, Reinsurance & Risk Control

**Born: 1965**

**In management group since 2014**

Master's degree in Finance from University of New Mexico. Marine insurance broker at Arvid Bergvall from 1993 and joined The Swedish Club as an underwriter in 1996. Appointed Managing Director of the Hong Kong office in 2000, Area Manager and Senior Underwriter for Team Gothenburg in 2005 and Area & General Manager at Piraeus in 2009. Since 2014 he has been Director of Underwriting, Reinsurance & Risk Control.



**Lars Rhodin**

Managing Director

**Born: 1959**

**In management group since 1997**

Master of Law from University of Lund and Master of Business Administration from University of Gothenburg. Worked as a lawyer in private practice before joining The Swedish Club. Served at the Hong Kong office 1988–1991. Deputy Managing Director 2003–2008, before his appointment as Managing Director in July 2008. Member of the International Group of P&I Clubs' Committees and Working Groups, and Det Norske Veritas (DNV). He also serves as member of the IUMI Executive Committee and is on the Board of Directors of the Swedish Sea Rescue Society.



**Helena Wallerius Dahlsten**

Director, Human Resources

**Born: 1955**

**In management group since 2003**

Master of Law from University of Lund and Gothenburg. From 1982-2003 held various positions in claims handling including Deputy Director of P&I Claims 1989-1997 and Deputy Director of Claims & Legal Support 1997-2003. From 2003 she has been Director of Human Resources.

# Definitions & glossary





<b>Actual result for the year:</b>	change in free reserves during the year.
<b>AER, average expense ratio:</b>	all members of the International Group of P&I Clubs are subject to the EU Commission requirement to report the AER for P&I business. This is a measure of cost-effectiveness. AER is measured in US dollars and calculated for the latest five-year period by relating operating costs, excluding claim handling costs, connected with P&I activity to premiums plus investment income concerning P&I activity.
<b>Ancillary Own Funds:</b>	as referred to in Solvency II, Ancillary Own Funds are contingent in that they have not been paid in, and are not recognised on the balance sheet. The need for supervisory approval of such items recognises this contingent nature. If, at some undetermined point in the future, the ancillary own funds are called up, then they cease to be contingent and become basic own-fund items represented by assets on the balance sheet.
<b>Basic Own Funds:</b>	the core of eligible own funds according to Solvency II. Calculated as the difference between assets and liabilities, including technical provisions measured at fair value.
<b>Claims frequency:</b>	the observed relationship during a specific period between the number of claims arising within a certain category of insurance and the number of insurance policies within the same category. Does not include major claims.
<b>Combined ratio:</b>	claims for own account and net operating expenses in the insurance business, as a percentage of earned premium f.o.a.
<b>CTL, constructive total loss:</b>	is when the vessel is beyond any reasonable cost for repairs. The damage or damages to the ship will cost more to repair than the insured value.
<b>Direct yield:</b>	direct yield on investments (dividends received and interest income) as a percentage of the average fair value of investments and cash/bank balances.
<b>Eligible Own Funds:</b>	own funds consist of basic own funds and ancillary own funds, established according to the Solvency II requirements. Own-fund items are classified in three tiers, depending on their value. Only basic own funds classified as Tier 1 and Tier 2 are eligible for covering the MCR.
<b>Energy:</b>	insurance that is comprised of Hull & Machinery, Increased Value, Hull Interest, War, Loss of Hire for Mobile Offshore Units and FPSO. For more information see: Insurance Products at <a href="http://www.swedishclub.com">www.swedishclub.com</a> .
<b>Expense ratio:</b>	net operating expenses in the insurance business, as a percentage of earned premium f.o.a.
<b>FD&amp;D, Freight, Demurrage &amp; Defence (legal protection):</b>	a main class of insurance that convey advice and cover the legal costs incurred in pursuing or defending claims covered by this class of insurance pursuant to its terms and conditions. There is no cover under FD&D, however, for the claim itself.
<b>For own account, f.o.a:</b>	net of reinsurance.
<b>Free reserves:</b>	equity less deferred tax assets plus untaxed reserves and deferred tax liability.
<b>H&amp;M, Hull &amp; Machinery:</b>	a cover that protects the insured against damage to, or loss of, his vessel or machinery.
<b>IBNR, incurred but not reported:</b>	a term used to describe an estimate of claims which may have occurred, but of which the Club is not yet aware, or is only partially aware and for which provisions must be made when calculating the Club's liabilities.
<b>International Group of P&amp;I Clubs:</b>	this organisation arranges collective insurance and reinsurance for P&I clubs and represents the views of the P&I community.

<b>Loss ratio:</b>	claims incurred, net of reinsurance, as a percentage of earned premiums f.o.a.
<b>Marine &amp; Energy (vessels):</b>	a main class of insurance which includes Hull & Machinery (H&M), Hull Interest, War, Loss of Hire and Energy. For more information: see Insurance at <a href="http://www.swedishclub.com">www.swedishclub.com</a> .
<b>MCR, Minimum Capital Requirement:</b>	insurers subject to Solvency II must at all times have eligible basic own funds of at least the level of the MCR. The authorisation of an insurer is withdrawn when the undertaking's amount of eligible basic own funds falls below the MCR and the undertaking is unable to re-establish the amount of eligible basic own funds at the level of the MCR within a short period of time.
<b>MRM, Maritime Resource Management:</b>	is a training course intended for seagoing staff, pilots and shore-based personnel. The overall objective is to minimise casualties and losses caused by human and organisational errors. The Swedish Club Academy AB is the owner of the MRM course and has licensed a large number of training providers world-wide for delivery of training. For more information see: <a href="http://www.swedishclub.com/academy">www.swedishclub.com/academy</a> .
<b>Overspill:</b>	claims exceeding the International Group of P&I Clubs' reinsurance are pooled amongst the members up to the overall limit set by the P&I Rules. The estimate is currently USD 3.5 billion in excess of reinsurance.
<b>P&amp;I, Protection &amp; Indemnity (ship liability):</b>	a main class of insurance that indemnifies or covers the insured in respect of the discharge of legal liabilities incurred during the operation or employment of the vessel.
<b>Pool:</b>	the P&I clubs in the International Group share claims made in excess of the retention of USD 9 million. In the excess of the pool limit, the Group has jointly purchased Excess of Loss reinsurance.
<b>Retention:</b>	the highest insured or claims amount relating to the same risk that an insurer retains for its own account, without reinsurance.
<b>Solvency ratio, claims:</b>	free reserves, as a percentage of provision for claims outstanding f.o.a.
<b>Solvency ratio, premiums:</b>	free reserves, as a percentage of earned premium f.o.a.
<b>SCR, Solvency Capital Requirement:</b>	capital requirement in accordance with the Solvency II Directive. It corresponds to the level where the probability that the company is unable to meet its obligations does not exceed 1 in 200. The requirement is calculated using a standard model. The capital requirement is affected by insurance, market, credit and operational risks.
<b>Total return:</b>	direct yield on investments (dividends received and interest income), unrealised profits and losses and capital gains or losses from the sale of investment assets, in relation to the average fair value of the investments and cash/bank.
<b>Underwriting:</b>	includes the risk assessment and pricing that occurs when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.





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